

FY 2021 Q4 Earnings Call

November 16, 2021

TRANSDIGM
GROUP INC.

Agenda

- TransDigm Overview, Highlights and Outlook

Kevin Stein
President and CEO

- Market Review

Jorge L. Valladares III
COO

- Operating Performance and Financial Results

Mike Lisman
CFO

- Q&A

Forward Looking Statements & Special Notice Regarding Pro Forma and Non-GAAP Information



FORWARD LOOKING STATEMENTS

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including information regarding our guidance for future periods. These forward-looking statements are based on management's current expectations and beliefs, as well as a number of assumptions concerning future events, many of which are outside of our control. Consequently, such forward looking statements should be regarded solely as our current plans, estimates and beliefs. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statement. The Company does not undertake, and specifically declines, any obligation, to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. All forward –looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. These risks and uncertainties include but are not limited to: the impact that the COVID-19 pandemic has on our business, results of operations, financial condition and liquidity; the sensitivity of our business to the number of flight hours that our customers' planes spend aloft and our customers' profitability, both of which are affected by general economic conditions; future geopolitical or other worldwide events; cyber-security threats, natural disasters and climate change-related events; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier, including government audits and investigations; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions; our indebtedness; potential environmental liabilities; liabilities arising in connection with litigation; climate-related regulations; increases in raw material costs, taxes and labor costs that cannot be recovered in product pricing; risks and costs associated with our international sales and operations; and other risk factors. Further information regarding the important factors that could cause actual results to differ materially from projected results can be found in TransDigm Group's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 and other reports that TransDigm Group or its subsidiaries have filed with the Securities and Exchange Commission.

You are cautioned not to place undue reliance on our forward-looking statements. TransDigm Group Incorporated assumes no obligation to, and expressly disclaims any obligation to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SPECIAL NOTICE REGARDING PRO FORMA AND NON-GAAP INFORMATION

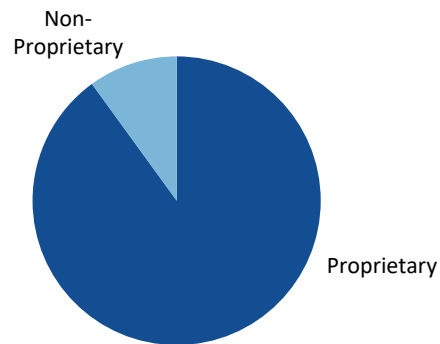
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of operations or financial condition had the transactions reflected in such pro forma financial information occurred at the beginning of the relevant period, in the case of income statement information, or at the end of such period, in the case of balance sheet information, nor is it necessarily indicative of the results of operations that may be achieved in the future.

This presentation also sets forth certain non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and a reconciliation to such measures are set forth in the appendix.

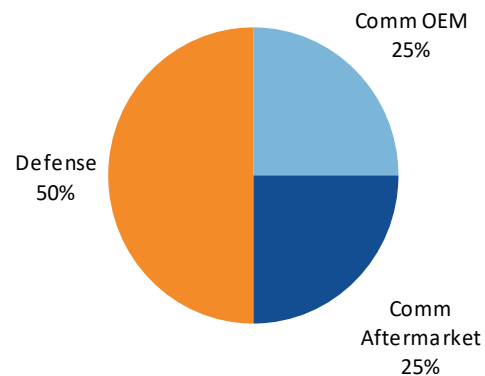
Distinguishing Characteristics

- Highly engineered aerospace components
- Significant aftermarket content
- Proprietary and sole source products
- High free cash flow

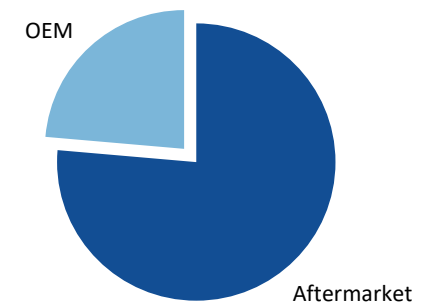
Proprietary Revenues ⁽¹⁾



Pro Forma Revenues ⁽¹⁾



**Pro Forma EBITDA
As Defined ⁽¹⁾**



(1) Pro forma revenue is for the fiscal year ended 9/30/2021. Includes full year impact of the Cobham Aero Connectivity acquisition completed January 2021. Excludes full year impact of FY 21 divestitures including Avista (divested November 2020), Racal Acoustics (divested January 2021), Technical Airborne Components (divested April 2021), and ScioTeq and TREALITY Simulation Visual Systems (divested June 2021). Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

2021 Q4 Financial Performance by Markets – Pro Forma

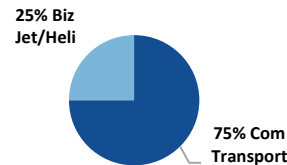


Highlights

Q4 Review – Pro Forma Revenues⁽¹⁾

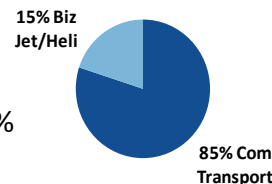
Commercial OEM:

- Q4 '21 Commercial Transport Revenue Up 2%
- Q4 '21 Business Jet/Helicopter Revenue Flat
- Q4 '21 Bookings Outpace Shipments



Commercial Aftermarket:

- Q4 '21 Commercial Transport Revenue Up 49%
- Q4 '21 Business Jet/Helicopter Revenue Up 21%
- Q4 '21 Bookings Outpace Shipments



Defense:

- Q4 '21 Defense Revenue Up 9% Sequentially versus Q3 '21
- Q4 '21 Defense Aftermarket Revenue Growth Outpaced Defense OEM

Actual vs. Prior Year

	Q4	YTD
Commercial OEM:	Up 1%	Down 25%
Commercial Aftermarket:	Up 41%	Down 18%
Defense:	Up 2%	Up 5%

Commercial OEM:

Up 1%

Down 25%

Commercial Aftermarket:

Up 41%

Down 18%

Defense:



Up 2%

Up 5%

(1) Pro forma revenue is for the fiscal year ended 9/30/2021. Includes full year impact of the Cobham Aero Connectivity acquisition completed January 2021. Excludes full year impact of FY 21 divestitures including Avista (divested November 2020), Racal Acoustics (divested January 2021), Technical Airborne Components (divested April 2021), and ScioTeq and TREALITY Simulation Visual Systems (divested June 2021). Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.




Fourth Quarter 2021 Select Financial Results

(\$ in millions, except per share amounts)

	Q4 FY 2021	Q4 FY 2020			
Revenue	\$1,279	\$1,173	9%	Increase	
Gross Profit	\$725	\$536			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Favorable Aftermarket vs. OEM sales mix • Lower COVID-19 restructuring costs <div style="text-align: right;">  </div> </div>
	56.7%	45.7%			
SG&A	\$154	\$182			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Lower non-cash stock compensation expense • Lower COVID-19 restructuring costs <div style="text-align: right;">  </div> </div>
<i>% to Sales</i>	12.0%	15.5%	-3.5%		
Interest Expense - Net	\$261	\$267	-2%	Decrease	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Two senior subordinated notes refinanced to lower rates </div>
Refinancing Costs	\$1	\$1			
EBITDA As Defined	\$636	\$498	28%	Increase	
<i>Margin %</i>	49.7%	42.4%			
Adjusted EPS	\$4.25	\$2.89	47%	Increase	
GAAP Tax Rate	27.4%	-33.1%			
Adjusted Tax Rate	21.0%	3.1%			

Full Year 2021 Select Financial Results

(\$ in millions, except per share amounts)

	<u>FY 2021</u>	<u>FY 2020</u>			
Revenue	\$4,798	\$5,103	-6%	Decrease	
Gross Profit	\$2,513	\$2,647			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Lower COVID-19 restructuring costs  </div>
	52.4%	51.9%			
SG&A	\$685	\$727			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Higher non-cash stock compensation expense  • COVID-19 cost mitigation efforts  </div>
% to Sales	14.3%	14.2%	0.1%		
Interest Expense - Net	\$1,059	\$1,029	3%	Increase	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Interest on new debt issued April 2020 </div>
Refinancing Costs	\$37	\$28			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • Two senior subordinated notes refinancing completed </div>
EBITDA As Defined	\$2,189	\$2,278	-4%	Decrease	
Margin %	45.6%	44.6%			
Adjusted EPS	\$12.13	\$14.47	-16%	Decrease	
GAAP Tax Rate	4.7%	11.7%			<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> • GAAP tax rate favorably impacted by release of valuation allowance applicable to the net interest deduction limitation carryforward and the discrete impact of excess tax benefits associated with share-based payments </div>
Adjusted Tax Rate	20.2%	18.6%			

Fiscal 2022 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2022	
Defense Revenue Growth	LSD% Growth
Full Year EBITDA Margin	≈ 47% (Highly Dependent on Pace of Commercial Aftermarket Recovery)
Capital Expenditures	\$135 to \$155 million
Full Year Net Interest Expense	≈ \$1.08 billion
Full Year Effective Tax Rate	≈ 21% - 23% for GAAP and Cash Taxes ≈ 26% - 28% Adjusted EPS
Depreciation & Amortization Expense (ex backlog)	\$255 to \$260 million
Non-Cash Stock Compensation Expense	\$90 to \$110 Million
Other EBITDA As Defined Add-Backs ⁽¹⁾	\$35 to \$50 Million
Weighted Average Shares	59.2 million

(1) Other EBITDA As Defined Add-Backs primarily include estimates for acquisition-related expenses and adjustments and other, net.

Capital Structure

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Pro Forma Capital Structure

(\$ in millions)

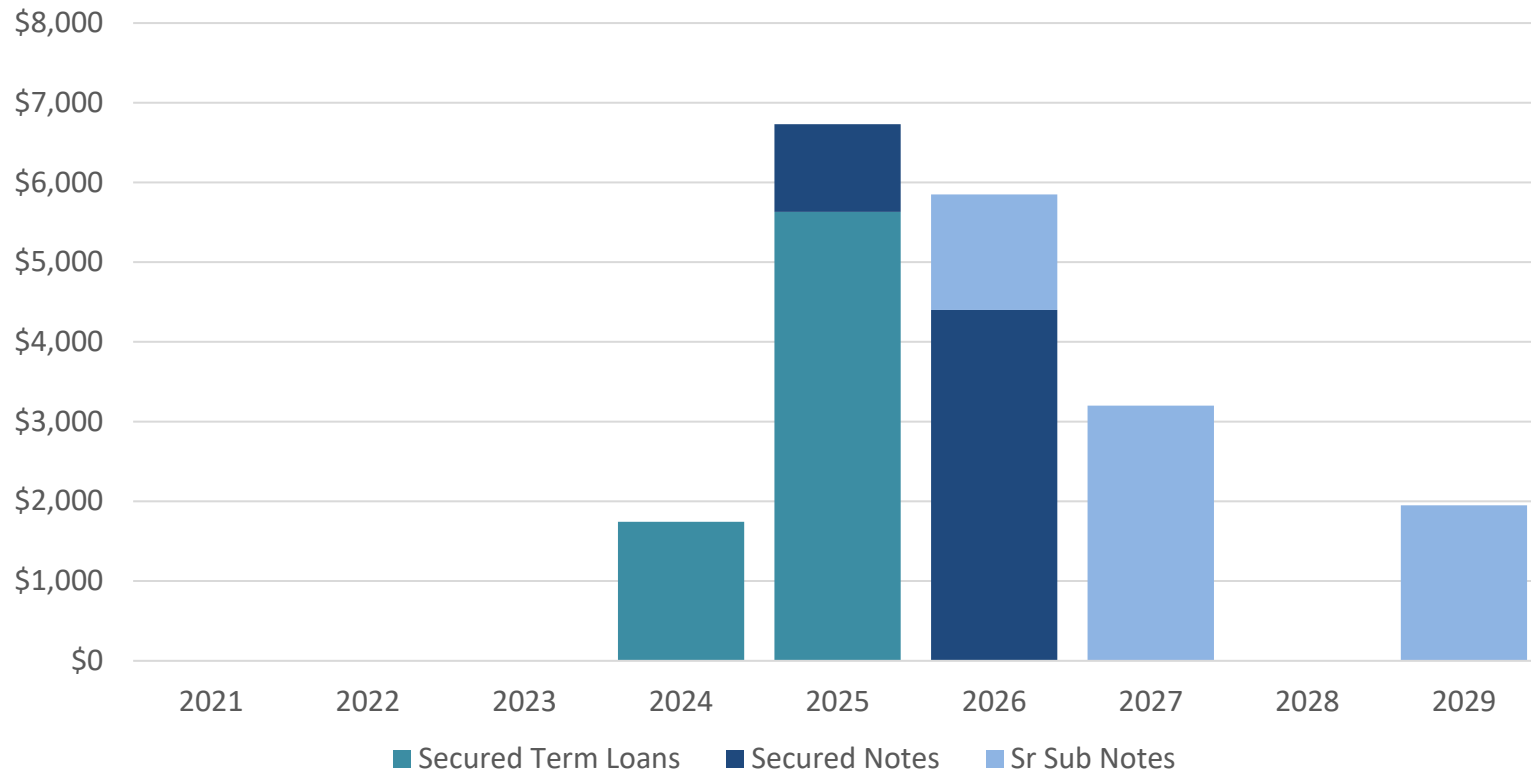
	Actual	
	9/30/21	Rate
Cash	<u>\$4,787</u>	
\$760mm revolver	\$200	L + 2.500%
\$350mm AR securitization facility	350	L + 1.200%
First lien term loan E due 2025	2,177	L + 2.250%
First lien term loan F due 2025	3,454	L + 2.250%
First lien term loan G due 2024	1,743	L + 2.250%
Senior secured notes due 2025	1,100	8.000%
Senior secured notes due 2026	4,400	6.250%
Total secured debt	\$13,424	6.1x
Total net secured debt	\$8,637	4.0x
Senior subordinated notes due 2026	950	6.375%
Senior subordinated notes due 2026	500	6.875%
Senior subordinated notes due 2027	550	7.500%
Senior subordinated notes due 2027	2,650	5.500%
Senior subordinated notes due 2029	1,200	4.625%
Senior subordinated notes due 2029	750	4.875%
Finance Lease Obligations (Gross)	100	
Total debt	\$20,124	9.2x
Total net debt	\$15,337	7.0x

FY21 Weighted
Average Interest Rate
5.2%

Debt Maturity Profile

Debt Maturity Profile

(\$MM)



Note: \$350M AR Securitization renews annually in July

Appendix: Reconciliation of Income from Continuing Operations to EBITDA and EBITDA As Defined

(\$ in millions)	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Income from continuing operations	\$ 209	\$ 101	\$ 681	\$ 653
Adjustments:				
Depreciation and amortization expense	65	71	253	283
Interest expense, net	261	267	1,059	1,029
Income tax provision (benefit)	78	(25)	34	87
EBITDA	613	414	2,027	2,052
Adjustments:				
Acquisition and divestiture transaction-related expenses and adjustments ⁽¹⁾	11	13	35	31
Non-cash stock compensation expense ⁽²⁾	23	34	129	93
Refinancing costs ⁽³⁾	1	1	37	28
COVID-19 pandemic restructuring costs ⁽⁴⁾	-	23	40	54
Gain on sale of businesses, net ⁽⁵⁾	-	-	(69)	-
Other, net ⁽⁶⁾	(12)	13	(10)	20
Gross Adjustments to EBITDA	23	84	162	226
EBITDA As Defined	\$ 636	\$ 498	\$ 2,189	\$ 2,278
EBITDA As Defined, Margin ⁽⁷⁾	49.7%	42.4%	45.6%	44.6%

⁽¹⁾ Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold; costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs; transaction-related costs for both acquisitions and divestitures comprising deal fees, legal, financial and tax due diligence expenses, and valuation costs that are required to be expensed as incurred.

⁽²⁾ Represents the compensation expense recognized by TD Group under our stock incentive plans.

⁽³⁾ Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

⁽⁴⁾ Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic (\$36 million for the fiscal year ended September 30, 2021 and \$22 million and \$46 million for the thirteen week period and fiscal year ended September 30, 2020, respectively), and also includes restructuring costs related to the 737 MAX production rate change (\$3 million for the fiscal year ended September 30, 2020). These are costs related to the Company's actions to reduce its workforce and consolidate certain facilities to align with customer demand. This also includes incremental costs related to the pandemic for the fiscal year ended September 30, 2021 of \$4 million and for the thirteen week period and fiscal year ended September 30, 2020 of \$1 million and \$5 million, respectively, which are not expected to recur once the pandemic has subsided and are clearly separable from normal operations (e.g., additional cleaning and disinfecting of facilities by contractors above and beyond normal requirements, personal protective equipment).

⁽⁵⁾ Represents the net gain on completed divestitures.

⁽⁶⁾ Primarily represents the gain on insurance proceeds from the Leach International Europe facility fire, foreign currency transaction gain or loss, payroll withholding taxes related to special dividend and dividend equivalent payments and stock option exercises, non-service related pension costs, deferred compensation and gain or loss on sale of fixed assets.

⁽⁷⁾ The EBITDA As Defined margin represents the amount of EBITDA As Defined as a percentage of net sales.

Appendix: Reconciliation of Reported EPS to Adjusted EPS

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(\$ in millions, except per share amounts)

	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Reported Earnings Per Share				
Income from continuing operations	\$ 209	\$ 101	\$ 681	\$ 653
Less: Net income attributable to noncontrolling interests	-	-	(1)	(1)
Net income from continuing operations attributable to TD Group	209	101	680	652
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	-	-	(73)	(185)
	209	101	607	467
(Loss) Income from discontinued operations, net of tax	-	(19)	-	47
Net income applicable to TD Group common stockholders - basic and diluted	<u>\$ 209</u>	<u>\$ 82</u>	<u>\$ 607</u>	<u>\$ 514</u>
Weighted-average shares outstanding under the two-class method:				
Weighted-average common shares outstanding	55.1	54.3	54.8	53.9
Vested options deemed participating securities	3.3	3.0	3.6	3.4
Total shares for basic and diluted earnings per share	<u>58.4</u>	<u>57.3</u>	<u>58.4</u>	<u>57.3</u>
Earnings per share from continuing operations -- basic and diluted	\$ 3.58	\$ 1.76	\$ 10.41	\$ 8.14
(Loss) Earnings per share from discontinued operations -- basic and diluted	-	(0.33)	-	0.82
Earnings per share	<u>\$ 3.58</u>	<u>\$ 1.43</u>	<u>\$ 10.41</u>	<u>\$ 8.96</u>
Adjusted Earnings Per Share				
Income from continuing operations	\$ 209	\$ 101	\$ 681	\$ 653
Gross adjustments to EBITDA	23	84	162	226
Purchase accounting backlog amortization	4	12	11	53
Tax adjustment ⁽¹⁾	12	(31)	(146)	(103)
Adjusted net income	<u>\$ 248</u>	<u>\$ 166</u>	<u>\$ 708</u>	<u>\$ 829</u>
Adjusted diluted earnings per share under the two-class method	<u>\$ 4.25</u>	<u>\$ 2.89</u>	<u>\$ 12.13</u>	<u>\$ 14.47</u>

⁽¹⁾ For the thirteen week periods and fiscal years ended September 30, 2021 and 2020, the Tax adjustment represents the tax effect of the adjustments at the applicable effective tax rate, as well as the impact on the effective tax rate when excluding the release of the valuation allowance applicable to the net interest deduction limitation carryforward and the discrete impact of excess tax benefits on stock option exercises.

Appendix: Reconciliation of GAAP EPS to Adjusted EPS

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	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
GAAP earnings per share from continuing operations	\$ 3.58	\$ 1.76	\$ 10.41	\$ 8.14
Adjustments to earnings per share:				
Dividend & dividend equivalent payments	-	-	1.24	3.22
Acquisition and divestiture transaction-related expenses and adjustments	0.15	0.42	0.49	1.20
Non-cash stock compensation expense	0.32	0.57	1.76	1.32
Refinancing costs	0.01	0.02	0.51	0.40
Tax adjustment on pre-tax income from continuing operations before taxes	0.32	(0.48)	(1.90)	(0.89)
COVID-19 pandemic restructuring costs	-	0.39	0.54	0.76
Gain on sale of businesses, net	-	-	(0.94)	-
Other, net	(0.13)	0.21	0.02	0.32
Adjusted earnings per share	\$ 4.25	\$ 2.89	\$ 12.13	\$ 14.47

Appendix: Reconciliation of Net Cash Provided by Operating Activities to EBITDA and EBITDA As Defined



(\$ in millions)

	Fiscal Years Ended	
	September 30, 2021	September 30, 2020
Net cash provided by operating activities	\$ 913	\$ 1,213
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions and sales of businesses	97	(168)
Interest expense, net ⁽¹⁾	1,059	1,029
Income tax (benefit) provision - current	-	63
Loss contract amortization	55	36
Non-cash stock compensation expense ⁽²⁾	(129)	(93)
Refinancing costs ⁽³⁾	(37)	(28)
Gain on sale of businesses, net ⁽⁴⁾	69	-
EBITDA	2,027	2,052
Adjustments:		
Acquisition and divestiture transaction-related expenses and adjustments ⁽⁵⁾	35	31
Non-cash stock compensation expense ⁽²⁾	129	93
Refinancing costs ⁽³⁾	37	28
COVID-19 pandemic restructuring costs ⁽⁶⁾	40	54
Gain on sale of businesses, net ⁽⁴⁾	(69)	-
Other, net ⁽⁷⁾	(10)	20
EBITDA As Defined	\$ 2,189	\$ 2,278

⁽¹⁾ Represents interest expense excluding the amortization of debt issuance costs and premium and discount on debt.

⁽²⁾ Represents the compensation expense recognized by TD Group under our stock incentive plans.

⁽³⁾ Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

⁽⁴⁾ Represents the net gain on completed divestitures.

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