



TransDigm Group Reports Fiscal 2021 First Quarter Results

Cleveland, Ohio, February 9, 2021/PRNewswire/ -- TransDigm Group Incorporated (NYSE: TDG), a leading global designer, producer and supplier of highly engineered aircraft components, today reported results for the first quarter ended January 2, 2021, which were significantly impacted by the COVID-19 pandemic.

First quarter highlights include:

- Net sales of \$1,108 million, down 24.4% from \$1,465 million in the prior year's quarter;
- Income from continuing operations of \$50 million;
- Loss per share from continuing operations of \$(0.42), with the loss driven by \$1.32 per share of dividend equivalent payments made during the quarter, pursuant with the Company's employee stock option program;
- EBITDA As Defined margin of 42.8%, representing sequential improvement;
- EBITDA As Defined of \$474 million;
- Adjusted earnings per share of \$1.97; and
- Strong operating cash flow generation of \$274 million.

Fiscal 2021 financial guidance will not be issued at this time.

Net sales for the quarter declined 24.4%, or \$357 million, to \$1,108 million from \$1,465 million in the comparable quarter a year ago. In the current quarter, all sales represent organic sales.

Income from continuing operations for the quarter was \$50 million, a decrease of 78.6% compared to \$234 million in the comparable quarter a year ago. The decrease in income from continuing operations primarily reflects the decline in net sales described above and higher interest expense, partially offset by a lower effective tax rate.

GAAP earnings per share were reduced in the first quarter of fiscal 2021 and 2020 by \$1.32 per share and \$3.22 per share, respectively, as a result of dividend equivalent payments made during each quarter. As a reminder, GAAP earnings per share are reduced when TransDigm makes dividend equivalent payments pursuant to the Company's stock option plans. These dividend equivalent payments are made during the Company's first fiscal quarter each year and also upon payment of any special dividends.

Adjusted net income for the quarter decreased 59.4% to \$115 million, or \$1.97 per share, from \$283 million, or \$4.93 per share, in the comparable quarter a year ago.

EBITDA for the quarter decreased 38.0% to \$378 million from \$610 million for the comparable quarter a year ago. EBITDA As Defined for the period decreased 30.4% to \$474 million compared with \$681 million in the comparable quarter a year ago. EBITDA As Defined as a percentage of net sales for the quarter was 42.8%.

“Although commercial air travel demand has shown slight signs of recovery in recent months, the recovery is expected to continue to be slow and uneven depending on factors such as COVID-19 infection rates, vaccine rollout and effectiveness, and the easing of quarantines and travel restrictions, among other factors. Despite the challenges the commercial aerospace industry continues to face, I am pleased that we were able to sequentially expand our EBITDA As Defined margin to 42.8% as a result of careful management of our cost structure and focus on our operating strategy,” stated Kevin Stein, TransDigm Group's President and Chief Executive Officer. “Additionally, we are excited to have recently closed the acquisition of Cobham Aero Connectivity. Cobham Aero Connectivity has established positions across a diverse range of new and existing aircraft platforms and the business fits well with our long-standing strategy.”

The effective tax rate in the current quarter of 5.5% was favorably impacted by the timing of tax benefits associated with the Company's equity compensation plans. For the full 2021 fiscal year, consistent with previously disclosed expectations, the Company expects its GAAP, Cash and Adjusted tax rates to be in the range of 18-22%.

Acquisition of Cobham Aero Connectivity

Subsequent to the quarter, on January 5, 2021, TransDigm completed substantially all of the acquisition of Cobham Aero Connectivity ("CAC") for approximately \$965 million, including tax benefits to be realized by TransDigm. CAC is a leading provider of highly engineered antennas and radios for the aerospace end market. The products are primarily proprietary with significant aftermarket content and have a strong presence across major defense platforms as well as select commercial applications. Nearly 60% of CAC's revenue is derived from international sales and over 70% of CAC's revenue comes from the aftermarket. CAC has a strong presence across a diverse range of both helicopters and fixed wing aircraft.

A portion of the CAC acquisition representing approximately 2% of the total purchase price remains subject to Finnish regulatory approval and is expected to close during the second quarter of fiscal 2021.

Financing Activity Subsequent to the Quarter

On January 20, 2021, TransDigm successfully completed a private offering of \$1.2 billion of 4.625% senior subordinated notes due 2029. TransDigm expects to use the net proceeds from the offering, plus cash on hand, to redeem all of its \$1.2 billion of outstanding 6.50% senior subordinated notes due 2024.

Please see the attached tables for a reconciliation of income from continuing operations to EBITDA, EBITDA As Defined, and adjusted net income; a reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined, and a reconciliation of (loss) earnings per share to adjusted earnings per share for the periods discussed in this press release.

Fiscal 2021 Outlook

Given the considerable uncertainty around the extent and duration of business disruptions related to the COVID-19 pandemic, and how that will impact operations, the Company will not provide fiscal year 2021 guidance at this time.

Earnings Conference Call

TransDigm Group will host a conference call for investors and security analysts on February 9, 2021, beginning at 11:00 a.m., Eastern Time. To join the call, dial (833) 397-0943 and enter the passcode 3665508. International callers should dial (720) 405-3217 and use the same passcode. A live audio webcast can be accessed online at <http://www.transdigm.com>. A slide presentation will also be available for reference during the conference call; go to the investor relations page of our website and click on “Presentations.”

The call will be archived on the website and available for replay at approximately 2:00 p.m., Eastern Time. A telephone replay will be available for one week by dialing (855) 859-2056 and entering the passcode 3665508. International callers should dial (404) 537-3406 and use the same passcode.

About TransDigm Group

TransDigm Group, through its wholly-owned subsidiaries, is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, batteries and chargers, engineered latching and locking devices, engineered rods, engineered connectors and elastomer sealing solutions, databus and power controls, cockpit security components and systems, specialized and advanced cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered and customized interior surfaces and related components, advanced sensor products, switches and relay panels, thermal protection and insulation, lighting and control technology, parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems.

Non-GAAP Supplemental Information

EBITDA, EBITDA As Defined, EBITDA As Defined Margin, adjusted net income and adjusted earnings per share are non-GAAP financial measures presented in this press release as supplemental disclosures to net income and reported results. TransDigm Group defines EBITDA as earnings before interest, taxes, depreciation and amortization and defines EBITDA As Defined as EBITDA plus certain non-operating items recorded as corporate expenses, including non-cash compensation charges incurred in connection with TransDigm Group's stock incentive plans, restructuring costs related to TransDigm Group's cost reduction measures in response to the COVID-19 pandemic, foreign currency gains and losses, acquisition-integration costs, acquisition transaction-related expenses, and refinancing costs. TransDigm Group defines adjusted net income as net income plus purchase accounting backlog amortization expense, effects from the sale on businesses, non-cash compensation charges incurred in connection with TransDigm Group's stock incentive plans, restructuring costs related to TransDigm Group's cost reduction measures in response to the COVID-19 pandemic, foreign currency gains and losses, acquisition-integration costs, acquisition transaction-related expenses, and refinancing costs. EBITDA As Defined Margin represents EBITDA As Defined as a percentage of net sales. TransDigm Group defines adjusted diluted earnings per share as adjusted net income divided by the total shares for basic and diluted earnings per share. For more information regarding the computation of EBITDA, EBITDA As Defined and adjusted net income and adjusted earnings per share, please see the attached financial tables.

TransDigm Group presents these non-GAAP financial measures because it believes that they are useful indicators of its operating performance. TransDigm Group believes that EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties to measure operating performance among companies with different capital structures, effective tax rates and tax attributes, capitalized asset values and employee compensation structures, all of which can vary substantially from company to company. In addition, analysts, rating agencies and others use EBITDA to evaluate a company's ability to incur and service debt. EBITDA As Defined is used to measure TransDigm Inc.'s compliance with the financial covenant contained in its credit facility. TransDigm Group's management also uses EBITDA As Defined to review and assess its operating performance, to prepare its annual budget and financial projections and to review and evaluate its management team in connection with employee incentive programs. Moreover, TransDigm Group's management uses EBITDA As Defined to evaluate acquisitions and as a liquidity measure. In addition, TransDigm Group's management uses adjusted net income as a measure of comparable operating performance between time periods and among companies as it is reflective of changes in pricing decisions, cost controls and other factors that affect operating performance.

None of EBITDA, EBITDA As Defined, EBITDA As Defined Margin, adjusted net income or adjusted earnings per share is a measurement of financial performance under U.S. GAAP and such financial measures should not be considered as an alternative to net income, operating income, earnings per share, cash flows from operating activities or other measures of performance determined in accordance with U.S. GAAP. In addition, TransDigm Group's calculation of these non-GAAP financial measures may not be comparable to the calculation of similarly titled measures reported by other companies.

Although we use EBITDA and EBITDA As Defined as measures to assess the performance of our business and for the other purposes set forth above, the use of these non-GAAP financial measures as analytical tools has limitations, and you should not consider any of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with U.S. GAAP. Some of these limitations are:

- neither EBITDA nor EBITDA As Defined reflects the significant interest expense, or the cash requirements, necessary to service interest payments on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor EBITDA As Defined reflects any cash requirements for such replacements;
- the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA and EBITDA As Defined;
- neither EBITDA nor EBITDA As Defined includes the payment of taxes, which is a necessary element of our operations; and
- EBITDA As Defined excludes the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions.

Forward-Looking Statements

Statements in this press release that are not historical facts, including statements under the heading “Fiscal 2021 Outlook,” are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “believe,” “may,” “will,” “should,” “expect,” “intend,” “plan,” “predict,” “anticipate,” “estimate,” or “continue” and other words and terms of similar meaning may identify forward-looking statements.

All forward-looking statements involve risks and uncertainties that could cause TransDigm Group’s actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, TransDigm Group. These risks and uncertainties include but are not limited to: the impact that the COVID-19 pandemic has on the TransDigm Group's business, results of operations, financial condition and liquidity; the sensitivity of TransDigm Group's business to the number of flight hours that its customers’ planes spend aloft and its customers’ profitability, both of which are affected by general economic conditions; future geopolitical or other worldwide events; cyber-security threats and natural disasters; TransDigm Group's 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; TransDigm Group's indebtedness; potential environmental liabilities; liabilities arising in connection with litigation; increases in raw material costs, taxes and labor costs that cannot be recovered in product pricing; risks and costs associated with TransDigm Group's international sales and operations; and other 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, 2020 and other reports that TransDigm Group or its subsidiaries have filed with the Securities and Exchange Commission. Except as required by law, TransDigm Group undertakes no obligation to revise or update the forward-looking statements contained in this press release.

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TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN WEEK PERIODS ENDED
JANUARY 02, 2021 AND DECEMBER 28, 2019
(Amounts in millions, except per share amounts)
(Unaudited)

TABLE 1

	Thirteen Week Periods Ended	
	January 2, 2021	December 28, 2019
NET SALES	\$ 1,108	\$ 1,465
COST OF SALES	567	664
GROSS PROFIT	541	801
SELLING AND ADMINISTRATIVE EXPENSES	197	201
AMORTIZATION OF INTANGIBLE ASSETS	29	40
INCOME FROM OPERATIONS	315	560
INTEREST EXPENSE—NET	267	248
REFINANCING COSTS	—	22
OTHER INCOME	(5)	(3)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	53	293
INCOME TAX PROVISION	3	59
INCOME FROM CONTINUING OPERATIONS	50	234
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	—	71
NET INCOME	50	305
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	—	(1)
NET INCOME ATTRIBUTABLE TO TD GROUP	\$ 50	\$ 304
NET (LOSS) INCOME APPLICABLE TO TD GROUP COMMON STOCKHOLDERS	\$ (23)	\$ 119
(Loss) Earnings per share attributable to TD Group common stockholders:		
(Loss) Earnings per share from continuing operations—basic and diluted	\$ (0.42)	\$ 0.83
Earnings per share from discontinued operations—basic and diluted	—	1.24
(Loss) Earnings per share	\$ (0.42)	\$ 2.07
Cash dividends paid per common share	\$ —	\$ 32.50
Weighted-average shares outstanding:		
Weighted-average common shares outstanding	54.7	53.6
Vested options deemed participating securities	—	3.8
Total shares for basic and diluted (loss) earnings per share ⁽¹⁾	54.7	57.4

⁽¹⁾ Total weighted-average common shares outstanding for calculating basic and diluted adjusted earnings per share are 58.4 million shares as 3.7 million shares of vested options deemed participating securities are included when calculating weighted-average common shares outstanding for basic and diluted adjusted earnings per share.

TRANSDIGM GROUP INCORPORATED
SUPPLEMENTAL INFORMATION - RECONCILIATION OF EBITDA,
EBITDA AS DEFINED TO INCOME FROM CONTINUING OPERATIONS
FOR THE THIRTEEN WEEK PERIODS ENDED
JANUARY 02, 2021 AND DECEMBER 28, 2019

(Amounts in millions, except per share amounts)
(Unaudited)

TABLE 2

	Thirteen Week Periods Ended	
	January 2, 2021	December 28, 2019
Income from continuing operations	\$ 50	\$ 234
Adjustments:		
Depreciation and amortization expense	58	69
Interest expense, net	267	248
Income tax provision	3	59
EBITDA	378	610
Adjustments:		
Acquisition-related expenses and adjustments ⁽¹⁾	4	7
Non-cash stock compensation expense ⁽²⁾	49	26
Refinancing costs ⁽³⁾	—	22
COVID-19 pandemic restructuring costs ⁽⁴⁾	21	—
Other, net ⁽⁵⁾	22	16
Gross Adjustments to EBITDA	96	71
EBITDA As Defined	\$ 474	\$ 681
EBITDA As Defined, Margin ⁽⁶⁾	42.8 %	46.5 %

⁽¹⁾ Represents 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 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 (\$20 million for the thirteen week period ended January 2, 2021). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes \$1 million for the thirteen week period ended January 2, 2021 of incremental costs related to the pandemic that 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, etc.).

⁽⁵⁾ Primarily represents foreign currency transaction gains or losses, 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.

⁽⁶⁾ The EBITDA As Defined margin represents the amount of EBITDA As Defined as a percentage of sales.

TRANSDIGM GROUP INCORPORATED
SUPPLEMENTAL INFORMATION - RECONCILIATION OF
REPORTED (LOSS) EARNINGS PER SHARE TO
ADJUSTED EARNINGS PER SHARE
FOR THE THIRTEEN WEEK PERIODS ENDED
JANUARY 02, 2021 AND DECEMBER 28, 2019

(Amounts in millions, except per share amounts)

TABLE 3

(Unaudited)

	Thirteen Week Periods Ended	
	January 2, 2021	December 28, 2019
Reported (Loss) Earnings Per Share		
Income from continuing operations	\$ 50	\$ 234
Less: Net income attributable to noncontrolling interests	—	(1)
Net income from continuing operations attributable to TD Group	50	233
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	(73)	(185)
	(23)	48
Income from discontinued operations, net of tax	—	71
Net (loss) income applicable to TD Group common stockholders - basic and diluted	\$ (23)	\$ 119
Weighted-average shares outstanding under the two-class method		
Total shares for basic and diluted (loss) earnings per share - GAAP basis	54.7	57.4
Total shares for basic and diluted adjusted earnings per share - Adjusted basis	58.4	57.4
(Loss) Earnings per share from continuing operations—basic and diluted	\$ (0.42)	\$ 0.83
Earnings per share from discontinued operations—basic and diluted	—	1.24
(Loss) Earnings per share	\$ (0.42)	\$ 2.07
Adjusted Earnings Per Share		
Income from continuing operations	\$ 50	\$ 234
Gross adjustments to EBITDA	96	71
Purchase accounting backlog amortization	—	11
Tax adjustment ⁽¹⁾	(31)	(33)
Adjusted net income	\$ 115	\$ 283
Adjusted diluted earnings per share under the two-class method	\$ 1.97	\$ 4.93
Diluted (Loss) Earnings Per Share to Adjusted Earnings Per Share		
Diluted (loss) earnings per share from continuing operations	\$ (0.42)	\$ 0.83
Allocation of undistributed losses to participating securities	0.03	—
Adjustments to diluted (loss) earnings per share:		
Inclusion of the dividend and dividend equivalent payments	1.24	3.22
Acquisition-related expenses and adjustments	0.05	0.24
Non-cash stock compensation expense	0.64	0.34
Refinancing costs	—	0.30
Change in income tax provision due to excess tax benefits on stock compensation	(0.16)	(0.22)
COVID-19 pandemic restructuring costs	0.27	—
Other, net	0.32	0.22
Adjusted earnings per share	\$ 1.97	\$ 4.93

⁽¹⁾ For the thirteen week periods ended January 2, 2021 and December 28, 2019, 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 excess tax benefits on stock option exercises. Stock compensation expense is excluded from adjusted net income and therefore we have excluded the impact that the excess tax benefits on stock option exercises have on the effective tax rate for determining adjusted net income.

TRANSDIGM GROUP INCORPORATED
SUPPLEMENTAL INFORMATION - RECONCILIATION OF NET CASH
PROVIDED BY OPERATING ACTIVITIES TO EBITDA,
EBITDA AS DEFINED
FOR THE THIRTEEN WEEK PERIODS ENDED
JANUARY 02, 2021 AND DECEMBER 28, 2019

(Amounts in millions)

TABLE 4

(Unaudited)

	Thirteen Week Periods Ended	
	January 2, 2021	December 28, 2019
Net cash provided by operating activities	\$ 274	\$ 433
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(103)	(102)
Interest expense, net ⁽¹⁾	258	240
Income tax provision - current	(2)	87
Non-cash stock compensation expense ⁽²⁾	(49)	(26)
Refinancing costs ⁽³⁾	—	(22)
EBITDA	378	610
Adjustments:		
Acquisition-related expenses and adjustments ⁽⁴⁾	4	7
Non-cash stock compensation expense ⁽²⁾	49	26
Refinancing costs ⁽³⁾	—	22
COVID-19 pandemic restructuring costs ⁽⁵⁾	21	—
Other, net ⁽⁶⁾	22	16
EBITDA As Defined	\$ 474	\$ 681

⁽¹⁾ Represents interest expense excluding the amortization of debt issue 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 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 comprising deal fees; legal, financial and tax due diligence expenses and valuation costs that are required to be expensed as incurred.

⁽⁵⁾ Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic (\$20 million). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes \$1 million of incremental costs related to the pandemic that 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, etc.).

⁽⁶⁾ Primarily represents 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.

TRANSDIGM GROUP INCORPORATED
SUPPLEMENTAL INFORMATION - BALANCE SHEET DATA
(Amounts in millions)
(Unaudited)

TABLE 5

	January 2, 2021	September 30, 2020
Cash and cash equivalents	\$ 4,907	\$ 4,717
Trade accounts receivable - net	627	720
Inventories - net	1,284	1,283
Current portion of long-term debt	276	276
Short-term borrowings-trade receivable securitization facility	350	349
Accounts payable	197	218
Accrued current liabilities	740	773
Long-term debt	19,394	19,384
Total TD Group stockholders' deficit	(3,728)	(3,972)