

# FY 2020 Q3 Earnings Call

August 4, 2020

**TRANSDIGM**  
GROUP INC.

# Agenda

- TransDigm Overview and Highlights

Nick Howley  
Executive Chairman

- Operating Performance, Market Review and Outlook

Kevin Stein  
President and CEO

- 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 and natural disasters; 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, including our acquisition of Esterline; our 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 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, 2019 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.

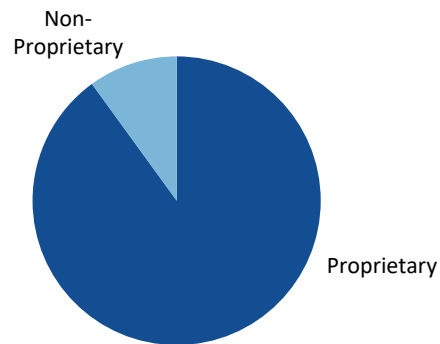
This presentation also sets forth certain non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and a reconciliation to such measures are set forth in the appendix.

# TransDigm Overview (Includes Esterline)

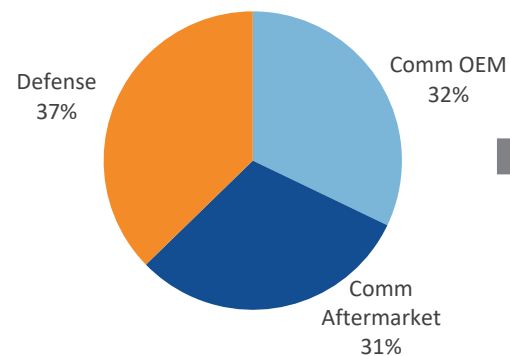
## Distinguishing Characteristics

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

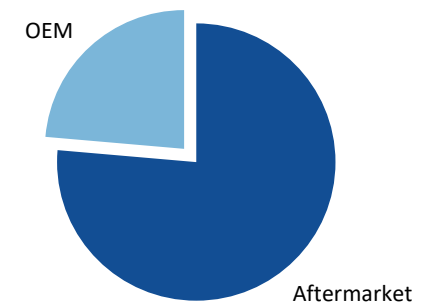
Proprietary Revenues <sup>(1)</sup>



Pro Forma Revenues <sup>(1)</sup>



Pro Forma EBITDA  
As Defined <sup>(1)</sup>



(1) Pro forma revenue is for the fiscal year ended 9/30/19 includes the Esterline acquisition, excluding the completed divestitures of EIT (divested September 2019) and Souriau-Sunbank (divested December 2019), which results were reclassified to discontinued operations as of 9/30/2019. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

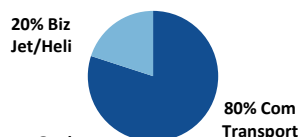
# 2020 Q3 Financial Performance by Markets – Pro Forma (Includes Esterline)

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## Highlights

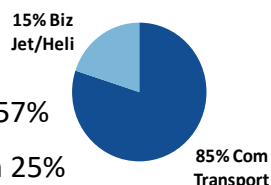
### Commercial OEM:

- Q3 '20 Commercial Transport Revenue Down 50%
- Q3 '20 Business Jet/Helicopter Revenue Down 21%



### Commercial Aftermarket:

- Q3 '20 Commercial Transport Revenue Down 57%
- Q3 '20 Business Jet/Helicopter Revenue Down 25%



### Defense:

- YTD '20 Bookings 13% Higher than Shipments
- Q3 '20 Lapping Difficult Prior Year Sales Comparisons
- Q3 '20 Sales Unfavorably Impacted by Two Discrete Business Unit Issues
- Anticipate Improved Q4 Shipments Due to Strong Backlog



## Q3 Review – Pro Forma Revenues<sup>(1)</sup>

	Actual vs. Prior Year	
	Q3	YTD
Commercial OEM:	Down 43%	Down 16%
Commercial Aftermarket:	Down 52%	Down 12%
Defense:	Down 12%	Down 2%

(1) Information is on a pro forma basis versus the prior year period. Includes the full-year impact of the Esterline acquisition. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

# Third Quarter 2020 Select Financial Results

(\$ in millions, except per share amounts)

	<u>Q3 FY 2020</u>	<u>Q3 FY 2019</u>			
<b>Revenue</b>	<b>\$1,022</b>	<b>\$1,521</b>	<b>-32.8%</b>	<b>Decrease</b>	
<b>Gross Profit</b>	<b>\$491</b>	<b>\$713</b>	<b>1.1%</b>	<b>Margin Increase</b>	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> <li>• COVID-19 &amp; 737 MAX restructuring costs</li> <li>• COVID-19 cost mitigation efforts</li> <li>• Lower acquisition integration related costs</li> </ul> <div style="text-align: center;">  </div> </div>
<b>Margin %</b>	<b>48.0%</b>	<b>46.9%</b>			
<b>SG&amp;A</b>	<b>\$163</b>	<b>\$252</b>	<b>-0.7%</b>		<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> <li>• COVID-19 &amp; 737 MAX restructuring costs</li> <li>• COVID-19 cost mitigation efforts</li> <li>• Lower acquisition integration related costs</li> </ul> <div style="text-align: center;">  </div> </div>
<b>% to Sales</b>	<b>15.9%</b>	<b>16.6%</b>			
<b>Interest Expense- Net</b>	<b>\$262</b>	<b>\$241</b>	<b>8.7%</b>	<b>Increase</b>	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> <li>• Interest on new debt</li> </ul> </div>
<b>EBITDA As Defined</b>	<b>\$424</b>	<b>\$659</b>	<b>-35.7%</b>	<b>Decrease</b>	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> <li>• Includes add-back of \$30M in cost reduction measures in response to COVID-19 and the 737 MAX production rate changes. These are primarily "reduction in force" related costs.</li> </ul> </div>
<b>Margin %</b>	<b>41.5%</b>	<b>43.3%</b>			
<b>Adjusted EPS</b>	<b>\$1.54</b>	<b>\$4.65</b>	<b>-66.9%</b>	<b>Decrease</b>	<div style="border: 1px solid black; padding: 5px;"> <ul style="list-style-type: none"> <li>• GAAP tax rate negatively impacted by Q3 GAAP ETR of 113.5% as a result of the unfavorable economic impact of COVID-19 on our net interest limitation deduction and a discrete cumulative adjustment associated with excess tax benefits from share based payments.</li> </ul> </div>
<b>GAAP Tax Rate</b>	<b>113.5%</b>	<b>30.0%</b>			
<b>Adjusted Tax Rate</b>	<b>16.8%</b>	<b>29.1%</b>			

# Misc. Financial

(\$ in millions)

## Cash

	<u>6/27/20</u>	<u>9/30/19</u>
Net Cash Provided by Operating Activities	\$991	\$1,029
Capital Expenditures	(\$62)	(\$103)
Free Cash Flow	<u>\$929</u>	<u>\$926</u>
Cash on the Balance Sheet	\$4,549	\$1,467

## Taxes

- YTD Q3 FY 20 GAAP ETR: 16.9%
- YTD Q3 FY 20 Adjusted ETR: 21.7%

## Fiscal 2020 Current Misc. Financial Assumptions

- Full year net interest expense:
  - ≈ \$1.03 billion (includes new debt issuance)
- Full year effective tax rate:
  - ≈ 17% to 19% for GAAP EPS and Cash Taxes
  - ≈ 21% to 22% for Adjusted EPS
- Weighted average shares:
  - 57.3 million
- Depreciation & amortization expense (ex backlog):
  - ≈ \$230 million

(\$ in millions)

## Pro Forma Capital Structure

Pro forma capitalization (\$ in millions)	Actual 6/27/20	Rate
Cash	<u>\$4,549</u>	
\$760mm revolver	\$200	L + 3.000%
\$350mm AR securitization facility	350	L + 0.900%
First lien term loan E due 2025	2,210	L + 2.250%
First lien term loan F due 2025	3,507	L + 2.250%
First lien term loan G due 2024	1,770	L + 2.250%
Senior secured notes due 2025	1,100	8.000%
Senior secured notes due 2026	4,400	6.250%
<b>Total secured debt</b>	<b>\$13,537</b>	<b>5.4x</b>
<b>Total net secured debt</b>	<b>\$8,988</b>	<b>3.6x</b>
Senior subordinated notes due 2024	1,200	6.500%
Senior subordinated notes due 2025	750	6.500%
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%
Capital Lease Obligations (Gross)	57	
<b>Total debt</b>	<b>\$20,194</b>	<b>8.1x</b>
<b>Total net debt</b>	<b>\$15,645</b>	<b>6.3x</b>

**FY20 Weighted  
Average Interest  
Rate  
5.4%**

**Run Rate  
Annualized  
Interest Expense  
\$1.1B**



# Appendix: Reconciliation of Net Income to EBITDA and EBITDA As Defined

(\$ in millions)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
<b>(Loss) Income from continuing operations</b>	\$ (5)	\$ 128	\$ 552	\$ 524
Adjustments:				
Depreciation and amortization expense	70	63	211	138
Interest expense, net	262	241	762	614
Income tax provision	39	55	112	172
<b>EBITDA</b>	<b>366</b>	<b>487</b>	<b>1,637</b>	<b>1,448</b>
Adjustments:				
Acquisition-related expenses and adjustments <sup>(1)</sup>	3	135	19	185
Non-cash stock compensation expense <sup>(2)</sup>	21	32	59	70
Refinancing costs <sup>(3)</sup>	1	-	27	3
COVID-19 & 737 MAX restructuring costs <sup>(4)</sup>	30	-	30	-
Other, net <sup>(5)</sup>	3	5	8	6
Gross Adjustments to EBITDA	58	172	143	264
<b>EBITDA As Defined</b>	<b>\$ 424</b>	<b>\$ 659</b>	<b>\$ 1,780</b>	<b>\$ 1,712</b>
EBITDA As Defined, Margin <sup>(6)</sup>	41.5%	43.3%	45.3%	46.5%

<sup>(1)</sup> 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 comprising deal fees, legal, financial and tax due diligence expenses, and valuation costs that are required to be expensed as incurred.

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

<sup>(3)</sup> Represents cost expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

<sup>(4)</sup> Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic (\$24 million) and 737 MAX production rate changes (\$3 million). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes \$3 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.).

<sup>(5)</sup> 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.

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

# Appendix: Reconciliation of Reported EPS to Adjusted EPS

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(\$ in millions, except per share amounts)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
<b>Reported (Loss) Earnings Per Share</b>				
(Loss) Income from continuing operations	\$ (5)	\$ 128	\$ 552	\$ 524
Less: Net income attributable to noncontrolling interests	-	-	(1)	-
Net (loss) income from continuing operations attributable to TD Group	(5)	128	551	524
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	-	-	(185)	(24)
	(5)	128	366	500
(Loss) Income from discontinued operations, net of tax	(1)	17	66	19
Net (loss) income applicable to TD Group common stockholders - basic and diluted	<u>\$ (6)</u>	<u>\$ 145</u>	<u>\$ 432</u>	<u>\$ 519</u>
<b>Denominator for basic and diluted (loss) earnings per share under the two-class method:</b>				
Weighted-average common shares outstanding	54.1	53.2	53.9	53.0
Vested options deemed participating securities	3.2	3.1	3.5	3.3
Total shares for basic and diluted (loss) earnings per share	<u>57.3</u>	<u>56.3</u>	<u>57.4</u>	<u>56.3</u>
(Loss) Earnings per share from continuing operations -- basic and diluted	\$ (0.09)	\$ 2.27	\$ 6.38	\$ 8.87
(Loss) Earnings per share from discontinued operations -- basic and diluted	(0.01)	0.30	1.15	0.35
(Loss) Earnings per share	<u>\$ (0.10)</u>	<u>\$ 2.57</u>	<u>\$ 7.53</u>	<u>\$ 9.22</u>
<b>Adjusted Earnings Per Share</b>				
Net (loss) income from continuing operations attributable to TD Group	\$ (5)	\$ 128	\$ 551	\$ 524
Gross adjustments to EBITDA	58	172	143	264
Purchase accounting backlog amortization	14	14	42	19
Tax adjustment <sup>(1)</sup>	21	(52)	(72)	(96)
Adjusted net income	<u>\$ 88</u>	<u>\$ 262</u>	<u>\$ 664</u>	<u>\$ 711</u>
Adjusted diluted earnings per share under the two-class method	<u>\$ 1.54</u>	<u>\$ 4.65</u>	<u>\$ 11.57</u>	<u>\$ 12.64</u>

<sup>(1)</sup> For the thirteen and thirty-nine week periods ended June 27, 2020 and June 29, 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.

# Appendix: Reconciliation of GAAP to Adjusted EPS

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	Thirteen Week Periods Ended		Thirty - Nine Week Periods Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
<b>GAAP (loss) earnings per share from continuing operations</b>	\$ (0.09)	\$ 2.27	\$ 6.38	\$ 8.87
Adjustments to earnings per share:				
Dividend equivalent payments	-	-	3.22	0.43
Acquisition-related expenses	0.24	1.88	0.82	2.64
Non-cash stock compensation expense	0.31	0.40	0.80	0.91
Refinancing costs	0.01	-	0.37	0.04
Change in income tax provision due to excess tax benefits on stock compensation	0.58	0.04	(0.56)	(0.32)
COVID-19 & 737 MAX restructuring costs	0.43	-	0.42	-
Other, net	0.06	0.06	0.12	0.07
<b>Adjusted earnings per share</b>	<b>\$ 1.54</b>	<b>\$ 4.65</b>	<b>\$ 11.57</b>	<b>\$ 12.64</b>

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

(\$ in millions)	Thirty-Nine Week Periods Ended	
	June 27, 2020	June 29, 2019
<b>Net cash provided by operating activities</b>	\$ 991	\$ 768
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(134)	(8)
Interest expense, net <sup>(1)</sup>	737	594
Income tax provision - current	129	167
Non-cash stock compensation expense <sup>(2)</sup>	(59)	(70)
Refinancing costs <sup>(3)</sup>	(27)	(3)
<b>EBITDA</b>	<b>1,637</b>	<b>1,448</b>
Adjustments:		
Acquisition-related expenses and adjustments <sup>(4)</sup>	19	185
Non-cash stock compensation expense <sup>(2)</sup>	59	70
Refinancing costs <sup>(3)</sup>	27	3
COVID-19 & 737 MAX restructuring costs <sup>(5)</sup>	30	-
Other, net <sup>(6)</sup>	8	6
<b>EBITDA As Defined</b>	<b>\$ 1,780</b>	<b>\$ 1,712</b>

<sup>(1)</sup> Represents interest expense excluding the amortization of debt issue costs and premium and discount on debt.

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

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

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