

FY 2022 Q2 Earnings Call

May 10, 2022

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

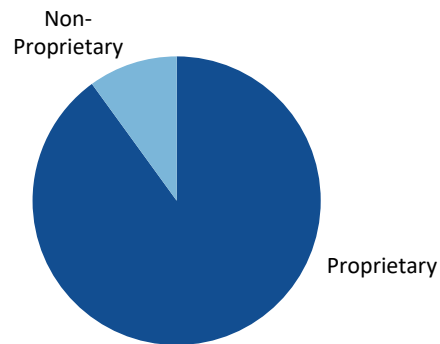
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of 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.

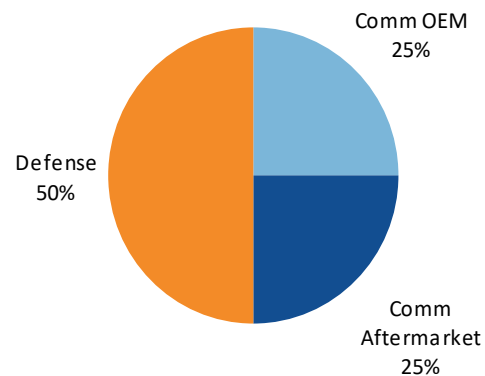
Distinguishing Characteristics

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

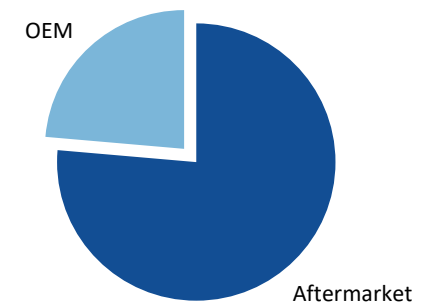
Proprietary Revenues ⁽¹⁾



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.

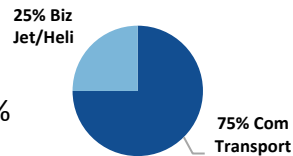
2022 Q2 Financial Performance by Markets – Pro Forma



Highlights

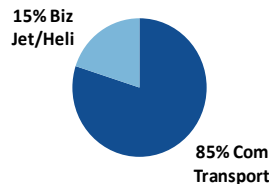
Commercial OEM:

- Q2 '22 Commercial Transport Revenue Up 27%
- Q2 '22 Business Jet/Helicopter Revenue Up 30%
- Q2 '22 Bookings Strongly Outpace Shipments



Commercial Aftermarket:

- Q2 '22 Commercial Transport Revenue Up 49%
- Q2 '22 Business Jet/Helicopter Revenue Up 34%
- Q2 '22 Bookings Strongly Outpace Shipments



Defense:

- Q2 '22 Defense Revenue Up 12% Sequentially versus Q1 '22
- Q2 '22 Defense Aftermarket Revenue Growth Outpaced Defense OEM
- Q2 '22 Defense Bookings Up 30% Sequentially versus Q1 '22
- Still Expecting Low Single Digit (LSD) Growth for Full Fiscal 2022, Consistent with Prior Guidance

Q2 Review – Pro Forma Revenues⁽¹⁾

	Actual vs. Prior Year	
	Q2	YTD
Commercial OEM:	Up 28%	Up 21%
Commercial Aftermarket:	Up 46%	Up 47%
Defense:	Down 2%	Down 7%

(1) Fiscal 2022 pro forma revenue for the thirteen-week and twenty-six week periods ended April 2, 2022, includes no pro forma adjustments. Fiscal 2021 pro forma revenue for the thirteen-week and twenty-six week periods ended April 3, 2021, includes the impact of the Cobham Aero Connectivity acquisition completed January 2021 and excludes the 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.

Second Quarter 2022 Select Financial Results

(\$ in millions, except per share amounts)

	Q2 FY 2022	Q2 FY 2021		
Revenue	\$1,327	\$1,194	11%	Increase
Gross Profit	\$736	\$592		
	55.5%	49.6%	5.9%	
SG&A	\$183	\$162		
<i>% to Sales</i>	13.8%	13.6%	0.2%	
Interest Expense - Net	\$266	\$268	-1%	Decrease
Refinancing Costs	-	\$24		
EBITDA As Defined	\$633	\$519	22%	Increase
<i>Margin %</i>	47.7%	43.5%		
Adjusted EPS	\$3.86	\$2.58	50%	Increase
GAAP Tax Rate	23.5%	19.2%		
Adjusted Tax Rate	25.7%	20.4%		

- Favorable Aftermarket vs. OEM sales mix
- Lower COVID-19 restructuring costs



- Realization of COVID -19 cost mitigation efforts
- Higher non-cash stock compensation expense



- One senior subordinated note refinanced to a lower rate

Fiscal 2022 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2022		
	Prior Assumptions (issued February 2022)	Updated Assumptions
Defense Revenue Growth	LSD% Growth	No change
Full Year EBITDA Margin	Slightly North of 47% (Highly Dependent on Pace of Commercial Aftermarket Recovery)	Approaching 48% (Highly Dependent on Pace of Commercial Aftermarket Recovery)
Capital Expenditures	\$135 to \$155 million	No change
Full Year Net Interest Expense	≈ \$1.08 billion	No change
Full Year Effective Tax Rate	≈ 21% - 23% for GAAP and Cash Taxes ≈ 26% - 28% Adjusted EPS	No change ≈ 24% - 26% Adjusted EPS
Depreciation & Amortization Expense (ex backlog)	\$255 to \$260 million	No change
Non-Cash Stock Compensation Expense	\$140 to \$155 Million	No change
Other EBITDA As Defined Add-Backs ⁽¹⁾	\$35 to \$50 Million	\$45 to \$60 million
Weighted Average Shares	59.2 million	58.6 million ⁽²⁾

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

(2) Fiscal 2022 pro forma weighted average shares are 58.2 million which includes the full impact of the approximately 1.0 million shares repurchased in Q2 FY 22.

Capital Structure

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Pro Forma Capital Structure

(\$ in millions)

	Actual 4/2/22	Rate
Cash	<u>\$4,216</u>	
\$810mm revolver	–	L + 2.500%
\$350mm AR securitization facility	350	L + 1.200%
First lien term loan E due 2025	2,166	L + 2.250%
First lien term loan F due 2025	3,436	L + 2.250%
First lien term loan G due 2024	1,734	L + 2.250%
Senior secured notes due 2025	1,100	8.000%
Senior secured notes due 2026	4,400	6.250%
Total secured debt	\$13,186	5.5x
Total net secured debt	\$8,970	3.8x
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)	149	
Total debt	\$19,935	8.4x
Total net debt	\$15,719	6.6x

**FY22 Weighted
Average Interest Rate
5.45%**

Interest Rate Sensitivity

- Interest rates on TDG's \$20Bn of gross Debt is 85% fixed rate through calendar year 2025
- Achieved via a combination of interest rate caps and swaps
- Significantly reduces near-term exposure to any LIBOR rate increases

\$ in millions

	Current FY 22 Assumptions	Current 3 Month Libor		
LIBOR %	~ 1% (1)	1.4%	2.0%	4.0%
Interest Expense - Pre-Tax	\$1,080	\$1,090	\$1,110	\$1,170
Interest Rate - Pre-Tax	5.45%	5.5%	5.6%	5.9%

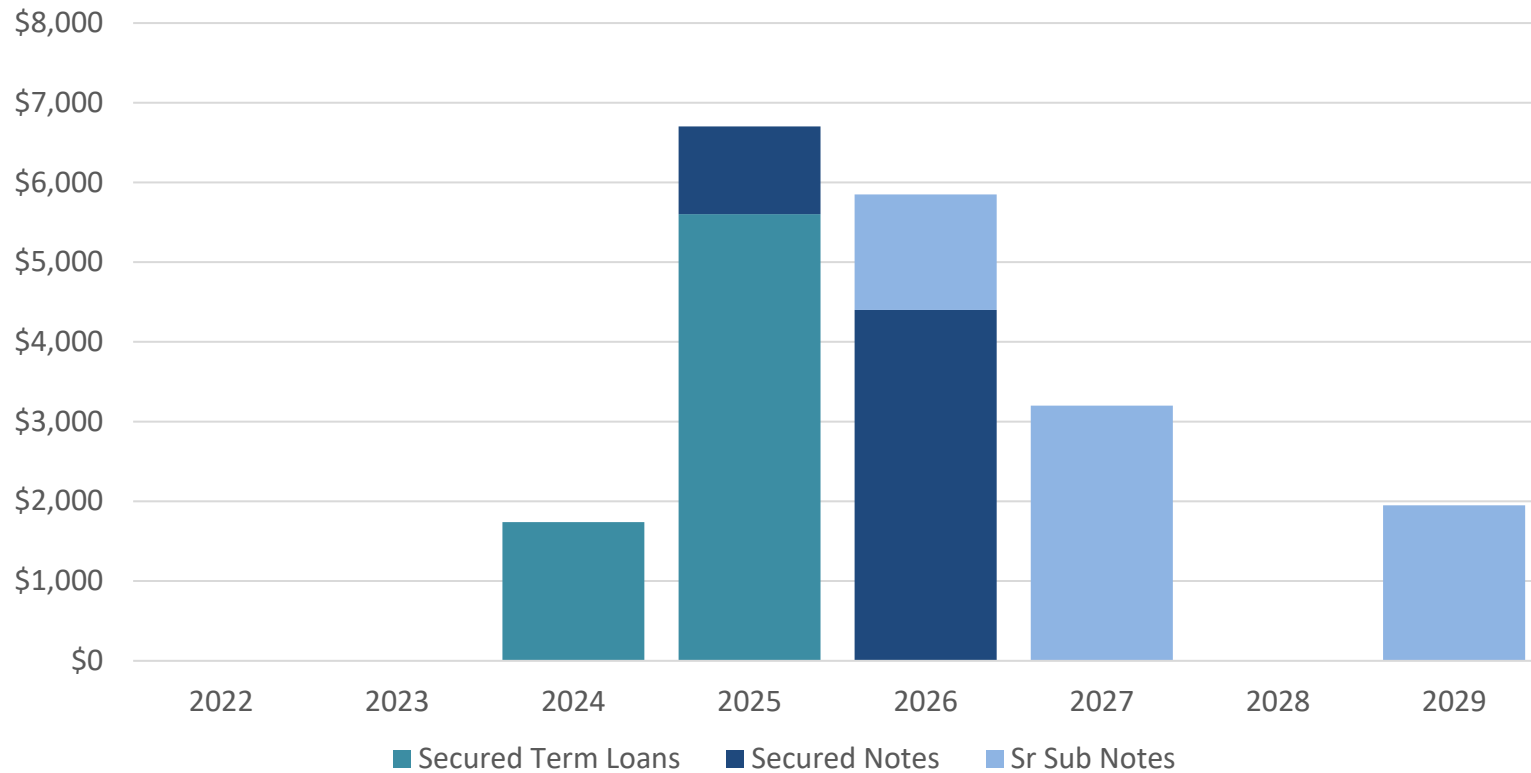
(1) FY Weighted Average Libor % is the average Libor for TDG's 2022 fiscal year based on current consensus forward estimates

(2) Interest expense shown includes \$33M amortization of debt issuance costs and fees

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		Twenty-Six Week Periods Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Income from continuing operations	\$ 199	\$ 105	\$ 362	\$ 155
Adjustments:				
Depreciation and amortization expense	62	66	127	124
Interest expense, net	266	268	530	535
Income tax provision	61	25	91	28
EBITDA	588	464	1,110	842
Adjustments:				
Acquisition and divestiture transaction-related expenses and adjustments ⁽¹⁾	3	16	8	19
Non-cash stock compensation expense ⁽²⁾	42	21	79	70
Refinancing costs ⁽³⁾	-	24	-	24
COVID-19 pandemic restructuring costs ⁽⁴⁾	-	18	-	39
Other, net ⁽⁵⁾	-	(24)	1	(1)
Gross Adjustments to EBITDA	45	55	88	151
EBITDA As Defined	\$ 633	\$ 519	\$ 1,198	\$ 993
EBITDA As Defined, Margin ⁽⁶⁾	47.7%	43.5%	47.5%	43.2%

⁽¹⁾ Represents accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when 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 of \$17 million and \$36 million for the thirteen and twenty-six week periods ended April 3, 2021, respectively. 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 \$1 million and \$3 million for the thirteen and twenty-six week periods ended April 3, 2021, respectively, 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.). Restructuring costs incurred in response to the COVID-19 pandemic for the thirteen and twenty-six week periods ended April 2, 2022 were not material.

⁽⁵⁾ 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, proceeds received from a final working capital settlement for the ScioTeq and TREALITY divestiture 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 net sales.

Appendix: Reconciliation of Reported EPS to Adjusted EPS

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(\$ in millions, except per share amounts)

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
Reported Earnings Per Share				
Income from continuing operations	\$ 199	\$ 105	\$ 362	\$ 155
Less: Net income attributable to noncontrolling interests	-	(1)	(1)	(1)
Net income from continuing operations attributable to TD Group	199	104	361	154
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	-	-	(46)	(73)
	199	104	315	81
Income from discontinued operations, net of tax	-	-	1	-
Net income applicable to TD Group common stockholders - basic and diluted	\$ 199	\$ 104	\$ 316	\$ 81
Weighted-average shares outstanding under the two-class method:				
Weighted-average common shares outstanding	55.2	54.8	55.2	54.7
Vested options deemed participating securities	3.7	3.6	3.8	3.7
Total shares for basic and diluted earnings per share	58.9	58.4	59.0	58.4
Earnings per share from continuing operations -- basic and diluted	\$ 3.38	\$ 1.79	\$ 5.33	\$ 1.40
Earnings per share from discontinued operations -- basic and diluted	-	-	0.02	-
Earnings per share	\$ 3.38	\$ 1.79	\$ 5.35	\$ 1.40
Adjusted Earnings Per Share				
Income from continuing operations	\$ 199	\$ 105	\$ 362	\$ 155
Gross adjustments to EBITDA	45	55	88	151
Purchase accounting backlog amortization	1	4	5	4
Tax adjustment ⁽¹⁾	(18)	(13)	(50)	(44)
Adjusted net income	\$ 227	\$ 151	\$ 405	\$ 266
Adjusted diluted earnings per share under the two-class method	\$ 3.86	\$ 2.58	\$ 6.85	\$ 4.55

⁽¹⁾ For the thirteen and twenty-six week periods ended April 2, 2022 and April 3, 2021, 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 EPS to Adjusted EPS

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	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	April 2, 2022	April 3, 2021	April 2, 2022	April 3, 2021
GAAP earnings per share from continuing operations	\$ 3.38	\$ 1.79	\$ 5.33	\$ 1.40
Adjustments to earnings per share:				
Dividend & dividend equivalent payments	-	-	0.78	1.24
Acquisition and divestiture transaction-related expenses and adjustments	0.04	0.26	0.15	0.31
Non-cash stock compensation expense	0.53	0.29	0.99	0.94
Refinancing costs	-	0.32	-	0.32
Tax adjustment on income from continuing operations before taxes	(0.10)	(0.02)	(0.44)	(0.19)
COVID-19 pandemic restructuring costs	-	0.24	-	0.52
Other, net	0.01	(0.30)	0.04	0.01
Adjusted earnings per share	\$ 3.86	\$ 2.58	\$ 6.85	\$ 4.55

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

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(\$ in millions)

	Twenty-Six Week Periods Ended	
	April 2, 2022	April 3, 2021
Net cash provided by operating activities	\$ 366	\$ 372
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions and sales of businesses	198	(9)
Interest expense, net ⁽¹⁾	513	518
Income tax provision - current	92	28
Loss contract amortization	20	27
Non-cash stock compensation expense ⁽²⁾	(79)	(70)
Refinancing costs ⁽³⁾	-	(24)
EBITDA	1,110	842
Adjustments:		
Acquisition and divestiture transaction-related expenses and adjustments ⁽⁴⁾	8	19
Non-cash stock compensation expense ⁽²⁾	79	70
Refinancing costs ⁽³⁾	-	24
COVID-19 pandemic restructuring costs ⁽⁵⁾	-	39
Other, net ⁽⁶⁾	1	(1)
EBITDA As Defined	\$ 1,198	\$ 993

⁽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 accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when 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.

⁽⁵⁾ Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic of \$36 million for the twenty-six week period ended April 3, 2021. 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 \$3 million for the twenty-six week period ended April 3, 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.). Restructuring costs incurred in response to the COVID-19 pandemic for the twenty-six week period ended April 2, 2022 were not material.

⁽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, proceeds received from a final working capital settlement for the ScioTeq and TREALITY divestiture and gain or loss on sale of fixed assets.