

FY 2020 Q4 Earnings Call

November 12, 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, 2020 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

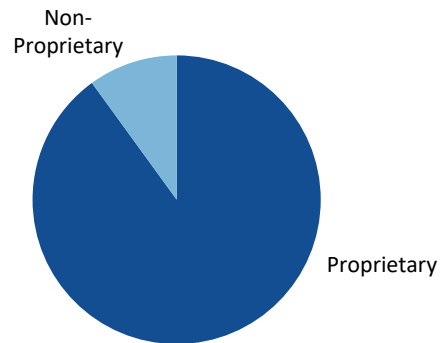
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of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

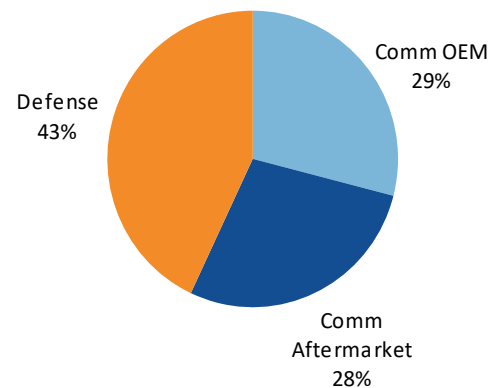
Distinguishing Characteristics

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

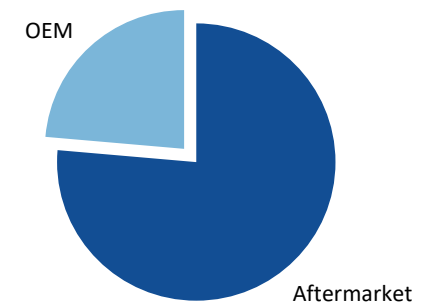
Proprietary Revenues ⁽¹⁾



Pro Forma Revenues ⁽¹⁾



Pro Forma EBITDA
As Defined ⁽¹⁾



(1) Pro forma revenues and EBITDA As Defined excludes the completed divestiture of 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.

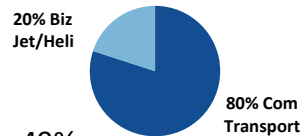
2020 Q4 Financial Performance by Markets – Pro Forma

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Highlights

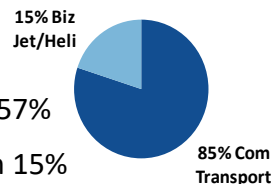
Commercial OEM:

- Q4 '20 Commercial Transport Revenue Down 49%
- Q4 '20 Business Jet/Helicopter Revenue Down 18%



Commercial Aftermarket:

- Q4 '20 Commercial Transport Revenue Down 57%
- Q4 '20 Business Jet/Helicopter Revenue Down 15%



Defense:

- Q4 '20 Defense Revenue Up 23% Sequentially Versus Q3 '20
- Q4 '20 Defense OEM Revenue Growth Outpaced Defense Aftermarket
- FY '20 Total Defense Bookings 7% Higher than Shipments

Q4 Review – Pro Forma Revenues⁽¹⁾

	Actual vs. Prior Year	
	Q4	YTD
Commercial OEM:	Down 42%	Down 23%
Commercial Aftermarket:	Down 50%	Down 22%
Defense:	Up 7%	Up 1%

(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.

Fourth Quarter 2020 Select Financial Results

(\$ in millions, except per share amounts)

	<u>Q4 FY 2020</u>	<u>Q4 FY 2019</u>		
Revenue	\$1,173	\$1,541	-24%	Decrease
Gross Profit	\$536	\$882		
SG&A	\$182	\$212		
<i>% to Sales</i>	15.5%	13.8%	2%	
Interest Expense- Net	\$267	\$245	9%	Increase
EBITDA As Defined	\$498	\$707	-30%	Decrease
<i>Margin %</i>	42.4%	45.9%		
Adjusted EPS	\$2.89	\$5.62	-49%	Decrease
GAAP Tax Rate	-33.1%	13.6%		
Adjusted Tax Rate	3.1%	19.7%		

- Acquisition expenses impacted by a favorable inventory acquisition accounting adjustment in the prior year
- COVID-19 & 737 MAX restructuring costs



- Interest on new debt

Full Year 2020 Select Financial Results

(\$ in millions, except per share amounts)

	<u>FY 2020</u>	<u>FY 2019</u>		
Revenue	\$5,103	\$5,223	-2%	Decrease
Gross Profit	\$2,647	\$2,809		
SG&A	\$727	\$748		
% to Sales	14.2%	14.3%	FLAT	
Interest Expense- Net	\$1,029	\$859	20%	Increase
EBITDA As Defined	\$2,278	\$2,419	-6%	Decrease
Margin %	44.6%	46.3%		
Adjusted EPS	\$14.47	\$18.27	-21%	Decrease
GAAP Tax Rate	11.7%	20.9%		
Adjusted Tax Rate	18.6%	25.1%		

- COVID-19 & 737 MAX impact
- Lower Esterline gross margins vs legacy TDG
- Lower acquisition integration related costs



- Higher SG&A expenses attributable to full fiscal year of Esterline ownership
- COVID-19 cost mitigation efforts
- Lower acquisition integration related costs



- Interest on new debt

- Tax rates positively impacted by share-based payments and the enactment of the CARES Act

Fiscal 2021 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2021	
Defense Revenue Growth	LSD% to MSD% Growth
Full Year EBITDA Margin	≈ 44% (Highly Dependent on Pace of Commercial Aftermarket Recovery)
Cash Generation	≈ \$400 million +
Full Year Net Interest Expense	≈ \$1.08 billion
Full Year Effective Tax Rate	≈ 18% - 20% for GAAP EPS and Cash Taxes ≈ 20% - 22% for Adjusted EPS
Depreciation & Amortization Expense (ex backlog)	≈ \$235 million
Non-Cash Stock Compensation Expense	\$75 to \$80 Million
Other EBITDA As Defined Add-Backs ⁽¹⁾	\$100 to \$110 Million
Weighted Average Shares	58.4 million

(1) Other EBITDA As Defined Add-Backs include estimates for acquisition-related expenses and adjustments, COVID-19 and other restructuring charges, and other, net.

Liquidity, Capital Structure & Taxes

Cash

(\$ in millions)

	FY 20 9/30/20	FY 19 9/30/19
Net Cash Provided by Operating Activities	\$1,213	\$1,015
Capital Expenditures	(\$105)	(\$102)
Free Cash Flow	\$1,108	\$913
Cash on the Balance Sheet	\$4,717	\$1,467

Taxes

- FY 20 GAAP ETR: 11.7%
- FY 20 Adjusted ETR: 18.6%

Pro Forma Capital Structure

(\$ in millions)

	Actual 9/30/20	Rate
Cash	<u>\$4,717</u>	
\$760mm revolver	\$200	L + 3.000%
\$350mm AR securitization facility	350	L + 1.350%
First lien term loan E due 2025	2,199	L + 2.250%
First lien term loan F due 2025	3,489	L + 2.250%
First lien term loan G due 2024	1,761	L + 2.250%
Senior secured notes due 2025	1,100	8.000%
Senior secured notes due 2026	4,400	6.250%
Total secured debt	\$13,499	5.9x
Total net secured debt	\$8,782	3.9x
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	
Total debt	\$20,156	8.8x
Total net debt	\$15,439	6.8x

FY20 Weighted
Average Interest Rate
5.4%

Run Rate Annualized
Interest Expense
~\$1.08B

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

(\$ in millions)

	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Income from continuing operations	\$ 101	\$ 317	\$ 653	\$ 841
Adjustments:				
Depreciation and amortization expense	71	88	283	226
Interest expense, net	267	245	1,029	859
Income tax provision	(25)	50	87	222
EBITDA	414	700	2,052	2,148
Adjustments:				
Acquisition-related expenses and adjustments ⁽¹⁾	13	(16)	31	169
Non-cash stock compensation expense ⁽²⁾	34	23	93	93
Refinancing costs ⁽³⁾	1	-	28	3
COVID-19 & 737 MAX restructuring costs ⁽⁴⁾	23	-	54	-
Other, net ⁽⁵⁾	13	-	20	6
Gross Adjustments to EBITDA	84	7	226	271
EBITDA As Defined	\$ 498	\$ 707	\$ 2,278	\$ 2,419
EBITDA As Defined, Margin ⁽⁶⁾	42.4%	45.9%	44.6%	46.3%

⁽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 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 cost 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 (\$22 million and \$46 million for the thirteen week period and year ended September 30, 2020, respectively) and the 737 MAX production rate changes (\$3 million for the year ended September 30, 2020. None in the thirteen week period ended September 30, 2020). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes \$1 million and \$5 million for the thirteen week period and year ended September 30, 2020, 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.).

⁽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, 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.

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Reported Earnings Per Share				
Income from continuing operations	\$ 101	\$ 317	\$ 653	\$ 841
Less: Net income attributable to noncontrolling interests	-	(2)	(1)	(2)
Net income from continuing operations attributable to TD Group	101	315	652	839
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	-	(87)	(185)	(111)
	101	228	467	728
(Loss) Income from discontinued operations, net of tax	(19)	32	47	51
Net income applicable to TD Group common stockholders - basic and diluted	<u>\$ 82</u>	<u>\$ 260</u>	<u>\$ 514</u>	<u>\$ 779</u>
Denominator for basic and diluted earnings per share under the two-class method:				
Weighted-average common shares outstanding	54.3	53.4	53.9	53.1
Vested options deemed participating securities	3.0	2.9	3.4	3.2
Total shares for basic and diluted earnings per share	<u>57.3</u>	<u>56.3</u>	<u>57.3</u>	<u>56.3</u>
Earnings per share from continuing operations -- basic and diluted	\$ 1.76	\$ 4.08	\$ 8.14	\$ 12.94
(Loss) Earnings per share from discontinued operations -- basic and diluted	(0.33)	0.55	0.82	0.90
Earnings per share	<u>\$ 1.43</u>	<u>\$ 4.63</u>	<u>\$ 8.96</u>	<u>\$ 13.84</u>
Adjusted Earnings Per Share				
Income from continuing operations	\$ 101	\$ 317	\$ 653	\$ 841
Gross adjustments to EBITDA	84	7	226	271
Purchase accounting backlog amortization	12	20	53	38
Tax adjustment ⁽¹⁾	(31)	(28)	(103)	(122)
Adjusted net income	<u>\$ 166</u>	<u>\$ 316</u>	<u>\$ 829</u>	<u>\$ 1,028</u>
Adjusted diluted earnings per share under the two-class method	<u>\$ 2.89</u>	<u>\$ 5.62</u>	<u>\$ 14.47</u>	<u>\$ 18.27</u>

⁽¹⁾ For the thirteen week periods and fiscal years ended September 30, 2020 and 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 EPS to Adjusted EPS

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	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
GAAP earnings per share from continuing operations	\$ 1.76	\$ 4.08	\$ 8.14	\$ 12.94
Adjustments to earnings per share:				
Dividend equivalent payments	-	1.54	3.22	1.97
Acquisition-related expenses	0.42	0.05	1.20	2.77
Non-cash stock compensation expense	0.57	0.33	1.32	1.24
Refinancing costs	0.02	-	0.40	0.04
Change in income tax provision due to excess tax benefits on stock compensation	(0.48)	(0.40)	(0.89)	(0.79)
COVID-19 & 737 MAX restructuring costs	0.39	-	0.76	-
Other, net	0.21	0.02	0.32	0.10
Adjusted earnings per share	\$ 2.89	\$ 5.62	\$ 14.47	\$ 18.27

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

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(\$ in millions)	Fiscal Years Ended	
	September 30, 2020	September 30, 2019
Net cash provided by operating activities	\$ 1,213	\$ 1,015
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(99)	176
Interest expense, net ⁽¹⁾	996	831
Income tax provision - current	63	222
Non-cash stock compensation expense ⁽²⁾	(93)	(93)
Refinancing costs ⁽³⁾	(28)	(3)
EBITDA	2,052	2,148
Adjustments:		
Acquisition-related expenses and adjustments ⁽⁴⁾	31	169
Non-cash stock compensation expense ⁽²⁾	93	93
Refinancing costs ⁽³⁾	28	3
COVID-19 & 737 MAX restructuring costs ⁽⁵⁾	54	-
Other, net ⁽⁶⁾	20	6
EBITDA As Defined	\$ 2,278	\$ 2,419

⁽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 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.

⁽⁵⁾ Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic (\$46 million) and the 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 \$5 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.