

FY 2020 Q1 Earnings Call

February 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 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 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 associated with our 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 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.

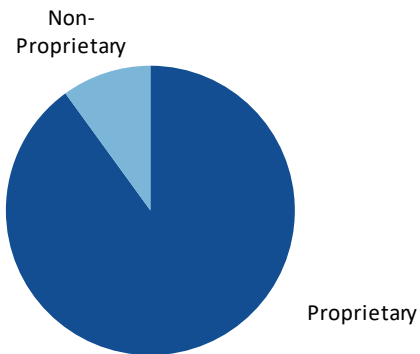
This presentation also sets forth certain non-GAAP financial measures. A presentation of the most directly comparable GAAP measures and a reconciliation to such measures are set forth in the appendix.

TransDigm Overview (Includes Esterline)

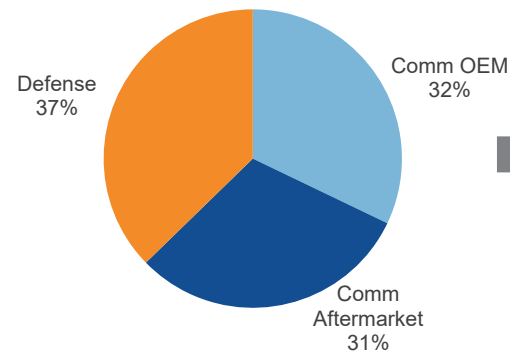
Distinguishing Characteristics

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

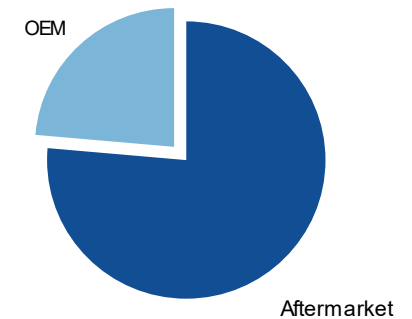
Proprietary Revenues ⁽¹⁾



Pro Forma Revenues ⁽¹⁾



Pro Forma EBITDA
As Defined ⁽¹⁾



(1) Pro forma revenue is for the fiscal year ended 9/30/19 includes the Esterline acquisition, excluding the completed divestiture 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.

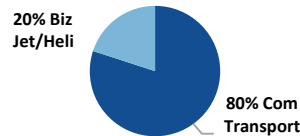
2020 Q1 Financial Performance by Markets – Pro Forma (Includes Esterline)

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Highlights

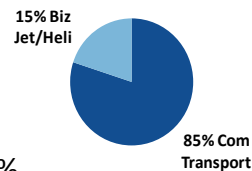
Commercial OEM:

- Q1 '20 Commercial Transport Revenue Flat
- Q1 '20 Business Jet/Helicopter Revenue Up 3%
- Q1 '20 Total Commercial Bookings Up Mid-Single Digit %



Commercial Aftermarket:

- Q1 '20 Commercial Transport Revenue Up 17%
- Q1 '20 Business Jet/Helicopter Revenue Up 18%
- Q1 '20 Total Commercial Bookings Up Mid-Single Digit %



Defense:

- Q1 '20 OEM Revenue Growth Outpaced Aftermarket Growth
- Revenue Growth Well Distributed Across Businesses

Q1 Review – Pro Forma Revenues⁽¹⁾

**Actual vs.
Prior Year Q1**

Commercial OEM: **Up 1%**


Commercial Aftermarket: **Up 17%**

Defense: **Up 9%**

(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.

First Quarter 2020 Select Financial Results

(\$ in millions, except per share amounts)

	Q1 FY 2020	Q1 FY 2019			
Revenue	\$1,465	\$993	47.5%	Increase	<ul style="list-style-type: none"> 8.7% organic sales growth
Gross Profit <i>Margin %</i>	\$801 54.7%	\$564 56.8%	-2.1%	Margin Decrease	<ul style="list-style-type: none"> Lower Esterline gross margins vs. legacy TDG Legacy TDG business margins expanded 
SG&A <i>% to Sales</i>	\$201 13.7%	\$122 12.3%	1.4%		<ul style="list-style-type: none"> Higher Esterline SG&A spend vs. legacy TDG
Interest Expense- Net	\$248	\$172	44.2%	Increase	<ul style="list-style-type: none"> Interest on new debt to fund Esterline acquisition
EBITDA As Defined <i>Margin %</i>	\$681 46.5%	\$487 49.0%	39.8%	Increase	<ul style="list-style-type: none"> Includes the benefit of \$9M in loss contract reserves offsetting negative margins on sales related to former Esterline businesses
Adjusted EPS	\$4.93	\$3.85	28.1%	Increase	
Adjusted Tax Rate	24.4%	22.8%			

Fiscal 2020 Outlook

Market Growth Assumptions – No Change from Original FY20 Guidance

FY 2019 Pro Forma Sales Mix ⁽¹⁾	Market	FY 2020 Expected Growth ⁽²⁾
32%	Commercial OEM	Up LSD to MSD%
31%	Commercial Aftermarket	Up MSD to HSD%
37%	Defense	Up MSD%

Misc. Financial Assumptions

- Full year net interest expense ≈ \$1.02 billion
- Full year effective tax rate ≈ 24% to 26% for GAAP EPS, Adjusted EPS and Cash taxes
- Weighted average shares of 57.4 million
- Depreciation & amortization expense (ex backlog) ≈ \$240 million
- Backlog amortization ≈ \$62 million

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

(2) No change from original FY20 guidance. Original FY20 guidance was previously issued on 11/19/2019.

Guidance Summary

(\$ in millions)	FY 20 Current Guidance		FY 20 Guidance Midpoint Change			
	Low	High	Current	Prior	Δ	
Revenues ⁽¹⁾	\$ 6,175	\$ 6,325	Revenues ⁽¹⁾	\$ 6,250	\$ 6,250	\$ -
EBITDA As Defined ⁽¹⁾ <i>% of sales</i>	\$ 2,775 44.9%	\$ 2,875 45.5%	EBITDA As Defined ⁽¹⁾ <i>% of sales</i>	\$ 2,825 45.2%	\$ 2,825 45.2%	\$ - 0.0%
Net Income ⁽¹⁾	\$ 1,000	\$ 1,080				
GAAP EPS ⁽²⁾	\$ 14.20	\$ 15.60				
Adj. EPS ⁽¹⁾	\$ 19.80	\$ 21.20	Adj. EPS ⁽¹⁾	\$ 20.50	\$ 20.50	\$ -

(1) No change from original FY20 guidance. Original FY20 guidance was previously issued on 11/19/2019.

(2) GAAP EPS guidance adjusted to reflect the dividend equivalent payments related to the \$32.50 special dividend declared in December.

Reconciliation of Fiscal 2020 Outlook

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(\$ in millions, except per share amounts)

	FY 2020 Guidance Midpoint	
Net income	\$ 1,040	
Adjustments:		
Depreciation and amortization expense	302	Includes approx. \$62m of backlog amortization
Interest expense - net	1,020	
Income tax provision	317	
EBITDA	<u>2,679</u>	
Adjustments:		
Acquisition-related expenses and adjustments ⁽¹⁾ and other, net ⁽¹⁾	28	
Non-cash stock compensation expense ⁽¹⁾	96	
Refinancing costs ⁽¹⁾	22	
Gross Adjustments to EBITDA	<u>146</u>	
EBITDA As Defined	<u>\$2,825</u>	
<i>EBITDA As Defined, Margin ⁽¹⁾</i>	45.2%	
GAAP earnings per share	\$14.90	
Adjustments to earnings per share:		
Inclusion of the dividend equivalent payments	3.22	
Acquisition-related expenses and adjustments and other, net	1.19	
Non-cash stock compensation expense	1.27	
Refinancing costs	0.29	
Reduction in income tax provision due to excess tax benefits on stock compensation	(0.37)	
Adjusted earnings per share	<u>\$20.50</u>	
Weighted-average shares outstanding	57.4	
GAAP & Adj Tax Rate	24% - 26%	

(1) Refer to tables in Appendix for definitions of Non-GAAP measurement adjustments.

Liquidity & Taxes

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(\$ in millions)

Cash

	Q1 FY 20 12/28/19	FY 19 9/30/19
Net Cash Provided by Operating Activities	\$433	\$1,029
Capital Expenditures	(\$27)	(\$103)
Free Cash Flow	\$406	\$926
Cash on the Balance Sheet	\$4,194	\$1,468

Taxes

- Q1 FY 20 GAAP ETR: 20.1%
- Q1 FY 20 Adjusted ETR: 24.4%

Pro Forma Capital Structure

Pro forma capitalization (\$ in millions)	Actual 12/28/19	Adj.	Pro forma (1) 12/28/19	Rate
Cash	<u>\$4,194</u>	(\$1,864)	<u>\$2,330</u>	
\$760mm revolver	–	–	–	L + 3.000%
\$350mm AR securitization facility	350	–	350	L + 0.900%
First lien term loan E due 2025	2,221	–	2,221	L + 2.500%
First lien term loan F due 2023	3,524	–	3,524	L + 2.500%
First lien term loan G due 2024	1,779	–	1,779	L + 2.500%
Senior secured notes due 2026	4,000	–	4,000	6.250%
Total secured debt	\$11,874	4.5x	\$11,874	4.5x
Total net secured debt	\$7,680	2.9x	\$9,544	3.6x
Senior subordinated notes due 2024	1,200	–	1,200	6.500%
Senior subordinated notes due 2025	750	–	750	6.500%
Senior subordinated notes due 2026	950	–	950	6.375%
Senior subordinated notes due 2026	500	–	500	6.875%
Senior subordinated notes due 2027	550	–	550	7.500%
Senior subordinated notes due 2027	2,650	–	2,650	5.500%
Capital Lease Obligations (Gross)	50	–	50	
Total debt	\$18,524	7.0x	\$18,524	7.0x
Total net debt	\$14,330	5.4x	\$16,194	6.1x

**FY20 Weighted
Average Interest
Rate
5.5%**

(1) Pro forma capital structure reflects the dividend paid subsequent to the fiscal quarter ended 12/28/19.

Reconciliation of GAAP to Adjusted EPS - Guidance

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	Thirteen Week Periods Ended		Full Year Guidance Mid-Point
	December 28, 2019	December 29, 2018	September 30, 2020
GAAP earnings per share	\$ 0.83	\$ 3.05	\$ 14.90
Adjustments to earnings per share:			
Dividend equivalent payments	3.22	0.43	3.22
Acquisition-related expenses	0.24	0.17	1.19
Non-cash stock compensation expense	0.34	0.24	1.27
Refinancing costs	0.30	0.01	0.29
Reduction in income tax provision due to excess tax benefits on stock compensation	(0.22)	(0.06)	(0.37)
Other, net	0.22	0.01	-
Adjusted earnings per share	\$ 4.93	\$ 3.85	\$ 20.50
Weighted-average shares outstanding	57.4	56.3	57.4

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

(\$ in millions)

	Thirteen Week Periods Ended	
	December 28, 2019	December 29, 2018
Net income including noncontrolling interests	\$ 305	\$ 196
Less: Income from discontinued operations, net of tax ⁽¹⁾	71	-
Income from continuing operations including noncontrolling interests	234	196
Adjustments:		
Depreciation and amortization expense	69	35
Interest expense - net	248	172
Income tax provision	59	54
EBITDA	610	457
Adjustments:		
Acquisition-related expenses and adjustments ⁽²⁾	7	11
Non-cash stock compensation expense ⁽³⁾	26	18
Refinancing costs ⁽⁴⁾	22	-
Other - net ⁽⁵⁾	16	1
Gross Adjustments to EBITDA	71	30
EBITDA As Defined	\$ 681	\$ 487
EBITDA As Defined, Margin ⁽⁶⁾	46.5%	49.0%

⁽¹⁾ The fiscal 2020 results includes the divestiture of Souriau-Sunbank (December 2019).

⁽²⁾ 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.

⁽³⁾ Represents the compensation expense recognized by TD Group under our stock incentive plans.

⁽⁴⁾ Represents cost expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

⁽⁵⁾ Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to 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	
	December 28, 2019	December 29, 2018
Reported Earnings Per Share		
Income from continuing operations including noncontrolling interests	\$ 234	\$ 196
Less: Net income attributable to noncontrolling interests	(1)	-
Net income from continuing operations attributable to TD Group	233	196
Less: Special dividends declared or paid on participating securities	(185)	(24)
	48	172
Income from discontinued operations, net of tax	71	-
Net income applicable to TD Group common stock - basic and diluted	\$ 119	\$ 172
Weighted-average shares outstanding under the two-class method:		
Weighted-average common shares outstanding	53.6	52.8
Vested options deemed participating securities	3.8	3.5
Total shares for basic and diluted earnings per share	57.4	56.3
Net earnings per share from continuing operations -- basic and diluted	\$ 0.83	\$ 3.05
Net earnings per share from discontinued operations -- basic and diluted	\$ 1.24	\$ -
Basic and diluted earnings per share	\$ 2.07	\$ 3.05
Adjusted Earnings Per Share		
Net income from continuing operations attributable to TD Group	\$ 233	\$ 196
Gross adjustments to EBITDA	71	29
Purchase accounting backlog amortization	12	1
Tax adjustment ⁽¹⁾	(33)	(10)
Adjusted net income	\$ 283	\$ 216
Adjusted diluted earnings per share under the two-class method	\$ 4.93	\$ 3.85

⁽¹⁾ For the thirteen week periods ended December 28, 2019 and December 29, 2018, 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 Net Cash Provided by Operating Activities to EBITDA and EBITDA As Defined



(\$ in millions)

	Thirteen Week Periods Ended	
	December 28, 2019	December 29, 2018
Net cash provided by operating activities	\$ 433	\$ 330
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(89)	(75)
Interest expense - net ⁽¹⁾	240	166
Income tax provision - current	87	54
Non-cash stock compensation expense ⁽²⁾	(26)	(18)
Refinancing costs ⁽⁴⁾	(22)	-
EBITDA from discontinued operations ⁽⁶⁾	(13)	-
EBITDA	610	457
Adjustments:		
Acquisition-related expenses and adjustments ⁽³⁾	7	11
Non-cash stock compensation expense ⁽²⁾	26	18
Refinancing costs ⁽⁴⁾	22	-
Other, net ⁽⁵⁾	16	1
EBITDA As Defined	\$ 681	\$ 487

⁽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 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.

⁽⁴⁾ Represents costs expenses related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

⁽⁵⁾ Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to 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 fiscal 2020 results include the divestiture of Souriau-Sunbank (divested in December 2019).