

FY 2021 Q2 Earnings Call

May 11, 2021

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

TRANSDIGM
GROUP INC.

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; 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

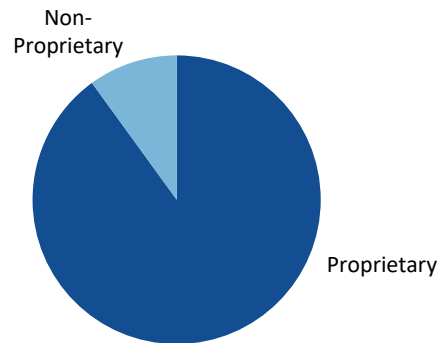
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of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

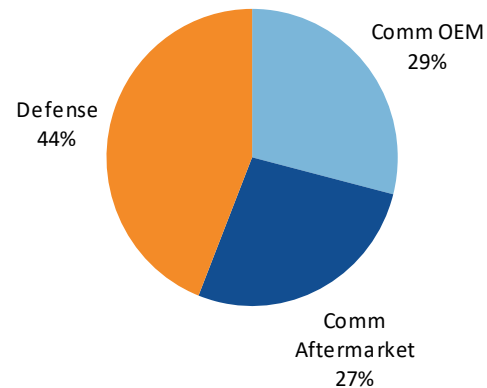
Distinguishing Characteristics

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

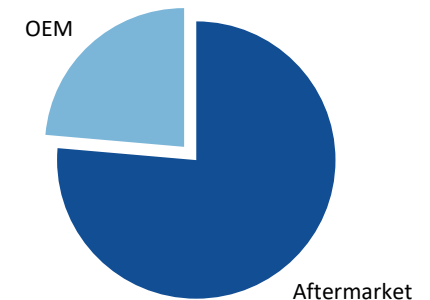
Proprietary Revenues ⁽¹⁾



Pro Forma Revenues ⁽¹⁾



Pro Forma EBITDA
As Defined ⁽¹⁾



(1) Pro forma revenue is for the fiscal year ended 9/30/2020. Includes full year impact of the Cobham Aero Connectivity acquisition completed January 2021. Excludes full year impact of FY 20 and FY 21 divestitures completed as of 4/3/2021 including Souriau-Sunbank (divested December 2019), Avista (divested November 2020) and Racal Acoustics (divested January 2021). Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

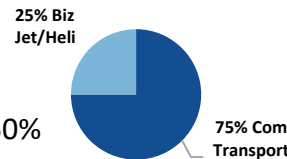
2021 Q2 Financial Performance by Markets – Pro Forma



Highlights

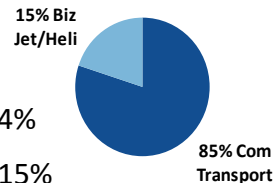
Commercial OEM:

- Q2 '21 Commercial Transport Revenue Down 50%
- Q2 '21 Business Jet/Helicopter Revenue Down 23%
- Sequential Q2 '21 Bookings Improvement of Over 20% versus Q1 '21



Commercial Aftermarket:

- Q2 '21 Commercial Transport Revenue Down 44%
- Q2 '21 Business Jet/Helicopter Revenue Down 15%
- Sequential Q2 '21 Bookings Improvement of Almost 30% versus Q1 '21



Defense:

- Q2 '21 Defense OEM Revenue Growth Outpaced Defense Aftermarket

Q2 Review – Pro Forma Revenues⁽¹⁾

	Actual vs. Prior Year	
	Q2	YTD
Commercial OEM:	Down 43%	Down 41%
Commercial Aftermarket:	Down 39%	Down 44%
Defense:	Up 8%	Up 5%

(1) Pro forma revenue is for the fiscal year ended 9/30/2020. Includes full year impact of the Cobham Aero Connectivity acquisition completed January 2021. Excludes full year impact of FY 20 and FY 21 divestitures completed as of 4/3/2021 including Souriau-Sunbank (divested December 2019), Avista (divested November 2020) and Racal Acoustics (divested January 2021). Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

Second Quarter 2021 Select Financial Results

(\$ in millions, except per share amounts)

	Q2 FY 2021	Q2 FY 2020		
Revenue	\$1,194	\$1,443	-17%	Decrease
Gross Profit	\$592	\$818		
	49.6%	56.7%		
SG&A	\$162	\$180		
<i>% to Sales</i>	13.6%	12.5%	1%	
Interest Expense- Net	\$268	\$252	6%	Increase
Refinancing Costs	\$24	\$3		
EBITDA As Defined	\$519	\$675	-23%	Decrease
<i>Margin %</i>	43.5%	46.8%		
Adjusted EPS	\$2.58	\$5.10	-49%	Decrease
GAAP Tax Rate	19.6%	4.2%		
Adjusted Tax Rate	20.4%	20.4%		

- COVID-19 restructuring costs
- Higher acquisition accounting expenses



- Higher non-cash stock compensation expense



- Interest on new debt

- One senior subordinated note refinancing completed

Fiscal 2021 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2021		
	Prior Assumptions (issued Nov 2020)	Current Assumptions (with Cobham)
Defense Revenue Growth	LSD% to MSD% Growth	MSD% Growth
Full Year EBITDA Margin	≈ 44% (Highly Dependent on Pace of Commercial Aftermarket Recovery)	≈ 44% (Highly Dependent on Pace of Commercial Aftermarket Recovery)
Full Year Net Interest Expense	≈ \$1.08 billion	≈ \$1.06 billion
Full Year Effective Tax Rate	≈ 18% - 20% for GAAP EPS and Cash Taxes ≈ 20% - 22% for Adjusted EPS	≈ 18% - 22% for GAAP EPS, Cash Taxes and Adjusted EPS
Depreciation & Amortization Expense (ex backlog)	≈ \$235 million	\$245 to \$250 million
Backlog Amortization	n/a	\$10 to \$15 million
Non-Cash Stock Compensation Expense	\$75 to \$80 Million	\$105 to \$120 Million
Other EBITDA As Defined Add-Backs ⁽¹⁾	\$100 to \$110 Million	\$110 to \$125 Million
Weighted Average Shares	58.4 million	58.4 million

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

Capital Structure

Pro Forma Capital Structure

(\$ in millions)

	Actual 4/3/21		Adj.	Pro forma (1) 4/3/21	Rate
Cash	<u>\$4,072</u>			<u>\$4,072</u>	
\$760mm revolver	\$200		–	200	L + 3.000%
\$350mm AR securitization facility	350		–	350	L + 1.350%
First lien term loan E due 2025	2,188		–	2,188	L + 2.250%
First lien term loan F due 2025	3,471		–	3,471	L + 2.250%
First lien term loan G due 2024	1,752		–	1,752	L + 2.250%
Senior secured notes due 2025	1,100		–	1,100	8.000%
Senior secured notes due 2026	4,400		–	4,400	6.250%
Total secured debt	\$13,461	6.9x		\$13,461	
Total net secured debt	\$9,389	4.8x		\$9,389	
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%
Senior subordinated notes due 2029	1,200		–	1,200	4.625%
Senior subordinated notes due 2029	–		750	750	4.875%
Capital Lease Obligations (Gross)	101		–	101	
Total debt	\$20,162	10.3x		\$20,162	
Total net debt	\$16,090	8.2x		\$16,090	

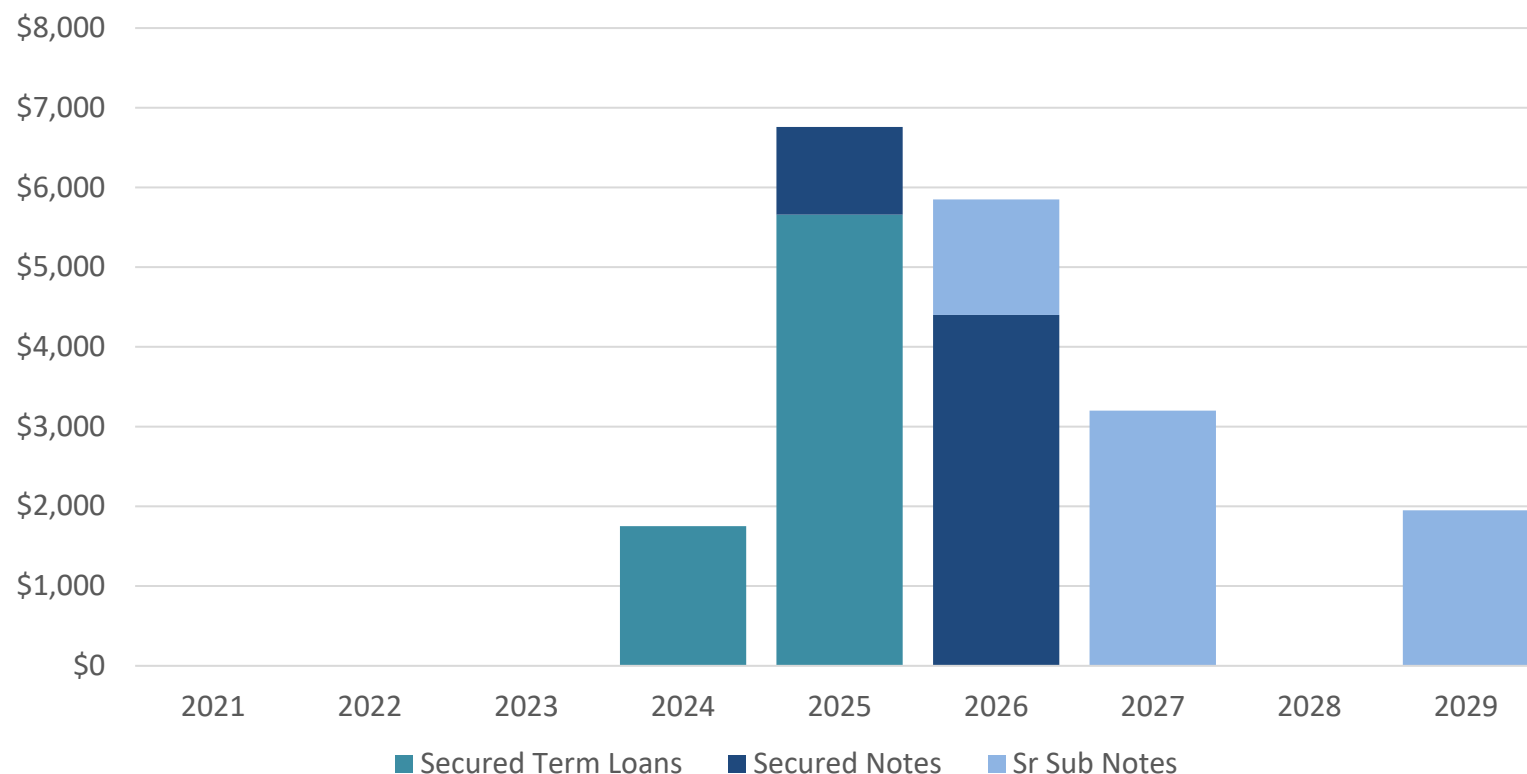
**FY21 Weighted
Average Interest Rate
5.2%**

(1) Pro forma capital structure also reflects the issuance of the 4.875% Senior Subordinated Notes due 2029. The offering was completed subsequent to the fiscal quarter ended 4/3/21 and the Company expects to use the net proceeds from the Senior Subordinated Notes due 2029 offering to redeem all of its outstanding Senior Subordinated Notes due 2025.

Debt Maturity Profile

Debt Maturity Profile – Pro Forma for April 2021 Refinancing

(\$MM)



Note: \$350M AR Securitization renews annually in July

Note: Pro Forma Debt Maturity profile reflects the issuance of the 4.875% Senior Subordinated Notes due 2029. The offering was completed subsequent to the fiscal quarter ended 4/3/21 and the Company expects to use the net proceeds from the Senior Subordinated Notes due 2029 offering to redeem all of its outstanding Senior Subordinated Notes due 2025.

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 3, 2021	March 28, 2020	April 3, 2021	March 28, 2020
Income from continuing operations	\$ 105	\$ 323	\$ 155	\$ 556
Adjustments:				
Depreciation and amortization expense	66	72	124	141
Interest expense, net	268	252	535	501
Income tax provision	25	14	28	73
EBITDA	464	661	842	1,271
Adjustments:				
Acquisition-related expenses and adjustments ⁽¹⁾	16	9	19	16
Non-cash stock compensation expense ⁽²⁾	21	11	70	37
Refinancing costs ⁽³⁾	24	3	24	26
COVID-19 pandemic restructuring costs ⁽⁴⁾	18	1	39	1
Other, net ⁽⁵⁾	(24)	(10)	(1)	5
Gross Adjustments to EBITDA	55	14	151	85
EBITDA As Defined	\$ 519	\$ 675	\$ 993	\$ 1,356
EBITDA As Defined, Margin ⁽⁶⁾	43.5%	46.8%	43.2%	46.6%

⁽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 (\$17 million and \$36 million for the thirteen and twenty-six week periods ended April 3, 2021, respectively, and \$1 million for the thirteen and twenty-six week periods ended March 28, 2020). These were 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.).

⁽⁵⁾ Primarily represents gain on insurance proceeds from the Leach International Europe fire, 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, gain or loss on sale of fixed assets and gain or loss on sale of businesses.

⁽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

TRANSDIGM
GROUP INC.

(\$ in millions, except per share amounts)

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	April 3, 2021	March 28, 2020	April 3, 2021	March 28, 2020
Reported Earnings Per Share				
Income from continuing operations	\$ 105	\$ 323	\$ 155	\$ 556
Less: Net income attributable to noncontrolling interests	(1)	-	(1)	(1)
Net income from continuing operations attributable to TD Group	104	323	154	555
Less: Special dividends declared or paid on participating securities, including dividend equivalent payments	-	-	(73)	(185)
	104	323	81	370
(Loss) Income from discontinued operations, net of tax	-	(4)	-	68
Net income applicable to TD Group common stockholders - basic and diluted	\$ 104	\$ 319	\$ 81	\$ 438
Weighted-average shares outstanding under the two-class method:				
Weighted-average common shares outstanding	54.8	53.8	54.7	53.7
Vested options deemed participating securities	3.6	3.6	3.7	3.7
Total shares for basic and diluted earnings per share	58.4	57.4	58.4	57.4
Earnings per share from continuing operations -- basic and diluted	\$ 1.79	\$ 5.63	\$ 1.40	\$ 6.45
(Loss) Earnings per share from discontinued operations -- basic and diluted	-	(0.07)	-	1.18
Earnings per share	\$ 1.79	\$ 5.56	\$ 1.40	\$ 7.63
Adjusted Earnings Per Share				
Income from continuing operations	\$ 105	\$ 323	\$ 155	\$ 556
Gross adjustments to EBITDA	55	14	151	85
Purchase accounting backlog amortization	4	16	4	28
Tax adjustment ⁽¹⁾	(13)	(61)	(44)	(94)
Adjusted net income	\$ 151	\$ 292	\$ 266	\$ 575
Adjusted diluted earnings per share under the two-class method	\$ 2.58	\$ 5.10	\$ 4.55	\$ 10.03

⁽¹⁾ For the thirteen and twenty-six week periods ended April 3, 2021 and March 28, 2020, 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

TRANSDIGM
GROUP INC.

	Thirteen Week Periods Ended		Twenty-Six Week Periods Ended	
	April 3, 2021	March 28, 2020	April 3, 2021	March 28, 2020
GAAP earnings per share from continuing operations	\$ 1.79	\$ 5.63	\$ 1.40	\$ 6.45
Adjustments to earnings per share:				
Dividend & dividend equivalent payments	-	-	1.24	3.22
Acquisition-related expenses and adjustments	0.26	0.35	0.31	0.59
Non-cash stock compensation expense	0.29	0.16	0.94	0.50
Refinancing costs	0.32	0.05	0.32	0.35
Change in income tax provision due to excess tax benefits on stock compensation	(0.02)	(0.95)	(0.19)	(1.19)
COVID-19 pandemic restructuring costs	0.24	0.01	0.52	0.01
Other, net	(0.30)	(0.15)	0.01	0.10
Adjusted earnings per share	\$ 2.58	\$ 5.10	\$ 4.55	\$ 10.03

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



(\$ in millions)

	Twenty-Six Week Periods Ended	
	April 3, 2021	March 28, 2020
Net cash provided by operating activities	\$ 372	\$ 594
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	(9)	148
Interest expense, net ⁽¹⁾	518	485
Income tax (benefit) provision - current	28	82
Loss contract amortization	27	25
Non-cash stock compensation expense ⁽²⁾	(70)	(37)
Refinancing costs ⁽³⁾	(24)	(26)
EBITDA	842	1,271
Adjustments:		
Acquisition-related expenses and adjustments ⁽⁴⁾	19	16
Non-cash stock compensation expense ⁽²⁾	70	37
Refinancing costs ⁽³⁾	24	26
COVID-19 pandemic restructuring costs ⁽⁵⁾	39	1
Other, net ⁽⁶⁾	(1)	5
EBITDA As Defined	\$ 993	\$ 1,356

⁽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 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 (\$36 million and \$1 million for the twenty-six week periods ended April 3, 2021 and March 28, 2020, respectively). These were 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.).

⁽⁶⁾ Primarily represents gain on insurance proceeds from the Leach International Europe fire, 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, gain or loss on sale of fixed assets and gain or loss on sale of businesses.