

FY 2023 Q4 Earnings Call

November 9, 2023

TRANSDIGM
GROUP INC.

Agenda

- TransDigm Overview, Highlights and Outlook
Kevin Stein
President and CEO
- Market Review
Mike Lisman
Co-COO
- Operating Performance and Financial Results
Sarah Wynne
CFO
- Q&A

Forward Looking Statements & Special Notice Regarding Pro Forma and Non-GAAP Information

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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; supply chain constraints; increases in raw material costs, taxes and labor costs that cannot be recovered in product pricing; failure to complete or successfully integrate acquisitions; our indebtedness; current and future geopolitical or other worldwide events, including, without limitation, wars or conflicts and public health crises; cybersecurity threats; risks related to the transition or physical impacts of climate change and other natural disasters or meeting sustainability-related voluntary goals or regulatory requirements; our reliance on certain customers; the United States ("U.S.") defense budget and risks associated with being a government supplier including government audits and investigations; failure to maintain government or industry approvals; risks related to changes in laws and regulations, including increases in compliance costs; potential environmental liabilities; liabilities arising in connection with litigation; risks and costs 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 most recent 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

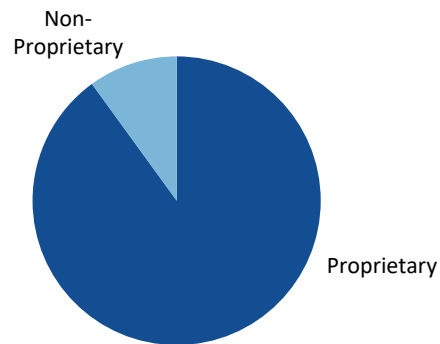
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of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

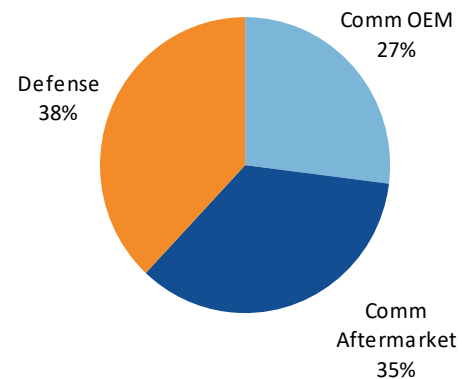
Distinguishing Characteristics

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

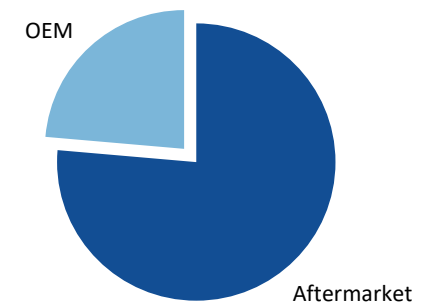
Proprietary Revenues ⁽¹⁾



Pro Forma Revenues ⁽¹⁾



Pro Forma EBITDA
As Defined ⁽¹⁾



(1) Pro forma revenue is for the fiscal year ended 9/30/2023. Includes full year impact of the Calspan Corporation acquisition completed May 2023. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

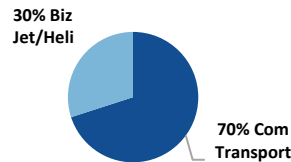
2023 Q4 Financial Performance by Markets – Pro Forma



Highlights

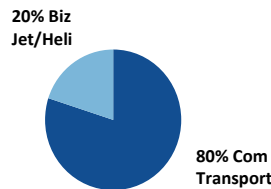
Commercial OEM:

- Q4 '23 Commercial Transport Revenue Up 25%
- Q4 '23 Business Jet/Helicopter Revenue Up 17%
- YTD Strong Bookings Support FY24 Commercial OEM Guidance



Commercial Aftermarket:

- Q4 '23 Commercial Transport Revenue Up 34%
- Q4 '23 Business Jet/Helicopter Revenue Up 5%
- YTD Strong Bookings Support FY24 Commercial Aftermarket Guidance



Defense:

- Q4 '23 Defense Revenue Up 9% Sequentially versus Q3 '23
- Q4 '23 Defense Revenue Growth Evenly Distributed Across Defense OEM and Aftermarket
- Improvements in U.S. Government Defense Spend Outlays and Isolated Supply Chain Shortages

Q4 Review – Pro Forma Revenues⁽¹⁾



	Actual vs. Prior Year	
	Q4	YTD
Commercial OEM:	Up 22%	Up 24%
Commercial Aftermarket:	Up 27%	Up 31%
Defense:	Up 15%	Up 11%



(1) Pro forma revenue for all periods excludes the impact of the Calspan Corporation acquisition completed May 2023 and includes the DART Aerospace acquisition completed May 2022. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

Fourth Quarter 2023 Select Financial Results

(\$ in millions, except per share amounts)

	Q4 FY 2023	Q4 FY 2022		
Revenue	\$1,852	\$1,510	23%	Increase
Gross Profit	\$1,091	\$885		
	58.9%	58.6%	0.3%	
SG&A	\$202	\$210		
<i>% to Sales</i>	10.9%	13.9%	-3.0%	
Interest Expense - Net	\$292	\$277	5%	Increase
Refinancing Costs	\$15	-		
EBITDA As Defined	\$963	\$752	28%	Increase
<i>Margin %</i>	52.0%	49.8%		
Adjusted EPS	\$8.03	\$5.50	46%	Increase
GAAP Tax Rate	24.7%	26.6%		
Adjusted Tax Rate	23.5%	23.9%		

- Favorable Aftermarket vs. OEM sales mix 
- Fixed overhead spread over higher production volumes 

- Continued cost mitigation efforts 
- Lower non-cash stock and deferred compensation expense 



- Increase in rates on variable rate debt, partially offset by higher interest income



- Primarily due to the completed refinancing of two senior subordinated notes

Full Year 2023 Select Financial Results

(\$ in millions, except per share amounts)

	<u>FY 2023</u>	<u>FY 2022</u>		
Revenue	\$6,585	\$5,429	21%	Increase
Gross Profit	\$3,842	\$3,099		
	58.3%	57.1%	1.2%	
SG&A	\$780	\$748		
<i>% to Sales</i>	11.8%	13.8%	-2.0%	
Interest Expense - Net	\$1,164	\$1,076	8%	Increase
Refinancing Costs	\$56	\$1		
EBITDA As Defined	\$3,395	\$2,646	28%	Increase
<i>Margin %</i>	51.6%	48.7%		
Adjusted EPS	\$25.84	\$17.14	51%	Increase
GAAP Tax Rate	24.3%	23.2%		
Adjusted Tax Rate	24.9%	24.6%		

- Favorable Aftermarket vs. OEM sales mix 
- Fixed overhead spread over higher production volumes 

- Continued cost mitigation efforts 
- Lower non-cash stock and deferred compensation expense 

- Increase in rates on variable rate debt, partially offset by higher interest income

- Completed the refinancing of Tranche E, F & G term loans, one senior secured note and two senior subordinated notes

Fiscal 2024 Outlook

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Market Growth Assumptions

FY 2023 Pro Forma Sales Mix ⁽¹⁾	Market	FY 2024 Expected Growth
27%	Commercial OEM	Around 20%
35%	Commercial Aftermarket	Mid-Teens % Range
38%	Defense	MSD to HSD % Range

Guidance Summary

(\$ in millions, except per share amounts)

	FY 24 Guidance	
	Low	High
Revenues	\$ 7,480	\$ 7,680
EBITDA As Defined	\$ 3,870	\$ 4,010
<i>% of sales</i>	51.7%	52.2%
Net Income	\$ 1,641	\$ 1,753
GAAP EPS	\$ 26.61	\$ 28.55
Adj. EPS	\$ 31.00	\$ 32.94

(1) Pro forma revenue is for the fiscal year ended 9/30/2023. Includes full year impact of the Calspan Corporation acquisition completed May 2023. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

Fiscal 2024 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2024	
Capital Expenditures	\$185 to \$215 million
Full Year Net Interest Expense	≈ \$1.25 billion (includes \$55 million of interest income)
Full Year Effective Tax Rate	≈ 22% to 24% for GAAP EPS, Adjusted EPS and Cash Taxes
Depreciation & Amortization Expense (ex backlog)	\$290 to \$295 million
Non-Cash Stock Compensation and Deferred Compensation Expense	\$175 to \$195 million
Other EBITDA As Defined Add-Backs ⁽¹⁾	\$5 to \$15 million
Weighted Average Shares	57.8 million

(1) Other EBITDA As Defined Add-Backs primarily include estimates for refinancing costs, foreign currency transaction (gains) or losses, acquisition-related expenses and adjustments and other, net.

Reconciliation of Fiscal 2024 Outlook

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(\$ in millions, except per share amounts)

	FY 2024 Guidance Midpoint
Net income	\$ 1,697
Adjustments:	
Depreciation and amortization expense	292
Interest expense - net	1,250
Income tax provision	507
EBITDA	<u>3,746</u>
Adjustments:	
Acquisition-related expenses and adjustments ⁽¹⁾	20
Non-cash stock and deferred compensation expense ⁽¹⁾	185
Refinancing costs ⁽¹⁾	-
Other, net ⁽¹⁾	(11)
Gross Adjustments to EBITDA	<u>194</u>
EBITDA As Defined	<u>\$3,940</u>
<i>EBITDA As Defined, Margin ⁽¹⁾</i>	52.0%
GAAP earnings per share	\$27.58
Adjustments to earnings per share:	
Inclusion of the dividend equivalent payments	1.77
Non-cash stock and deferred compensation expense	2.48
Acquisition-related expenses and adjustments	0.29
Refinancing costs	-
Other, net	(0.15)
Adjusted earnings per share	<u>\$31.97</u>
Weighted-average shares outstanding	57.8
GAAP & Adj Tax Rate	22% - 24%

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

Reconciliation of GAAP EPS to Adjusted EPS - Guidance

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	Thirteen Week Periods Ended		Fiscal Years Ended		Full Year Guidance
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	Mid-Point September 30, 2024
GAAP earnings per share from continuing operations	\$ 7.23	\$ 3.98	\$ 22.03	\$ 13.38	\$ 27.58
Adjustments to earnings per share:					
Dividend equivalent payments	-	0.70	0.67	1.47	1.77
Acquisition and divestiture transaction-related expenses and adjustments	0.08	0.09	0.28	0.33	0.29
Non-cash stock and deferred compensation expense	0.35	0.73	2.07	2.37	2.48
Refinancing costs	0.20	-	0.74	0.01	-
Tax adjustment on income from continuing operations before taxes	0.11	0.17	(0.18)	(0.28)	-
Gain on sale of businesses - net	-	(0.01)	-	(0.09)	-
Other, net	0.06	(0.16)	0.23	(0.05)	(0.15)
Adjusted earnings per share	\$ 8.03	\$ 5.50	\$ 25.84	\$ 17.14	\$ 31.97

Capital Structure

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Pro Forma Capital Structure

(\$ in millions)

	Actual 9/30/23	Rate
Cash	<u>\$3,472</u>	
\$810mm revolver	–	S + 2.50%
\$450mm AR securitization facility	350	S + 1.60%
First lien term loan H due 2027	1,713	S + 3.25%
First lien term loan I due 2028	4,536	S + 3.25%
Senior secured notes due 2026	4,400	6.250%
Senior secured notes due 2028	2,100	6.750%
Senior secured notes due 2030	1,450	6.875%
Total secured debt	\$14,549	4.2x
Total net secured debt	\$11,077	3.2x
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)	193	
Total debt	\$19,892	5.8x
Total net debt	\$16,420	4.8x

FY23 Weighted
Average Interest Rate
5.8%

FY24 Forecasted
Weighted Average
Interest Rate
6.3%

Interest Rate Sensitivity

- Interest rates on TDG's \$20Bn of gross Debt is 80% hedged/fixed rate through fiscal year 2025
- Achieved via a combination of interest rate caps, swaps and collars
- Significantly reduces near-term exposure to any variable rate increases

\$ in millions

	Current FY 24 Assumptions		
Average Variable Rate ⁽¹⁾	~ 5.4%	6.0%	7.0%
Interest Expense - Pre-Tax ⁽²⁾	\$1,250	\$1,260	\$1,280
Interest Rate - Pre-Tax	6.3%	6.3%	6.4%

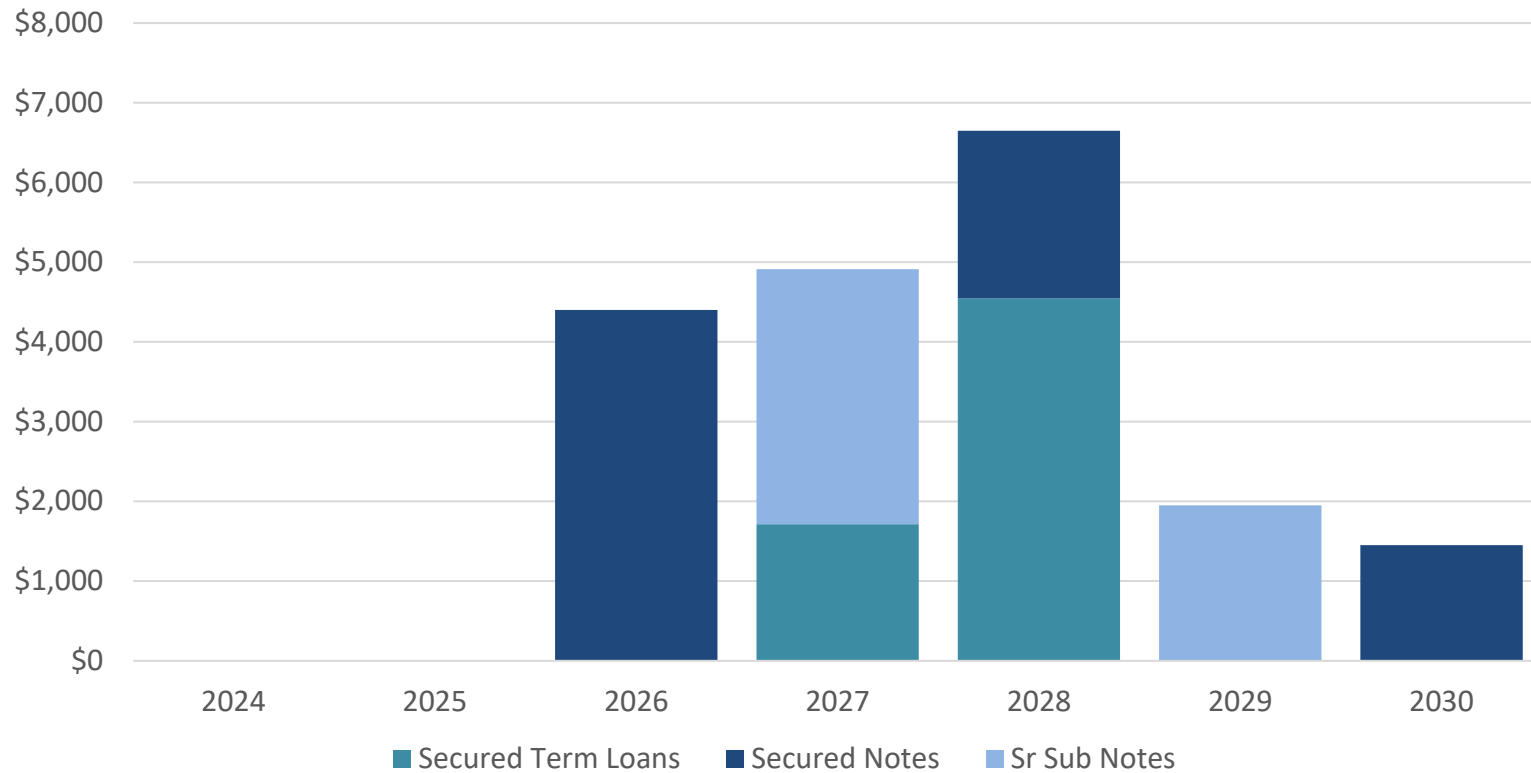
(1) FY24 Weighted Average Variable Rate % is the average Term SOFR for TDG's 2024 fiscal year based on a current consensus and management forward estimates.

(2) Interest expense shown includes \$40M amortization of debt issuance costs and fees and approximately \$55M of Interest income.

Debt Maturity Profile

Debt Maturity Profile

(\$MM)



Note: \$450M 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		Fiscal Years Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Income from continuing operations	\$ 414	\$ 266	\$ 1,299	\$ 866
Adjustments:				
Depreciation and amortization expense	69	65	268	253
Interest expense - net	292	277	1,164	1,076
Income tax provision	136	96	417	261
EBITDA	911	704	3,148	2,456
Adjustments:				
Acquisition and divestiture transaction-related expenses and adjustments ⁽¹⁾	6	5	18	18
Non-cash stock and deferred compensation expense ⁽²⁾	26	55	157	184
Refinancing costs ⁽³⁾	15	-	56	1
Gain on sales of businesses - net ⁽⁴⁾	-	(1)	-	(7)
Other, net ⁽⁵⁾	5	(11)	16	(6)
Gross Adjustments to EBITDA	52	48	247	190
EBITDA As Defined	\$ 963	\$ 752	\$ 3,395	\$ 2,646
EBITDA As Defined, Margin ⁽⁶⁾	52.0%	49.8%	51.6%	48.7%

⁽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 and deferred compensation plans.

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

⁽⁴⁾ Represents the net gain on sale of businesses.

⁽⁵⁾ Primarily represents foreign currency transaction (gains) or losses, payroll withholding taxes related to dividend equivalent payments and stock option exercises, deferred compensation payments, non-service related pension costs including the pension settlement (gain) loss for the Esterline Retirement Plan, and for fiscal 2022, proceeds received from a final working capital settlement for the ScioTeq and TREALITY divestiture.

⁽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)

Reported Earnings Per Share	Thirteen Week Periods Ended		Fiscal Years Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Income from continuing operations	\$ 414	\$ 266	\$ 1,299	\$ 866
Less: Net income attributable to noncontrolling interests	-	-	(1)	(1)
Net income from continuing operations attributable to TD Group	414	266	1,298	865
Less: Dividends paid on participating securities	-	(40)	(38)	(86)
	414	226	1,260	779
Income from discontinued operations, net of tax	-	-	-	1
Net income applicable to TD Group common stockholders - basic and diluted	\$ 414	\$ 226	\$ 1,260	\$ 780
Weighted-average shares outstanding under the two-class method:				
Weighted-average common shares outstanding	55.3	54.3	54.9	54.8
Vested options deemed participating securities	2.0	2.5	2.3	3.4
Total shares for basic and diluted earnings per share	57.3	56.8	57.2	58.2
Earnings per share from continuing operations -- basic and diluted	\$ 7.23	\$ 3.98	\$ 22.03	\$ 13.38
Earnings per share from discontinued operations -- basic and diluted	-	-	-	0.02
Earnings per share	\$ 7.23	\$ 3.98	\$ 22.03	\$ 13.40
Adjusted Earnings Per Share				
Income from continuing operations	\$ 414	\$ 266	\$ 1,299	\$ 866
Gross adjustments to EBITDA	52	48	247	190
Purchase accounting backlog amortization	-	1	4	7
Tax adjustment ⁽¹⁾	(6)	(2)	(73)	(65)
Adjusted net income	\$ 460	\$ 313	\$ 1,477	\$ 998
Adjusted diluted earnings per share under the two-class method	\$ 8.03	\$ 5.50	\$ 25.84	\$ 17.14

⁽¹⁾ For the thirteen week periods and fiscal years ended September 30, 2023 and 2022, 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

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(\$ in millions)

	Fiscal Years Ended	
	September 30, 2023	September 30, 2022
Net cash provided by operating activities	\$ 1,375	\$ 948
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	415	288
Interest expense - net ⁽¹⁾	1,123	1,076
Income tax provision - current	414	283
Loss contract amortization	34	39
Non-cash stock and deferred compensation expense ⁽²⁾	(157)	(184)
Refinancing costs ⁽³⁾	(56)	(1)
Gain on sale of business - net ⁽⁴⁾	-	7
EBITDA	3,148	2,456
Adjustments:		
Acquisition and divestiture transaction-related expenses and adjustments ⁽⁵⁾	18	18
Non-cash stock and deferred compensation expense ⁽²⁾	157	184
Refinancing costs ⁽³⁾	56	1
Gain on sale of business - net ⁽⁴⁾	-	(7)
Other, net ⁽⁶⁾	16	(6)
EBITDA As Defined	\$ 3,395	\$ 2,646

⁽¹⁾ Represents interest expense, net of interest income, 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 and deferred compensation plans.

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

⁽⁴⁾ Represents the net gain on sale of businesses.

⁽⁵⁾ 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.

⁽⁶⁾ Primarily represents foreign currency transaction (gains) or losses, payroll withholding taxes related to dividend equivalent payments and stock option exercises, deferred compensation payments, non-service related pension costs including the pension settlement (gain) loss for the Esterline Retirement Plan, and for fiscal 2022, proceeds received from a final working capital settlement for the ScioTeq and TREALITY divestiture.