

# FY 2023 Q3 Earnings Call

August 8, 2023

**TRANSDIGM**  
GROUP INC.

# Agenda

- TransDigm Overview, Highlights and Outlook  
Kevin Stein  
President and CEO
- Market Review  
Joel Reiss  
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 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; current and 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, 2022 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**

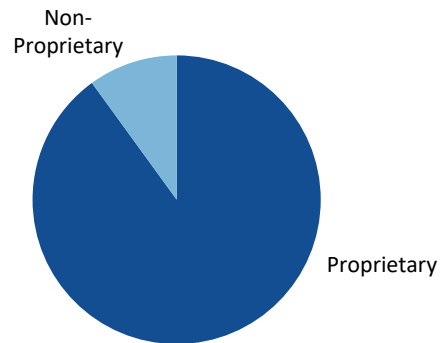
This presentation sets forth certain pro forma financial information. This pro forma financial information gives effect to certain recently completed acquisitions. Such pro forma information is based on certain assumptions and adjustments and does not purport to present TransDigm's actual results of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

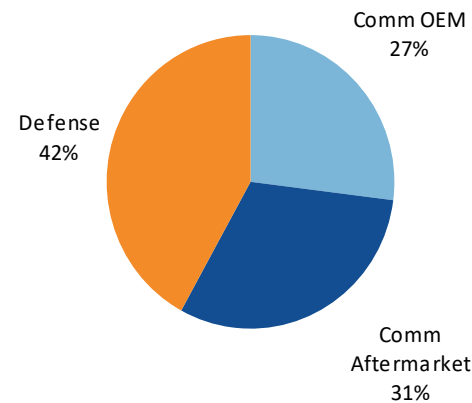
## Distinguishing Characteristics

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

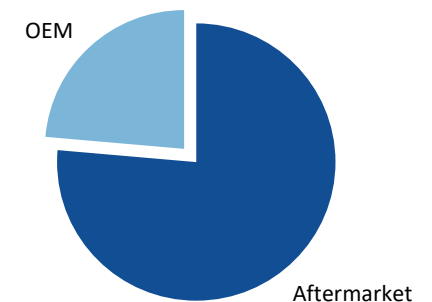
### Proprietary Revenues <sup>(1)</sup>



### Pro Forma Revenues <sup>(1)</sup>



### Pro Forma EBITDA As Defined <sup>(1)</sup>



(1) Pro forma revenue is for the fiscal year ended 9/30/2022. Excludes impact of the Calspan Corporation acquisition completed May 2023. Includes full year impact of the DART Aerospace acquisition completed May 2022. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

# 2023 Q3 Financial Performance by Markets – Pro Forma

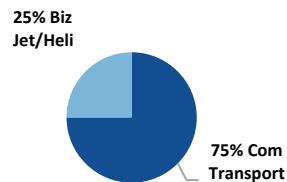


## Highlights

## Q3 Review – Pro Forma Revenues<sup>(1)</sup>

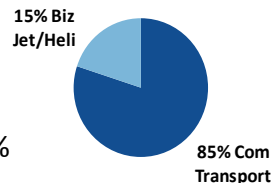
### Commercial OEM:

- Q3 '23 Commercial Transport Revenue Up 21%
- Q3 '23 Business Jet/Helicopter Revenue Up 30%
- Strong Bookings in Q3 '23 versus Q3 '22



### Commercial Aftermarket:

- Q3 '23 Commercial Transport Revenue Up 35%
- Q3 '23 Business Jet/Helicopter Revenue Up 20%
- Strong Bookings in Q3 '23 versus Q3 '22



### Defense:

- Q3 '23 Defense Revenue Up 14% Sequentially versus Q2 '23
- Q3 '23 Defense Aftermarket Growth Outpaced Defense OEM
- Steady Improvements in U.S. Government Defense Spend Outlays and Isolated Supply Chain Shortages

### Actual vs. Prior Year

Q3

YTD

### Commercial OEM:

Up 25%

Up 24%

### Commercial Aftermarket:

Up 32%

Up 34%

### Defense:

Up 17%



Up 8%


(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.

# Third Quarter 2023 Select Financial Results

(\$ in millions, except per share amounts)

	Q3 FY 2023	Q3 FY 2022		
<b>Revenue</b>	<b>\$1,744</b>	<b>\$1,398</b>	<b>25%</b>	<b>Increase</b>
<b>Gross Profit</b>	<b>\$1,029</b>	<b>\$816</b>		
	<b>59.0%</b>	<b>58.4%</b>	<b>0.6%</b>	
<b>SG&amp;A</b>	<b>\$209</b>	<b>\$184</b>		
<i>% to Sales</i>	<b>12.0%</b>	<b>13.2%</b>	<b>-1.2%</b>	
<b>Interest Expense - Net</b>	<b>\$291</b>	<b>\$269</b>	<b>8%</b>	<b>Increase</b>
<b>Refinancing Costs</b>	<b>\$32</b>	-		
<b>EBITDA As Defined</b>	<b>\$915</b>	<b>\$696</b>	<b>31%</b>	<b>Increase</b>
<i>Margin %</i>	<b>52.5%</b>	<b>49.8%</b>		
<b>Adjusted EPS</b>	<b>\$7.25</b>	<b>\$4.85</b>	<b>49%</b>	<b>Increase</b>
<b>GAAP Tax Rate</b>	<b>24.9%</b>	<b>23.4%</b>		
<b>Adjusted Tax Rate</b>	<b>25.5%</b>	<b>23.4%</b>		

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

- Continued strategic cost mitigation efforts 

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

- Primarily one senior secured note refinancing completed

# Fiscal 2023 Outlook

## Market Growth Assumptions

FY 2022 Pro Forma Sales Mix <sup>(1)</sup>	Market	FY 2023 Expected Growth
27%	Commercial OEM	Up 20% to 25% Range
31%	Commercial Aftermarket	Low 30% Range
42%	Defense	Up MSD to HSD % Range

## Guidance Summary

(\$ in millions, except per share amounts)

	FY 23 Guidance		FY 23 Guidance Midpoint Change		
	Low	High	Current	Prior	Δ
<b>Revenues</b>	\$ 6,525	\$ 6,585			
<b>EBITDA As Defined</b>	\$ 3,350	\$ 3,380			
<i>% of sales</i>	51.3%	51.3%			
<b>Net Income</b>	\$ 1,227	\$ 1,251			
<b>GAAP EPS</b>	\$ 20.78	\$ 21.20			
<b>Adj. EPS</b>	\$ 24.94	\$ 25.36			
<b>Revenues</b>			\$ 6,555	\$ 6,455	\$ 100
<b>EBITDA As Defined</b>			\$ 3,365	\$ 3,260	\$ 105
<i>% of sales</i>			51.3%	50.5%	
<b>Adj. EPS</b>			\$ 25.15	\$ 23.75	\$ 1.40

(1) Pro forma revenue is for the fiscal year ended 9/30/2022. Excludes impact of the Calspan Corporation acquisition completed May 2023. Includes full year impact of the DART Aerospace acquisition completed May 2022. Please see the Special Notice Regarding Pro Forma and Non-GAAP Information.

# Fiscal 2023 Select Financial Assumptions

Select Financial Assumptions for Fiscal 2023		
	Prior Assumptions (Issued May 2023) (included Calspan)	Updated Assumptions
Capital Expenditures	\$155 to \$185 million	No change
Full Year Net Interest Expense	≈ \$1.185 billion (includes \$85 million of interest income)	≈ \$1.180 billion (includes \$90 million of interest income)
Full Year Effective Tax Rate	≈ 24% to 26% for GAAP EPS, Adjusted EPS and Cash Taxes	No change
Depreciation & Amortization Expense (ex backlog)	\$265 to \$270 million	No change
Backlog Amortization Expense	≈ \$10 million	No change
Non-Cash Stock Compensation and Deferred Compensation Expense	\$155 to \$175 million	\$170 to \$180 million
Other EBITDA As Defined Add-Backs <sup>(1)</sup>	\$75 to \$85 million	No change
Weighted Average Shares	57.1 million	57.15 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 2023 Outlook

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(\$ in millions, except per share amounts)

	<b>FY 2023 Guidance Midpoint</b>	
Net income	\$ 1,239	
Adjustments:		
Depreciation and amortization expense	278	Includes approx. \$10m of backlog amortization
Interest expense - net	1,180	
Income tax provision	414	
EBITDA	<u>3,111</u>	
Adjustments:		
Acquisition-related expenses and adjustments <sup>(1)</sup>	16	
Non-cash stock and deferred compensation expense <sup>(1)</sup>	175	
Refinancing costs <sup>(1)</sup>	41	
Other, net <sup>(1)</sup>	22	
Gross Adjustments to EBITDA	<u>254</u>	
<b>EBITDA As Defined</b>	<b><u>\$3,365</u></b>	
<i>EBITDA As Defined, Margin <sup>(1)</sup></i>	<i>51.3%</i>	
GAAP earnings per share	\$20.99	
Adjustments to earnings per share:		
Inclusion of the dividend equivalent payments	0.67	
Non-cash stock and deferred compensation expense	2.31	
Acquisition-related expenses and adjustments	0.35	
Refinancing costs	0.54	
Other, net	0.29	
<b>Adjusted earnings per share</b>	<b><u>\$25.15</u></b>	
Weighted-average shares outstanding	57.15	
GAAP & Adj Tax Rate	24% - 26%	

(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		Thirty-Nine Week Periods Ended		Full Year Guidance
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022	Mid-Point September 30, 2023
<b>GAAP earnings per share from continuing operations</b>	\$ 6.14	\$ 4.10	\$ 14.80	\$ 9.42	\$ 20.99
<b>Adjustments to earnings per share:</b>					
Dividend equivalent payments	-	-	0.67	0.78	0.67
Acquisition and divestiture transaction-related expenses and adjustments	0.10	0.09	0.20	0.24	0.35
Non-cash stock and deferred compensation expense	0.70	0.62	1.71	1.65	2.31
Refinancing costs	0.42	-	0.54	-	0.54
Tax adjustment on income from continuing operations before taxes	(0.05)	-	(0.28)	(0.44)	-
Other, net	(0.06)	0.04	0.16	0.03	0.29
<b>Adjusted earnings per share</b>	<b>\$ 7.25</b>	<b>\$ 4.85</b>	<b>\$ 17.80</b>	<b>\$ 11.68</b>	<b>\$ 25.15</b>

# Capital Structure

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## Capital Structure

(\$ in millions)

	Actual 7/1/23	Rate
Cash	<u>\$3,071</u>	
\$810mm revolver	–	S + 2.50%
\$350mm AR securitization facility <sup>(1)</sup>	350	S + 1.30%
First lien term loan H due 2027	1,716	S + 3.25%
First lien term loan I due 2028	4,547	S + 3.25%
Senior secured notes due 2026	4,400	6.250%
Senior secured notes due 2028	2,100	6.750%
<b>Total secured debt</b>	<b>\$13,113</b>	<b>4.1x</b>
<b>Total net secured debt</b>	<b>\$10,042</b>	<b>3.2x</b>
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)	195	
<b>Total debt</b>	<b>\$19,908</b>	<b>6.3x</b>
<b>Total net debt</b>	<b>\$16,837</b>	<b>5.3x</b>

**FY23 Weighted  
Average Interest Rate  
5.9%**

(1) On July 25, 2023, the Company amended the AR securitization facility to increase the borrowing capacity from \$350 million to \$450 million at an interest rate of Term SOFR plus 1.60%.

# Interest Rate Sensitivity

- Interest rates on TDG's \$20Bn of gross Debt is over 75% hedged/fixed rate through fiscal year 2026
- 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 23 Assumptions		
<b>AVERAGE VARIABLE RATE %<sup>(1)</sup></b>	<b>~ 4.75%</b>	<b>6.0%</b>	<b>7.0%</b>
<b>Interest Expense - Pre-Tax <sup>(2)</sup></b>	<b>\$1,180</b>	<b>\$1,205</b>	<b>\$1,225</b>
<b>Interest Rate - Pre-Tax</b>	<b>5.9%</b>	<b>6.1%</b>	<b>6.2%</b>

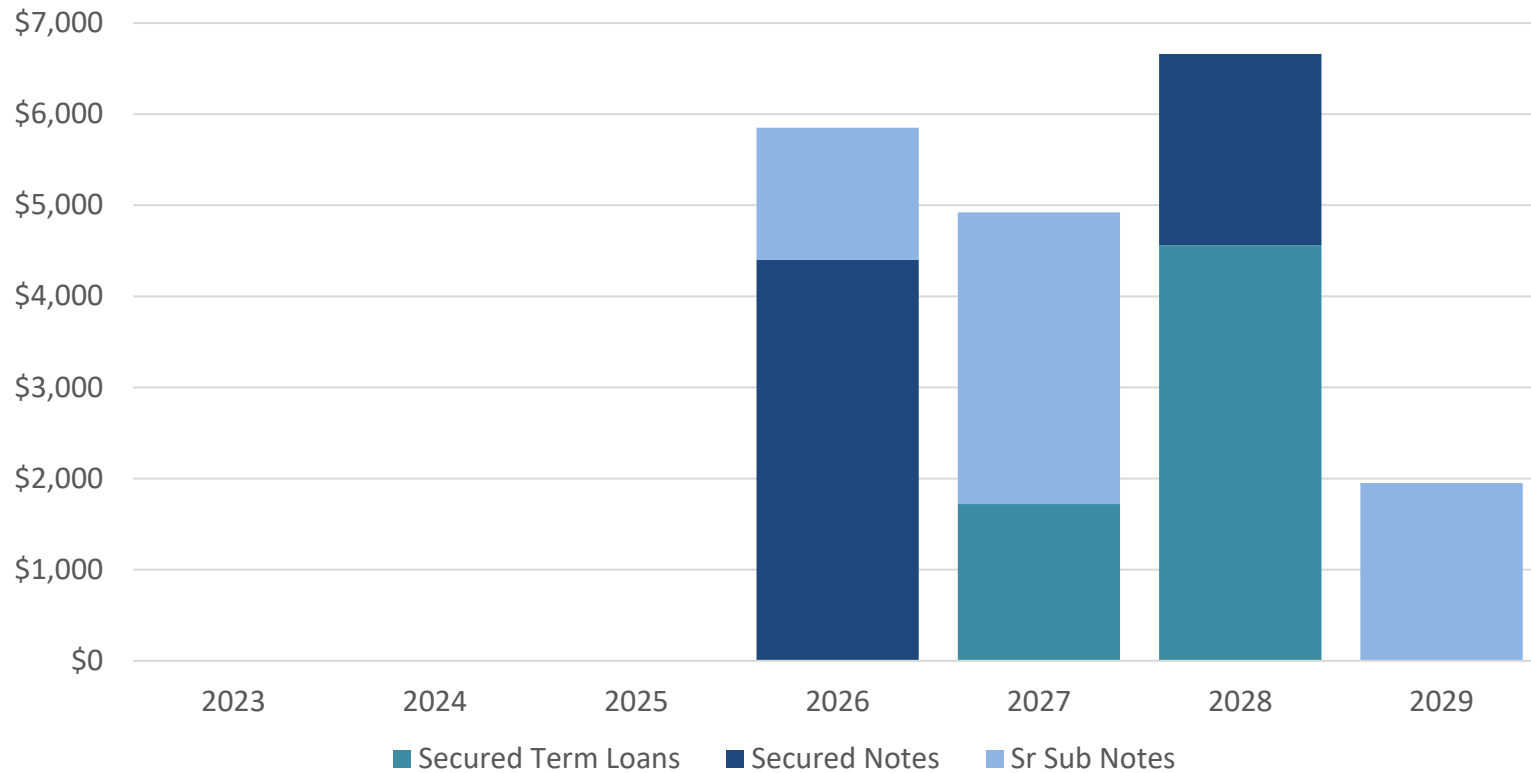
(1) FY Weighted Average Variable Rate % is the average LIBOR and Term SOFR for TDG's 2023 fiscal year based on current consensus and management forward estimates.

(2) Interest expense shown includes \$40M amortization of debt issuance costs and fees and approximately \$90M 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		Thirty-Nine Week Periods Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
<b>Income from continuing operations</b>	\$ 352	\$ 239	\$ 885	\$ 601
Adjustments:				
Depreciation and amortization expense	70	61	199	188
Interest expense, net	291	269	872	799
Income tax provision	117	74	281	165
<b>EBITDA</b>	<b>830</b>	<b>643</b>	<b>2,237</b>	<b>1,753</b>
Adjustments:				
Acquisition and divestiture transaction-related expenses and adjustments <sup>(1)</sup>	6	5	12	13
Non-cash stock and deferred compensation expense <sup>(2)</sup>	53	47	131	129
Refinancing costs <sup>(3)</sup>	32	-	41	-
Other, net <sup>(4)</sup>	(6)	1	11	(1)
Gross Adjustments to EBITDA	85	53	195	141
<b>EBITDA As Defined</b>	<b>\$ 915</b>	<b>\$ 696</b>	<b>\$ 2,432</b>	<b>\$ 1,894</b>
EBITDA As Defined, Margin <sup>(5)</sup>	52.5%	49.8%	51.4%	48.3%

<sup>(1)</sup> 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.

<sup>(2)</sup> Represents the compensation expense recognized by TD Group under our stock incentive plans and deferred compensation plans.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> 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		Thirty-Nine Week Periods Ended	
	July 1, 2023	July 2, 2022	July 1, 2023	July 2, 2022
<b>Reported Earnings Per Share</b>				
Income from continuing operations	\$ 352	\$ 239	\$ 885	\$ 601
Less: Net income attributable to noncontrolling interests	(1)	(1)	(2)	(2)
Net income from continuing operations attributable to TD Group	351	238	883	599
Less: Dividends paid on participating securities	-	-	(38)	(46)
	351	238	845	553
Income from discontinued operations, net of tax	-	-	-	1
Net income applicable to TD Group common stockholders - basic and diluted	<u>\$ 351</u>	<u>\$ 238</u>	<u>\$ 845</u>	<u>\$ 554</u>
<b>Weighted-average shares outstanding under the two-class method:</b>				
Weighted-average common shares outstanding	55.0	54.4	54.7	55.0
Vested options deemed participating securities	2.2	3.6	2.4	3.7
Total shares for basic and diluted earnings per share	<u>57.2</u>	<u>58.0</u>	<u>57.1</u>	<u>58.7</u>
Earnings per share from continuing operations -- basic and diluted	\$ 6.14	\$ 4.10	\$ 14.80	\$ 9.42
Earnings per share from discontinued operations -- basic and diluted	-	-	-	0.02
Earnings per share	<u>\$ 6.14</u>	<u>\$ 4.10</u>	<u>\$ 14.80</u>	<u>\$ 9.44</u>
<b>Adjusted Earnings Per Share</b>				
Income from continuing operations	\$ 352	\$ 239	\$ 885	\$ 601
Gross adjustments to EBITDA	85	53	195	141
Purchase accounting backlog amortization	2	1	4	6
Tax adjustment <sup>(1)</sup>	(25)	(12)	(67)	(63)
Adjusted net income	<u>\$ 414</u>	<u>\$ 281</u>	<u>\$ 1,017</u>	<u>\$ 685</u>
Adjusted diluted earnings per share under the two-class method	<u>\$ 7.25</u>	<u>\$ 4.85</u>	<u>\$ 17.80</u>	<u>\$ 11.68</u>

<sup>(1)</sup> For the thirteen and thirty-nine week periods ended July 1, 2023 and July 2, 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



(\$ in millions)

	Thirty-Nine Week Periods Ended	
	July 1, 2023	July 2, 2022
<b>Net cash provided by operating activities</b>	\$ 913	\$ 675
Adjustments:		
Changes in assets and liabilities, net of effects from acquisitions of businesses	345	240
Interest expense, net <sup>(1)</sup>	842	773
Income tax provision - current	282	166
Loss contract amortization	27	28
Non-cash stock and deferred compensation expense <sup>(2)</sup>	(131)	(129)
Refinancing costs <sup>(3)</sup>	(41)	-
<b>EBITDA</b>	<b>2,237</b>	<b>1,753</b>
Adjustments:		
Acquisition and divestiture transaction-related expenses and adjustments <sup>(4)</sup>	12	13
Non-cash stock and deferred compensation expense <sup>(2)</sup>	131	129
Refinancing costs <sup>(3)</sup>	41	-
Other, net <sup>(5)</sup>	11	(1)
<b>EBITDA As Defined</b>	<b>\$ 2,432</b>	<b>\$ 1,894</b>

<sup>(1)</sup> Represents interest expense, net of interest income, excluding the amortization of debt issuance costs and premium and discount on debt.

<sup>(2)</sup> Represents the compensation expense recognized by TD Group under our stock incentive plans and deferred compensation plans.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> 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.