

TransDigm Group INC
Form 10-Q
February 08, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended December 31, 2016.

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-32833

TransDigm Group Incorporated

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-2101738

(I.R.S. Employer Identification No.)

1301 East 9th Street, Suite 3000, Cleveland, Ohio 44114

(Address of principal executive offices) (Zip Code)

(216) 706-2960

(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

LARGE ACCELERATED FILER ACCELERATED FILER

NON-ACCELERATED FILER SMALLER REPORTING COMPANY

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares outstanding of TransDigm Group Incorporated’s common stock, par value \$.01 per share, was 52,844,515 as of January 30, 2017.

Table of Contents

INDEX

| | | Page |
|------------|--|-----------|
| Part I | FINANCIAL INFORMATION | |
| Item 1 | Financial Statements | |
| | Condensed Consolidated Balance Sheets – December 31, 2016 and September 30, 2016 | <u>1</u> |
| | Condensed Consolidated Statements of Income – Thirteen Week Periods Ended December 31, 2016 and January 2, 2016 | <u>2</u> |
| | Condensed Consolidated Statements of Comprehensive Income – Thirteen Week Periods Ended December 31, 2016 and January 2, 2016 | <u>3</u> |
| | Condensed Consolidated Statement of Changes in Stockholders’ Deficit – Thirteen Week Period Ended December 31, 2016 | <u>4</u> |
| | Condensed Consolidated Statements of Cash Flows – Thirteen Week Periods Ended December 31, 2016 and January 2, 2016 | <u>5</u> |
| | Notes to Condensed Consolidated Financial Statements | <u>6</u> |
| Item 2 | Management’s Discussion and Analysis of Financial Condition and Results of Operations | <u>24</u> |
| Item 3 | Quantitative and Qualitative Disclosure About Market Risk | <u>34</u> |
| Item 4 | Controls and Procedures | <u>35</u> |
| Part II | OTHER INFORMATION | <u>35</u> |
| Item 1A | Risk Factors | <u>35</u> |
| Item 2 | Unregistered Sales of Equity Securities and Use of Proceeds | <u>35</u> |
| Item 6 | Exhibits | <u>36</u> |
| SIGNATURES | | <u>37</u> |

Table of ContentsTRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

(Unaudited)

| | December 31, 2016 | September 30, 2016 |
|---|----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$972,360 | \$1,586,994 |
| Trade accounts receivable - Net | 512,784 | 576,339 |
| Inventories - Net | 715,381 | 724,011 |
| Prepaid expenses and other | 34,893 | 43,353 |
| Total current assets | 2,235,418 | 2,930,697 |
| PROPERTY, PLANT AND EQUIPMENT - Net | 314,557 | 310,580 |
| GOODWILL | 5,687,248 | 5,679,452 |
| OTHER INTANGIBLE ASSETS - Net | 1,735,331 | 1,764,343 |
| OTHER | 64,568 | 41,205 |
| TOTAL ASSETS | \$10,037,122 | \$10,726,277 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$64,157 | \$52,645 |
| Short-term borrowings - trade receivable securitization facility | 199,840 | 199,771 |
| Accounts payable | 129,510 | 156,075 |
| Accrued liabilities | 305,411 | 344,112 |
| Total current liabilities | 698,918 | 752,603 |
| LONG-TERM DEBT | 10,555,947 | 9,943,191 |
| DEFERRED INCOME TAXES | 515,666 | 492,255 |
| OTHER NON-CURRENT LIABILITIES | 141,216 | 189,718 |
| Total liabilities | 11,911,747 | 11,377,767 |
| STOCKHOLDERS' DEFICIT: | | |
| Common stock - \$.01 par value; authorized 224,400,000 shares; issued 55,839,100 and 55,767,767 at December 31, 2016 and September 30, 2016, respectively | 558 | 558 |
| Additional paid-in capital | 1,042,640 | 1,028,972 |
| Accumulated deficit | (2,394,489) | (1,146,963) |
| Accumulated other comprehensive loss | (139,064) | (149,787) |
| Treasury stock, at cost; 2,433,035 shares at December 31, 2016 and September 30, 2016 | (384,270) | (384,270) |
| Total stockholders' deficit | (1,874,625) | (651,490) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$10,037,122 | \$10,726,277 |

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 FOR THE THIRTEEN WEEK PERIODS ENDED
 DECEMBER 31, 2016 AND JANUARY 2, 2016
 (Amounts in thousands, except per share amounts)
 (Unaudited)

| | Thirteen Week Periods Ended | |
|---------------------------------------|--------------------------------|--------------------|
| | December 31, 2016 | January 2, 2016 |
| NET SALES | \$814,018 | \$701,695 |
| COST OF SALES | 369,763 | 327,128 |
| GROSS PROFIT | 444,255 | 374,567 |
| SELLING AND ADMINISTRATIVE EXPENSES | 101,715 | 82,203 |
| AMORTIZATION OF INTANGIBLE ASSETS | 25,531 | 16,323 |
| INCOME FROM OPERATIONS | 317,009 | 276,041 |
| INTEREST EXPENSE - Net | 146,004 | 111,983 |
| REFINANCING COSTS | 32,084 | — |
| INCOME BEFORE INCOME TAXES | 138,921 | 164,058 |
| INCOME TAX PROVISION | 20,050 | 34,617 |
| NET INCOME | \$118,871 | \$129,441 |
| NET INCOME APPLICABLE TO COMMON STOCK | \$22,900 | \$126,441 |
| Net earnings per share - see Note 5: | | |
| Basic and diluted | \$0.41 | \$2.23 |
| Cash dividends paid per common share | \$24.00 | \$— |
| Weighted-average shares outstanding: | | |
| Basic and diluted | 56,524 | 56,805 |

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE THIRTEEN WEEK PERIODS ENDED
 DECEMBER 31, 2016 AND JANUARY 2, 2016

(Amounts in thousands)

(Unaudited)

| | Thirteen Week Periods Ended | |
|--|--------------------------------|--------------------|
| | December 31, 2016 | January 2, 2016 |
| Net income | \$118,871 | \$129,441 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | (28,052) | (8,950) |
| Interest rate swap and cap agreements | 38,775 | 8,858 |
| Other comprehensive income (loss), net of tax | 10,723 | (92) |
| TOTAL COMPREHENSIVE INCOME | \$129,594 | \$129,349 |

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2016

(Amounts in thousands, except share amounts)

(Unaudited)

| | Common Stock | | Additional | Accumulated | Accumulated | Treasury Stock | | Total |
|--|--------------|--------|-------------|---------------|---------------|----------------|-------------|---------------|
| | Number | Par | Paid-In | Deficit | Other | Number | Value | |
| | of Shares | Value | Capital | | Comprehensive | of Shares | | |
| | | | | | Loss | | | |
| BALANCE, OCTOBER 1, 2016 | 55,767,767 | \$ 558 | \$1,028,972 | \$(1,146,963) | \$(149,787) | (2,433,035) | \$(384,270) | \$(651,490) |
| Dividends paid | — | — | — | (1,280,070) | — | — | — | (1,280,070) |
| Unvested dividend equivalents | — | — | — | (86,327) | — | — | — | (86,327) |
| Compensation expense recognized for employee stock options | — | — | 10,020 | — | — | — | — | 10,020 |
| Exercise of employee stock options | 71,333 | — | 3,648 | — | — | — | — | 3,648 |
| Net income | — | — | — | 118,871 | — | — | — | 118,871 |
| Foreign currency translation adjustments | — | — | — | — | (28,052) | — | — | (28,052) |
| Interest rate swaps and caps, net of tax | — | — | — | — | 38,775 | — | — | 38,775 |
| BALANCE, DECEMBER 31, 2016 | 55,839,100 | \$ 558 | \$1,042,640 | \$(2,394,489) | \$(139,064) | (2,433,035) | \$(384,270) | \$(1,874,625) |

See notes to condensed consolidated financial statements.

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

| | Thirteen Week Periods Ended | |
|---|--------------------------------|--------------------|
| | December 31, 2016 | January 2, 2016 |
| OPERATING ACTIVITIES: | | |
| Net income | \$118,871 | \$129,441 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 12,284 | 9,700 |
| Amortization of intangible assets and product certification costs | 25,764 | 16,501 |
| Amortization of debt issuance costs and original issue discount | 4,620 | 3,832 |
| Refinancing costs | 32,084 | — |
| Non-cash equity compensation | 10,020 | 10,681 |
| Deferred income taxes | (493 |) 601 |
| Other, net | (4,563 |) — |
| Changes in assets/liabilities, net of effects from acquisitions of businesses: | | |
| Trade accounts receivable | 59,812 | 14,368 |
| Inventories | 8,365 | (14,108) |
| Income taxes receivable/payable | 21,148 | 15,803 |
| Other assets | (4,826 |) 917 |
| Accounts payable | (26,200 |) (28,160) |
| Accrued interest | (2,550 |) 29,939 |
| Accrued and other liabilities | (28,545 |) (10,846) |
| Net cash provided by operating activities | 225,791 | 178,669 |
| INVESTING ACTIVITIES: | | |
| Capital expenditures | (21,807 |) (10,172) |
| Payments made in connection with acquisitions - see Note 3 | (30,002 |) — |
| Net cash used in investing activities | (51,809 |) (10,172) |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 3,648 | 8,892 |
| Special dividend and dividend equivalent payments | (1,375,998 |) (3,000) |
| Treasury stock purchased | — | (70,775) |
| Proceeds from 2017 term loans, net | 1,132,774 | — |
| Repayment on term loans | (16,151 |) (10,960) |
| Cash tender and redemption of the 2021 Notes, including premium | (528,847 |) — |
| Other | (143 |) (87) |
| Net cash used in financing activities | (784,717 |) (75,930) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (3,899 |) (1,309) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (614,634 |) 91,258 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,586,994 | 714,033 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$972,360 | \$805,291 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | \$143,702 | \$78,733 |
| Cash (refunded) paid during the period for income taxes | \$(956 |) \$884 |
| See notes to condensed consolidated financial statements. | | |

Table of Contents

TRANSDIGM GROUP INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THIRTEEN WEEK PERIODS ENDED DECEMBER 31, 2016 AND JANUARY 2, 2016
(UNAUDITED)

1. DESCRIPTION OF THE BUSINESS

Description of the Business – TransDigm Group Incorporated (“TD Group”), through its wholly-owned subsidiary, TransDigm Inc., is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. TransDigm Inc., along with TransDigm Inc.’s direct and indirect wholly-owned operating subsidiaries (collectively, with TD Group, the “Company” or “TransDigm”), offers a broad range of proprietary aerospace components. TD Group has no significant assets or operations other than its 100% ownership of TransDigm Inc. TD Group’s common stock is listed on the New York Stock Exchange, or the NYSE, under the trading symbol “TDG.”

Major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, databus and power controls, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems.

2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company’s financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2016 included in TD Group’s Form 10-K filed on November 15, 2016. As disclosed therein, the Company’s annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States (“GAAP”). The September 30, 2016 condensed consolidated balance sheet was derived from TD Group’s audited financial statements. The results of operations for the thirteen week period ended December 31, 2016 are not necessarily indicative of the results to be expected for the full year.

Certain reclassifications have been made to the prior year condensed consolidated financial statements to conform to current year classifications related to the adoption of ASU 2016-09 during the fourth quarter of fiscal 2016 impacting the classification of excess tax benefits for share-based payments which are recognized as a component of the income tax provision rather than a component of additional paid-in capital. The accounting pronouncement and impact of the fiscal year 2016 adoption of the pronouncement on the condensed consolidated financial statements is summarized in Note 4, "Recent Accounting Pronouncements."

3. ACQUISITIONS

During the fiscal year ended September 30, 2016, the Company completed the acquisitions of Young & Franklin Inc. / Tactair Fluid Controls Inc. (“Y&F/Tactair”), Data Device Corporation (“DDC”) and Breeze-Eastern Corporation (“Breeze-Eastern”). The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its consolidated financial statements from the effective date of each acquisition. As of December 31, 2016, the purchase price allocations for Y&F/Tactair and DDC remain preliminary as the Company completes its assessments under the acquisition method during the measurement period. Pro forma net sales and results of operations for the acquisitions had they occurred at the beginning of the applicable thirteen week periods ended December 31, 2016 or January 2, 2016 are not material and, accordingly, are not provided.

The acquisitions strengthen and expand the Company's position to design, produce and supply highly engineered proprietary aerospace components in niche markets with significant aftermarket content and provide opportunities to create value through the application of our three core value-driven operating strategies (obtaining profitable new business, improving our cost structure, and providing highly engineered value-added products to customers). The purchase price paid for each acquisition reflects the current earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flows, as well as the future EBITDA and cash flows expected to be generated by the business, which are driven in most cases by the recurring aftermarket consumption over the life of a particular aircraft, estimated to be approximately 25 to 30 years.

Table of Contents

Y&F/Tactair – On September 23, 2016, the Company acquired all of the outstanding stock of Young & Franklin, Inc., the parent company of Tactair Fluid Controls, Inc., for approximately \$258.8 million in cash, which includes a working capital adjustment of \$2.7 million paid in the first quarter of fiscal 2017. Y&F/Tactair manufactures proprietary, highly engineered valves and actuators. These products fit well with TransDigm’s overall business direction. Y&F/Tactair is included in TransDigm’s Power & Control segment. The purchase price includes approximately \$74.5 million of tax benefits being realized by the Company over a 15-year period that began in the first quarter of fiscal 2017. The Company expects that approximately \$133.1 million of goodwill recognized for the acquisition will be deductible for tax purposes and approximately \$10.5 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

DDC – On June 23, 2016, the Company acquired all of the outstanding stock of ILC Holdings, Inc., the parent company of Data Device Corporation, from Behrman Capital for a total purchase price of approximately \$997.7 million in cash, which includes a working capital settlement of \$1.4 million received in the first quarter of fiscal 2017. TransDigm financed the acquisition of DDC with cash proceeds from the issuance of senior subordinated notes due in June 2026 and term loans. DDC is a supplier of databus and power controls and related products that are used primarily in military avionics, commercial aerospace and space applications. These products fit well with TransDigm’s overall business direction. DDC is included in TransDigm's Power & Control segment.

The total purchase price of DDC was allocated to the underlying assets acquired and liabilities assumed based upon management’s estimated fair values at the date of acquisition. To the extent the purchase price exceeded the estimated fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill. The following table summarizes the purchase price allocation of the estimated fair values of the assets acquired and liabilities assumed at the transaction date (in thousands).

Assets acquired:

| | |
|---|--------------|
| Current assets, excluding cash acquired | \$ 100,647 |
| Property, plant, and equipment | 20,818 |
| Intangible assets | 229,300 |
| Goodwill | 765,113 |
| Other | 2,036 |
| Total assets acquired | \$ 1,117,914 |

Liabilities assumed:

| | |
|------------------------------|------------|
| Current liabilities | \$ 19,472 |
| Other noncurrent liabilities | 100,787 |
| Total liabilities assumed | \$ 120,259 |
| Net assets acquired | \$ 997,655 |

The Company expects that all of the approximately \$765.1 million of goodwill recognized for the acquisition will not be deductible for tax purposes.

Breeze-Eastern – On January 4, 2016, the Company completed the tender offer for all of the outstanding stock of Breeze-Eastern for \$19.61 per share in cash. The purchase price was approximately \$205.9 million, of which \$146.4 million (net of cash acquired of \$30.8 million) was paid at closing and \$34.9 million was accrued for payment to dissenting shareholders. Of the accrual, \$28.7 million related to the original merger consideration and \$6.2 million represented the settlement reached with the dissenting shareholders resolving the dispute over the dissenting shareholders’ statutory appraisal action. Of the \$6.2 million settlement, \$4.9 million was recorded as selling and administrative expense and \$1.3 million was recorded as interest expense for statutory interest arising under Delaware General Corporation Law. On October 20, 2016, the Company paid the \$34.9 million settlement to the dissenting shareholders and the dissenting stockholders fully released their claims against the Company. Breeze-Eastern manufactures high performance lifting and pulling devices for military and civilian aircraft, including rescue hoists, winches and cargo hooks, and weapons-lifting systems. These products fit well with TransDigm’s overall business direction. Breeze-Eastern is included in TransDigm’s Power & Control segment. All of the approximately \$115.1 million of goodwill recognized for the acquisition is not deductible for tax purposes.

The Breeze-Eastern acquisition includes environmental reserves recorded at a fair value of approximately \$25.0 million. Of the \$25.0 million in environmental reserves, \$4.8 million is included in accrued liabilities and \$20.2 million is included in other non-current liabilities on the condensed consolidated balance sheet. The estimated \$25.0 million fair value of the environmental reserves for Breeze-Eastern are recorded at the probable and estimable amount.

7

Table of Contents

The environmental matters relate to soil and groundwater contamination and other environmental matters at several former facilities unrelated to Breeze-Eastern's current operations.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 which creates a new topic in the Accounting Standards Codification ("ASC") 606, "Revenue From Contracts With Customers." In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 establishes a new control-based revenue recognition model; changes the basis for deciding when revenue is recognized over time or at a point in time; provides new and more detailed guidance on specific topics; and expands and improves disclosures about revenue. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2018. We have performed a preliminary review of the new guidance as compared to our current accounting policies. We have also commenced a review of a representative sample of contracts and other agreements with our customers and are evaluating the provisions contained within these contracts and agreements in consideration of the five step model specified within ASC 606. The Company is currently evaluating the impact that adopting the standard, along with the subsequent updates and clarifications, will have on its consolidated financial statements and disclosures. During fiscal 2017, we plan to finalize our review and determine our date and method of adoption.

In September 2015, the FASB issued ASU 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments," a new standard intended to simplify the accounting for measurement period adjustments in a business combination. Measurement period adjustments are changes to provisional amounts recorded when the accounting for a business combination is incomplete as of the end of a reporting period. The measurement period can extend for up to a year following the transaction date. During the measurement period, companies may make adjustments to provisional amounts when information necessary to complete the measurement is received. The new guidance requires companies to recognize these adjustments, including any related impacts to net income, in the reporting period in which the adjustments are determined. Companies are no longer required to retroactively apply measurement period adjustments to all periods presented. The guidance was effective for the Company on October 1, 2016. However, as early adoption was permissible, the Company adopted the pronouncement beginning October 1, 2015. The adoption of this pronouncement did not have a significant impact on the Company's consolidated financial statements and disclosures. In February 2016, the FASB issued ASU 2016-02, "Leases (ASC 842)," which will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective for the Company for annual reporting periods, including interim periods therein, beginning October 1, 2017, with early adoption permitted. As early adoption is permissible, the Company adopted this standard in the fourth quarter of fiscal 2016. As a result of adopting the standard in the fourth quarter of fiscal 2016, the condensed consolidated financial statements and earnings per share for the quarter ended January 2, 2016 were recasted where presented within this Form 10-Q to reflect the impact of this standard if the Company had adopted as of the beginning of fiscal 2016. Therefore, approximately \$14.5 million in year-to-date excess tax benefits as of January 2, 2016 were reclassified from a component of additional paid-in-capital to a component of the income tax provision with a year-to-date favorable impact to basic and diluted earnings per common share of \$0.26. The

corresponding cash flows are reflected in cash provided by operating activities instead of financing activities, as required. In addition, the Company continued to account for forfeitures on an estimated basis.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)," which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements and disclosures.

Table of Contents

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments," which clarifies existing guidance related to accounting for cash receipts and cash payments and classification on the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

5. EARNINGS PER SHARE (TWO-CLASS METHOD)

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | Thirteen Week Periods Ended | |
|--|-----------------------------|-----------------|
| | December 31, 2016 | January 2, 2016 |
| Numerator for earnings per share: | | |
| Net income | \$ 118,871 | \$ 129,441 |
| Less dividends paid on participating securities | (95,971) | (3,000) |
| Net income applicable to common stock - basic and diluted | \$ 22,900 | \$ 126,441 |
| Denominator for basic and diluted earnings per share under the two-class method: | | |
| Weighted average common shares outstanding | 53,365 | 53,706 |
| Vested options deemed participating securities | 3,159 | 3,099 |
| Total shares for basic and diluted earnings per share | 56,524 | 56,805 |
| Basic and diluted earnings per share | \$ 0.41 | \$ 2.23 |

6. INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is generally determined by the average cost and the first-in, first-out (FIFO) methods and includes material, labor and overhead related to the manufacturing process.

Inventories consist of the following (in thousands):

| | December 31, 2016 | September 30, 2016 |
|---|-------------------|--------------------|
| Raw materials and purchased component parts | \$485,842 | \$464,410 |
| Work-in-progress | 181,676 | 188,417 |
| Finished goods | 135,271 | 153,253 |
| Total | 802,789 | 806,080 |

Edgar Filing: TransDigm Group INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Reserves for excess and obsolete inventory | (87,408) | (82,069) |
| Inventories - Net | \$715,381 | \$724,011 |

7. INTANGIBLE ASSETS

Other intangible assets - net in the condensed consolidated balance sheets consist of the following (in thousands):

| | December 31, 2016 | | | September 30, 2016 | | |
|----------------------------|-----------------------|--------------------------|-------------|-----------------------|--------------------------|-------------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Trademarks and trade names | \$718,176 | \$ — | \$718,176 | \$720,263 | \$ — | \$720,263 |
| Technology | 1,277,928 | 304,238 | 973,690 | 1,279,335 | 288,429 | 990,906 |
| Order backlog | 55,341 | 38,791 | 16,550 | 55,341 | 29,641 | 25,700 |
| Other | 43,347 | 16,432 | 26,915 | 43,331 | 15,857 | 27,474 |
| Total | \$2,094,792 | \$ 359,461 | \$1,735,331 | \$2,098,270 | \$ 333,927 | \$1,764,343 |

The aggregate amortization expense on identifiable intangible assets for the thirteen week periods ended December 31, 2016 and January 2, 2016 was approximately \$25.5 million and \$16.3 million, respectively. The estimated amortization expense is \$91.2 million for fiscal year 2017, \$65.5 million for fiscal year 2018 and \$65.5 million for each of the four succeeding fiscal years 2019 through 2022.

Table of Contents

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2016 through December 31, 2016 (in thousands):

| | Power & Control | Airframe | Non- aviation | Total |
|---------------------------------------|--------------------|-------------|------------------|-------------|
| Balance, September 30, 2016 | \$3,247,490 | \$2,376,593 | \$55,369 | \$5,679,452 |
| Goodwill acquired during the year | — | — | — | — |
| Purchase price allocation adjustments | 15,334 | — | — | 15,334 |
| Currency translation adjustment | — | (7,538) | — | (7,538) |
| Balance, December 31, 2016 | \$3,262,824 | \$2,369,055 | \$55,369 | \$5,687,248 |

8. DEBT

The Company's debt consists of the following (in thousands):

| | December 31, 2016 | | | |
|--|--------------------|---------------------------|-------------------------------|---------------|
| | Gross Amount | Debt Issuance Costs | Original Issue Discount | Net Amount |
| Short-term borrowings—trade receivable securitization facility | \$200,000 | \$(160) | \$— | \$199,840 |
| Term loans | \$6,422,557 | \$(51,446) | \$(16,519) | \$6,354,592 |
| 5 1/2% senior subordinated notes due 2020 (2020 Notes) | 550,000 | (4,035) | — | 545,965 |
| 7 1/2% senior subordinated notes due 2021 (2021 Notes) | — | — | — | — |
| 6% senior subordinated notes due 2022 (2022 Notes) | 1,150,000 | (8,021) | — | 1,141,979 |
| 6 1/2% senior subordinated notes due 2024 (2024 Notes) | 1,200,000 | (8,924) | — | 1,191,076 |
| 6 1/2% senior subordinated notes due 2025 (2025 Notes) | 450,000 | (4,024) | — | 445,976 |
| 6 3/8% senior subordinated notes due 2026 (2026 Notes) | 950,000 | (9,484) | — | 940,516 |
| | 10,722,557 | (85,934) | (16,519) | 10,620,104 |
| Less current portion | 64,603 | (446) | — | 64,157 |
| Long-term debt | \$10,657,954 | \$(85,488) | \$(16,519) | \$10,555,947 |
| | September 30, 2016 | | | |
| | Gross Amount | Debt Issuance Costs | Original Issue Discount | Net Amount |
| Short-term borrowings—trade receivable securitization facility | \$200,000 | \$(229) | \$— | \$199,771 |
| Term loans | \$5,288,708 | \$(42,662) | \$(11,439) | \$5,234,607 |
| 2020 Notes | 550,000 | (4,299) | — | 545,701 |
| 2021 Notes | 500,000 | (3,141) | — | 496,859 |
| 2022 Notes | 1,150,000 | (8,381) | — | 1,141,619 |
| 2024 Notes | 1,200,000 | (9,218) | — | 1,190,782 |
| 2025 Notes | 450,000 | (4,144) | — | 445,856 |
| 2026 Notes | 950,000 | (9,588) | — | 940,412 |
| | 10,088,708 | (81,433) | (11,439) | 9,995,836 |
| Less current portion | 53,074 | (429) | — | 52,645 |
| Long-term debt | \$10,035,634 | \$(81,004) | \$(11,439) | \$9,943,191 |

Repurchase of Senior Subordinated Notes due 2021 - On October 13, 2016, the Company announced a cash tender offer for any and all of its outstanding 2021 Notes. On October 27, 2016, the Company redeemed a principal amount of approximately \$158 million in 2021 Notes outstanding for total consideration of \$1,060.50 (plus accrued and unpaid interest) for each \$1,000 aggregate principal amount. The total consideration included an early tender premium of \$30.00 per \$1,000 principal amount of 2021 Notes payable only with respect to each note validly tendered and not revoked on or before October 26, 2016. On November 28, 2016, pursuant to the terms of the indenture governing the 2021 Notes, the Company redeemed the remaining principal of \$342 million in 2021 Notes outstanding at a

redemption price of 105.625% of the principal amount (plus accrued and unpaid interest).

10

Table of Contents

The Company recorded refinancing costs of \$31.9 million during the thirteen week period ended December 31, 2016 representing debt issuance costs expensed in conjunction with the redemption of the 2021 Notes. The costs consisted of the premium of \$28.8 million paid to redeem the \$500 million of 2021 Notes and the write-off of \$3.1 million in unamortized debt issuance costs.

Incremental Term Loan Assumption Agreement - On October 14, 2016, the Company entered into an Incremental Term Loan Assumption Agreement (the “Assumption Agreement”) with Credit Suisse AG, as administrative agent and collateral agent, and as a lender, in connection with the 2016 Term Loans. The Assumption Agreement, among other things, provides for (i) additional tranche F term loans in an aggregate principal amount equal to \$650 million, which were fully drawn on October 14, 2016 (the “Initial Additional Tranche F Term Loans”), and (ii) additional delayed draw tranche F term loans in an aggregate principal amount not to exceed \$500 million, which were fully drawn on October 27, 2016 (the “Delayed Draw Additional Tranche F Term Loans”, and together with the Initial Additional Tranche F Term Loans, the “Additional Tranche F Term Loans”), the proceeds of which were used to repurchase the Company's 2021 Notes. The terms and conditions that apply to the Additional Tranche F Term Loans are substantially the same as the terms and conditions that apply to the Tranche F Term Loans under the 2016 Term Loans immediately prior to the Assumption Agreement.

The Company recorded refinancing costs of \$0.2 million during the thirteen week period ended December 31, 2016 representing debt issuance costs expensed in conjunction with the Assumption Agreement.

9. INCOME TAXES

At the end of each reporting period, TD Group makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods. During the thirteen week periods ended December 31, 2016 and January 2, 2016, the effective income tax rate was 14.4% and 21.1%, respectively. The Company's lower effective tax rate for the thirteen week period was primarily due to a higher discrete adjustment from excess tax benefits for share-based payments. The Company's effective tax rate for these periods was less than the Federal statutory tax rate primarily due to excess tax benefits from share based payments, the domestic manufacturing deduction and foreign earnings taxed at rates lower than the U.S. statutory rate.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions as well as foreign jurisdictions located in Belgium, Canada, China, France, Germany, Hong Kong, Hungary, Malaysia, Mexico, Norway, Singapore, Sri Lanka, Sweden and the United Kingdom. The Company is no longer subject to U.S. federal examinations for years before fiscal 2014. The Company is currently under U.S. federal examination for its fiscal 2014 and under examination in Belgium for its fiscal years of 2013 and 2014. In addition, the Company is subject to state income tax examinations for fiscal years 2009 and later.

At December 31, 2016 and September 30, 2016, TD Group had \$7.4 million and \$8.7 million in unrecognized tax benefits, the recognition of which would have an effect of approximately \$7.2 million and \$8.5 million on the effective tax rate at December 31, 2016 and September 30, 2016, respectively. The Company believes the tax positions that comprise the unrecognized tax benefits will be reduced by approximately \$1.3 million over the next 12 months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense.

10. FAIR VALUE MEASUREMENTS

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Table of Contents

The following summarizes the carrying amounts and fair values of financial instruments (in thousands):

| | Level | December 31, 2016 | | September 30, 2016 | |
|---|-------|-------------------|------------|--------------------|-------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | |
| Cash and cash equivalents | 1 | \$972,360 | \$972,360 | \$1,586,994 | \$1,586,994 |
| Interest rate cap agreements ⁽¹⁾ | 2 | 19,879 | 19,879 | 4,232 | 4,232 |
| Interest rate swap agreements ⁽¹⁾ | 2 | 7,110 | 7,110 | — | — |
| Liabilities: | | | | | |
| Interest rate swap agreements ⁽²⁾ | 2 | 28,168 | 28,168 | 29,191 | 29,191 |
| Interest rate swap agreements ⁽³⁾ | 2 | 11,232 | 11,232 | 53,824 | 53,824 |
| Short-term borrowings - trade receivable securitization facility ⁽⁴⁾ | 1 | 199,840 | 199,840 | 199,771 | 199,771 |
| Long-term debt, including current portion: | | | | | |
| Term loans ⁽⁴⁾ | 2 | 6,354,592 | 6,447,080 | 5,234,607 | 5,284,037 |
| 2020 Notes ⁽⁴⁾ | 1 | 545,965 | 563,750 | 545,701 | 566,500 |
| 2021 Notes ⁽⁴⁾ | 1 | — | — | 496,859 | 530,000 |
| 2022 Notes ⁽⁴⁾ | 1 | 1,141,979 | 1,190,250 | 1,141,619 | 1,214,688 |
| 2024 Notes ⁽⁴⁾ | 1 | 1,191,076 | 1,254,000 | 1,190,782 | 1,266,000 |
| 2025 Notes ⁽⁴⁾ | 1 | 445,976 | 468,000 | 445,856 | 469,125 |
| 2026 Notes ⁽⁴⁾ | 1 | 940,516 | 978,500 | 940,412 | 985,625 |

(1) Included in other non-current assets on the condensed consolidated balance sheet.

(2) Included in accrued liabilities on the condensed consolidated balance sheet.

(3) Included in other non-current liabilities on the condensed consolidated balance sheet.

(4) The carrying amount of the debt instrument is presented net of the debt issuance costs in connection with the Company's adoption of ASU 2015-03. Refer to Note 8, "Debt," for gross carrying amounts.

The Company values its financial instruments using an industry standard market approach, in which prices and other relevant information are generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were recognized using unobservable inputs.

Interest rate swaps were measured at fair value using quoted market prices for the swap interest rate indexes over the term of the swap discounted to present value versus the fixed rate of the contract. The interest rate caps were measured at fair value using implied volatility rates of each individual caplet and the yield curve for the related periods. The estimated fair value of the Company's term loans was based on information provided by the agent under the Company's senior secured credit facility. The estimated fair values of the Company's notes were based upon quoted market prices. There has not been any impact to the fair value of derivative liabilities due to the Company's own credit risk.

Similarly, there has not been any impact to the fair value of derivative assets based on the Company's evaluation of counterparties' credit risks.

The fair value of cash and cash equivalents, trade accounts receivable-net and accounts payable approximated book value due to the short-term nature of these instruments at December 31, 2016 and September 30, 2016.

11. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in interest rates in the normal course of business. The Company's risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks and does not enter into such transactions for trading purposes. The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. The Company has agreements with each of its swap and cap counterparties that contain a provision whereby if the Company defaults on the credit facility the Company could also be declared in default on its swaps and caps, resulting

in an acceleration of payment under the swaps and caps.

12

Table of Contents

Interest rate swap and cap agreements are used to manage interest rate risk associated with floating-rate borrowings under our credit facility. The interest rate swap and cap agreements utilized by the Company effectively modify the Company's exposure to interest rate risk by converting a portion of the Company's floating-rate debt to a fixed rate basis through the expiration date of the interest rate swap and cap agreements, thereby reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the term of the agreements without an exchange of the underlying principal amount. These derivative instruments qualify as effective cash flow hedges under GAAP. For these cash flow hedges, the effective portion of the gain or loss from the financial instruments was initially reported as a component of accumulated other comprehensive loss in stockholders' deficit and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affected earnings.

The following table summarizes the Company's interest rate swap agreements:

| Aggregate Notional Amount (in millions) | Start Date | End Date | Related Debt | Conversion of Related Variable Rate Debt to Fixed Rate of: |
|--|------------|------------|----------------------|--|
| \$500 | 12/30/2016 | 12/31/2021 | Tranche F Term Loans | 4.9% (1.9% plus the 3% margin percentage) |
| \$1,000 | 6/28/2019 | 6/30/2021 | Tranche F Term Loans | 4.8% (1.8% plus the 3% margin percentage) |
| \$750 | 3/31/2016 | 6/30/2020 | Tranche D Term Loans | 5.8% (2.8% plus the 3% margin percentage) |
| \$1,000 | 9/30/2014 | 6/30/2019 | Tranche C Term Loans | 5.4% (2.4% plus the 3% margin percentage) |

The following table summarizes the Company's interest rate cap agreements:

| Aggregate Notional Amount (in millions) | Start Date | End Date | Related Debt | Offsets Variable Rate Debt Attributable to Fluctuations Above: |
|--|------------|------------|----------------------|--|
| \$400 | 12/30/2016 | 12/31/2021 | Tranche F Term Loans | Three month LIBO rate of 2.5% |
| \$400 | 6/30/2016 | 6/30/2021 | Tranche F Term Loans | Three month LIBO rate of 2.0% |
| \$750 | 9/30/2015 | 6/30/2020 | Tranche E Term Loans | Three month LIBO rate of 2.5% |

All interest rate swap and cap agreements are recognized in our condensed consolidated balance sheets at fair value. In accordance with GAAP, certain derivative asset and liability balances are offset where master netting agreements provide for the legal right of setoff. For classification purposes, we record the net fair value of each type of derivative position that is expected to settle in less than one year with each counterparty as a net current asset or liability and each type of long-term position as a net long-term asset or liability. The amounts shown in the table below represent the gross amounts of recognized assets and liabilities, the amounts offset in the condensed consolidated balance sheet and the net amounts of assets and liabilities presented therein. As of December 31, 2016 and January 2, 2016, there were no amounts subject to an enforceable master netting arrangement or similar agreement that have not been offset in the condensed consolidated balance sheet.

| | December 31, 2016 | | September 30, 2016 | |
|---|-------------------|------------|--------------------|------------|
| | Asset | Liability | Asset | Liability |
| Interest rate cap agreements | \$19,879 | \$— | \$4,232 | \$— |
| Interest rate swap agreements | 15,213 | (47,503) | — | (83,015) |
| Total | 35,092 | (47,503) | 4,232 | (83,015) |
| Effect of counterparty netting | (8,103) | 8,103 | — | — |
| Net derivatives as classified in the balance sheet ⁽¹⁾ | \$26,989 | \$(39,400) | \$4,232 | \$(83,015) |

(1) Refer to Note 10, "Fair Value Measurements," for the condensed consolidated balance sheet classification of our interest rate swap and cap agreements.

Based on the fair value amounts of the interest rate swap and cap agreements determined as of December 31, 2016, the estimated net amount of existing gains and losses and caplet amortization expected to be reclassified into interest expense within the next twelve months is approximately \$32.0 million.

Effective September 30, 2016, the Company redesignated the interest rate cap agreements related to the \$400 million and the \$750 million aggregate notional amount with cap rates of 2.0% and 2.5%, respectively, based on the expected probable cash flows associated with the 2016 term loans and 2015 term loans in consideration of the Company's ability to select one month, two month, three month, or six month LIBO rate set forth in the Credit Agreement. Accordingly, amounts previously recorded as a component of accumulated other comprehensive loss in stockholder's

Table of Contents

deficit amortized into interest expense was \$1.0 million for the thirteen week period ended December 31, 2016. The accumulated other comprehensive loss to be reclassified into interest expense over the remaining term of the cap agreements was \$13.7 million with a related tax benefit of \$5.1 million as of December 31, 2016.

12. SEGMENTS

The Company's businesses are organized and managed in three reporting segments: Power & Control, Airframe and Non-aviation.

The Power & Control segment includes operations that primarily develop, produce and market systems and components that predominately provide power to or control power of the aircraft utilizing electronic, fluid, power and mechanical motion control technologies. Major product offerings include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, databus and power controls, high performance hoists, winches and lifting devices, and cargo loading and handling systems. Primary customers of this segment are engine and power system and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Airframe segment includes operations that primarily develop, produce and market systems and components that are used in non-power airframe applications utilizing airframe and cabin structure technologies. Major product offerings include engineered latching and locking devices, rods and locking devices, cockpit security components and systems, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, and cargo delivery systems. Primary customers of this segment are airframe manufacturers and cabin system suppliers and subsystem suppliers, airlines, third party maintenance suppliers, military buying agencies and repair depots. Products are sold in the original equipment and aftermarket market channels.

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include seat belts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, and refueling systems for heavy equipment used in mining, construction and other industries. Primary customers of this segment are off-road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers and manufacturers of heavy equipment used in mining, construction and other industries.

The primary measurement used by management to review and assess the operating performance of each segment is EBITDA As Defined. The Company defines EBITDA As Defined as earnings before interest, taxes, depreciation and amortization plus certain non-operating items including refinancing costs, acquisition-related costs, transaction-related costs and non-cash compensation charges incurred in connection with the Company's stock incentive plans.

Acquisition-related costs represent 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 the Company's operations, facility relocation costs and other acquisition-related costs; transaction related costs comprising deal fees; legal, financial and tax diligence expenses and valuation costs that are required to be expensed as incurred and other acquisition accounting adjustments.

EBITDA As Defined is not a measurement of financial performance under GAAP. Although the Company uses EBITDA As Defined to assess the performance of its business and for various other purposes, the use of this non-GAAP financial measure as an analytical tool has limitations, and it should not be considered in isolation or as a substitute for analysis of the Company's results of operations as reported in accordance with GAAP.

The Company's segments are reported on the same basis used internally for evaluating performance and for allocating resources. The accounting policies for each segment are the same as those described in the summary of significant accounting policies in the Company's consolidated financial statements. Intersegment sales and transfers are recorded at values based on market prices, which creates intercompany profit on intersegment sales or transfers that is eliminated in consolidation. Intersegment sales were immaterial for the periods presented below. Certain corporate-level expenses are allocated to the operating segments.

Table of Contents

The following table presents net sales by reportable segment (in thousands):

| | Thirteen Week | |
|---------------------------------|---------------|-----------|
| | Periods Ended | |
| | December | January |
| | 31, 2016 | 2, 2016 |
| Net sales to external customers | | |
| Power & Control | \$441,074 | \$347,209 |
| Airframe | 348,664 | 331,138 |
| Non-aviation | 24,280 | 23,348 |
| | \$814,018 | \$701,695 |

The following table reconciles EBITDA As Defined by segment to consolidated income before income taxes (in thousands):

| | Thirteen Week | |
|---------------------------------------|---------------|------------|
| | Periods Ended | |
| | December | January 2, |
| | 31, 2016 | 2016 |
| EBITDA As Defined | | |
| Power & Control | \$216,782 | \$161,776 |
| Airframe | 170,511 | 155,088 |
| Non-aviation | 8,602 | 6,386 |
| Total segment EBITDA As Defined | 395,895 | 323,250 |
| Unallocated corporate expenses | 10,945 | 3,837 |
| Total Company EBITDA As Defined | 384,950 | 319,413 |
| Depreciation and amortization expense | 38,048 | 26,201 |
| Interest expense - net | 146,004 | 111,983 |
| Acquisition-related costs | 18,568 | 7,225 |
| Stock compensation expense | 10,020 | 10,681 |
| Refinancing costs | 32,084 | — |
| Other, net | 1,305 | (735) |
| Income before income taxes | \$138,921 | \$164,058 |

The following table presents total assets by segment (in thousands):

| | December | September |
|-----------------|--------------|--------------|
| | 31, 2016 | 30, 2016 |
| Total assets | | |
| Power & Control | \$5,112,841 | \$5,184,303 |
| Airframe | 3,862,912 | 3,922,532 |
| Non-aviation | 130,918 | 131,319 |
| Corporate | 930,451 | 1,488,123 |
| | \$10,037,122 | \$10,726,277 |

The Company's sales principally originate from the United States, and the Company's long-lived assets are principally located in the United States.

Table of Contents**13. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the components of accumulated other comprehensive loss, net of taxes, for the thirteen week period ended December 31, 2016 (in thousands):

| | Unrealized (loss) gains on derivatives designated and qualifying as cash flow hedges ⁽¹⁾ | Defined benefit pension plan activity | Currency translation adjustment | Total |
|--|--|---|---------------------------------------|-------------|
| Balance at September 30, 2016 | \$(61,140) | \$(24,297) | \$(64,350) | \$(149,787) |
| Current-period other comprehensive gain (loss) | 38,176 | — | (28,052) | 10,124 |
| Amounts reclassified from AOCI related to interest rate cap agreements | 599 | — | — | 599 |
| Balance at December 31, 2016 | \$(22,365) | \$(24,297) | \$(92,402) | \$(139,064) |

(1) Unrealized loss represents interest rate swap and cap agreements, net of taxes of \$(23,117) and \$(5,092) for the thirteen week periods ended December 31, 2016 and January 2, 2016, respectively.

A summary of reclassifications out of accumulated other comprehensive loss for the thirteen week period ended December 31, 2016 is provided below (in thousands):

| Description of reclassifications out of accumulated other comprehensive loss | Amount reclassified |
|--|------------------------|
| Amortization from redesignated interest rate cap agreements ⁽¹⁾ | \$ 956 |
| Deferred tax benefit from redesignated interest rate cap agreements | (357) |
| Losses reclassified into earnings, net of tax | \$ 599 |

(1) This component of accumulated other comprehensive loss is included in interest expense (see Note 11, "Derivatives and Hedging Activity," for additional information).

14. SPECIAL DIVIDEND AND DIVIDEND EQUIVALENT PAYMENTS

On October 14, 2016, the Company's Board of Directors authorized and declared a special cash dividend of \$24.00 on each outstanding share of common stock and cash dividend equivalent payments on options granted under its stock option plans. The record date for the special dividend was October 24, 2016, and the payment date for the dividend was November 1, 2016. The total cash payment related to the special dividend and related dividend equivalent payments in the first quarter of fiscal 2017 was approximately \$1,280.1 million and \$76.4 million, respectively. For the thirteen week period ended December 31, 2016, dividend equivalent payments related to dividends declared in fiscal 2013 and fiscal 2014 totaled \$19.5 million.

15. SUBSEQUENT EVENTS

On January 26, 2017, our Board of Directors increased the authorized amount of repurchases allowable under the stock program from \$450 million to \$472 million. The \$22 million increase in the repurchases allowable under the stock repurchase program aligns the program with the restricted payments allowable under the Credit Agreement. During January 2017, Company repurchased 666,755 shares of its common stock at a gross cost of approximately \$150.0 million at the weighted-average price per share of \$224.97 under the \$472 million stock repurchase program. As of February 8, 2017, the remaining amount of repurchases allowable under the \$472 million program was \$212.9 million subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing notes.

16. SUPPLEMENTAL GUARANTOR INFORMATION

TransDigm's 2020 Notes, 2022 Notes, 2024 Notes, 2025 Notes and 2026 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group and TransDigm Inc.'s 100% Domestic Restricted Subsidiaries, as defined in the Indentures. The following supplemental condensed consolidating financial information presents, in separate columns, the balance sheets of the Company as of December 31, 2016 and September 30, 2016 and its statements of income and comprehensive income and cash flows for the thirteen week periods ended December 31, 2016 and January 2, 2016 for (i) TransDigm Group on a parent only basis with its investment in subsidiaries recorded under the equity method, (ii) TransDigm Inc. including its directly owned operations and non-operating entities, (iii) the

Table of Contents

Subsidiary Guarantors on a combined basis, (iv) Non-Guarantor Subsidiaries and (v) the Company on a consolidated basis.

Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc.'s 2020 Notes, 2022 Notes, 2024 Notes, 2025 Notes and 2026 Notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group and all existing 100% owned domestic subsidiaries of TransDigm Inc. and because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATING BALANCE SHEET
 AS OF DECEMBER 31, 2016
 (Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|--------------------|-------------------|--------------------------|-----------------------------------|----------------|-----------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | \$5,890 | \$811,204 | \$5,511 | \$149,755 | \$— | \$972,360 |
| Trade accounts receivable - Net | — | — | — | 519,637 | (6,853 |) 512,784 |
| Inventories - Net | — | 42,967 | 568,563 | 105,026 | (1,175 |) 715,381 |
| Prepaid expenses and other | — | 4,271 | 22,852 | 7,770 | — | 34,893 |
| Total current assets | 5,890 | 858,442 | 596,926 | 782,188 | (8,028 |) 2,235,418 |
| INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES | | | | | | |
| PROPERTY, PLANT AND EQUIPMENT -Net | — | 15,775 | 254,907 | 43,875 | — | 314,557 |
| GOODWILL | — | 68,593 | 4,968,284 | 650,371 | — | 5,687,248 |
| OTHER INTANGIBLE ASSETS - Net | — | 24,927 | 1,459,995 | 250,409 | — | 1,735,331 |
| OTHER | — | 33,079 | 24,525 | 6,964 | — | 64,568 |
| TOTAL ASSETS | \$(1,874,625) | \$10,625,797 | \$13,759,408 | \$2,608,153 | \$(15,081,611) | \$10,037,122 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Current portion of long-term debt | \$— | \$64,157 | \$— | \$— | \$— | \$64,157 |
| Short-term borrowings - trade receivable securitization facility | — | — | — | 199,840 | — | 199,840 |
| Accounts payable | — | 12,730 | 91,691 | 32,282 | (7,193 |) 129,510 |
| Accrued liabilities | — | 125,976 | 126,990 | 52,445 | — | 305,411 |
| Total current liabilities | — | 202,863 | 218,681 | 284,567 | (7,193 |) 698,918 |
| LONG-TERM DEBT | — | 10,555,947 | — | — | — | 10,555,947 |
| DEFERRED INCOME TAXES | — | 457,699 | (544 |) 58,511 | — | 515,666 |
| OTHER NON-CURRENT LIABILITIES | — | 40,023 | 66,615 | 34,578 | — | 141,216 |
| Total liabilities | — | 11,256,532 | 284,752 | 377,656 | (7,193 |) 11,911,747 |
| STOCKHOLDERS' (DEFICIT) EQUITY | (1,874,625 |) (630,735 |) 13,474,656 | 2,230,497 | (15,074,418 |) (1,874,625 |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | \$(1,874,625) | \$10,625,797 | \$13,759,408 | \$2,608,153 | \$(15,081,611) | \$10,037,122 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2016
(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|--------------------|----------------------|--------------------------|-----------------------------------|-----------------------|-----------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS: | | | | | | |
| Cash and cash equivalents | \$ 13,560 | \$ 1,421,251 | \$ 8,808 | \$ 143,375 | \$— | \$ 1,586,994 |
| Trade accounts receivable - Net | — | — | 26,210 | 561,124 | (10,995) | 576,339 |
| Inventories - Net | — | 42,309 | 586,648 | 96,229 | (1,175) | 724,011 |
| Prepaid expenses and other | — | 8,209 | 27,381 | 7,763 | — | 43,353 |
| Total current assets | 13,560 | 1,471,769 | 649,047 | 808,491 | (12,170) | 2,930,697 |
| INVESTMENT IN SUBSIDIARIES AND INTERCOMPANY BALANCES | (665,050) | 9,671,019 | 6,182,809 | 861,647 | (16,050,425) | — |
| PROPERTY, PLANT AND EQUIPMENT - Net | — | 15,991 | 250,544 | 44,045 | — | 310,580 |
| GOODWILL | — | 68,593 | 4,952,950 | 657,909 | — | 5,679,452 |
| OTHER INTANGIBLE ASSETS - Net | — | 24,801 | 1,483,285 | 256,257 | — | 1,764,343 |
| OTHER | — | 10,319 | 24,063 | 6,823 | — | 41,205 |
| TOTAL ASSETS | \$(651,490) | \$ 11,262,492 | \$ 13,542,698 | \$ 2,635,172 | \$(16,062,595) | \$ 10,726,277 |
| LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | | | | | | |
| CURRENT LIABILITIES: | | | | | | |
| Current portion of long-term debt | \$— | \$ 52,645 | \$— | \$— | \$— | \$ 52,645 |
| Short-term borrowings - trade receivable securitization facility | — | — | — | 199,771 | — | 199,771 |
| Accounts payable | — | 15,347 | 120,455 | 31,560 | (11,287) | 156,075 |
| Accrued liabilities | — | 159,909 | 123,646 | 60,557 | — | 344,112 |
| Total current liabilities | — | 227,901 | 244,101 | 291,888 | (11,287) | 752,603 |
| LONG-TERM DEBT | — | 9,943,191 | — | — | — | 9,943,191 |
| DEFERRED INCOME TAXES | — | 434,013 | (544) | 58,786 | — | 492,255 |
| OTHER NON-CURRENT LIABILITIES | — | 82,677 | 70,124 | 36,917 | — | 189,718 |
| Total liabilities | — | 10,687,782 | 313,681 | 387,591 | (11,287) | 11,377,767 |
| STOCKHOLDERS' (DEFICIT) EQUITY | (651,490) | 574,710 | 13,229,017 | 2,247,581 | (16,051,308) | (651,490) |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY | \$(651,490) | \$ 11,262,492 | \$ 13,542,698 | \$ 2,635,172 | \$(16,062,595) | \$ 10,726,277 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2016

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|---|--------------------|-------------------|--------------------------|-----------------------------------|--------------|-----------------------|
| NET SALES | \$— | \$ 30,617 | \$ 682,919 | \$ 115,766 | \$(15,284) | \$ 814,018 |
| COST OF SALES | — | 17,253 | 299,661 | 68,133 | (15,284) | 369,763 |
| GROSS PROFIT | — | 13,364 | 383,258 | 47,633 | — | 444,255 |
| SELLING AND ADMINISTRATIVE EXPENSES | — | 24,320 | 62,699 | 14,696 | — | 101,715 |
| AMORTIZATION OF INTANGIBLE ASSETS | — | 189 | 23,308 | 2,034 | — | 25,531 |
| (LOSS) INCOME FROM OPERATIONS | — | (11,145) | 297,251 | 30,903 | — | 317,009 |
| INTEREST EXPENSE (INCOME) - Net | — | 148,188 | 137 | (2,321) | — | 146,004 |
| REFINANCING COSTS | — | 32,084 | — | — | — | 32,084 |
| EQUITY IN INCOME OF SUBSIDIARIES | (118,871) | (294,988) | — | — | 413,859 | — |
| INCOME BEFORE INCOME TAXES | 118,871 | 103,571 | 297,114 | 33,224 | (413,859) | 138,921 |
| INCOME TAX (BENEFIT) PROVISION | — | (15,300) | 34,606 | 744 | — | 20,050 |
| NET INCOME | \$ 118,871 | \$ 118,871 | \$ 262,508 | \$ 32,480 | \$(413,859) | \$ 118,871 |
| OTHER COMPREHENSIVE LOSS, NET OF TAX | 10,723 | 38,772 | 14,619 | (69,304) | 15,913 | 10,723 |
| TOTAL COMPREHENSIVE INCOME | \$ 129,594 | \$ 157,643 | \$ 277,127 | \$(36,824) | \$(397,946) | \$ 129,594 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
 FOR THE THIRTEEN WEEK PERIOD ENDED JANUARY 2, 2016

(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|--|--------------------|-------------------|--------------------------|-----------------------------------|---------------|-----------------------|
| NET SALES | \$ — | \$ 26,689 | \$ 576,421 | \$ 104,280 | \$ (5,695) | \$ 701,695 |
| COST OF SALES | — | 15,265 | 252,748 | 64,810 | (5,695) | 327,128 |
| GROSS PROFIT | — | 11,424 | 323,673 | 39,470 | — | 374,567 |
| SELLING AND ADMINISTRATIVE EXPENSES | — | 12,816 | 53,940 | 15,447 | — | 82,203 |
| AMORTIZATION OF INTANGIBLE ASSETS | — | 363 | 13,463 | 2,497 | — | 16,323 |
| (LOSS) INCOME FROM OPERATIONS | — | (1,755) | 256,270 | 21,526 | — | 276,041 |
| INTEREST EXPENSE (INCOME) - Net | — | 115,391 | (555) | (2,853) | — | 111,983 |
| REFINANCING COSTS | — | — | — | — | — | — |
| EQUITY IN INCOME OF SUBSIDIARIES | (129,441) | (205,973) | — | — | 335,414 | — |
| INCOME BEFORE INCOME TAXES | 129,441 | 88,827 | 256,825 | 24,379 | (335,414) | 164,058 |
| INCOME TAX (BENEFIT) PROVISION | — | (40,614) | 78,532 | (3,301) | — | 34,617 |
| NET INCOME | \$ 129,441 | \$ 129,441 | \$ 178,293 | \$ 27,680 | \$ (335,414) | \$ 129,441 |
| OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX | (92) | 6,241 | (3,564) | (11,758) | 9,081 | (92) |
| TOTAL COMPREHENSIVE INCOME | \$ 129,349 | \$ 135,682 | \$ 174,729 | \$ 15,922 | \$ (326,333) | \$ 129,349 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
 CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE THIRTEEN WEEK PERIOD ENDED DECEMBER 31, 2016
 (Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|--|--------------------|-------------------|--------------------------|-----------------------------------|--------------|-----------------------|
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | \$ — | \$(208,567) | \$364,105 | \$70,301 | \$ (48) | \$ 225,791 |
| INVESTING ACTIVITIES: | | | | | | |
| Capital expenditures | — | (354) | (19,835) | (1,618) | — | (21,807) |
| Payments made in connection with acquisitions - see Note 3 | — | (30,002) | — | — | — | (30,002) |
| Net cash used in investing activities | — | (30,356) | (19,835) | (1,618) | — | (51,809) |
| FINANCING ACTIVITIES: | | | | | | |
| Intercompany activities | 1,364,680 | (958,757) | (347,567) | (58,404) | 48 | — |
| Proceeds from exercise of stock options | 3,648 | — | — | — | — | 3,648 |
| Special dividend and dividend equivalent payments | (1,375,998) | — | — | — | — | (1,375,998) |
| Proceeds from 2017 term loans, net | — | 1,132,774 | — | — | — | 1,132,774 |
| Repayment on term loans | — | (16,151) | — | — | — | (16,151) |
| Cash tender and redemption of the 2021 Notes, including premium | — | (528,847) | — | — | — | (528,847) |
| Other | — | (143) | — | — | — | (143) |
| Net cash used in financing activities | (7,670) | (371,124) | (347,567) | (58,404) | 48 | (784,717) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | — | — | — | (3,899) | — | (3,899) |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (7,670) | (610,047) | (3,297) | 6,380 | — | (614,634) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 13,560 | 1,421,251 | 8,808 | 143,375 | — | 1,586,994 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 5,890 | \$811,204 | \$5,511 | \$149,755 | \$ — | \$ 972,360 |

Table of Contents

TRANSDIGM GROUP INCORPORATED
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE THIRTEEN WEEK PERIOD ENDED JANUARY 2, 2016
(Amounts in thousands)

| | TransDigm Group | TransDigm Inc. | Subsidiary Guarantors | Non- Guarantor Subsidiaries | Eliminations | Total Consolidated |
|--|--------------------|-------------------|--------------------------|-----------------------------------|--------------|-----------------------|
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | \$ — | \$(31,101) | \$ 187,569 | \$ 21,989 | \$ 212 | \$ 178,669 |
| INVESTING ACTIVITIES: | | | | | | |
| Capital expenditures | — | (455) | (8,043) | (1,674) | — | (10,172) |
| Net cash used in investing activities | — | (455) | (8,043) | (1,674) | — | (10,172) |
| FINANCING ACTIVITIES: | | | | | | |
| Intercompany activities | 83,669 | 113,732 | (183,088) | (14,101) | (212) | — |
| Proceeds from exercise of stock options | 8,892 | — | — | — | — | 8,892 |
| Dividend equivalent payments | (3,000) | — | — | — | — | (3,000) |
| Treasury stock repurchased | (70,775) | — | — | — | — | (70,775) |
| Repayment on term loans | — | (10,960) | — | — | — | (10,960) |
| Other | — | (87) | — | — | — | (87) |
| Net cash provided by (used in) financing activities | 18,786 | 102,685 | (183,088) | (14,101) | (212) | (75,930) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | — | — | — | (1,309) | — | (1,309) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 18,786 | 71,129 | (3,562) | 4,905 | — | 91,258 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,500 | 659,365 | 7,911 | 45,257 | — | 714,033 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 20,286 | \$ 730,494 | \$ 4,349 | \$ 50,162 | \$ — | \$ 805,291 |

* * * * *

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

The following discussion of the Company's financial condition and results of operations should be read together with TD Group's consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. References in this section to "TransDigm," "the Company," "we," "us," "our," and similar references refer to TD Group, TransDigm Inc. and TransDigm Inc.'s subsidiaries, unless the context otherwise indicates.

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, in particular, the statements about the Company's plans, strategies and prospects under this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." When used in this Quarterly Report on Form 10-Q, the words "believe," "may," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "continue" and other words and terms of similar meaning are intended to identify forward-looking statements. Although the Company believes that its plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from the forward-looking statements made in this report. Many such factors are outside the control of the Company. Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. 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.

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q 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 terrorist attacks; cyber-security threats and natural disasters; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions; our substantial indebtedness; potential environmental liabilities; 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 factors. Please refer to the other information included in this Quarterly Report on Form 10-Q and to Item 1A of the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

Overview

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly all commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, NiCad batteries and chargers, engineered latching and locking devices, rods and locking devices, engineered connectors and elastomers, databus and power controls, cockpit security components and systems, specialized cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, lighting and control technology, military personnel parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems. Each of these product offerings is composed of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For the first quarter of fiscal 2017, we generated net sales of \$814.0 million and net income of \$118.9 million. EBITDA As Defined was \$385.0 million, or 47.3% of net sales. See the "Non-GAAP Financial Measures" section for certain information regarding EBITDA and EBITDA As Defined, including reconciliations of EBITDA and EBITDA As Defined to net income and net cash provided by operating activities.

Acquisitions

Recent acquisitions are described in Note 3, "Acquisitions" to the condensed consolidated financial statements included herein.

Table of Contents

Results of Operations

The following table sets forth, for the periods indicated, certain operating data of the Company, including presentation of the amounts as a percentage of net sales (amounts in thousands):

| | Thirteen Week Periods Ended | | | | | |
|-------------------------------------|-----------------------------|------------|-----------------|------------|-------|---|
| | December 31, 2016 | | January 2, 2016 | | | |
| | | % of Sales | | % of Sales | | |
| Net sales | \$814,018 | 100.0 | % | \$701,695 | 100.0 | % |
| Cost of sales | 369,763 | 45.4 | % | 327,128 | 46.6 | % |
| Selling and administrative expenses | 101,715 | 12.5 | % | 82,203 | 11.7 | % |
| Amortization of intangible assets | 25,531 | 3.1 | % | 16,323 | 2.3 | % |
| Income from operations | 317,009 | 38.9 | % | 276,041 | 39.3 | % |
| Interest expense, net | 146,004 | 17.9 | % | 111,983 | 16.0 | % |
| Refinancing costs | 32,084 | 3.9 | % | — | — | % |
| Income tax provision | 20,050 | 2.5 | % | 34,617 | 4.9 | % |
| Net income | \$118,871 | 14.6 | % | \$129,441 | 18.4 | % |

Changes in Results of Operations

Thirteen week period ended December 31, 2016 compared with the thirteen week period ended January 2, 2016

Total Company

Net Sales. Net organic sales and acquisition sales and the related dollar and percentage changes for the thirteen week periods ended December 31, 2016 and January 2, 2016 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | % Change | |
|-------------------|-----------------------------|-----------------|----------|-------------|---|
| | December 31, 2016 | January 2, 2016 | Change | Total Sales | |
| Organic sales | \$ 726.5 | \$ 701.7 | \$ 24.8 | 3.5 | % |
| Acquisition sales | 87.5 | — | 87.5 | 12.5 | % |
| | \$ 814.0 | \$ 701.7 | \$ 112.3 | 16.0 | % |

Organic commercial aftermarket and defense sales increased by \$9.8 million and \$20.2 million, or 3.7% and 10.3%, respectively. Partially offsetting these increases was a decrease in organic commercial OEM sales of \$4.8 million, or 2.3%, for the quarter ended December 31, 2016 compared to the quarter ended January 2, 2016.

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their acquisition dates. The amount of acquisition sales shown in the table above was attributable to the acquisitions of Breeze-Eastern, DDC and Y&F/Tactair in fiscal year 2016.

Table of Contents

Cost of Sales and Gross Profit. Cost of sales increased by \$42.7 million, or 13.1%, to \$369.8 million for the thirteen week period ended December 31, 2016 compared to \$327.1 million for the thirteen week period ended January 2, 2016. Cost of sales and the related percentage of total sales for the thirteen week periods ended December 31, 2016 and January 2, 2016 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | | |
|---|-----------------------------|--------------------|---------|----------|---|
| | December 31, 2016 | January 2, 2016 | Change | % Change | |
| Cost of sales - excluding costs below | \$ 351.7 | \$ 321.6 | \$ 30.1 | 9.4 | % |
| % of total sales | 43.2 | % 45.8 | | | % |
| Inventory purchase accounting adjustments | 16.6 | 2.8 | 13.8 | 492.9 | % |
| % of total sales | 2.0 | % 0.4 | | | % |
| Acquisition integration costs | 0.5 | 1.1 | (0.6) | (54.5) | % |
| % of total sales | 0.1 | % 0.2 | | | % |
| Stock compensation expense | 1.0 | 1.6 | (0.6) | (37.5) | % |
| % of total sales | 0.1 | % 0.2 | | | % |
| Total cost of sales | \$ 369.8 | \$ 327.1 | \$ 42.7 | 13.1 | % |
| % of total sales | 45.4 | % 46.6 | | | % |
| Gross profit | \$ 444.3 | \$ 374.6 | \$ 69.7 | 18.6 | % |
| Gross profit percentage | 54.6 | % 53.4 | 1.2 | | % |

The net increase in the dollar amount of cost of sales during the thirteen week period ended December 31, 2016 was primarily due to increased volume associated with the sales from acquisitions and organic sales growth for both commercial aftermarket and defense markets. There was also higher inventory purchase accounting adjustments partially offset by lower acquisition integration costs and lower stock compensation expense as shown in the table above.

Gross profit as a percentage of sales increased by 1.2 percentage points to 54.6% for the thirteen week period ended December 31, 2016 from 53.4% for the thirteen week period ended January 2, 2016. The dollar amount of gross profit increased by \$69.7 million, or 18.6%, for the quarter ended December 31, 2016 compared to the comparable quarter last year due to the following items:

Gross profit on the sales from the acquisitions indicated above (excluding acquisition-related costs) was approximately \$50.4 million for the quarter ended December 31, 2016, which represented gross profit of approximately 57% of the acquisition sales.

Organic sales growth as described above, application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure, and providing highly engineered value-added products to customers) and positive leverage on our fixed overhead costs spread over a higher production volume resulted in a net increase in gross profit of approximately \$31.9 million for the quarter ended December 31, 2016. Slightly offsetting the increases in gross profit was the impact of higher inventory purchase accounting adjustments of \$13.8 million offset by lower acquisition integration costs of \$0.6 million and lower stock compensation expense of \$0.6 million for the quarter ended December 31, 2016.

Table of Contents

Selling and Administrative Expenses. Selling and administrative expenses increased by \$19.5 million to \$101.7 million, or 12.5% of sales, for the thirteen week period ended December 31, 2016 from \$82.2 million, or 11.7% of sales, for the thirteen week period ended January 2, 2016. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended December 31, 2016 and January 2, 2016 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | |
|---|-----------------------------|--------------------|---------|----------|
| | December 31, 2016 | January 2, 2016 | Change | % Change |
| Selling and administrative expenses - excluding costs below | \$ 91.2 | \$ 69.8 | \$ 21.4 | 30.7 % |
| % of total sales | 11.2 % | 9.9 % | | |
| Stock compensation expense | 9.0 | 9.1 | (0.1) | (1.1)% |
| % of total sales | 1.1 % | 1.3 % | | |
| Acquisition-related expenses | 1.5 | 3.3 | (1.8) | (54.5)% |
| % of total sales | 0.2 % | 0.5 % | | |
| Total selling and administrative expenses | \$ 101.7 | \$ 82.2 | \$ 19.5 | 23.7 % |
| % of total sales | 12.5 % | 11.7 % | | |

The increase in the dollar amount of selling and administrative expenses during the quarter ended December 31, 2016 is primarily due to higher selling and administrative expenses relating to recent acquisitions of approximately \$16.5 million, which was approximately 18.9% of the acquisition sales, slightly offset by lower acquisition-related expenses of \$1.8 million.

Amortization of Intangible Assets. Amortization of intangible assets was \$25.5 million for the quarter ended December 31, 2016 compared to \$16.3 million in the quarter ended January 2, 2016. The increase in amortization expense of \$9.2 million was primarily due to the amortization expense on the definite-lived intangible assets (i.e., technology and order backlog) recorded in connection with the fiscal 2016 acquisitions.

Refinancing Costs. Refinancing costs of \$32.1 million were recorded for the quarter ended December 31, 2016 representing debt issuance costs expensed in connection with the debt financing activity that occurred during the quarter ended December 31, 2016 as disclosed in Note 8, "Debt," to the condensed consolidated financial statements. Included within the \$32.1 million was approximately \$3.1 million in unamortized debt issuance costs that were written off. There were no refinancing costs recorded for the quarter ended January 2, 2016.

Interest Expense-net. Interest expense-net includes interest on outstanding borrowings, amortization of debt issuance costs and revolving credit facility fees slightly offset by interest income. Interest expense-net increased \$34.0 million, or 30.4%, to \$146.0 million for the quarter ended December 31, 2016 from \$112.0 million for the comparable quarter last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately \$11.0 billion for the quarter ended December 31, 2016 and approximately \$8.4 billion for the quarter ended January 2, 2016. The increase in weighted average level of borrowings was primarily due to the issuance of the 2026 Notes for \$950 million in June 2016, the incremental term loans of \$950 million in June 2016 and the additional net debt financing of \$641 million in the first fiscal quarter of 2017. The weighted average interest rate for cash interest payments on total borrowings outstanding at December 31, 2016 was 5.0%.

Income Taxes. Income tax expense as a percentage of income before income taxes was approximately 14.4% for the quarter ended December 31, 2016 compared to 21.1% for the quarter ended January 2, 2016. The Company's lower effective tax rate for the thirteen week period ended December 31, 2016 was primarily due to a higher discrete adjustment from the application of ASU 2016-09 (see Note 4, "Recent Accounting Pronouncements," to the condensed consolidated financial statements) as it pertains to the accounting treatment of excess tax benefits on equity compensation and foreign earnings taxed at lower rates than the U.S. statutory rate.

Net Income. Net income decreased \$10.5 million, or 8.2%, to \$118.9 million for the quarter ended December 31, 2016 compared to net income of \$129.4 million for the quarter ended January 2, 2016, primarily as a result of the factors referred to above.

Earnings per Share. Basic and diluted earnings per share was \$0.41 for the quarter ended December 31, 2016 and \$2.23 per share for the quarter ended January 2, 2016. Net income for the thirteen week period ended December 31, 2016 of \$118.9 million was decreased by an allocation of dividends on participating securities of \$96.0 million, or \$1.70 per share, resulting in net income available to common shareholders of \$22.9 million. Net income for the thirteen week period ended January 2, 2016 of \$129.4 million was decreased by an allocation of dividends on participating securities of \$3.0 million, or \$0.05 per share, resulting in net income available to common shareholders of \$126.4 million. The decrease in basic and diluted earnings per share of \$1.82 per share to \$0.41 per share is a result of the factors referred to above.

Table of Contents

Business Segments

Segment Net Sales. Net sales by segment for the thirteen week periods ended December 31, 2016 and January 2, 2016 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | | | |
|-----------------|-----------------------------|------------|-----------------|------------|---------|----------|
| | December 31, 2016 | | January 2, 2016 | | Change | % Change |
| | \$ | % of Sales | \$ | % of Sales | \$ | % |
| Power & Control | \$441.1 | 54.2 % | \$347.2 | 49.5 % | \$93.9 | 27.0 % |
| Airframe | 348.6 | 42.8 % | 331.1 | 47.2 % | 17.5 | 5.3 % |
| Non-aviation | 24.3 | 3.0 % | 23.4 | 3.3 % | 0.9 | 3.8 % |
| | \$814.0 | 100.0 % | \$701.7 | 100.0 % | \$112.3 | 16.0 % |

Acquisition sales for the Power & Control segment totaled \$87.5 million, or an increase of 25.2%, resulting from the acquisitions of Breeze-Eastern, DDC and Y&F/Tactair in fiscal year 2016. Organic sales increased \$6.4 million, or an increase of 1.8%, for the thirteen week period ended December 31, 2016 compared to the thirteen week period ended January 2, 2016. The organic sales increase resulted primarily from increases in commercial aftermarket sales (\$12.9 million, an increase of 11.4%) and defense sales (\$1.5 million, an increase of 1.2%) partially offset by a decrease in commercial OEM sales (\$8.2 million, a decrease of 8.6%).

Organic sales for the Airframe segment increased \$17.5 million, or an increase of 5.3%, for the thirteen week period ended December 31, 2016 compared to the thirteen week period ended January 2, 2016. The organic sales increase primarily resulted from increases in defense sales (\$18.3 million, an increase of 28.7%) and commercial OEM sales (\$3.5 million, an increase of 3.0%) partially offset by a decrease in commercial aftermarket sales (\$3.1 million, a decrease of 2.1%). There were no acquisition sales for the Airframe segment for the thirteen week period ended December 31, 2016.

EBITDA As Defined. EBITDA As Defined by segment for the thirteen week periods ended December 31, 2016 and January 2, 2016 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | | | |
|-----------------|-----------------------------|--------------------|-----------------|--------------------|--------|----------|
| | December 31, 2016 | | January 2, 2016 | | Change | % Change |
| | \$ | % of Segment Sales | \$ | % of Segment Sales | \$ | % |
| Power & Control | \$216.8 | 49.1 % | \$161.8 | 46.6 % | \$55.0 | 34.0 % |
| Airframe | 170.5 | 48.9 % | 155.1 | 46.8 % | 15.4 | 9.9 % |
| Non-aviation | 8.6 | 35.4 % | 6.4 | 27.4 % | 2.2 | 34.4 % |
| | \$395.9 | 48.6 % | \$323.3 | 46.1 % | \$72.6 | 22.5 % |

EBITDA As Defined for the Power & Control segment from the acquisitions of Breeze-Eastern, DDC and Y&F/Tactair in fiscal year 2016 was approximately \$35.4 million for the thirteen week period ended December 31, 2016. Organic EBITDA As Defined increased approximately \$19.6 million, or an increase of 12.1%, resulting from organic sales growth, application of our three core value-driven operating strategies, and positive leverage on our fixed overhead costs spread over a higher production volume.

Organic EBITDA As Defined for the Airframe segment increased approximately \$15.4 million, or an increase of 9.9%, for the thirteen week period ended December 31, 2016 resulting from organic sales growth, application of our three core value-driven operating strategies, and positive leverage on our fixed overhead costs spread over a higher production volume. There was no EBITDA As Defined from acquisitions for the Airframe segment for the thirteen week period ended December 31, 2016.

Backlog

As of December 31, 2016, the Company estimated its sales order backlog at \$1,569 million compared to an estimated sales order backlog of \$1,444 million as of January 2, 2016. The increase in backlog is primarily due to acquisitions. The majority of the purchase orders outstanding as of December 31, 2016 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the

Company's receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company's backlog as of December 31, 2016 may not necessarily represent the actual amount of shipments or sales for any future period.

28

Table of Contents

Foreign Operations

Although we manufacture a significant portion of our products in the United States, we manufacture some products in Belgium, China, Germany, Hungary, Malaysia, Mexico, Norway, Sri Lanka, Sweden, and the United Kingdom. We sell our products in the United States as well as in foreign countries. Although the majority of sales of our products are made to customers (including distributors) located in the United States, our products are ultimately sold to and used by customers, including airlines and other end users of aircraft, throughout the world. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments' countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

Liquidity and Capital Resources

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage both to optimize our equity return and to pursue acquisitions. At this time, we expect to meet our current debt obligations as they come due through internally generated funds from current levels of operations and/or through refinancing in the debt markets prior to the maturity dates of our debt. We continually evaluate our debt facilities to assess whether they most efficiently and effectively meet the current and future needs of our business. The Company evaluates from time to time the appropriateness of its current leverage, taking into consideration the Company's debt holders, equity holders, credit ratings, acquisition opportunities and other factors.

As a result of the new debt financing in first quarter of fiscal 2017, interest payments will increase going forward in line with the terms of the related debt agreements. However, in connection with the continued application of our three core value-driven operating strategies (obtaining profitable new business, continually improving our cost structure and providing highly engineered value-added products to customers), we expect our efforts will continue to generate strong margins and provide more than sufficient cash provided by operating activities to meet our liquidity needs. We believe our cash provided by operating activities and available borrowing capacity will enable us to make opportunistic investments in our own stock, make strategic business combinations and/or pay dividends to our shareholders.

Operating Activities. The Company generated \$225.8 million of net cash from operating activities during the thirteen week period ended December 31, 2016 compared to \$178.7 million during the thirteen week period ended January 2, 2016. The net increase of \$47.1 million is primarily attributable to items adjusting net income for non-cash expenses and income of \$38.4 million, and favorable changes in trade accounts receivable, inventories, and accounts payable of \$69.9 million, net. Partially offsetting the increases were higher interest payments of \$65.0 million.

The change in accounts receivable during the thirteen week period ended December 31, 2016 was source of cash of \$59.8 million compared to a source of cash of \$14.4 million during the thirteen week period ended January 2, 2016. The additional source of cash of \$45.4 million is attributable to the higher rate of collection of accounts receivable offset by a stronger sales volume in the latter half of the first quarter fiscal 2017 compared to the first quarter fiscal 2016.

The change in inventories during the thirteen week period ended December 31, 2016 was source of cash of \$8.4 million compared to a use of cash of \$14.1 million during the thirteen week period ended January 2, 2016. The additional source of cash of \$22.5 million is primarily attributable to stronger sales volume in the latter half of the first quarter fiscal 2017 compared to the first quarter fiscal 2016 and increased monitoring of inventory management.

Investing Activities. Net cash used in investing activities was \$51.8 million during the thirteen week period ended December 31, 2016 consisting of capital expenditures of \$21.8 million and the cash settlement of the Breeze dissenting shares litigation for \$28.7 million. Additional investing activities consisted of a favorable working capital settlement of \$1.4 million for the DDC acquisition and an unfavorable working capital settlement of \$2.7 million for

the Y&F/Tactair acquisition, respectively.

Net cash used in investing activities was comprised of capital expenditures of \$10.2 million during the thirteen week period ended January 2, 2016.

Financing Activities. Net cash used in financing activities during the thirteen week period ended December 31, 2016 was \$784.7 million, which was primarily comprised of net proceeds from the 2017 term loans of \$1,132.8 million and \$3.6 million in proceeds from stock option exercises. These increases were offset by the payment of a \$24.00 per share special dividend and dividend equivalent payments aggregating to \$1,376.0 million, redemption and related premium paid on the 2021 Notes aggregating to \$528.8 million and \$16.2 million in debt service payments on the existing term loans.

Table of Contents

Net cash used in financing activities during the thirteen week period ended January 2, 2016 was \$75.9 million, which primarily was comprised of \$70.8 million in treasury stock purchases under the Company's share repurchase program, debt service payments of \$11.0 million, and \$3.0 million of dividend equivalent payments. Slightly offsetting these uses in cash was \$8.9 million in proceeds from stock option exercises.

Description of Senior Secured Credit Facilities and Indentures

Senior Secured Credit Facilities

On June 9, 2016, TD Group and certain subsidiaries of TransDigm entered into Amendment No. 1 to the Second Amended and Restated Credit Agreement (the "Credit Agreement"). Refer to Note 11, "Debt," to the consolidated financial statements included within our Annual Report on Form 10-K for further information regarding the tranche F term loans, the conversion of a portion of the existing tranche C term loans to tranche F, the repricing of the tranche E terms loans and amendment to the revolving commitments.

TransDigm has \$6,423 million in fully drawn term loans (the "Term Loans Facility") and a \$600 million revolving credit facility. The Term Loans Facility consists of four tranches of term loans as follows (aggregate principal amount disclosed is as of December 31, 2016):

| Term Loans Facility | Aggregate Principal | Maturity Date | Interest Rate |
|---------------------|---------------------|-------------------|----------------------------------|
| Tranche C | \$1,225 million | February 28, 2020 | LIBO rate ⁽¹⁾ + 3.00% |
| Tranche D | \$804 million | June 4, 2021 | LIBO rate ⁽¹⁾ + 3.00% |
| Tranche E | \$1,515 million | May 14, 2022 | LIBO rate ⁽¹⁾ + 3.00% |
| Tranche F | \$2,879 million | June 9, 2023 | LIBO rate ⁽¹⁾ + 3.00% |

(1) LIBO rate is subject to a floor of 0.75%.

The Term Loans Facility requires quarterly aggregate principal payments of \$16.2 million. The revolving commitments consist of one tranche which includes up to \$100 million of multicurrency revolving commitments. At December 31, 2016, the Company had \$16 million in letters of credit outstanding and \$584 million in borrowings available under the revolving commitments.

The interest rates per annum applicable to the loans under the Credit Agreement will be, at TransDigm's option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The adjusted LIBO rate is subject to a floor of 0.75%. For the thirteen week period ended December 31, 2016, the applicable interest rates ranged from approximately 3.75% to 3.84% on the existing term loans.

Under the terms of the Credit Agreement, TransDigm is entitled, on one or more occasions, to request additional term loans to the extent that the existing or new lenders agree to provide such incremental term loans provided that, among other conditions, our consolidated net leverage ratio would be no greater than 7.25 to 1.00 and the consolidated secured net debt ratio would be no greater than 4.25 to 1.00, in each case, after giving effect to such incremental term loans.

The Credit Agreement requires mandatory prepayments of principal based on certain percentages of Excess Cash Flow (as defined in the Credit Agreement), commencing 90 days after the end of each fiscal year, subject to certain exceptions. In addition, subject to certain exceptions (including, with respect to asset sales, the reinvestment in productive assets), TransDigm will be required to prepay the loans outstanding under the Credit Agreement at 100% of the principal amount thereof, plus accrued and unpaid interest, with the net cash proceeds of certain asset sales and issuance or incurrence of certain indebtedness. No matters mandating prepayments occurred during the quarter ended December 31, 2016.

Interest rate swaps and caps used to hedge and offset, respectively, the variable interest rates on the credit facility are described in Note 11, "Derivatives and Hedging Activities" to the condensed consolidated financial statements included herein.

On October 14, 2016, the Company entered into the Assumption Agreement with Credit Suisse AG, as administrative agent and collateral agent, and as a lender, in connection with the 2016 term loans. The Assumption Agreement, among other things, provides for (i) additional tranche F term loans in an aggregate principal amount equal to \$650 million, which were fully drawn on October 14, 2016, and (ii) additional delayed draw tranche F term loans in an

aggregate principal amount not to exceed \$500 million, which were fully drawn on October 27, 2016, the proceeds of which were used to repurchase its 2021 Notes in connection the tender offer announced on October 13, 2016. The terms and conditions that apply to the Additional Tranche F Term Loans are substantially the same as the terms and conditions that apply to the Tranche F Term Loans under the 2016 term loans immediately prior to the Assumption Agreement.

30

Table of Contents

Indentures

| Senior Subordinated Notes | Aggregate Principal | Maturity Date | Interest Rate |
|---------------------------|---------------------|------------------|---------------|
| 2020 Notes | \$550 million | October 15, 2020 | 5.50% |
| 2022 Notes | \$1,150 million | July 15, 2022 | 6.00% |
| 2024 Notes | \$1,200 million | July 15, 2024 | 6.50% |
| 2025 Notes | \$450 million | May 15, 2025 | 6.50% |
| 2026 Notes | \$950 million | June 15, 2026 | 6.375% |

The 2020 Notes, the 2022 Notes, the 2024 Notes, the 2025 Notes and the 2026 Notes (the “Notes”) were issued at an issue price of 100% of the principal amount. Such notes do not require principal payments prior to their maturity. Interest under the Notes is payable semi-annually. The Notes represent unsecured obligations of TransDigm Inc. ranking subordinate to TransDigm Inc.’s senior debt, as defined in the applicable Indentures.

The Notes are subordinated to all of TransDigm’s existing and future senior debt, rank equally with all of its existing and future senior subordinated debt and rank senior to all of its future debt that is expressly subordinated to the Notes. The Notes are guaranteed on a senior subordinated unsecured basis by TD Group and its wholly-owned domestic subsidiaries named in the indentures. The guarantees of the Notes are subordinated to all of the guarantors’ existing and future senior debt, rank equally with all of their existing and future senior subordinated debt and rank senior to all of their future debt that is expressly subordinated to the guarantees of the Notes. The Notes are structurally subordinated to all of the liabilities of TD Group’s non-guarantor subsidiaries. The Notes contain many of the restrictive covenants included in the 2014 Term Loans. TransDigm is in compliance with all the covenants contained in the Notes.

During the quarter ended December 31, 2016, the Company cash tendered all of its 2021 Notes outstanding with a portion of the proceeds received from the Incremental Term Loan Assumptions Agreement.

Certain Restrictive Covenants in Our Debt Documents

The Credit Agreement and the Indentures governing the Notes contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and prepayments of other indebtedness.

Pursuant to the Credit Agreement and subject to certain conditions, TransDigm was permitted to make certain additional restricted payments, including to declare or pay dividends or repurchase stock, in an aggregate amount not to exceed \$1,500 million on or prior to December 31, 2016. Subsequent to December 31, 2016, the aggregate amount of restricted payments remaining, not to exceed \$500 million, may be made solely to the extent that the proceeds are used to repurchase stock. The total restricted payments, as described above, made prior to December 31, 2016 totaled \$1,326 million (all related to the special dividend payment and dividend equivalent payments). The remaining \$50 million in dividend equivalent payments made in the quarter ended December 31, 2016 was applied against allowable restricted payments that carried over from previous years under our Credit Agreement.

In addition, under the Credit Agreement, if the usage of the revolving credit facility exceeds 25% of the total revolving commitments, the Company will be required to maintain a maximum consolidated net leverage ratio of net debt, as defined, to trailing four-quarter EBITDA As Defined. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the Credit Agreement or the Indentures.

If any such default occurs, the lenders under the Credit Agreement and the holders of the Notes may elect to declare all outstanding borrowings, together with accrued interest and other amounts payable thereunder, to be immediately due and payable. The lenders under the Credit Agreement also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, following an event of default under the Credit Agreement, the lenders thereunder will have the right to proceed against the collateral granted to them to secure the debt, which includes our available cash, and they will also have the right to prevent us from making debt service payments on the Notes.

As of December 31, 2016, the Company was in compliance with all of its debt covenants.

Trade Receivables Securitization

During fiscal 2014, the Company established a trade accounts receivable securitization facility (the “Securitization Facility”). The Securitization Facility effectively increases the Company’s borrowing capacity depending on the amount

of the Company's domestic operations' trade accounts receivable. The Securitization Facility includes the right for the Company to exercise annual one year extensions as long as there have been no termination events as defined by the agreement. The Company uses the proceeds from the Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs. In

31

Table of Contents

August 2015, the Company increased the borrowing capacity from \$225 million to \$250 million in connection with amending the Securitization Facility. In August 2016, the Company amended the Securitization Facility to extend the maturity date to August 1, 2017. As of December 31, 2016, the Company has borrowed \$200 million under the Securitization Facility. The Securitization Facility is collateralized by substantially all of the Company's domestic operations' trade accounts receivable.

Stock Repurchase Program

On January 21, 2016, our Board of Directors authorized a stock repurchase program permitting us to repurchase a portion of our outstanding shares not to exceed \$450 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures. No repurchases were made under the program during the quarter ended December 31, 2016.

On January 26, 2017, our Board of Directors increased the authorized amount of repurchases allowable under the stock program from \$450 million to \$472 million. The \$22 million increase in the repurchases allowable under the stock repurchase program aligns the program with the restricted payments allowable under the Credit Agreement. During January 2017, Company repurchased 666,755 shares of its common stock at a gross cost of approximately \$150.0 million at the weighted-average price per share of \$224.97 under the \$450 million stock repurchase program. As of February 8, 2017, the remaining amount of repurchases allowable under the \$472 million program was \$212.9 million subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing notes.

Non-GAAP Financial Measures

We present below certain financial information based on our EBITDA and EBITDA As Defined. References to "EBITDA" mean earnings before interest, taxes, depreciation and amortization, and references to "EBITDA As Defined" mean EBITDA plus, as applicable for each relevant period, certain adjustments as set forth in the reconciliations of net income to EBITDA and EBITDA As Defined and the reconciliations of net cash provided by operating activities to EBITDA and EBITDA As Defined presented below.

Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under accounting principles generally accepted in the United States of America ("GAAP"). We present EBITDA and EBITDA As Defined because we believe they are useful indicators for evaluating operating performance and liquidity.

Our management believes that EBITDA and EBITDA As Defined are useful as indicators of liquidity because securities analysts, investors, rating agencies and others use EBITDA to evaluate a company's ability to incur and service debt. In addition, EBITDA As Defined is useful to investors because the revolving credit facility under our senior secured credit facility requires compliance under certain circumstances, on a pro forma basis, with a financial covenant that measures the ratio of the amount of our secured indebtedness to the amount of our Consolidated EBITDA defined in the same manner as we define EBITDA As Defined herein.

In addition to the above, our management uses EBITDA As Defined to review and assess the performance of the management team in connection with employee incentive programs and to prepare its annual budget and financial projections. Moreover, our management uses EBITDA As Defined to evaluate acquisitions.

Although we use EBITDA and EBITDA As Defined as measures to assess the performance of our business and for the other purposes set forth above, the use of these non-GAAP financial measures as analytical tools has limitations, and you should not consider any of them in isolation, or as a substitute for analysis of our results of operations as reported in accordance with GAAP. Some of these limitations are:

- neither EBITDA nor EBITDA As Defined reflects the significant interest expense, or the cash requirements necessary to service interest payments, on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and neither EBITDA nor EBITDA As Defined reflects any cash requirements for such replacements;
- the omission of the substantial amortization expense associated with our intangible assets further limits the usefulness of EBITDA and EBITDA As Defined;
- neither EBITDA nor EBITDA As Defined includes the payment of taxes, which is a necessary element of our operations; and

EBITDA As Defined excludes the cash expense we have incurred to integrate acquired businesses into our operations, which is a necessary element of certain of our acquisitions.

Because of these limitations, EBITDA and EBITDA As Defined should not be considered as measures of discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by not viewing EBITDA

Table of Contents

or EBITDA As Defined in isolation and specifically by using other GAAP measures, such as net income, net sales and operating profit, to measure our operating performance. Neither EBITDA nor EBITDA As Defined is a measurement of financial performance under GAAP, and neither should be considered as an alternative to net income or cash flow from operations determined in accordance with GAAP. Our calculation of EBITDA and EBITDA As Defined may not be comparable to the calculation of similarly titled measures reported by other companies.

The following table sets forth a reconciliation of net income to EBITDA and EBITDA As Defined (in thousands):

| | Thirteen Week Periods Ended | |
|--|--------------------------------|--------------------|
| | December 31, 2016 | January 2, 2016 |
| | (in thousands) | |
| Net income | \$ 118,871 | \$ 129,441 |
| Adjustments: | | |
| Depreciation and amortization expense | 38,048 | 26,201 |
| Interest expense, net | 146,004 | 111,983 |
| Income tax provision | 20,050 | 34,617 |
| EBITDA | 322,973 | 302,242 |
| Adjustments: | | |
| Inventory purchase accounting adjustments ⁽¹⁾ | 16,578 | 2,802 |
| Acquisition integration costs ⁽²⁾ | 1,110 | 4,352 |
| Acquisition transaction-related expenses ⁽³⁾ | 880 | 71 |
| Non-cash stock compensation expense ⁽⁴⁾ | 10,020 | 10,681 |
| Refinancing costs ⁽⁵⁾ | 32,084 | — |
| Other, net ⁽⁶⁾ | 1,305 | (735) |
| EBITDA As Defined | \$ 384,950 | \$ 319,413 |

(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.

(2) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.

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

(5) For the period ended December 31, 2016, represents debt issuance costs expensed in conjunction with the incremental term loan (tranche F) and refinancing of the 2021 Notes.

(6) Primarily represents foreign currency transaction gain or loss on intercompany loans to be settled, gain or loss on sale of fixed assets and payroll withholding taxes related to dividend equivalent payments.

Table of Contents

The following table sets forth a reconciliation of net cash provided by operating activities to EBITDA and EBITDA As Defined (in thousands):

| | Thirteen Week Periods Ended | |
|---|--------------------------------|--------------------|
| | December 31, 2016 | January 2, 2016 |
| | (in thousands) | |
| Net cash provided by operating activities | \$225,791 | \$178,669 |
| Adjustments: | | |
| Changes in assets and liabilities, net of effects from acquisitions of businesses | (27,204) | (7,913) |
| Interest expense, net ⁽¹⁾ | 141,384 | 108,151 |
| Income tax provision - current | 20,543 | 34,016 |
| Non-cash stock compensation expense ⁽²⁾ | (10,020) | (10,681) |
| Refinancing costs ⁽⁶⁾ | (32,084) | — |
| Other, net ⁽⁸⁾ | 4,563 | — |
| EBITDA | 322,973 | 302,242 |
| Adjustments: | | |
| Inventory purchase accounting adjustments ⁽³⁾ | 16,578 | 2,802 |
| Acquisition integration costs ⁽⁴⁾ | 1,110 | 4,352 |
| Acquisition transaction-related expenses ⁽⁵⁾ | 880 | 71 |
| Non-cash stock compensation expense ⁽²⁾ | 10,020 | 10,681 |
| Refinancing costs ⁽⁶⁾ | 32,084 | — |
| Other, net ⁽⁷⁾ | 1,305 | (735) |
| EBITDA As Defined | \$384,950 | \$319,413 |

(1) Represents interest expense excluding the amortization of debt issuance costs 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.

(4) Represents costs incurred to integrate acquired businesses and product lines into TD Group's operations, facility relocation costs and other acquisition-related costs.

(5) Represents transaction-related costs comprising deal fees; legal, financial and tax due diligence expenses; and valuation costs that are required to be expensed as incurred.

(6) For the period ended December 31, 2016, represents debt issuance costs expensed in conjunction with the incremental term loan (tranche F) and refinancing of the 2021 Notes.

(7) Primarily represents foreign currency transaction gain or loss on intercompany loans to be settled, gain or loss on sale of fixed assets and payroll withholding taxes related to dividend equivalent payments.

(8) Represents the recognition of deferred revenue, the release of customer advances and amortization of the redesignated interest rate cap agreements discussed in Note 11, "Derivatives and Hedging Activity."

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with GAAP, which often requires the judgment of management in the selection and application of certain accounting principles and methods. Management believes that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions.

A summary of our significant accounting policies and estimates is included in the Annual Report on Form 10-K for the year ended September 30, 2016. There have been no significant changes to our critical accounting policies during the thirteen week period ended December 31, 2016. Refer to Note 4, "Recent Accounting Pronouncements," for a discussion of accounting standards recently adopted or required to be adopted in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information called for by this item is provided under the caption 'Description of Senior Secured Credit Facilities and Indentures' under Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

34

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2016, TD Group carried out an evaluation, under the supervision and with the participation of TD Group's management, including its Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) and Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer), of the effectiveness of the design and operation of TD Group's disclosure controls and procedures. Based upon that evaluation, the Chairman of the Board of Directors and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that TD Group's disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to TD Group's management, including its Chairman of the Board of Directors and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures. There have been no significant changes in TD Group's internal controls or other factors that could significantly affect the internal controls subsequent to the date of TD Group's evaluations.

Changes in Internal Control over Financial Reporting

There have been no changes to our internal controls over financial reporting that could have a material effect on our financial reporting during the quarter ended December 31, 2016.

PART II: OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, filed on November 15, 2016. There have been no material changes to the risk factors set forth therein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS: PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On January 21, 2016, our Board of Directors authorized a stock repurchase program permitting us to repurchase a portion of our outstanding shares not to exceed \$450 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures. No repurchases were made under the program during the quarter ended December 31, 2016. Under the stock repurchase program, as of December 31, 2016, the Company had repurchased 563,200 shares of its common stock at a gross cost of approximately \$109.1 million at a weighted-average price per share of \$193.67.

On January 26, 2017, our Board of Directors increased the authorized amount of repurchases allowable under the stock program from \$450 million to \$472 million. The \$22 million increase in the repurchases allowable under the stock repurchase program aligns the program with the restricted payments allowable under the Credit Agreement. During January 2017, Company repurchased 666,755 shares of its common stock at a gross cost of approximately \$150.0 million at the weighted-average price per share of \$224.97 under the \$450 million stock repurchase program. As of February 8, 2017, the remaining amount of repurchases allowable under the \$472 million program was \$212.9 million subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing notes.

Table of Contents

ITEM 6. EXHIBITS

- 4.1 Ninth Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 4.2 Seventh Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 4.3 Sixth Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 4.4 Sixth Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 4.5 Fifth Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 4.6 Second Supplemental Indenture, dated as of October 28, 2016, among TransDigm Inc., TransDigm Group Incorporated, the guarantors listed on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to 10-K filed November 15, 2016)
- 10.1 Amended and Restated Employment Agreement, dated December 14, 2016, between TransDigm Group Incorporated and Kevin Stein* (incorporated by reference to 8-K filed December 15, 2016)
- 10.2 Amended and Restated Employment Agreement, dated December 14, 2016, between TransDigm Group Incorporated and Robert Henderson* (incorporated by reference to 8-K filed December 15, 2016)
- 10.3 Second Amendment to Employment Agreement, dated November 11, 2016, between TransDigm Group Incorporated and Terrance Paradie* (incorporated by reference to 8-K filed November 15, 2016)
- 10.4 Fourth Amendment to Employment Agreement, dated November 11, 2016, between TransDigm Group Incorporated and Bernt Iversen* (incorporated by reference to 8-K filed November 15, 2016)
- 10.5 Incremental Term Loan Assumption Agreement, dated as of October 14, 2016, among TransDigm Inc., as borrower, TransDigm Group Incorporated, as a guarantor, the subsidiary guarantors party thereto, Credit Suisse AG, as administrative agent and collateral agent, and as a lender. (incorporated by reference to 8-K filed October 14, 2016)
- 10.6 Stock Option Agreement for options awarded in fiscal 2017* (filed herewith)
- 10.7 Stock Option Grant Notice and Stock Option Agreement dated November 10, 2016 between TransDigm Group Incorporated and W. Nicholas Howley (annual equity award)* (filed herewith)
- 10.8 Stock Option Grant Notice and Stock Option Agreement dated November 10, 2016 between TransDigm Group Incorporated and W. Nicholas Howley (equity award in lieu of fiscal 2016 bonus and calendar 2017 salary)* (filed herewith)
- 31.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2

Edgar Filing: TransDigm Group INC - Form 10-Q

Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL

*Denotes management contract or compensatory plan or arrangement.

36

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSDIGM GROUP INCORPORATED

| SIGNATURE | TITLE | DATE |
|--|---|------------------|
| /s/ W. Nicholas Howley W. Nicholas Howley | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | February 8, 2017 |
| /s/ Terrance M. Paradie Terrance M. Paradie | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | February 8, 2017 |

Table of Contents

EXHIBIT INDEX
TO FORM 10-Q FOR THE PERIOD ENDED DECEMBER 31, 2016

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| 10.6 | Stock Option Agreement for options awarded in fiscal 2017* (filed herewith) |
| 10.7 | Stock Option Grant Notice and Stock Option Agreement dated November 10, 2016 between TransDigm Group Incorporated and W. Nicholas Howley (annual equity award)* (filed herewith) |
| 10.8 | Stock Option Grant Notice and Stock Option Agreement dated November 10, 2016 between TransDigm Group Incorporated and W. Nicholas Howley (equity award in lieu of fiscal 2016 bonus and calendar 2017 salary)* (filed herewith) |
| 31.1 | Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Financial Statements and Notes to the Condensed Consolidated Financial Statements formatted in XBRL |

*Denotes management contract or compensatory plan or arrangement.