Risk Factors Comparison 2023-11-09 to 2022-11-10 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

Set forth below are material risks and uncertainties that could negatively affect our business and financial condition and could cause our actual results to differ materially from those expressed in forward- looking statements contained in this report. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations and financial condition. **You should not interpret the disclosure of any risk factor to imply that the risk has not already materialized.** Risks Related to our Strategy ~~We face risks related to the current COVID- 19 pandemic and other health pandemics, epidemics and outbreaks. The COVID- 19 pandemic is continuing to cause an adverse impact on our employees, operations, supply chain and distribution system and the long- term impact to our business remains unknown. This is due to the numerous uncertainties that have risen from the pandemic, including the likelihood of resurgences and the emergence and spread of variants, actions that may be taken by governmental authorities in response to the disease, the continued efficacy and public acceptance of vaccines, and unintended consequences of the foregoing. The commercial aerospace industry, in particular, has been significantly disrupted, both domestically and internationally, by the pandemic. The pandemic has resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, " shelter in place " and " stay at home " orders, travel restrictions, business curtailments and other measures. As a result, demand for travel declined at a rapid pace beginning in the second half of fiscal 2020 and has remained depressed compared to pre- pandemic levels. The COVID- 19 pandemic has also disrupted the global supply chain and availability of raw materials, particularly electronic parts. The disruption in the supply chain has resulted in increased freight costs, raw material costs and labor costs from the ongoing inflationary environment. Our business has been adversely affected and could continue to be adversely affected by disruptions in our ability to timely obtain raw materials and components from our suppliers in the quantities we require or on favorable terms. Although we believe in most cases that we could identify alternative suppliers, or alternative raw materials or component parts, the lengthy and expensive aviation authority and OEM certification processes associated with aerospace products could prevent efficient replacement of a supplier, raw material or component part. Because the duration of the pandemic is unclear, it is difficult to forecast a precise impact on the Company' s future results. We will continue to evaluate the nature and extent to which COVID- 19 will impact our business, supply chain, consolidated results of operations, financial condition, and liquidity.~~ Our business focuses almost exclusively on the aerospace and defense industry. During a prolonged period of significant market disruption in the aerospace and defense industry, such as the adverse impact that the COVID- 19 pandemic ~~has~~ had ~~and is expected to continue to have~~ on the commercial aerospace market, and other macroeconomic factors such as when recessions occur, our business may be disproportionately impacted compared to peer companies that are more diversified in the industries they serve. A more diversified company with significant sales and earnings derived from outside the aerospace and defense sector may be able to recover more quickly from significant market disruptions such as the COVID- 19 pandemic. We rely heavily on certain customers for much of our sales. In fiscal year ~~2022~~ **2023** , no customer individually accounted for 10 % or more of the Company' s net sales; however, our top ten customers for fiscal year ~~2022~~ **2023** accounted for approximately 41 % of our net sales. A material reduction in purchasing by one of our larger customers for any reason, including but not limited to ~~the COVID- 19 pandemic,~~ general economic or aerospace ~~downturn~~ **downturns** , decreased production, strike or resourcing, could have a material adverse effect on results of operations, financial position and cash flows. We generally do not have guaranteed future sales of our products. Further, when we enter into fixed price contracts with some of our customers, we take the risk for cost overruns. As is customary in our business, we do not generally have long- term contracts with most of our aftermarket customers and, therefore, do not have guaranteed future sales. Although we have long- term contracts with many of our OEM customers, many of those customers may terminate the contracts on short notice and, in most cases, our customers have not committed to buy any minimum quantity of our products. In addition, in certain cases, we must anticipate the future volume of orders based upon the historic purchasing patterns of customers and upon our discussions with customers as to their anticipated future requirements, and this anticipated future volume of orders may not materialize. We also have entered into multi- year, fixed- price contracts with some of our customers, pursuant to which we have agreed to perform the work for a fixed price and, accordingly, realize all the benefit or detriment resulting from any decreases or increases in the costs of making these products. This risk is greater in a high inflationary environment, such as currently. Sometimes we accept a fixed- price contract for a product that we have not yet produced, and this increases the risk of cost overruns or delays in the completion of the design and manufacturing of the product. Most of our contracts do not permit us to recover increases in raw material prices, taxes or labor costs. We intend to pursue acquisitions. Our business may be adversely affected if we cannot consummate acquisitions on satisfactory terms, or if we cannot effectively integrate acquired operations. A significant portion of our growth has occurred through acquisitions. Any future growth through acquisitions will be partially dependent upon the continued availability of suitable acquisition candidates at favorable prices and upon advantageous terms and conditions. We intend to pursue acquisitions that we believe will present opportunities consistent with our overall business strategy. However, we may not be able to find suitable acquisition candidates to purchase or may be unable to acquire desired businesses or assets on economically acceptable terms or may be unable to receive necessary regulatory approvals or support. In addition, we may not be able to raise the capital necessary to fund future acquisitions. Because we may actively pursue a number of opportunities simultaneously, we may encounter unforeseen expenses, complications and delays, including regulatory complications or difficulties in employing sufficient staff and maintaining operational and management oversight. We regularly engage in discussions with respect to potential acquisition and investment opportunities. If we consummate an acquisition, our capitalization and results of operations may change significantly. Future acquisitions could result in margin dilution and further likely result in the incurrence of additional debt and contingent liabilities and an increase in interest and amortization expenses or periodic impairment charges related to goodwill and other intangible assets as well as significant charges relating to integration costs. Acquisitions involve risks that the businesses acquired will not perform in accordance with expectations and that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove incorrect. In addition, we may not be able to successfully integrate any business we acquire into our existing business. The successful integration of new businesses, with the most significant recent acquisition being the ~~DART Aerospace~~ **Calspan Corporation (" Calspan ")** acquisition in the third quarter of fiscal ~~2022~~ **2023**, depends on our ability to manage these new businesses and cut excess costs. The successful integration of future acquisitions may also require substantial attention from our senior management and the management of the acquired business, which could decrease the time that they have to service, attract customers and develop new products and services or attend to other acquisition opportunities. Our indebtedness could adversely affect our financial health and could harm our ability to react to changes to our business and prevent us from fulfilling our obligations under our indebtedness. We have a significant amount of indebtedness. As of September 30, ~~2022~~ **2023**, our total indebtedness, excluding approximately $ ~~31~~ **51** million in letters of credit outstanding **, approximately $ 193 million of finance lease obligation liabilities and approximately $ 21 million of government refundable advances**, was approximately $ 20 billion, which was **approximately 111** ~~123. 5~~ % of our total book capitalization. In addition, we may be able to incur substantial additional indebtedness in the future. As of September 30, ~~2022~~ **2023**, we had approximately $ ~~779~~ **759** million of unused commitments under our revolving credit facility **and $ 100 million of additional borrowing capacity under our trade receivable securitization facility (the " Securitization Facility ")**. Although our senior secured credit facility and the indentures governing the various **series of** senior secured and senior subordinated notes outstanding (the " ~~Indentures~~ **Notes** ") contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these qualifications and exceptions could be substantial. A breach of any of the covenants or an inability to comply with the required leverage ratio could result in a default under the senior secured credit facility or the ~~Indentures~~ **indentures**. An increase in our indebtedness could also have other important consequences to investors. For example, it could: • increase our vulnerability to general economic downturns and adverse competitive and industry conditions; • increase the risk we are subjected to downgrade or put on a negative watch by the ratings agencies; • require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital requirements, capital expenditures, acquisitions, research and development efforts and other general corporate requirements; • limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; • place us at a competitive disadvantage compared to competitors that have less debt; and • limit, along with the financial and other restrictive covenants contained in the documents governing our indebtedness, among other things, our ability to borrow additional funds, make investments and incur liens. All of our debt under the senior secured credit facility, which includes $ ~~7~~ **6**. ~~3~~ **2** billion in term loans and a revolving credit facility of $ 810 million, **and the Securitization Facility** bears interest at variable rates primarily based on the ~~London interbank offered~~ **Term Secured Overnight Financing** ~~rate~~ **Rate** (" ~~LIBOR~~ **Term SOFR** ") ~~for deposits of U. S. dollars~~. Accordingly, if ~~LIBOR~~ **Term SOFR** or other variable interest rates increase, our debt service expense will also increase. In order to mitigate the interest rate risk of these variable rate borrowings, we **have in the past** entered into interest rate swap ~~and~~ **,** cap **, and collar** agreements that cover a significant portion of the existing variable rate debt **and may do so in the future, subject to market and other conditions. In connection with our term loans, we entered into various interest rate swap, cap and collar agreements associated with Term SOFR**. The Company' s objective is to maintain an allocation of at least 75 % fixed rate and 25 % variable rate debt thereby limiting its exposure to changes in near- term interest rates. As of September 30, ~~2022~~ **2023**, approximately ~~85~~ **90** % of our total debt was fixed rate. For information about our interest rate swap ~~and~~ **,** cap **and collar** agreements, refer to Note 21, " Derivatives and Hedging Instruments, " in the notes to the consolidated financial statements included herein ~~. In July 2017, the U. K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The discontinuation date for submission and publication of rates for the remaining tenors of USD LIBOR (one- month, three- month, six- month and twelve- month) was subsequently extended by the ICE Benchmark Administration (the administrator of LIBOR) until June 30, 2023. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2023. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become acceptable alternatives to LIBOR, or what effect these changes in views or alternatives may have on financial markets for LIBOR- linked financial instruments. While the U. S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has chosen the secured overnight financing rate (" SOFR ") as the recommended risk- free reference rate for the U. S. (calculated based on repurchase agreements backed by treasury securities), we cannot currently predict the extent to which this index will gain widespread acceptance as a replacement for LIBOR. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates. In February 2020, in connection with Amendment No. 7 and the Refinancing Facility Agreement (herein, " Amendment No. 7 ") to the Second Amended and Restated Credit Agreement dated as of June 4, 2014 (the " Credit Agreement "), we amended our Credit Agreement to include a provision for the determination of an alternative reference interest rate. Additionally, with respect to our derivatives portfolio, we have elected the LIBOR protocols issued by the International Swaps and Derivatives Association, but the discontinuation of LIBOR may also require our derivative agreements to be amended in some way. Once the alternative interest rate has replaced LIBOR, our future interest expense could be impacted~~. Our indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness, including **debt under** the ~~Indentures~~ **senior secured credit facility and the Notes**. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the senior secured credit facility or otherwise in amounts sufficient to enable us to service our indebtedness. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital. To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control and any failure to meet our debt service obligations could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness, including the ~~Indentures~~ **Notes** , amounts borrowed under the senior secured credit facility, amounts due under our ~~trade receivable securitization facility (“~~Securitization Facility ~~”)~~ , and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the senior secured credit facility or otherwise in amounts sufficient to enable us to service our indebtedness, including the amounts borrowed under the senior secured credit facility, amounts borrowed under our Securitization Facility and the ~~Indentures~~ **Notes** , or to fund our other liquidity needs. If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt or seeking additional equity capital. We cannot assure that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, the Securitization Facility, the ~~Indentures~~ **indentures governing the Notes** and the senior secured credit facility may restrict us from adopting any of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms and ~~would~~ **could** otherwise adversely affect ~~the Indentures~~ **our business, financial condition and results of operations** . The terms of the senior secured credit facility and ~~Indentures~~ **indentures governing the Notes** may restrict our current and future operations, particularly our ability to respond to changes or to take certain actions. Our senior secured credit facility and the ~~Indentures~~ **indentures governing the Notes** contain a number of restrictive covenants that impose significant operating and financial restrictions on TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the ~~Indentures~~ **indentures**) and may limit their ability to engage in acts that may be in our long- term best interests. The senior secured credit facility and ~~Indentures~~ **indentures governing the Notes** include covenants restricting, among other things, the ability of TD Group, TransDigm Inc. and its subsidiaries (in the case of the senior secured credit facility) and TransDigm Inc. and its subsidiaries (in the case of the ~~Indentures~~ **indentures**) to: • incur or guarantee additional indebtedness or issue preferred stock; • pay distributions on, redeem or repurchase our capital stock or redeem or repurchase our subordinated debt; • make investments; • sell assets; • enter into agreements that restrict distributions or other payments from our restricted subsidiaries to us; • incur or allow to exist liens; • consolidate, merge or transfer all or substantially all of our assets; • engage in transactions with affiliates; • create unrestricted subsidiaries; and • engage in certain business activities. A breach of any of these covenants could result in a default under the senior secured credit facility or the ~~Indentures~~ **indentures governing the Notes** . If any such default occurs, the lenders under the senior secured credit facility and the holders of the ~~senior secured and senior subordinated notes~~ **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 senior secured credit facility also have the right in these circumstances to terminate any commitments they have to provide further borrowings. In addition, **subject to the terms of an intercreditor agreement,** following an event of default under the senior secured credit facility **or the indentures governing our various series of outstanding senior secured notes** , the lenders ~~under that facility~~ **thereunder or the holders thereof, as applicable,** 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 senior subordinated notes. If the debt under the senior secured credit facility or the ~~senior secured or subordinated notes~~ **Notes** were to be accelerated, we cannot assure that our assets would be sufficient to repay in full our debt. We are dependent on our executive officers, senior management team and highly trained employees and any work stoppage, difficulty hiring similar employees, or ineffective succession planning could adversely affect our business. Because our products are complicated and highly engineered, we depend on an educated and trained workforce. Historically, there has been substantial competition for skilled personnel in the aerospace and defense industry, and we could be adversely affected by a shortage of skilled employees. We may not be able to fill new positions or vacancies created by expansion or turnover or attract and retain qualified personnel. We cannot be assured that we can continue to hire, train and retain qualified employees at current wage rates since we operate in a competitive labor market, and there are currently significant inflationary and other pressures on wages. ~~Reduction in force actions, such as the actions primarily taken in fiscal 2020 and fiscal 2021 to reduce our workforce to align operations with customer demand as a result of the COVID- 19 pandemic, could result in difficulty in rehiring capable employees to refill the positions eliminated as needed once business recovers.~~ Although we believe that our relations with our employees are satisfactory, we cannot assure that we will be able to negotiate a satisfactory renewal of collective bargaining agreements or that our employee relations will remain stable. Because we strive to limit the volume of finished goods inventory, any work stoppage could materially and adversely affect our ability to provide products to our customers. In addition, our success depends in part on our ability to attract and motivate our senior management and key employees. Achieving this objective may be difficult due to a variety of factors, including fluctuations in economic and industry conditions, competitors’ hiring practices, and the effectiveness of our compensation programs. Competition for qualified personnel can be intense. If we are unable to effectively provide for the succession of key personnel, senior management and our executive officers, including our President, Chief Executive Officer and Director, our business, results of operations, cash flows and financial condition may be adversely affected. The Company' s Board of Directors continually monitors this risk and we believe that the Company' s succession plan, together with our straightforward strategy, clear value drivers, decentralized nature and the quality of managers running our operating units helps to mitigate this risk. **Public health crises, such as the COVID- 19 pandemic, and other health pandemics, epidemics and outbreaks could adversely affect our business. A significant public health crisis, such as the COVID- 19 pandemic, could cause disruption to our operations. The COVID- 19 pandemic had a negative effect on our business, results of operations, cash flows and financial condition. It affected our business due to the impact on the global economy, including its effects on the commercial aerospace industry, the supply chain and raw material availability, production efforts and customer demand for our products and services. Our ability to predict and respond to future changes resulting from potential health crises is uncertain. Even after a public health crises subsides, there may be long- term effects on our business practices and customers in economies in which we operate that could severely disrupt our operations and could have a material adverse effect on our business, results of operations, cash flows and financial condition. As we cannot predict the duration, scope or severity of future public health crises, the negative financial impact to our results cannot be reasonably estimated and could be material.** Risks Related to our Operations Our sales to manufacturers of aircraft are cyclical, and a downturn in sales to these manufacturers may adversely affect us. Our sales to manufacturers of large commercial aircraft, such as Boeing, Airbus, and related OEM suppliers, as well as manufacturers of business jets have historically experienced periodic downturns. In the past, these sales have been affected by airline profitability, which is impacted by, among other things, fuel and labor costs, price competition, interest rates, downturns in the global economy and national and international events. In addition, sales of our products to manufacturers of business jets are impacted by, among other things, downturns in the global economy. In recent years, such as in fiscal 2021 and the second half of fiscal 2020, we ~~have~~ experienced decreased sales across the commercial OEM sector driven primarily by the decrease in production by Boeing and Airbus related to reduced demand in the commercial aerospace industry from the COVID- 19 pandemic, and airlines deferring or cancelling orders. Regulatory and quality challenges, such as with Boeing' s 737 MAX aircraft and 787 aircraft, also has **had** an adverse impact. Downturns adversely affect our results of operations, financial position and cash flows. Our business is dependent on the availability of certain components and raw materials from suppliers. Our business is affected by the price and availability of the raw materials and component parts that we use to manufacture our components. Our business, therefore, could be adversely impacted by factors affecting our suppliers (such as the destruction of our suppliers' facilities or their distribution infrastructure, a work stoppage or strike by our suppliers' employees or the failure of our suppliers to provide materials of the requisite quality), or by increased costs of such raw materials or components if we were unable to pass along such price increases to our customers. ~~The COVID- 19 pandemic has continued to disrupt the global supply chain.~~ We **are** currently ~~are~~ experiencing supply shortages and inflationary pressures for certain components and raw materials that are important to our manufacturing process, particularly electronic parts **, due to global supply chain constraints** . Expected growth in the global economy may exacerbate these pressures on us and our suppliers, and we expect these supply chain challenges and cost impacts to continue for the foreseeable future. Because we strive to limit the volume of raw materials and component parts on hand, our business could be adversely affected if we were unable to obtain these raw materials and components from our suppliers in the quantities we require or on favorable terms. Although we believe in most cases that we could identify alternative suppliers, or alternative raw materials or component parts, the lengthy and expensive aviation authority and OEM certification processes associated with aerospace products could prevent efficient replacement of a supplier, raw material or component part. We face significant competition. We operate in a highly competitive global industry and compete against a number of companies. Competitors in our product lines are both U. S. and foreign companies and range in size from divisions of large public corporations to small privately- held entities. We believe that our ability to compete depends on high product performance, consistent high quality, short lead- time and timely delivery, competitive pricing, superior customer service and support and continued certification under customer quality requirements and assurance programs. We may have to adjust the prices of some of our products to stay competitive. Climate- related regulations designed to address climate change may result in additional compliance costs. Our operations and the products we sell are currently subject to rules limiting emissions and to other climate- related regulations in certain jurisdictions where we operate. The increased prevalence of global climate change concerns may result in new regulations that may negatively impact us, our suppliers and customers. We are continuing to evaluate short-, medium- and long- term risks related to climate change. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted, or what environmental conditions may be found to exist. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers, in which case, the costs of raw materials and component parts could increase. As a whole, because our manufacturing facilities primarily engage in assembly and light manufacturing and because we do not maintain any transportation infrastructure, we have relatively low Scope 1 and Scope 2 emissions. Accordingly, we do not anticipate any material adverse impact from increased carbon regulation directly on our manufacturing operations. Further, because of our wide portfolio of hundreds of thousands of products, we do not anticipate any material adverse impact from the reliance on a supplier or group of suppliers that may be subject to climate risks. However, regulation that would have a material adverse impact on air travel could have a material adverse impact on our business. Given the political significance and uncertainty around these issues, we cannot predict how legislation, regulation, and increased awareness of these issues will affect our operations and financial condition. We have established a science- aligned greenhouse gas emissions reduction target of at least a 50 % reduction in our Scope 1 and Scope 2 emissions on an absolute basis by the year 2031. Fiscal 2019 is the selected baseline year for TransDigm that we will compare against as we make progress towards our emissions reduction goal. We continue to evaluate ways to reduce our energy and water consumption and lower our greenhouse gas emissions through energy efficiency measures, the purchase of green power and other actions. Our operations depend on our manufacturing facilities, which are subject to physical and other risks that could disrupt production. Our operations and those of our customers and suppliers have been and may again be subject to natural disasters, climate change- related events, pandemics or other business disruptions, which could seriously harm our results of operation and increase our costs and expenses. Some of our manufacturing facilities are located in regions that may be impacted by severe weather events, such as increased storm frequency or severity in the Atlantic and fires in hotter and drier climates. These could result in potential damage to our physical assets as well as disruptions in manufacturing activities. Some of our manufacturing facilities are located in areas that may be at risk due to rising sea levels. Moreover, some of our manufacturing facilities are located in areas that could experience decreased access to water due to climate issues. We are also vulnerable to damage from other types of disasters, including power loss, fire, explosions, floods, communications failures, terrorist attacks and similar events. Disruptions could also occur due to health-related outbreaks and crises, cyber attacks, computer or equipment malfunction (accidental or intentional), operator error or process failures. Should insurance or other risk transfer mechanisms, such as our existing disaster recovery and business continuity plans, be insufficient to recover all costs, we could experience a material adverse effect on our business, results of operations, financial position and cash flows. Operations and sales outside of the United States may be subject to additional risks. Our net sales to foreign customers were approximately $ ~~1~~ **2** . ~~9~~ **3** billion for the fiscal year ended September 30, ~~2022~~ **2023** . A number of risks inherent in international operations could have a material adverse effect on our results of operations, including war, sanctions, global health crises, currency fluctuations, difficulties in staffing and managing multinational 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. Issues with the global supply chain can also rise due to some of the aforementioned risks, as well as the availability and cost of raw materials to suppliers, merchandise quality or safety issues, shipping and transport availability and cost, increases in wage rates and taxes, transport security, inflation and other factors relating to the suppliers and the countries in which they are located or from which they import. Such issues are often beyond our control and could adversely affect our operations and profitability. Furthermore, the Company is subject to laws and regulations, such as the Foreign Corrupt Practices Act, ~~UK~~ **U. K.** Bribery Act and similar local anti- bribery laws, which generally prohibit companies and their employees, agents and contractors from making improper payments for the purpose of obtaining or retaining business. Failure to comply with these laws could subject the Company to civil and criminal penalties that could materially adversely affect the Company' s results of operations, financial position and cash flows. We are monitoring the ongoing ~~conflict~~ **conflicts between Israel and Hamas and** between Russia and Ukraine and the related export controls and financial and economic sanctions imposed on certain industry sectors, including the aviation sector, and parties in Russia by the U. S., the U. K., the European Union and others. Although the ~~conflict~~ **conflicts** ~~has~~ **have** not ~~resulted in~~ **, nor are expected to, have** a direct material adverse impact on TransDigm' s business ~~to date~~ , the implications of the **Israel and Hamas and** Russia and Ukraine ~~conflict~~ **conflicts** in the short- term and long- term are difficult to predict at this time. Factors such as increased energy costs, ~~increased freight costs,~~ the availability of certain raw materials for aircraft manufacturers, embargoes on flights from ~~Russian~~ **certain** airlines, sanctions on ~~Russian~~ **certain** companies, and the stability of ~~Ukrainian~~ **certain** customers could impact the global economy and aviation sector. We are subject to certain unique business risks as a result of supplying equipment and services to the U. S. Government. Companies engaged in supplying defense- related equipment and services to U. S. Government agencies, whether through direct contracts with the U. S. Government or as a subcontractor to customers contracting with the U. S. Government, are subject to business risks specific to the defense industry. These risks include the ability of the U. S. Government to unilaterally: • suspend ~~us~~ **or debar** from receiving new contracts based on alleged violations of procurement laws or regulations; • terminate existing contracts; • revoke required security clearances; ~~• reduce the value of existing contracts;~~ and • audit ~~our~~ contract- related costs and fees, including allocated indirect costs. Most ~~of our~~ U. S. Government contracts can be terminated by the U. S. Government at its convenience without significant notice. Termination for convenience provisions provide only for ~~our~~ recovery of costs incurred or committed, settlement expenses and profit on the work completed prior to termination **. Most of our U. S. Government contracts are based on a firm- fixed price** . On contracts for which the price is based on **the reimbursement of** ~~cost~~ **costs** , the U. S. Government may review our costs and performance, as well as our accounting and general business practices. Based on the results of such audits, the U. S. Government may adjust our contract- related costs and fees, including allocated indirect costs. In addition, under U. S. Government purchasing regulations, some of our costs, including most financing costs, amortization of intangible assets, portions of research and development costs, and certain marketing expenses may not be subject to reimbursement **under cost- reimbursement contracts** . Furthermore, even where the price is not based on cost, the U. S. Government may seek to review our costs to determine whether our pricing is " fair and reasonable. " Our subsidiaries are periodically subject to pricing reviews and government buying agencies that purchase some of our subsidiaries' products are periodically subject to audits by the DOD ~~Office of Inspector General (" OIG ")~~ with respect to prices paid for such products. ~~In the third quarter of fiscal 2019, we voluntarily refunded $ 16. 0 million to the U. S. Government following an OIG audit, and the DOD has requested refunds of $ 20. 8 million in response to another OIG audit completed in the first quarter of fiscal 2022. In addition, our defense- related business has been the subject of an ongoing Congressional inquiry by the House Oversight Committee; Congressional inquiries are costly and time consuming for our management and could distract from our ability to effectively manage the business.~~ As a result of these ~~reviews,~~ audits ~~and inquiries, we could be subject to providing further refunds to the U. S. Government~~ , we could be asked to enter into an arrangement whereby our prices would be based on cost **, plus a nominal fee** , the DOD could seek to pursue alternative sources of supply for our parts, or the U. S. Government could take other adverse actions with respect to our contracts. Any of those occurrences could lead to a reduction in our revenue from, or the profitability of certain of our supply arrangements with, certain agencies and buying organizations of the U. S. Government. Further, negative publicity relating to the results of any audit, inquiry or subsequent hearing or the like could negatively impact our stock price. If a government inquiry or investigation uncovers improper or illegal activities, we could be subject to civil or criminal penalties or administrative sanctions, including contract termination, fines, forfeiture of fees, suspension of payment and suspension or debarment from doing business with U. S. Government agencies, any of which could materially adversely affect our reputation, business, financial condition, results of operations and cash flows. Moreover, U. S. Government purchasing regulations contain a number of additional operational requirements, which do not apply to entities not engaged in government contracting. Failure to comply with such government contracting requirements could result in civil and criminal penalties that could have a material adverse effect on the Company' s results of operations. Our business may be adversely affected if we would lose our government or industry approvals or if more stringent government regulations are enacted or if industry oversight is increased. The aerospace industry is highly regulated in the U. S. and in other countries. In order to sell our products, we and the products we manufacture must be certified by the FAA, the DOD and similar agencies in foreign countries and by individual manufacturers. If new and more stringent government regulations are adopted or if industry oversight increases, we might incur significant expenses to comply with any new regulations or heightened industry oversight. In addition, if material authorizations or approvals were revoked or suspended, our business would be adversely affected. In addition to the aviation approvals, we are at times required to obtain approval from U. S. Government agencies and similar agencies elsewhere in the world to export our products. U. S. laws and regulations applicable to us include the Arms Export Control Act, the International Traffic in Arms Regulations (" ITAR "), the Export Administration Regulations (" EAR ") and the trade sanctions laws and regulations administered by the United States Department of the Treasury' s Office of Foreign Assets Control (" OFAC "). EAR restricts the export of commercial and dual- use products and technical data to certain countries, while ITAR restricts the export of defense products, technical data and defense services. Failure to obtain approval to export or determination by the U. S. Government or similar agencies elsewhere in the world that we failed to receive required approvals or licenses could eliminate or restrict our ability to sell our products outside the United States or other country of origin, and the penalties that could be imposed by the U. S. Government or other applicable government for failure to comply with these laws could be significant. We could incur substantial costs as a result of data protection concerns. The interpretation and application of data protection laws in the U. S. and ~~Europe~~ **globally**, including but not limited to the General Data Protection Regulation (the " GDPR ") ~~and~~ **,** the California Consumer Privacy Act (the " CCPA ") ~~,~~ and ~~elsewhere~~ **China' s Personal Information Protection Law (" PIPL "),** are uncertain and evolving. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. Complying with these various laws is difficult and could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Further, although we have implemented internal controls and procedures designed to ensure compliance with the GDPR, CCPA **, PIPL** and other privacy- related laws, rules and regulations (collectively, the " Data Protection Laws "), there can be no assurance that our controls and procedures will enable us to be fully compliant with all Data Protection Laws **. Any failure to comply with Data Protection Laws could result in significant penalties, fines, legal challenges and reputational harm**. Increased cybersecurity threats and more sophisticated and targeted computer crime have posed and could continue to pose a risk to our information technology systems and a disruption to or breach in the security of such systems, if material, could have adverse effects on our result of operations and financial condition. We rely extensively on information technology systems to manage and operate our business, some of which are managed by third parties. The security and functionality of these information technology systems, and the processing of data by these systems, are critical to our business operations. If these systems, or any part of the systems, are damaged, intruded upon, attacked, shutdown or cease to function properly (whether by planned upgrades, force majeure, telecommunications failures, criminal acts, including hardware or software break- ins or extortion attempts, or viruses, or other cybersecurity incidents) and we suffer any resulting interruption in our ability to manage and operate our business or if our products are affected, our results of operations and financial condition could be materially adversely affected. In fact, we have experienced data security incidents, although these have not had a material impact on our financial results. Furthermore, the Company has access to classified, sensitive, confidential, or personal data or information that is subject to privacy and security laws, regulations, or other contractually- imposed controls. Despite our use of reasonable and appropriate technical security controls and monitoring, security breaches, theft, misplaced, lost or corrupted data, programming, or employee errors and / or malfeasance have led and could in the future lead to the compromise or improper use of such sensitive, confidential, or personal data or information. Such events may result in possible negative consequences, such as fines, ransom demands, penalties, failure to comply with laws governing sensitive data, negative publicity, loss of reputation, loss of intellectual property, loss of competitiveness or customers, increased security and compliance costs or other negative consequences. Further, the amount of insurance coverage that we maintain may be inadequate to cover claims or liabilities relating to a cybersecurity incident. Depending on the nature and magnitude of these events, they may have an adverse impact on our results of operations or financial condition. Risks Related to Legal and Regulatory Matters We could incur substantial costs as a result of violations of or liabilities under environmental laws and regulations. Our operations and facilities are subject to a number of federal, state, local and foreign environmental laws and regulations that govern, among other things, discharges of pollutants into the air and water, the generation, handling, storage and disposal of hazardous materials and wastes, the remediation of contamination and the health and safety of our employees. Environmental laws and regulations may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. Certain facilities and third- party sites utilized by subsidiaries of the Company have been identified as potentially responsible parties under the federal superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under applicable laws. Estimates of the Company' s environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company' s prior experience and professional judgment of the Company' s environmental advisors. Estimates of the Company' s environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigations and remediations proceed, it is likely that adjustments in the Company' s accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company' s results of operations or cash flows in a given period. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company' s financial condition. We may be subject to periodic litigation and regulatory proceedings, which may adversely affect our business and financial performance. From time to time, we are involved in lawsuits and regulatory actions brought or threatened against us in the ordinary course of business. These actions and proceedings may involve claims for, among other things, compensation for alleged personal injury, workers' compensation, employment discrimination, or breach of contract. In addition, we may be subject to class action lawsuits, including those involving allegations of violations of consumer product statutes or the Fair Labor Standards Act and state wage and hour laws. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such actions or proceedings. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify, as plaintiffs may seek recovery of very large or indeterminate amounts in these types of lawsuits, and the magnitude of the potential loss may remain unknown for substantial periods of time. In addition, plaintiffs in many types of actions may seek punitive damages, civil penalties, consequential damages or other losses, or injunctive or declaratory relief. These proceedings could result in substantial cost and may require us to devote substantial resources to defend ourselves. The ultimate resolution of these matters through settlement, mediation, or court judgment could have a material impact on our financial condition, results of operations, and cash flows. We could be adversely affected if one of our products ~~cause~~ **causes** an aircraft to crash. Our operations expose us to potential liabilities for personal injury or death as a result of the failure of an aircraft product that we have designed, manufactured or serviced. While we maintain liability insurance to protect us from future product liability claims, in the event of product liability claims our insurers may attempt to deny coverage or any coverage we have may not be adequate. We also may not be able to maintain insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or for which third **-** party indemnification is not available could result in significant liability to us. In addition, a crash caused by one of our products could damage our reputation for quality products. We believe our customers consider safety and reliability as key criteria in selecting a provider of aircraft products. If a crash were to be caused by one of our products, or if we were to otherwise fail to maintain a satisfactory record of safety and reliability, our ability to retain and attract customers may be materially adversely affected **. Our ability to achieve our environmental, social and governance goals are subject to risks, many of which are outside of our control, and our reputation and brands could be harmed if we fail to meet such goals. Companies across all industries are facing increasing scrutiny from stakeholders related to environmental, social and governance (" ESG ") matters, including practices and disclosures related to environmental stewardship; social responsibility; diversity, equity and inclusion; and workplace rights. Our ability to achieve our ESG goals, including our goal to achieve our Scope 1 and Scope 2 emissions by the year 2031, and to accurately and transparently report our progress presents numerous operational, financial, legal and other risks, and may be dependent on the actions of suppliers and other third parties and significant technological advancements with respect to the development and availability of reliable, affordable and sustainable alternative solutions, all of which are outside of our control. If we are unable to meet our ESG goals or evolving stakeholder expectations and industry standards, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, our reputation could be negatively impacted. In addition, in recent years, investor advocacy groups and certain institutional investors have placed increasing importance on ESG matters. If, as a result of their assessment of our ESG practices, certain investors are unsatisfied with our actions or progress, they may reconsider their investment in us. As the nature, scope and complexity of ESG reporting, diligence and disclosure requirements expand, including the SEC' s recently proposed disclosure requirements regarding, among other matters, greenhouse gas emissions, we may have to undertake additional costs to control, assess and report on ESG metrics. Any failure or perceived failure, whether or not valid, to pursue or fulfill our ESG goals, targets and objectives or to satisfy various ESG reporting standards within the timelines we announce, or at all, could increase the risk of litigation** . Risks Related to Financial Matters We have recorded a significant amount of intangible assets, which may never generate the returns we expect. Mergers and acquisitions have resulted in significant increases in identifiable intangible assets and goodwill. Identifiable intangible assets, which primarily include trademarks, trade names, customer relationships, and technology, were approximately $ 2. ~~8~~ **7** billion at September 30, ~~2022~~ **2023** , representing approximately ~~15~~ **14** % of our total assets. Goodwill recognized in accounting for ~~the~~ mergers and acquisitions was approximately $ ~~8~~ **9** . ~~6~~ **0** billion at September 30, ~~2022~~ **2023** , representing approximately ~~48~~ **45** % of our total assets. We may never realize the full value of our identifiable intangible assets and goodwill, and to the extent we were to determine that our identifiable intangible assets or our goodwill were impaired within the meaning of applicable accounting standards, we would be required to write- off the amount of any impairment. We may be subject to risks relating to changes in our tax rates or exposure to additional income tax liabilities. We are subject to income taxes in the U. S. and various non- U. S. jurisdictions. The Company' s domestic and international tax liabilities are dependent upon the location of earnings among these different jurisdictions. The Company' s future results of operations could be adversely affected by changes in the Company' s effective tax rate as a result of changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets, challenges by tax authorities or changes in tax laws or regulations. **From time to time, changes in tax laws or regulations may be proposed or enacted that could adversely affect our overall tax liability. There can be no assurance that changes in tax laws or regulations, both within the U. S. and the other jurisdictions in which we operate, such as the proposed 15 % global minimum tax under the Organisation**

for Economic Co- operation and Development (the " OECD ") Pillar Two, Global Anti- Base Erosion Rules (the " Pillar Two Rules "), will not materially and adversely affect our effective tax rate, tax payments, financial condition and results of operations. As of September 30, 2023, among the jurisdictions where the Company operates, only the U. K. has enacted legislation adopting the Pillar Two Rules, effective in fiscal 2025. In addition, the amount of income taxes paid by the Company is subject to ongoing audits by U. S. federal, state and local tax authorities and by non- U. S. tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments to the Company' s tax liabilities, which could have a material adverse effect on the Company' s results of operations. We do not regularly declare and pay quarterly or annual cash dividends on our stock. Notwithstanding special cash dividends, of which the most recent declaration by the Company' s Board of Directors **was on November 9,** ~~in the fourth quarter of fiscal 2022~~ **2023** in the amount of $ ~~18~~ **35** . ~~50~~ **00** per outstanding share of common stock **, which is payable on November 27, 2023 to stockholders of record as of November 20, 2023** , we do not anticipate declaring regular ~~quarterly or annual~~ cash dividends **, whether quarterly or annual,** on our common stock or any other equity security in the foreseeable future. The amounts that may be available to us to pay future special cash dividends are restricted under our debt and other agreements. Any payment of special cash dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our Board of Directors. Therefore, shareholders should not rely on regular quarterly or annual dividend income from shares of our common stock and should not rely on special dividends with any regularity or at all. General Risks Our commercial business is sensitive to the number of flight hours that our customers' planes spend aloft, the size and age of the worldwide aircraft fleet and our customers' profitability. These items are, in turn, affected by general economic and geopolitical and other worldwide conditions. Our commercial business is directly affected by, among other factors, changes in ~~RPMs~~ **RPKs** , the size and age of the worldwide aircraft fleet, the percentage of the fleet that is out- of- warranty and changes in the profitability of the commercial airline industry. ~~RPMs~~ **RPKs** and airline profitability have historically been correlated with the general economic environment, although national and international events also play a key role. For example, in addition to the ~~current~~ COVID- 19 pandemic ~~and the adverse impact it has had on the airline industry~~ , past examples in which the airline industry has been negatively affected include downturns in the global economy, higher fuel prices, increased security concerns among airline customers following the events of September 11, 2001, the Severe Acute Respiratory Syndrome (" SARS ") epidemic, and conflicts abroad. Additional examples include future geopolitical or other worldwide events, such as war, terrorist acts, or additional worldwide infectious disease outbreaks. In addition, global market and economic conditions have been challenging due to turbulence in the U. S. and international markets and economies and have prolonged declines in business and consumer spending. As a result of the substantial reduction in airline traffic resulting from the aforementioned events, the airline industry incurred large losses and financial difficulties. Some carriers parked or retired a portion of their fleets and reduced workforces and flights. During periods of reduced airline profitability, some airlines may delay purchases of spare parts, preferring instead to deplete existing inventories, and delay refurbishments and discretionary spending. If demand for spare parts decreases, there would be a decrease in demand for certain products. An adverse change in demand could impact our results of operations, collection of accounts receivable and our expected cash flow generation from current and acquired businesses which may adversely impact our financial condition and access to capital markets. U. S. military spending is dependent upon the U. S. defense budget. The military and defense market is significantly dependent upon government budget trends, particularly the DOD budget. In addition to normal business risks, our supply of products to the U. S. Government is subject to unique risks largely beyond our control. DOD budgets could be negatively impacted by several factors, including, but not limited to, a change in defense spending policy as a result of the presidential election or otherwise, the U. S. Government' s budget deficits, spending priorities (e. g., shifting funds to ~~efforts to combat the impact of the pandemic or efforts to~~ assist Ukraine in the Russia and Ukraine conflict **or to assist Israel**), the cost of sustaining the U. S. military presence internationally and possible political pressure to reduce U. S. Government military spending, each of which could cause the DOD budget to remain unchanged or to decline. A significant decline in U. S. military expenditures could result in a reduction in the amount of our products sold to the various agencies and buying organizations of the U. S. Government. Our stock price may be volatile, and an investment in our common stock could suffer a decline in value. There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the operating performance of the companies issuing the securities. These market fluctuations may negatively affect the market price of our common stock. Shareholders may not be able to sell their shares at or above the purchase price due to fluctuations in the market price of our common stock. Such changes could be caused by changes in our operating performance or prospects, including possible changes due to the cyclical nature of the aerospace industry and other factors such as fluctuations in OEM and aftermarket ordering, which could cause short- term swings in profit margins. Or such changes could be unrelated to our operating performance, such as changes in market conditions affecting the stock market generally or the stocks of aerospace companies or changes in the outlook for our common stock, such as changes to or the confidence in our business strategy, changes to or confidence in our management, or expectations for future growth of the Company. ~~Global health crises such as the COVID- 19 pandemic could also cause significant volatility in the market price.~~