

Vote Bulletin: TransDigm Group Incorporated

Company	TransDigm Group Incorporated (NYSE: TDG)
Market and Sector	Americas/Industrials, Aerospace and Defense
Meeting Date	18 March 2021
Key Resolutions ¹	<p>Item 1.2: Elect Director Mervin Dunn</p> <p>Item 1.3: Elect Director Michael S. Graff</p> <p>Item 1.4: Elect Director Sean P. Hennessy</p> <p>Item 1.5: Elect Director W. Nicholas Howley</p> <p>Item 1.9: Elect Director Robert J. Small</p> <p>Item 1.10: Elect Director John Staer</p> <p>Item 2: Advisory Vote to Ratify Named Executive Officers' Compensation</p>
Key Topics	Corporate governance, climate risk, executive compensation
Board Recommendation	The board recommended voting FOR these items
BlackRock Vote	We voted AGAINST the re-election of the directors above, as well as the advisory vote on executive compensation

Overview

TransDigm Group Inc. (TransDigm) designs, produces, and supplies aircraft components in the United States and internationally. The company is increasingly under scrutiny for its greenhouse gas (GHG) emissions, as is the broader industrials sector. Based on its own environmental footprint, business focus, and broad aerospace and defense client base, the company is exposed to material climate risk in a variety of ways.

BlackRock Investment Stewardship (BIS) has engaged with the company for several years to discuss corporate governance issues that we believe drive long-term shareholder value, including management and board oversight of climate-related risks, sustainability disclosures, and executive compensation.

In 2020, BIS supported a shareholder proposal requesting GHG emissions reduction targets, given that the company had no detailed information regarding how climate-related risks were considered by management or the board. In addition, BIS voted against the Chairman of the board for lack of appropriate climate risk oversight. We wrote a [Vote Bulletin](#) explaining our rationale and engagement history.

¹ TransDigm, “[2021 Proxy Statement](#).”

While the company produced a broad sustainability report earlier this year,² we believe there is significant room for improvement, particularly in the area of establishing GHG reduction goals, as well as aligning reporting with the recommendations of the Sustainability Accounting Standards Board (SASB).

Rationale for BlackRock's Vote

Item 1.5: Elect Director W. Nicholas Howley

BIS voted AGAINST the re-election of the Chair of the board for the lack of climate risk oversight

We remain unsatisfied with the company's climate risk oversight and believe there has been insufficient progress on climate-related reporting, despite laying out our clear expectations in past engagements. In addition, the shareholder proposal received approximately 45% support at the 2020 annual meeting. The company also has not made progress on SASB-aligned reporting.

As stated in our [US proxy voting guidelines](#), BIS will hold members of the relevant committee or the most senior non-executive director accountable for inadequate disclosures and the underlying business practices. As the company has no lead director or committee designated as responsible for climate risk, we are holding the Chairman (W. Nicholas Howley) to account by voting against his re-election. Howley was the CEO until 2018 and is the founder of the company.

Items 1.2, 1.3, 1.4, and 1.9: Executive Compensation Issues/Director Elections and Item 2: Advisory Vote on Executive Compensation

BIS voted against the re-election of all directors on the compensation committee and the executive compensation proposal given the misalignment of pay and performance

BIS voted against the executive compensation proposal and the compensation committee based on our assessment that there is a misalignment between pay and performance, including outsized pay, for the both CEO and the Chairman.

The company was greatly impacted by the COVID-19 pandemic in 2020—total shareholder returns were negative and the company experienced declines in profitability metrics. However, amidst the economic impact of the pandemic, CEO pay increased 91%³ from \$13.2 million in FY19 to \$25.1 million in FY20 (or \$22 million per the company's valuation). As a point of comparison, the median CEO pay for the company's peer group was approximately \$10 million.⁴ In addition, the Chairman's pay was triple that of the CEO. Founder and Chairman Howley received \$74.8 million in total pay.

The increased payment to the CEO was largely due to a stock option grant in FY20 when no grant was made in FY19 (the company historically practiced biennial granting). In September 2020, the compensation committee decided to allow performance options that were granted in FY20 to vest despite not achieving threshold performance.

The increase in value of dividend equivalent payments to the CEO and Chairman also contributed to the increase in overall compensation, when the company issued a \$32.50 dividend per share in January 2020.

TransDigm's say-on-pay proposal has received relatively low support over the past three years, averaging 66% support. The company indicated consideration of shareholder feedback and agreed to eliminate overlapping metrics in the short-term and stock option plan, as well as alternative vesting criteria for awards beginning in 2021. However, the committee ultimately decided to retain several existing elements. BIS has continuously

² TransDigm, "[Stakeholder report](#)."

³ Based on ISS executive pay valuations

⁴ Based on the company-selected peer group

provided feedback on the structure of the plan during our engagements; however, after three years of low shareholder support, the changes are minimal.

Item 1.10: Elect Director John Staer

BIS voted against the re-election of a non-independent director on the audit committee

BIS voted against Director John Staer, a member of the audit committee. Staer is not considered independent by BIS for overlapping board participation with Chairman Howley on another company board and affiliated business activities with TransDigm. He is the former CEO of Satair, a distributor of aerospace products, including parts manufactured by subsidiaries of TransDigm,⁵ and no additional information about the monetary exchange of this partnership or personal financial benefit is disclosed in the proxy statement. As a result, BIS is unable to assess the materiality of the relationship, as well as how this may factor into the ability of the director to exercise independent oversight.

Based on both the business partnership and interpersonal relationship, we do not consider this director to be independent. [BIS expects](#) all members of key committees, including audit, compensation, and nominating/governance committees, to be independent.

⁵ TransDigm DEF14A 2021, page 6 “Satair is a distributor of aerospace products, including parts manufactured by subsidiaries of the Company.”

About BlackRock Investment Stewardship (BIS)

BIS plays a fundamental role in the activation of BlackRock's purpose of helping more and more people experience financial well-being. Consistent with the firm's fiduciary duty, BIS advocates for sound corporate governance and business practices that deliver the sustainable, long-term financial returns that enable our clients to meet their investing goals. This objective drives our engagements and votes at company meetings.

We engage company leadership on key environmental, social, and governance (ESG) topics that, if not adequately addressed in policies, managed, and overseen, could expose the company to material economic, operational or reputational risks. Every year, we determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes. Engagement also informs our voting decisions.

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) and/or supporting a shareholder proposal that addresses a material risk are often the most impactful actions a long-term shareholder can take.

We are committed to transparency in our stewardship practices. Where we believe it will help to understand our decisions on key votes at shareholder meetings, we will publish a Vote Bulletin explaining the rationale for how we have voted and (where relevant) providing information around our engagement with the company.