

## Triumph Group

# Leaner, more focused, derisked balance sheet – Upgrade to Buy

Resuming Coverage: BUY | PO: 21.00 USD | Price: 15.39 USD

## Triumph's Product Support sale becomes a catalyst

We are resuming coverage on Triumph Group (TGI) with a double upgrade to Buy from Underperform. We think the recent sale of its Product Support Group for \$725 million is a transformational event for the company. The divestiture should reduce TGI's current Net Debt/ EBITDA from 7.6x to 4.9x and push net leverage levels to under 3x in the next 12-18 months. While the stock has surged more than 20% since the deal was announced, we see further upside to current higher valuation levels. A more focused portfolio and stronger balance sheet supports TGI trading in line with peers. Based on EBITDA margin distribution, the A&D suppliers' peer universe suggests a 12x pro-forma 2024 EV/EBITDA multiple. See Exhibit 1. Thus, we are also raising our PO to \$21 from \$9.

## Strong balance sheet emerges with divestiture

The December 21 sale to AAR Corp. (NYSE: AIR), AAR noted that the ~13x EV/EBITDA deal multiple and 11.7x (including a \$80mn tax benefit) would yield \$10mn in run rate synergies. We view the sale positively as the cash proceeds should significantly reduce risk to servicing debt at the expense of future cash flows. With a more simplified portfolio and market cap slightly above \$1bn, we think TGI will benefit from a target valuation premium, which will offset the still higher than peers pro-forma leverage of ~5x.

## The Triumph of Today

Less than a decade ago, TGI was a far-flung aerostructures, components, and systems integrator business with 47 operating companies across 73 locations. After a successful restructuring, TGI now has a more simplified and thoughtful portfolio. The Product Support sale is another step to further refocus the portfolio and derisk the balance sheet. Furthermore, it allows the company to finally transform into a component/systems OEM with a highly focused IP driven portfolio. Thus, it appears to have brought the company's significant portfolio shaping activity to a head.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.79	0.77	0.45	0.81	1.25
GAAP EPS	(0.66)	1.25	0.27	0.81	1.25
EPS Change (YoY)	NM	-2.5%	-41.6%	80.0%	54.3%
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	19.5x	20.0x	34.2x	19.0x	12.3x
GAAP P/E	NM	12.3x	57.0x	19.0x	12.3x
EV / EBITDA*	16.7x	13.5x	11.7x	9.7x	8.6x
Free Cash Flow Yield*	-13.2%	-6.2%	4.3%	5.3%	7.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

25 January 2024

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### Stock Data

Price	15.39 USD
Price Objective	21.00 USD
Date Established	25-Jan-2024
Investment Opinion	C-1-9
52-Week Range	7.00 USD - 17.27 USD
Mrkt Val (mn) / Shares Out (mn)	1,183 USD / 76.9
Free Float	51.9%
Average Daily Value (mn)	16.80 USD
BofA Ticker / Exchange	TGI / NYS
Bloomberg / Reuters	TGI US / TGI.N
ROE (2024E)	NA
Net Dbt to Eqty (Mar-2023A)	NA
ESGMeter™	High

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**Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 25 January 2024 09:15AM EST

# iQprofile<sup>SM</sup> Triumph Group

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.5%	16.0%	8.5%	13.4%	15.5%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	6.7%	16.0%	11.2%	13.6%	14.4%
Free Cash Flow	(157)	(73)	51	63	94

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-2.7x	-0.9x	2.2x	1.4x	1.2x
Asset Replacement Ratio	0.4x	0.6x	0.6x	0.7x	0.7x
Tax Rate	19.1%	5.1%	29.3%	16.0%	18.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	0.7x	1.6x	1.1x	1.5x	1.9x

## Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,460	1,379	1,469	1,651	1,799
% Change	-21.9%	-5.5%	6.5%	12.4%	8.9%
Gross Profit	98	221	164	225	258
% Change	NM	124.7%	-25.7%	37.3%	14.7%
EBITDA	159	196	225	273	308
% Change	45.3%	23.2%	15.2%	21.0%	12.9%
Net Interest & Other Income	(136)	(138)	(152)	(152)	(139)
<b>Net Income (Adjusted)</b>	<b>51</b>	<b>55</b>	<b>35</b>	<b>63</b>	<b>98</b>
<b>% Change</b>	<b>NM</b>	<b>8.3%</b>	<b>-37.5%</b>	<b>82.9%</b>	<b>55.9%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(43)	90	21	63	99
Depreciation & Amortization	50	36	38	39	40
Change in Working Capital	(221)	(77)	3	23	5
Deferred Taxation Charge	0	0	(11)	(45)	(33)
Other Adjustments, Net	77	(101)	24	9	10
Capital Expenditure	(20)	(21)	(24)	(26)	(26)
<b>Free Cash Flow</b>	<b>-157</b>	<b>-73</b>	<b>51</b>	<b>63</b>	<b>94</b>
<b>% Change</b>	<b>21.0%</b>	<b>53.5%</b>	<b>NM</b>	<b>22.6%</b>	<b>49.6%</b>
Share / Issue Repurchase	(3)	1	94	0	0
Cost of Dividends Paid	(9)	(51)	0	0	0
Change in Debt	(380)	116	(19)	(50)	(150)

## Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	241	227	343	356	300
Trade Receivables	179	197	186	191	203
Other Current Assets	544	509	533	552	578
Property, Plant & Equipment	169	167	169	175	181
Other Non-Current Assets	629	615	598	579	559
<b>Total Assets</b>	<b>1,761</b>	<b>1,715</b>	<b>1,829</b>	<b>1,853</b>	<b>1,822</b>
Short-Term Debt	3	3	3	3	3
Other Current Liabilities	599	394	407	451	491
Long-Term Debt	1,586	1,689	1,656	1,606	1,456
Other Non-Current Liabilities	360	427	373	328	296
<b>Total Liabilities</b>	<b>2,549</b>	<b>2,512</b>	<b>2,439</b>	<b>2,388</b>	<b>2,246</b>
<b>Total Equity</b>	<b>(787)</b>	<b>(797)</b>	<b>(610)</b>	<b>(535)</b>	<b>(424)</b>
<b>Total Equity &amp; Liabilities</b>	<b>1,761</b>	<b>1,715</b>	<b>1,829</b>	<b>1,853</b>	<b>1,822</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Aerospace

## Company Description

Triumph Group (TGI) is an aerospace/defense company whose principal business is the manufacture, repair & overhaul of components for the aviation industry. The company operates in two segments: (1) Aerostructures: design, development, manufacture, repair, and sales of complete metallic structural assemblies and (2) Systems and Support: design, development, manufacture, repair, and sales of components and aftermarket services.

## Investment Rationale

The looming commercial aerospace recovery should help TGI unlock the benefits from a re-shaped and restructured business. We expect the streamlined product portfolio and stronger balance sheet will benefit TGI and be appreciated by investors.

## Stock Data

Average Daily Volume 1,091,802

## Quarterly Earnings Estimates

	2023	2024
Q1	0.12A	-0.11A
Q2	0.07A	0.01A
Q3	0.12A	0.15E
Q4	0.39A	0.38E

## Last deal: A cleaner story on IP-focused OE systems

We also view the deal as TGI finally transforming to a component/systems OEM with a highly focused IP driven portfolio. The latest transaction would seem to have brought the company's significant portfolio shaping activity to a head. In 2016, TGI was a disaggregated aerostructures, components, and systems integrator business with 47 operating companies across 73 locations. The TGI of today has successfully restructured to a simplified thoughtful portfolio as a subsystems supplier driven by unique-IP across four pure play engineered systems components and aftermarket companies. We expect TGI to benefit from the commercial aerospace ramp, as well as significant spares demand in the aftermarket.

## Simplified portfolio – a more attractive target

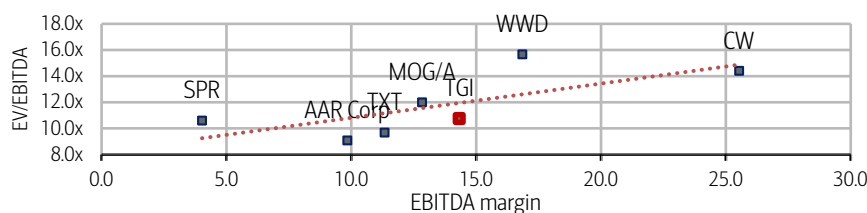
With a more simplified portfolio and market cap slightly above \$1bn, we think TGI will benefit from a target valuation premium, which will offset the still higher than peers pro-forma leverage of ~5x. While we expect TGI to benefit from the simplified product portfolio and future growth story, we do see the last divestiture as a departure from TGI's prior sales of less strategically aligned assets. TGI's parting with a segment with ~20% EBITDA margins (vs. remain co. estimates of low teens) could suggest that management is looking to realize the value of the sum-of-the-parts. We see it possible that more acquisitive strategic buyers or private equity firms could view the change as an opportunity.

## Raising PO to \$21 from \$9

In our view, a more focused portfolio and stronger balance sheet supports TGI trading in line with peers. Based on EBITDA margin distribution, the A&D suppliers' peer universe suggests a 12x pro-forma 2024 EV/EBITDA multiple. This multiple would imply TGI is trading near its peak historical valuation. However, we note the historical valuation as less relevant due to TGI's significant portfolio transformation divesting the aerostructures business, and previous higher leverage as having weighed on TGI's valuation. Our estimates remain unchanged while the transaction still required approvals and is not yet complete.

### Exhibit 1: TGI EV/EBITDA vs. EBITDA Margins Comp Set

The peer group would suggest TGI should be valued ~12x



Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

## Price objective basis & risk

### Triumph Group (TGI)

We derive our PO of \$21 using an 12.0x EV/EBITDA multiple on CY24e earnings. We think a multiple inline with other A&D peer suppliers fairly reflects the streamlined portfolio.

Better-than-expected execution could provide upside risk to our PO. TGI's ability to recover cash from customers could improve liquidity. Higher-than-expected cash generation could increase capital returned to shareholders. Acquisitions could provide upside risk.

Downside risks: Higher oil prices could derail air traffic growth and therefore aircraft demand, resulting in a downturn in commercial aviation. A downturn in commercial aviation, due to an exogenous factor such as a terrorist attack or natural business cyclically, could adversely affect financial results. TGI could be materially affected if serious complications should arise from new platforms. Given that aircraft are priced in dollars, an unexpected rapid devaluation in the dollar could significantly affect order activity. Revenues are heavily dependent on Boeing. Any material change in a relationship with Boeing could affect the company's financials. Balance sheet constraints could negatively impact operations.

## Analyst Certification

I, Ronald J. Epstein, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## Special Disclosures

BofA Securities is currently acting as advisor to AAR Corp in connection with its proposed agreement to acquire Triumph Group's Product Support business, which was announced on December 21, 2023.

### US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein

**US - Aerospace and Defense Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
<b>UNDERPERFORM</b>				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein
	Spirit AeroSys-A	SPR	SPR US	Ronald J. Epstein

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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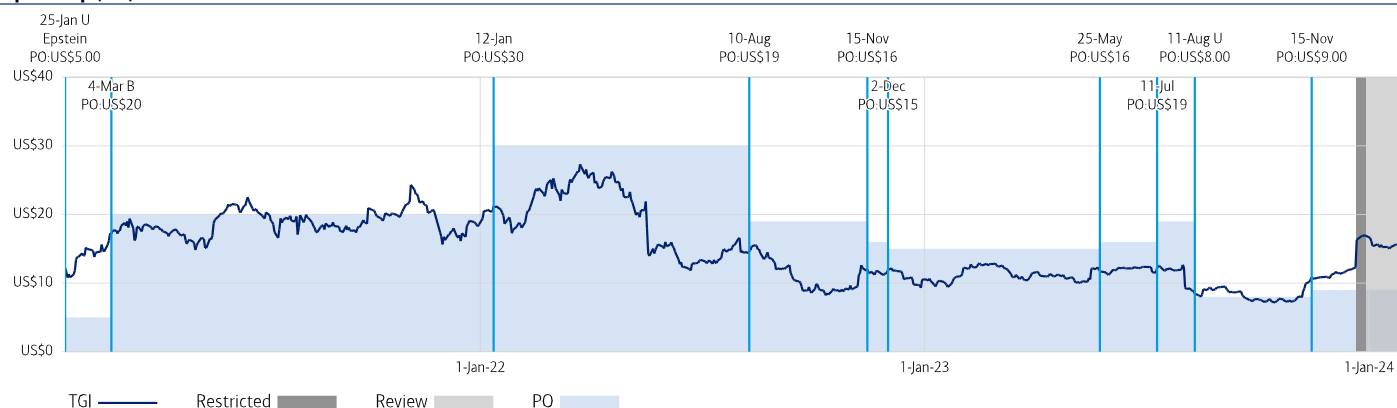
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### Triumph Group (TGI) Price Chart



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### Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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