

TransDigm: Pricing the Long Aftermarket

Internal ID: S&F-STR-551

Topic: Mergers & Acquisitions, Pricing Strategy, Corporate Strategy

Industry: Aerospace & Defense

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date and information cutoff: 13 November 2025

Decision scope: A proposed pricing-governance approach for TransDigm's aerospace components businesses

Case convention: This is an author-created management exercise. The proposed decision and alternatives are hypothetical; the cited company and government disclosures are historical. It does not represent private deliberations or an actual management mandate.

The decision

On 13 November 2025, TransDigm's executive team is reviewing how its operating businesses should document and approve aftermarket prices. The company has just filed results for fiscal 2025 and completed the \$757 million acquisition of Simmonds Precision Products. Its model depends on acquiring and developing highly engineered components, then serving aircraft and defense platforms through long production and service lives.

The model also attracts scrutiny. In December 2021, the Department of Defense Inspector General (DoD OIG) reported that a sample of TransDigm contracts included what it calculated as at least \$20.8 million in "excess profit." TransDigm disputed the report's analysis. The audit raised a practical question for a supplier with many sole-source parts: when the rules do not require certified cost data, what evidence should the company use to support prices and protect customer relationships?

Assignment: Recommend a pricing-governance approach for the next two years. Should TransDigm preserve its current decentralized, value-driven process; add documentation and escalation requirements for selected quotes; or make lifecycle-price and supply commitments in selected customer relationships? Identify where your approach applies, what evidence it requires, and how management should tell whether it is working.

The assignment is hypothetical. Public disclosures do not reveal TransDigm's internal approval process, product-level costs, or customer-specific price response. Do not assume every proprietary part is sole-source, that every sole-source price is unreasonable, or that reported companywide margins measure part-level rents.

A company built around long-lived products

TransDigm designs, produces, and supplies aircraft components used across commercial and military platforms. The company estimated that roughly 90% of its FY2025 sales came from proprietary products. It estimated that 55% came from aftermarket sales, which historically had higher gross profit and more stable sales than original-equipment-manufacturer (OEM) sales. Management estimated that a component may generate aftermarket revenue over 25-30 years of aircraft service; a typical platform can be built for 20-30 years, producing a potential product life exceeding 50 years. [S1, pp. 1-2]

The company describes three operating drivers: obtaining profitable new business, improving cost structure, and providing highly engineered value-added products. Management says the engineering, quality, reliability, and delivery of its components support prices reflecting the value provided and resources required. Its acquisition strategy targets proprietary aerospace businesses with significant aftermarket content and a path to applying those operating drivers. TransDigm reported 95 acquisitions and product-line purchases since 1993. [S1, pp. 2-3]

Those statements describe the company's strategy, not independent proof of the value or cost of an individual part. "Proprietary" is not a synonym for patented or irreplaceable, and the company does not disclose a complete product-by-product map of substitutes, qualifications, or margins.

Exhibit 1. FY2025 results

USD millions except percentages; year ended 30 September 2025.

Measure	FY2025	FY2024
Net sales	\$8,831	\$7,940
Organic sales	\$8,510	\$7,895
Acquisition sales	\$321	\$45
Gross profit	\$5,311	\$4,672
Gross margin	60.1%	58.8%
Income from operations	\$4,165	\$3,531
Operating margin	47.2%	44.5%
Net interest expense	\$1,572	\$1,286

Source: [S1, MD&A, pp. 18-21]. Organic/acquisition sales follow the company's definitions; sales mix, acquisition timing, volume, price, and cost all affect consolidated results. The gross margin is not a part-level markup.

Management attributed FY2025 commercial aftermarket growth primarily to higher flight hours and aircraft utilization as air travel remained strong. Commercial OEM sales decreased, with shipments affected by aircraft production constraints and uneven operating-unit exposure. Defense sales increased, primarily due to continued U.S. government defense outlays. [S1, MD&A, p. 18]

These operating differences matter: a government spare-part sale, a commercial airline aftermarket sale, and an OEM production contract can have different buyers, contract terms, sourcing choices, and production economics.

A new acquisition enters the portfolio

TransDigm completed its acquisition of Simmonds Precision Products from RTX on 6 October 2025 for approximately \$757 million in cash. Simmonds makes fuel and proximity sensing and structural-health-monitoring products for aerospace and defense markets. TransDigm described the acquired products as proprietary components with significant aftermarket content and presence across major platforms. [S1, Note 2, F-11-F-12]

TransDigm's filing says purchase prices for acquisitions reflect current and expected EBITDA As Defined and cash flows, often driven by aftermarket consumption over aircraft lives estimated at 25-30 years. The company provided no standalone Simmonds financial results, product-level price history, customer terms, or post-acquisition integration measures in the 10-K. [S1, Note 2, F-12]

The acquisition makes the pricing-governance question immediate, even though the purchase decision is complete. A common process could help compare acquired businesses and explain customer value consistently. A process that is too prescriptive could slow local decisions or obscure product-specific engineering and supply economics.

How should a supplier substantiate price?

In the defense market, some spare-part contracts are small and awarded without competition. The Truth in Negotiations Act (TINA) framework does not require certified cost or pricing data for contracts below its threshold. In its December 2021 public summary, DoD OIG said it reviewed 153 contracts from January 2017 through June 2019, obtained uncertified cost data for 152, and calculated at least \$20.8 million in excess profit on 105 spare parts across 150 contracts. OIG said existing price-analysis methods were not effective at identifying its estimated excess profits in this setting and recommended changes to policy and procurement practice, as well as that the government seek a voluntary refund. [S2]

TransDigm said the company acted consistently with applicable laws and regulations and disputed aspects of the report's analysis. [S3] In earlier congressional testimony, company representatives emphasized that the government buys specialized, low-volume parts and that prices support manufacturing capability and long-term supply; lawmakers focused on the audit's estimates and whether buyers could evaluate prices adequately. [S4]

The evidence here is intentionally bounded: the full 2021 audit PDF could not be accessed for this case. The case uses DoD OIG's official public summary and Oversight.gov record, which state the audit scope, headline calculation, methodology summary, and recommendations. The detailed part-level calculations, appendices, and all qualifications in the complete report have not been independently checked. Treat "excess profit" as the audit's estimate under its benchmark, not a legal judgment or an estimate of TransDigm's groupwide returns.

There is also a business trade-off behind the debate. A supplier may need to retain engineering, quality, traceability, inventory, and small-batch capacity after an aircraft model stops production. But part-level cost-to-serve is not disclosed here, and high consolidated margins cannot show whether any specific price reflects those costs or a customer's alternatives.

Three possible approaches

Keep the current decentralized process. Continue to let operating units set prices under the existing value-driven strategy and focus on compliance training. This protects local speed and judgment. It leaves unanswered how consistently units document customer value, cost-to-serve, and sourcing alternatives, particularly on low-dollar sole-source contracts and products added through acquisitions.

Require evidence and escalation for selected quotes. Establish a common file for designated transactions, including the product's customer value, cost-to-serve, production and qualification alternatives, price history, contract type, and any public-sector disclosure rules. Require senior review only when defined risk indicators are present. This could improve consistency and the company's ability to explain prices; it could also add process cost, slow quotes, or constrain local expertise. Management would need to define scope and thresholds

without assuming “sole-source” alone proves a problem.

Offer lifecycle terms to selected customers. For selected parts or relationships, offer multi-year price schedules, supply or inventory commitments, repair-channel access, or other terms that increase predictability. This may align price with the customer's planning horizon and recognize continued service obligations. It also risks locking in prices while labor, materials, demand, and product revisions change. The case provides no evidence that TransDigm currently offers these terms.

You may recommend a combination, but specify which transactions it covers and what trade-offs you accept. No alternative is costless or established as the company's current plan.

Questions for discussion

1. Which parts of TransDigm's value proposition can support a premium price? What evidence would distinguish engineering and lifecycle support from scarcity alone?
2. What does the DoD OIG audit establish, and what does it not establish? How should management respond to the procurement problem while preserving reliable supply?
3. Which approach should TransDigm use, and for which products or contracts? What would you avoid applying companywide?
4. How should the company compare Simmonds' future performance with its purchase rationale without attributing acquired growth to price increases alone?
5. What three to five measures would tell management whether the chosen approach improves customer outcomes and economic returns? What evidence must be collected first?

Sources and case conventions

S1. TransDigm Group Inc., [FY2025 Form 10-K](#), filed 12 November 2025, accession 0001260221-25-000081; fiscal year ended 30 September 2025. SEC filing index records acceptance at 4:06:17 p.m. ET on 12 November 2025. Relevant printed locators: Business, pp. 1-6; MD&A, pp. 17-24; acquisition note, F-11-F-12.

S2. U.S. Department of Defense Inspector General, [Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing](#), DODIG-2022-043, 13 December 2021; public summary and recommendations. Full PDF was inaccessible to the case researcher; see limitation above. See also [Oversight.gov audit record](#).

S3. TransDigm, [comments on the DoD OIG report](#), 13 December 2021. Company position, attributed.

S4. U.S. House Committee on Oversight and Reform, [hearing transcript](#), 19 January 2022. See opening statements, company testimony, and questions regarding the OIG audit. Statements are attributed, not treated as independent findings.

The information cutoff is 13 November 2025 at 11:59 p.m. ET. The FY2025 Form 10-K was accepted by the SEC on 12 November. No subsequent results or outcomes are included. All proposed governance choices are classroom alternatives, not reported management plans.