

# Investor Relations Presentation

## Third Quarter 2019 (Published November 5, 2019)



# Safe Harbor Statement

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The following information contains, or may be deemed to contain, “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995). The words “believe,” “expect,” “anticipate,” “intend,” “estimate” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management’s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs; the concentration of our net sales in our top five customers and the loss of any one of these; the failure of markets outside North America to increase adoption of fully-automatic transmissions; the success of our research and development efforts, the outcome of which is uncertain; our failure to identify, consummate or effectively integrate acquisitions; U.S. and foreign defense spending; general economic and industry conditions; increases in cost, disruption of supply or shortage of raw materials or components used in our products; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; risks associated with our international operations, including increased trade protectionism; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; risks related to our substantial indebtedness; and our intention to pay dividends and repurchase shares of our common stock.

Allison Transmission cannot assure you that the assumptions made in preparing any of the forward-looking statements will prove accurate or that any long-term financial goals will be realized. All forward-looking statements included in this presentation speak only as of the date made, and Allison Transmission undertakes no obligation to update or revise publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, Allison Transmission cautions you not to place undue weight on certain forward-looking statements pertaining to potential growth opportunities, long-term financial goals or the value we currently ascribe to certain tax attributes set forth herein. Actual results may vary significantly from these statements.

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2018.

# Business Overview



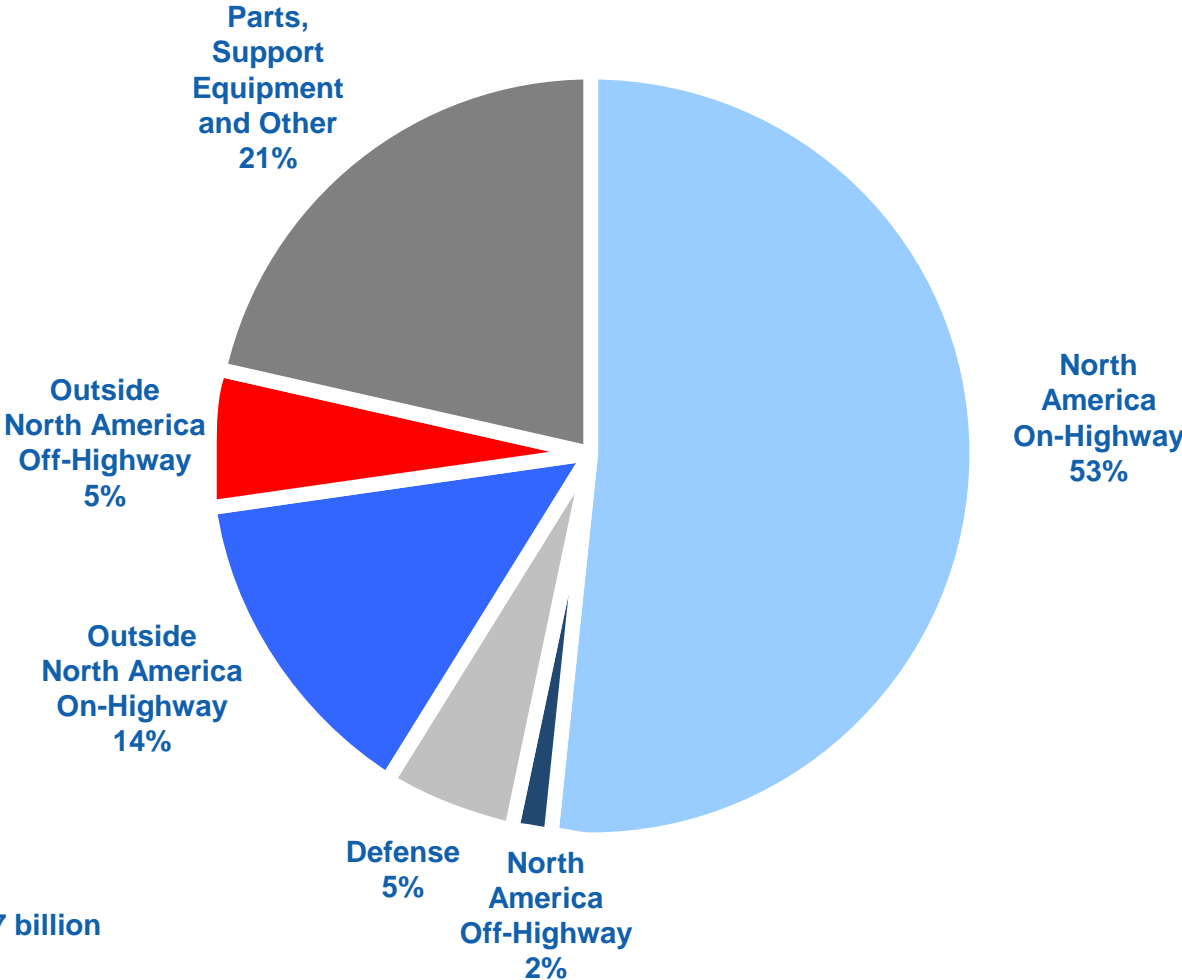
# Allison Transmission at a Glance

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- World's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles
  - 60% global market share of fully-automatic transmissions
  - Virtually no exposure to cyclical Class 8 line-haul tractor market
- Allison is the premier fully-automatic transmission brand
  - Premium price component frequently specified by end users
  - Differentiated technology offering superior performance and lower total cost of ownership
- Well positioned for revenue and earnings growth
  - Further adoption outside North America
  - Expanding addressable market
  - Funded growth opportunities in asset light business model
- Strong cash flow generation and well-defined capital allocation policy

# Allison Transmission at a Glance

## LTM<sup>(1)</sup> Net Sales by End Market



LTM<sup>(1)</sup> Net Sales: \$2.7 billion

<sup>(1)</sup> LTM 9/30/19

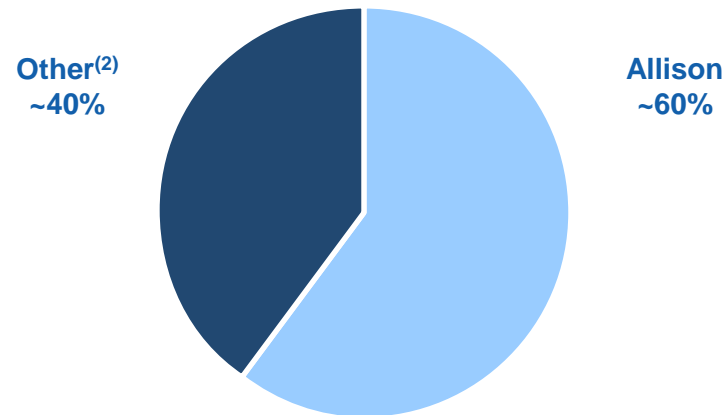


# Global Market Leader

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- The “de facto” standard in medium- and heavy-duty applications
  - Well established as standard in North America
- Increasing presence in emerging markets which today are predominantly manual
- Virtually no exposure to cyclical Class 8 line-haul tractor market









## Global On-Highway Fully-Automatic Share<sup>(1)</sup>



(1) 2018 Units. Source: Allison and ACT Research.

(2) Majority of “Other” volume is in North American Class 4-5 truck and European bus.

# North America On-Highway End Market

	Class 1-3	Underserved Class 4-5	Core Addressable Market				Underserved Class 8 Metro <sup>1</sup>	Class 8 Tractor (Linehaul)
			Motor Home	School Bus	Class 6-7	Class 8 Straight		
Vehicles								
Weight (000s of lbs)	< 14 lbs	14 – 19 lbs	16 – 33 lbs	16 – 33 lbs	19 – 33 lbs	33 lbs+	33 lbs+	33 lbs+
2018 Industry Units Produced	11,850,372	107,274	21,673	36,875	112,551	86,914	74,536	162,840
2018 Allison Share	0%	7%	39%	88%	74%	70%	5%	0%

- ~30-40% of Allison’s North America On-Highway market volume is driven by municipal spending, reducing end-market volatility
- Near-term opportunity to further penetrate Class 4/5 with recent medium-duty commercial truck launches by Chevrolet and Navistar, exclusively with the Allison fully-automatic transmission
- Growing opportunity in Class 8 Metro<sup>1</sup> and Tractor markets with the new Allison Regional Haul Series™ fully-automatic transmission<sup>2</sup>, with proprietary xFE and FuelSense® 2.0 technology

Note: Analysis excludes Allison’s Transit/Coach Bus and Electric Hybrid Transit Bus volume.

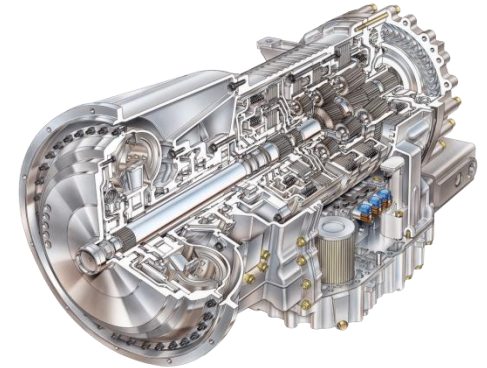
Source: Class 1-3 from WardsAuto North America Production – December 2018; Core Addressable Market and Class 8 Tractor from Allison and ACT Research.

1. “Metro” is a term for tractors that are used in urban environments, currently representing ~30% of the Class 8 tractor market.

2. Beginning in the second half of 2020, the Regional Haul Series will be an available option on the Freightliner M2 112 and the Cascadia

# Strategic Priorities

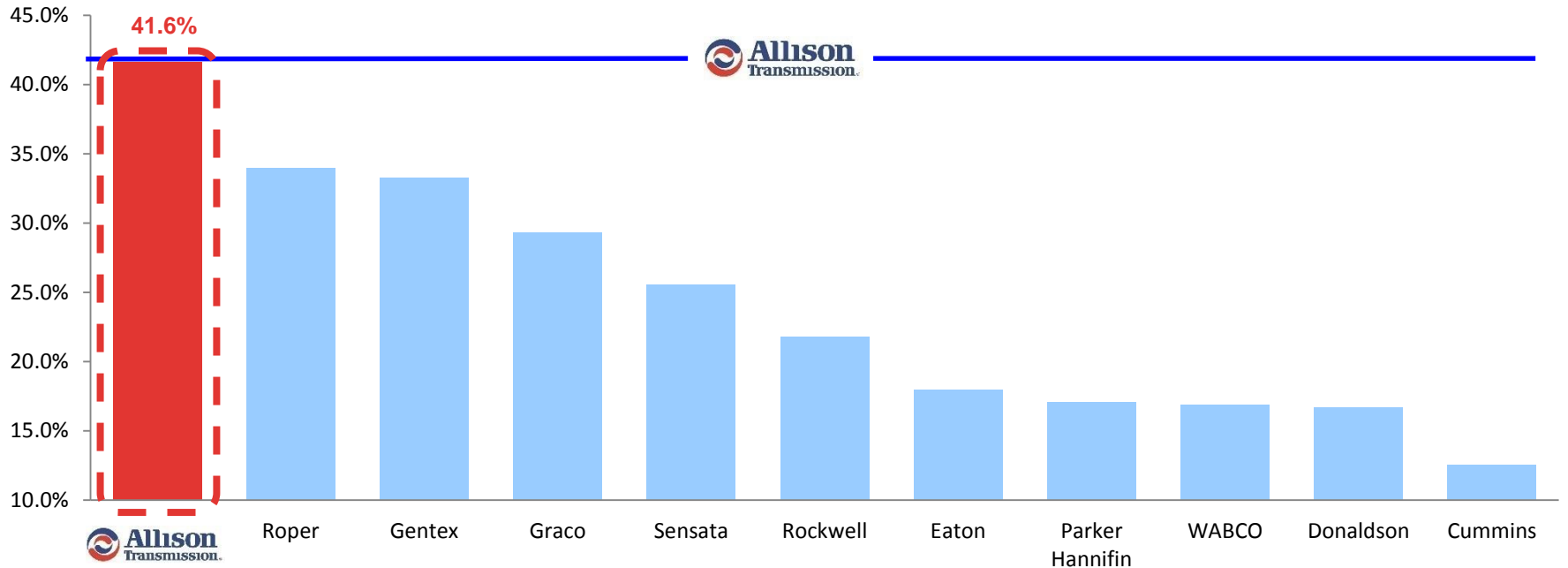
- Expand global market leadership
  - Capitalize on improved developed markets demand
  - New vocational offerings
- Emerging markets penetration
  - Vocational ladder strategy
  - Increasing number of vehicle releases
- Continued focus on new technologies and product development
  - Address markets adjacent to core
  - Leverage core technologies for new products with minimal investment
  - Advanced fuel efficient and emissions reduction technologies
  - Alternative fuels and electrification initiatives
- Deliver strong financial results
  - Exploit capacity availability and asset light business model
  - Earnings growth and cash flow generation
  - Focus on margin sustainment
  - Well-defined capital allocation policy





# Industry Leading EBITDA Margin

## EBITDA Margin<sup>1</sup>



1. Fiscal year 2018 peer EBITDA provided by FactSet. EBITDA included above may not be consistent with such entity's reported EBITDA or Adjusted EBITDA, if available. EBITDA Margin: EBITDA or Adjusted EBITDA divided by net sales.

\*See appendix for comments regarding the presentation of non-GAAP financial information.

# Premier Industrial Company

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**Global Market Leader and Premier Brand**



**End User Value Proposition**



**Diverse End Markets**



**Significant Cash Flow Generation**



**Well-Defined Capital Allocation Policy / Free Cash Flow Utilization**



**Multiple Organic Growth Opportunities**



**Leading Technology and Innovation**

# A Recognized Leader and Respected Brand

- Over 100 year history of providing high-quality innovative products and demonstrated value to end users
- Proprietary and patented technology developed over many decades and nearly seven million units
- The Allison brand is associated with:
  - High Quality
  - Reliability
  - Durability
  - Vocational Value and Expertise
  - Technological Leadership
  - Superior Customer Service
  - Attractive Total Lifecycle Value



**FUELSENSE**

## UP TO 20% BETTER FUEL ECONOMY

The Savings Are Automatic

Discover fuel economy you never thought possible. Introducing FuelSense® from Allison Transmission. Your fleet and drivers can get up to 20% better fuel economy. All with the ease and dependability you expect from an Allison fully automatic transmission.

Specify FuelSense. This package delivers.

Ask your truck dealer about FuelSense.  
[allisontransmission.com/fuelsense](http://allisontransmission.com/fuelsense)

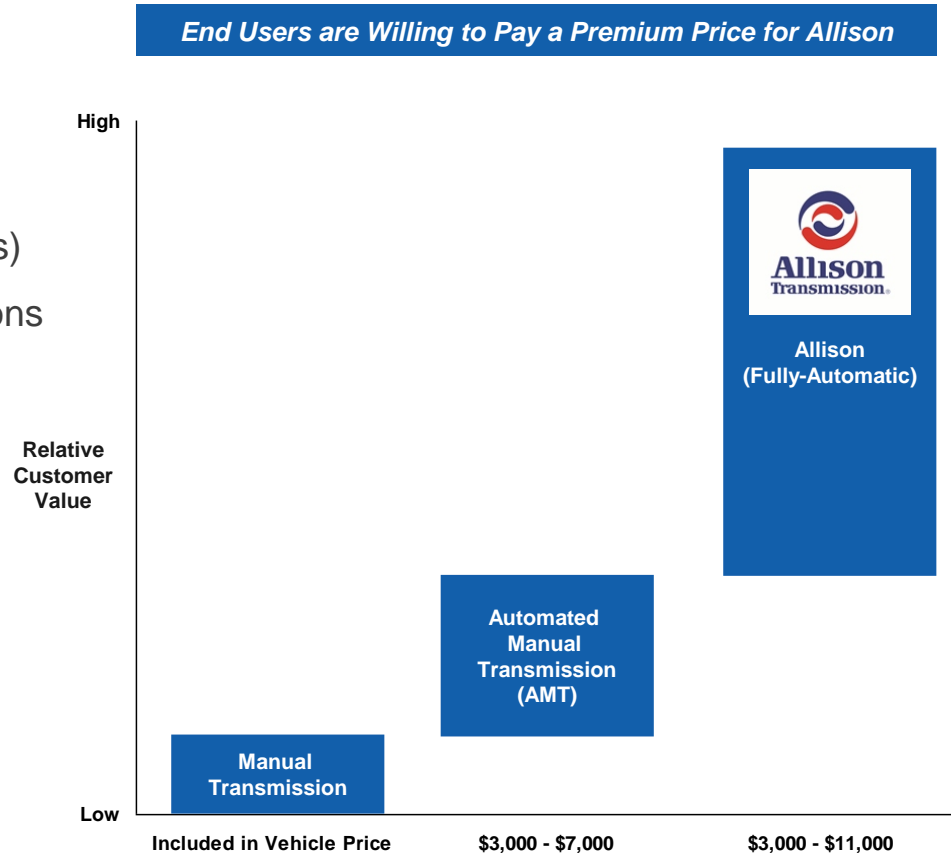
© 2018 ALLISON TRANSMISSION INC.



*End Users Frequently Request Allison Transmissions by Name and Pay a Premium for Them*

# End User Value Proposition

- Advantages of a fully-automatic Allison Transmission
  - Productivity (acceleration)
  - Maintenance Savings (life cycle costs)
  - Fuel Efficiency and Reduced Emissions
  - Driver Skillset / Wages
  - Training (time, cost)
  - Shift Quality
  - Safety
  - Residual Value



*Payback period for a premium Allison Transmission averages less than 3 years*

# Very Diverse End Markets

	Distribution	Emergency	Motorhome	Rugged Duty	School/Shuttle Bus	Transit	
Global	On-Highway	    	  	  	   	  	    
	Off-Highway	  			  		
Defense	Medium- and Heavy-Tactical	   	   				
Aftermarket	Parts, Support Equipment & Other	 					

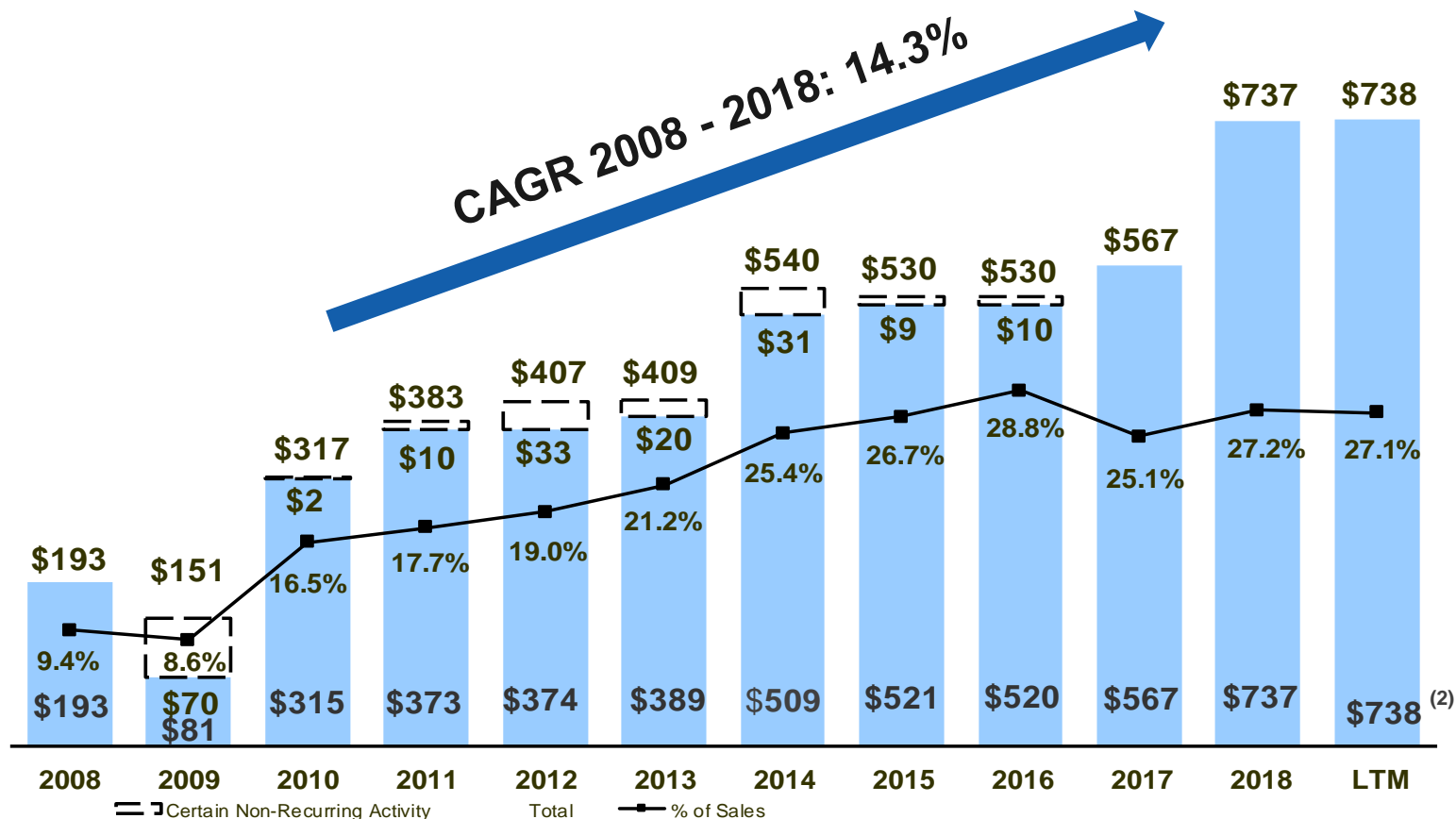
# Over 50 Year Relationship with Industry-Leading OEMs

North America	On-Highway	
	Off-Highway	
Outside North America	On-Highway	
	Off-Highway	
Defense	Medium- and Heavy-Tactical	

# Significant Cash Flow Generation

## Adj. Free Cash Flow Generation<sup>(1)</sup>

(\$ in millions)



Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) See appendix for a reconciliation of Adjusted Free Cash Flow.

(2) LTM 09/30/19

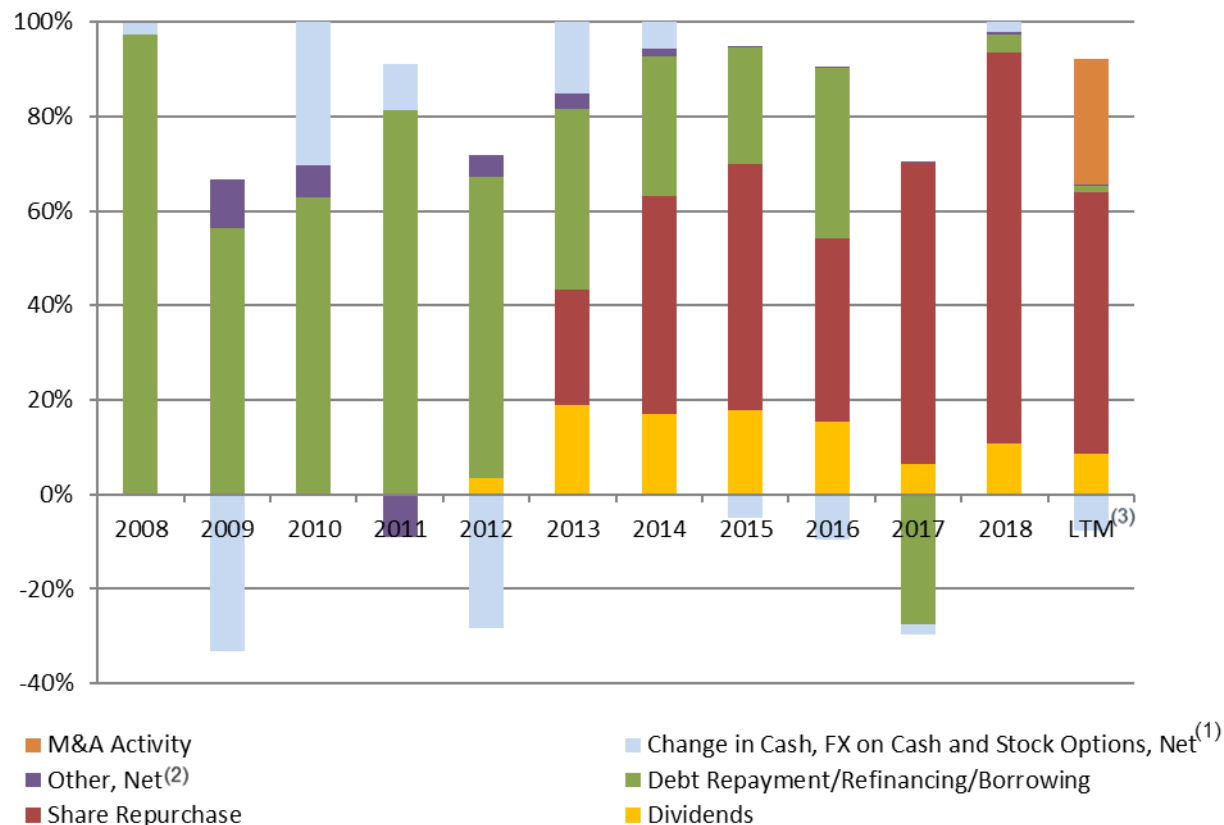
# Capital Allocation Priorities

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- Organic revenue and earnings growth
- New product and technology development
- Strategic acquisition opportunities
- Return of capital to shareholders
- Prudent balance sheet management
- Low-cost, flexible and pre-payable debt structure with long dated maturities



# Free Cash Flow Utilization



## Well-Defined Capital Allocation Policy

- Realize returns from completed investments in global commercial capabilities, and new product and technology development
- Return of capital to shareholders
  - Quarterly dividend
  - \$3.0 billion share repurchase authorization<sup>(4)</sup>
  - 43.5% of shares outstanding repurchased<sup>(5)</sup> since IPO
- Prudent balance sheet management
  - Low-cost, flexible and pre-payable debt structure with long dated maturities

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) Net of change in Cash & Cash Equivalents

(2) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes (\$29) million, (b) cash restructuring charge \$51 million, (c) accounts payable early payments \$3 million, (d) delayed accounts receivable receipts \$19 million and (e) Lehman LIBOR swap settlement \$17 million. All periods adjusted for collateral for interest rate derivatives, purchase of available-for-sale securities, proceeds from disposal of assets, investments in technology-related initiatives and license expenses, and fee to terminate services agreement with Sponsors.

(3) LTM 09/30/19

(4) \$1.11 billion of authorized share repurchase capacity remaining as of 09/30/19

(5) Based on common shares outstanding at IPO in March 2012 (181,375,783 shares)

# Multiple Organic Growth Opportunities

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**Developed Markets Opportunities**



**Increase Penetration of Fully-Automatic Transmissions**



**Accelerate Adoption in Emerging Markets**

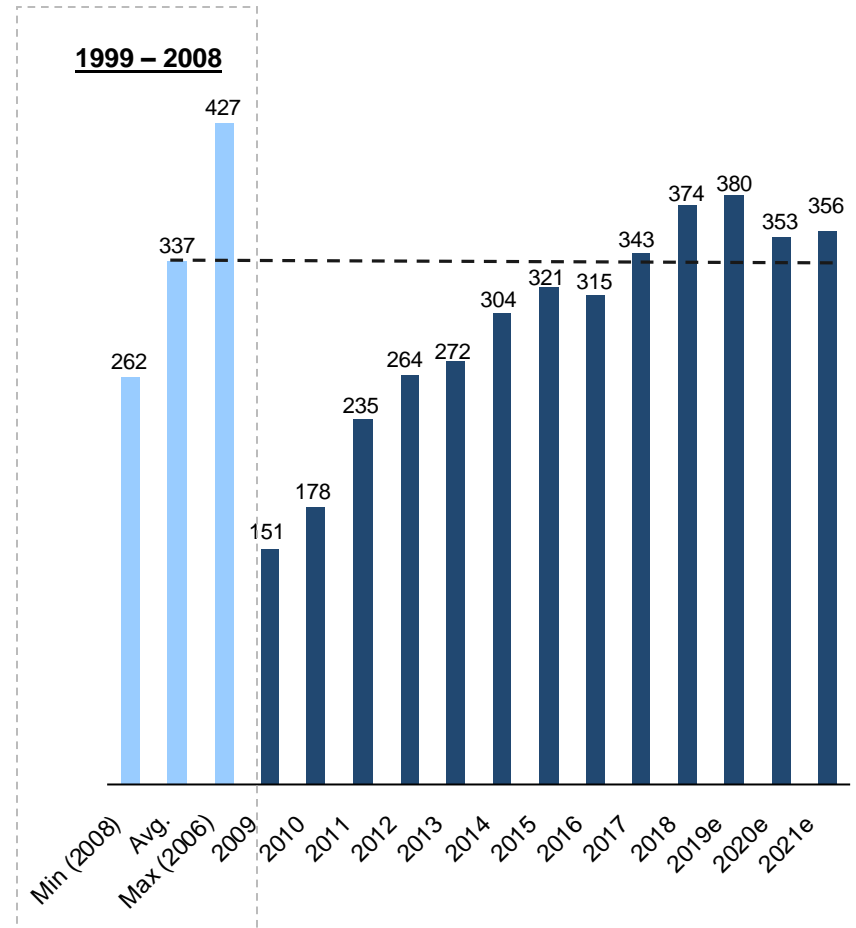


**Global Off-Highway Growth Opportunities**

# Developed Markets Opportunities

- Stable production following rebound off of cyclical lows
  - Housing recovery and increased construction activities driving greater demand for medium- and heavy-duty trucks
  - Lack of near term significant EPA emission changes reduces cyclicality
- Allison's growth is further supported by
  - Continued demand for fuel efficient vehicles
  - Growing first and last mile delivery sector
- Opportunities to penetrate underserved Class 4/5 and Class 8 Metro markets
  - Recent medium-duty commercial truck launches by Chevrolet and Navistar, exclusively with the Allison fully-automatic transmission
  - Allison Regional Haul Series fully-automatic transmission for the Class 8 Tractor market will launch with Freightliner Trucks in 2020

North America Production in Allison's Core Addressable Market (units in 000s)<sup>(1)</sup>



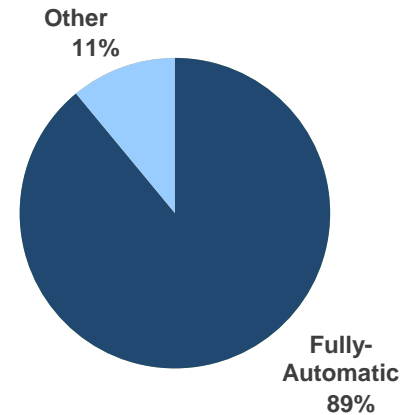
(1) Source: ACT Research, October 2019. Includes: Class 4 thru 8 less Class 8 Tractor & Class 8 Straight with Sleeper. 2019e: Total 636,689 less Class 8 Tractor of 254,270 less Class 8 Straight with Sleeper of 2,449.

# Increase Penetration of Fully-Automatic Transmissions

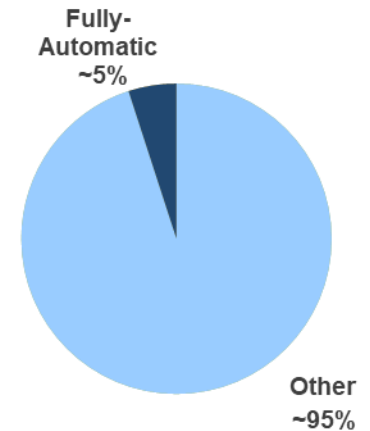
- Ongoing need for productivity improvements
  - Better acceleration and shorter travel time result in increased miles and revenue
  - Improved fuel efficiency and increased vehicle uptime
- Focus on reducing life cycle costs
  - Lower maintenance and fuel expense
  - Increased vehicle residual value
- Micro and demographic trends
  - Ease of operation increases pool of qualified drivers
  - Less driver training, lower turnover and improved safety
- Underserved North America market segments

## Penetration of Fully-Automatic Transmissions On-Highway

North America<sup>(1)</sup>



Outside North America<sup>(2)(3)</sup>



Source: Allison.

(1) Includes Class 4-7 trucks, Class 8 straight trucks, buses (school, conventional transit, shuttle and coach) and motorhomes.

(2) Includes medium- and heavy-duty commercial vehicles.

(3) 2018 Outside-North America On-Highway Transmission Net Sales by Region: EMEA \$195M, Asia Pacific \$170M and South America \$18M.

# Accelerate Adoption in Emerging Markets – China

- Allison is the #1 supplier of fully-automatic transmissions in China as a result of targeting specific vocations
  - Substantial installed base of approximately 75,000 transmissions in China
- Several million commercial vehicles produced annually of which approximately 250,000 are addressable by Allison
  - Allison's existing bus presence serves as entry point for incremental penetration into a market in which Fully-Automatic penetration is less than 5%

- Significant growth opportunities by targeting a wide range of vocational truck applications

- Government emphasis on equipment modernization for mining, rescue operations, school buses and other applications
- Construction and energy sectors

- OEM release activities supported by focused end user initiatives resulting in fleets requesting Allison by name

## Allison's China Truck Vocational Focus



Terminal Tractor



Airport Services



Fire and Emergency



Oil Field



Crane Carrier



Construction / Dump



Refuse

# Global Off-Highway Growth Opportunities

## ● Energy Sectors

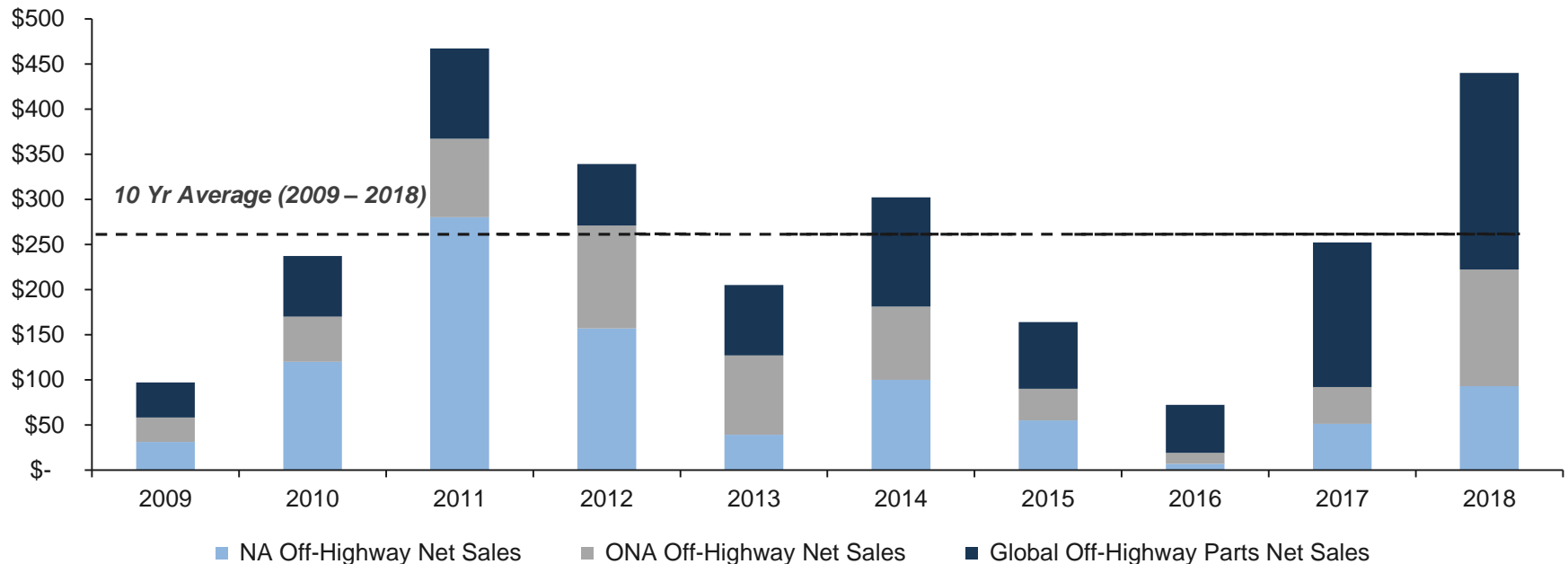
- Considerable end market cyclical
- Multiple opportunities in exploration, fracturing and oil & gas support
- Introduction of new high horsepower hydraulic fracturing transmissions

## ● Mining and Construction

- Considerable end market cyclical, recovering from trough levels
- North America, Europe, Middle East, Africa and China
- Increasing urbanization in emerging markets driving increased construction activity and raw material demand

## ● High Horsepower Hydraulic Fracturing Transmissions

- New Oil Field Series (OFS) models based on six decades of industry expertise
- Addresses global market demand for higher horsepower, extended duty cycles, lower days-to-depth and higher recovery factors



# Leading Technology and Innovation

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**Leader in Commercial Propulsion**



**Variants and Enhancements to Base Technology**



**Allison Electric Hybrid 40/50 EP™ Extended Range**



**Commercial Truck and Bus e-Axle Solutions**

# Leader in Commercial Propulsion

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Allison's addressable market is a complex application space due to vocational fragmentation, requiring a range of propulsion solutions where we are a natural supplier

- Internal Combustion Engine applications
- Alternative Fuel vehicles with proven performance and a funded infrastructure
- Electric Hybrid Systems, including flexible hybrid, range extender and plug-in options
- Full Electric Solutions, including fuel cell and battery electric applications

Allison intends to remain a global leader in commercial vehicle propulsion and is positioning to meet the market's future demands with the right products, for the right customers, at the right time

- Ongoing initiatives for opportunities across all of our end markets (On-Highway, Off-Highway, Defense, Hybrid, EV)
- Multiple electrified solutions currently in development:
  - Multi-speed Centrally located EV drives
  - Extended Range Electric Hybrid Propulsion
  - Systems & Battery Management
  - Integrated e-Axles
  - Transmission Integrated Generators
  - Power distribution for electrification of accessories



# Variants and Enhancements to Base Technology

## FuelSense® 2.0

- Proprietary software launched in 2017, ideally suited for shift dense vocations such as transit, school bus, refuse, construction and distribution
- DynaActive Shifting utilizes learning algorithm to continuously find the ideal balance of fuel economy and performance
- Neutral at Stop trims fuel consumption and emissions by reducing load on the engine when the vehicle is stopped
- Acceleration Rate Management limits vehicle acceleration to a customized calibrated rate

## xFE Models

- New transmissions with redesigned torque converter damper, optimized gear ratios and coupled with FuelSense Max™ packages
- Represents the latest in fuel savings innovation
  - Fuel savings of up to 7% over comparatively equipped models with FuelSense features
  - Best fuel economy from an automatic transmission
- Available in the 1000, 2000 and 3000 Series fully-automatic transmission models

## Nine Speed Transmission

- New design leverages the proven reliability of the Allison six-speed 2000 Series™
- New benchmark in fuel efficiency and reduced emissions standards
- Significant fuel savings due to deep first gear ratio, industry leading ratio coverage and advanced engine stop-start capability
- Improved driver comfort and acceleration, allowing for a smoother launch and increased productivity

## 3414 Regional Haul Series™

- New updated variant of Allison's proven 3000 Series™ fully-automatic transmission
- Designed to support the higher engine and torque requirements of Distribution and Regional Haul Class 8 tractors, primarily serving urban environments
- Lighter than competitive automated manual transmissions, and providing fleets with 25% faster acceleration and up to 8% fuel economy improvement
- Scheduled to launch in 2020 with Freightliner Trucks

***Average Annual Spend over \$110 Million in Product-Related Research and Development Since 2007***

FuelSense is a registered trademark of Allison Transmission Inc.

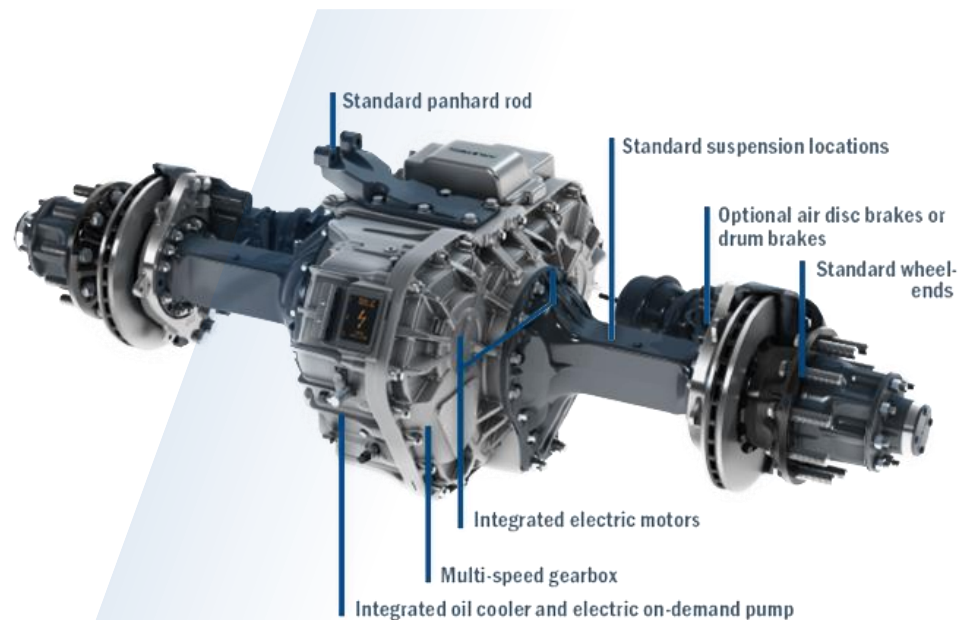
# Allison Electric Hybrid 40/50 EP™ Extended Range

- Launched in 2003, Allison's electric hybrid propulsion system for transit buses has proven to be among the most dependable and efficient electric hybrid systems at work anywhere in the world
- Latest generation includes a pure electric extended range for up to 10 miles, featuring zero-emissions with engine off, including approaching, during and departing passenger stops for a quieter and healthier environment
- Engineered for regenerative braking, converting a vehicle's kinetic energy into stored electric power to propel the vehicle or to provide additional pure electric capabilities for auxiliary operations
- Allison is the lead electrification and system integrator, controlling the entire powertrain including the engine
- To date, Allison has sold more electric hybrid systems for commercial vehicles than any other company in the world
  - Approximately 9,000 Allison Hybrids delivered worldwide
  - Over 41 million gallons of fuel saved
  - Over 400,000 metric tons of CO<sub>2</sub> prevented
- Released with all North American Transit OEMs
  - Purpose built architecture and design
  - Superior gradeability
  - Real world fuel economy gains and reduced emissions



# Commercial Truck and Bus e-Axle Solutions

- Line of fully integrated electric axles designed to fit between the wheels of medium- and heavy-duty trucks and buses
- Allison's electrified bolt-in solution is compatible within the current vehicle frame, suspension, wheel-ends, and OEM vehicle assembly process
- Features fully integrated electric motors, a multi-speed gearbox, proprietary oil cooling and pump, providing one of the industry's top performing and most efficient solutions
- Ideal propulsion solution for battery electric, fuel cell electric and range extending electric hybrid vehicles

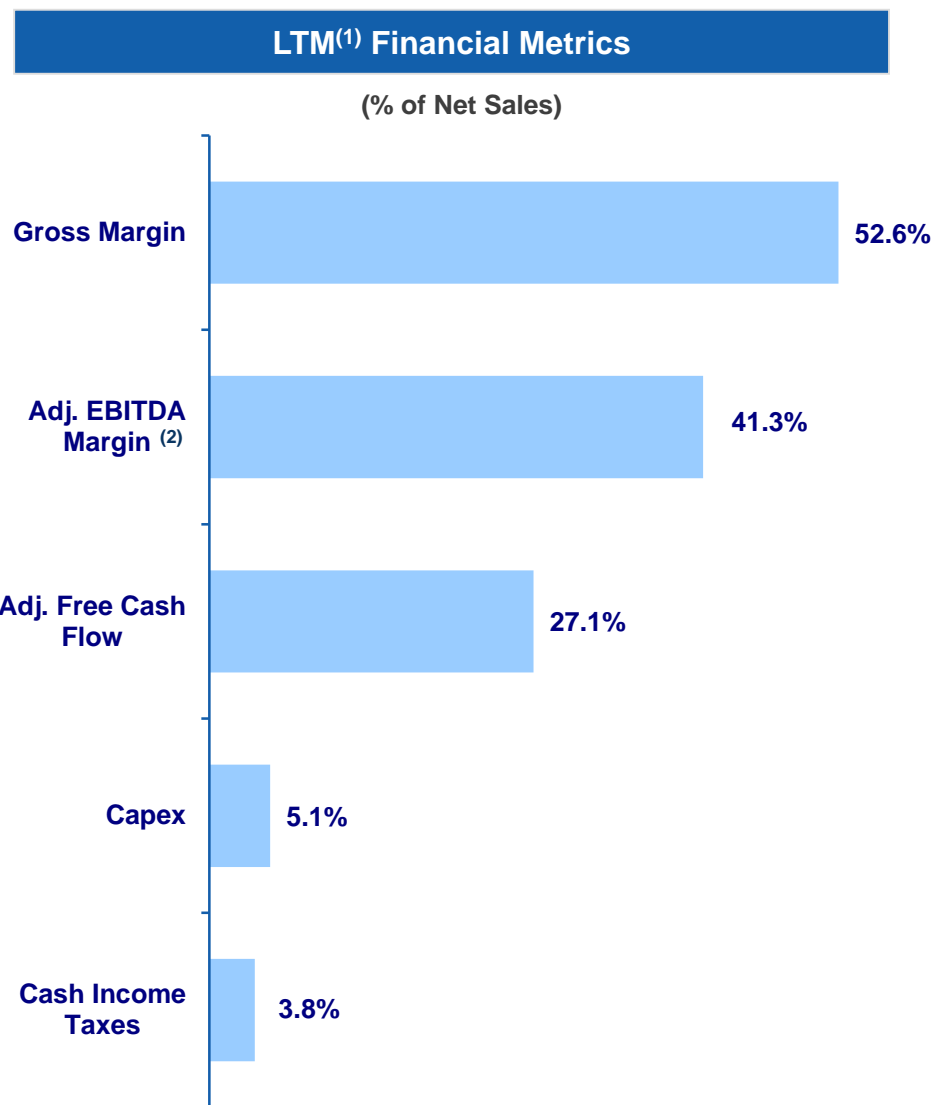


# Financial Overview



# Allison Financial Highlights

- Solid operating margins
  - End markets diversity
  - Premium vocational pricing model
  - Cost controls and productivity improvements
  - Multi-Tier UAW wage and benefits structure
- Low recurring capital expenditure requirements
- Valuable U.S. income tax shield
  - ~\$200 million present value
- Positioned for long-term cash earnings growth
  - Multiple growth opportunities in asset light business model
- Strong free cash flow



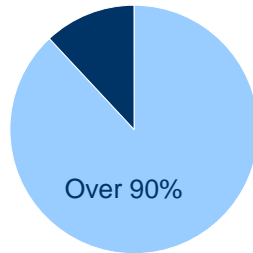
(1) LTM 9/30/19.

(2) Adjusted EBITDA margin: Adjusted EBITDA divided by net sales.

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

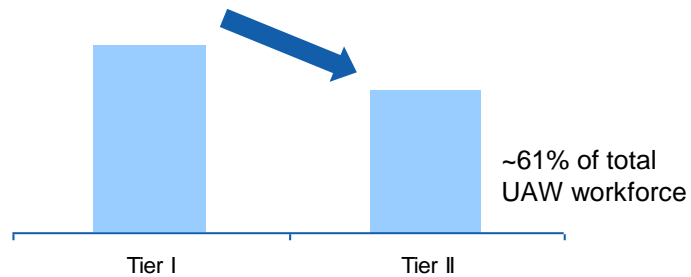
# Solid Operating Margins

## Long-Term Customer Supply Agreements



*Over 90% of 2018 N.A. On-Highway Unit Volume was covered by long-term customer supply agreements*

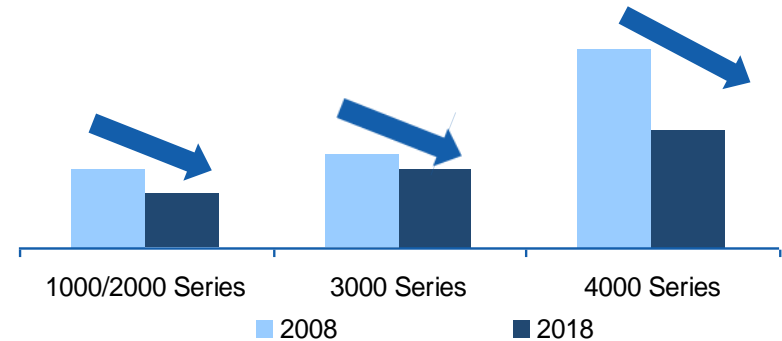
## Workforce Optimization (cost/employee) <sup>(1)</sup>



*Significant savings driven by retirement of Tier I workers; 461 hourly employees are retirement eligible (~30% of workforce)*

Source: Allison.  
(1) As of 12/31/18.

## Manufacturing Efficiencies (hours/unit)



*Hours Per Unit continue to decline*

## International Manufacturing

### India (~\$103mm total investment)

- New facility constructed to better serve Asia-Pacific
- Assembly of 1000/2000 Series
- In-sourced component manufacturing

### Hungary (~\$17mm total investment)

- Assembly of 3000/4000 Series

# Income Tax Attributes

## Income Tax Attributes Overview

- Allison acquired from General Motors in August 2007
  - Asset deal structure
  - Step-up in basis for U.S. federal income tax purposes

Cash Income Taxes Paid 2008-2018 (\$ millions)										
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$4	\$6	\$2	\$6	\$11	\$4	\$5	\$5	\$13	\$96	\$101

- As of 12/31/2018 Allison had \$1.1bn of unamortized intangible assets
  - Expect annual U.S. federal income tax deductions of \$315mm through 2021 and \$185mm in 2022

(\$ millions)	Total	2019	2020	2021	2022
Annual tax amortization	\$1,130	\$315	\$315	\$315	\$185
<b>Cash tax savings<sup>(1)</sup></b>	<b>240</b>	67	67	67	39

*Results in present value tax savings of \$203-\$220mm<sup>(2)</sup>*

(1) Assuming continued profitability and no limitations at an assumed 21% federal and state tax rate.

(2) Based on annual discount rate of 5-10%; includes amortization of intangibles.

# Summary

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- Allison Transmission is the global leader in the markets it serves
  - Premier fully-automatic transmission brand
  - Over 100 year operating history
- Strong financial position
  - Industry leading EBITDA margin
  - Asset light business model
  - Significant free cash flow generation
  - Returning capital to shareholders
- Substantial long-term growth opportunities
  - Expand global leadership
  - Penetrate emerging markets
  - Address underserved markets
  - Continuous product innovation



# Guidance / Supplemental Financial Data



# 2019 Guidance - Summary

(\$ in millions)	Guidance	Commentary
Net Sales	\$2,650 to \$2,700	Guidance reflects lower demand in the Service Parts, Support Equipment & Other and North America Off-Highway end markets principally driven by lower demand from hydraulic fracturing applications partially offset by increased demand in the North America On-Highway end market, price increases on certain products and continued execution of our growth initiatives
Net Income	\$555 to \$575	
Adjusted EBITDA	\$1,035 to \$1,065	
Net Cash provided by Operating Activities	\$745 to \$775	
Adjusted Free Cash Flow	\$570 to \$610	Net Cash Provided by Operating Activities less CapEx
Cash Income Taxes	\$95 to \$105	

# Historical Financial Summary

Financial Summary											
In \$ millions	Annual										LTM <sup>(1)</sup>
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Net Sales	\$1,767	\$1,926	\$2,163	\$2,142	\$1,927	\$2,127	\$1,986	\$1,840	\$2,262	\$2,713	\$2,728
% Growth	(14.3%)	9.0%	12.3%	(1.0%)	(10.0%)	10.4%	(6.7%)	(7.3%)	22.9%	19.9%	0.6%
Adjusted EBITDA <sup>(2)</sup>	511	619	722	717	633	745	720	644	868	1,128	1,128
% of Net Sales	28.9%	32.1%	33.4%	33.5%	32.8%	35.0%	36.3%	35.0%	38.4%	41.6%	41.3%
Effective Cash Tax Rate <sup>(3)</sup>	NM	2.7%	3.9%	4.9%	1.4%	1.4%	1.8%	3.8%	18.2%	12.5%	13.0%
Total CapEx	88	74	97	124	74	64	58	71	91	100	139
% of Net Sales <sup>(4)</sup>	5.0%	3.8%	4.5%	5.8%	3.9%	3.0%	2.9%	3.8%	4.0%	3.7%	5.1%
Adj. Free Cash Flow	151	317	383	407	409	540	530	530	567	737	738
% of Net Sales	8.6%	16.5%	17.7%	19.0%	21.2%	25.4%	26.7%	28.8%	25.1%	27.2%	27.1%

- Resiliency through the 2009 downturn, evidenced by increasing EBITDA margins and strong free cash flow generation
- Completed investments in global commercial capabilities, new product development and low-cost country manufacturing
- Strong free cash flow driven by high margins, asset light business model, and income tax attributes

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) LTM 9/30/19.

(2) Excluding technology-related license expenses: 2009 of \$10 million, 2010 of \$2 million, 2011 of \$10 million, 2012 of \$12 million, 2013 of \$6 million, 2014 of \$6 million.

(3) Effective cash tax rate defined as cash income taxes divided by income (loss) before taxes.

(4) 2011 is 2.7%, 2012 is 2.8%, 2013 is 3.2%, 2014 is 2.9%, 2015 is 2.9%, 2016 is 3.5%, 2017 is 3.6%, 2018 is 3.6% and LTM is 3.8% excluding Outside-North America manufacturing expansion and new products and technology programs.

# Allison Quarterly Sales Summary

Quarterly Net Sales by End Market (\$ millions)															
Net Sales	2013					2014					2015				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
NA On-Highway	\$219	\$243	\$226	\$242	\$930	\$257	\$271	\$279	\$273	\$1,080	\$286	\$297	\$274	\$275	\$1,132
NA Off-Highway	8	8	9	14	39	12	23	30	36	101	22	10	12	11	55
Defense	57	58	52	35	202	34	49	35	38	156	25	29	34	25	113
ONA On-Highway	62	75	70	86	293	64	62	73	65	264	57	73	67	65	262
ONA Off-Highway	21	36	17	14	88	21	24	18	19	82	16	8	4	7	35
Parts, Support Equipment & Other	90	92	93	100	375	106	107	118	113	444	98	94	102	95	389
<b>Total Net Sales</b>	<b>\$457</b>	<b>\$512</b>	<b>\$467</b>	<b>\$491</b>	<b>\$1,927</b>	<b>\$494</b>	<b>\$536</b>	<b>\$553</b>	<b>\$544</b>	<b>\$2,127</b>	<b>\$504</b>	<b>\$511</b>	<b>\$493</b>	<b>\$478</b>	<b>\$1,986</b>
Net Sales	2016					2017					2018				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
NA On-Highway	\$274	\$280	\$232	\$237	\$1,023	\$275	\$314	\$301	\$287	\$1,177	\$339	\$343	\$332	\$303	\$1,317
NA Off-Highway	5	1	1	0	7	1	5	17	28	51	33	31	12	17	93
Defense	25	28	25	37	115	27	30	35	25	117	37	43	42	36	158
ONA On-Highway	70	74	78	83	305	72	85	89	98	344	91	101	96	95	383
ONA Off-Highway	3	3	2	4	12	6	10	14	11	41	12	24	46	47	129
Parts, Support Equipment & Other	85	89	96	108	378	118	136	139	139	532	151	169	164	149	633
<b>Total Net Sales</b>	<b>\$462</b>	<b>\$475</b>	<b>\$434</b>	<b>\$469</b>	<b>\$1,840</b>	<b>\$499</b>	<b>\$580</b>	<b>\$595</b>	<b>\$588</b>	<b>\$2,262</b>	<b>\$663</b>	<b>\$711</b>	<b>\$692</b>	<b>\$647</b>	<b>\$2,713</b>
Net Sales	2019														
	Q1	Q2	Q3	LTM											
NA On-Highway	\$377	\$398	\$369	\$1,447											
NA Off-Highway	14	9	6	46											
Defense	32	37	40	145											
ONA On-Highway	94	106	99	394											
ONA Off-Highway	27	40	24	138											
Parts, Support Equipment & Other	131	147	131	558											
<b>Total Net Sales</b>	<b>\$675</b>	<b>\$737</b>	<b>\$669</b>	<b>\$2,728</b>											

# Appendix: Non-GAAP Financial Information



# Non-GAAP Financial Information

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We use Adjusted EBITDA and Adjusted EBITDA as a percent of net sales to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA as a percent of net sales provide management, investors and creditors with useful measures of the operational results of our business and increase the period-to-period comparability of our operating profitability and comparability with other companies. Adjusted EBITDA as a percent of net sales is also used in the calculation of management's incentive compensation program. The most directly comparable U.S. generally accepted accounting principles ("GAAP") measure to Adjusted EBITDA and Adjusted EBITDA as a percent of net sales is Net income and Net income as a percent of net sales, respectively. Adjusted EBITDA is calculated as the earnings before interest expense, income tax expense, amortization of intangible assets, depreciation of property, plant and equipment and other adjustments as defined by Allison Transmission, Inc.'s, the Company's wholly-owned subsidiary, Second Amended and Restated Credit Agreement. Adjusted EBITDA as a percent of net sales is calculated as Adjusted EBITDA divided by net sales.

We use Adjusted Free Cash Flow to evaluate the amount of cash generated by our business that, after the capital investment needed to maintain and grow our business and certain mandatory debt service requirements, can be used for repayment of debt, stockholder distributions and strategic opportunities, including investing in our business. We believe that Adjusted Free Cash Flow enhances the understanding of the cash flows of our business for management, investors and creditors. Adjusted Free Cash Flow is also used in the calculation of management's incentive compensation program. The most directly comparable GAAP measure to Adjusted Free Cash Flow is Net cash provided by operating activities. Adjusted Free Cash Flow is calculated as Net cash provided by operating activities after additions of long-lived assets.

# Non-GAAP Reconciliations (1 of 3)

## Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,										Last twelve months ended
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	September 30, 2019
<b>Net income (GAAP)</b>	<b>(\$324)</b>	<b>\$30</b>	<b>\$103</b>	<b>\$514</b>	<b>\$165</b>	<b>\$229</b>	<b>\$182</b>	<b>\$215</b>	<b>\$504</b>	<b>\$639</b>	<b>\$644</b>
plus:											
Interest expense, net	235	277	217	151	133	138	114	101	103	121	132
Income tax expense (benefit)	41	54	48	(298)	101	139	107	126	23	166	164
Technology-related investment expenses	—	—	—	14	5	2	—	1	16	3	3
Trade name impairments	190	—	—	—	—	—	80	—	—	—	—
Impairments of long-lived assets	—	—	—	—	—	15	1	—	32	4	4
Environmental remediation	—	—	—	—	—	—	14	—	—	—	—
Amortization of intangible assets	156	154	152	150	105	99	97	92	90	87	86
Depreciation of property, plant and equipment	106	100	104	103	99	94	88	84	80	77	76
(Gain) loss on redemptions and repayments of long-term debt	(9)	(3)	16	22	1	1	1	—	—	—	—
Stockholder activism expenses	—	—	—	—	—	—	—	4	—	—	—
Dual power inverter module extended coverage	11	(2)	—	9	(2)	1	(2)	1	(2)	—	—
UAW Local 933 signing bonus	—	—	—	9	—	—	—	—	10	—	—
UAW Local 933 retirement incentive	—	—	—	—	—	—	—	—	—	15	7
Unrealized (gain) loss on commodity hedge contracts	(6)	—	7	(1)	2	(1)	1	(2)	—	—	—
Unrealized loss (gain) on foreign exchange	—	—	—	—	2	5	1	1	—	3	(3)
Expenses related to long-term debt refinancing	—	—	57	—	—	—	25	12	—	—	1
Restructuring charges	48	—	—	—	1	1	—	—	—	—	—
Stock based compensation expense	7	8	8	6	14	15	10	9	12	13	14
Other, net <sup>(1)</sup>	46	(1)	—	26	1	1	1	—	—	—	—
<b>Adjusted EBITDA (non-GAAP)</b>	<b>\$501</b>	<b>\$617</b>	<b>\$712</b>	<b>\$705</b>	<b>\$627</b>	<b>\$739</b>	<b>\$720</b>	<b>\$644</b>	<b>\$868</b>	<b>\$1,128</b>	<b>\$1,128</b>
<b>Net Sales (GAAP)</b>	<b>\$1,767</b>	<b>\$1,926</b>	<b>\$2,163</b>	<b>\$2,142</b>	<b>\$1,927</b>	<b>\$2,127</b>	<b>\$1,986</b>	<b>\$1,840</b>	<b>\$2,262</b>	<b>\$2,713</b>	<b>\$2,728</b>
<b>Net income as a percent of net sales</b>	<b>-18.3%</b>	<b>1.6%</b>	<b>4.8%</b>	<b>24.0%</b>	<b>8.6%</b>	<b>10.8%</b>	<b>9.2%</b>	<b>11.7%</b>	<b>22.3%</b>	<b>23.6%</b>	<b>23.6%</b>
<b>Adjusted EBITDA as a percent of net sales</b>	<b>28.4%</b>	<b>32.0%</b>	<b>32.9%</b>	<b>32.9%</b>	<b>32.5%</b>	<b>34.7%</b>	<b>36.2%</b>	<b>35.0%</b>	<b>38.4%</b>	<b>41.6%</b>	<b>41.3%</b>

(1) Includes charges or income related to legacy employee benefits, employee disability coverage, shared income with General Motors, benefit plan adjustments, transitional costs to establish Allison as a stand-alone entity, pension curtailment adjustments, termination and service fees paid to Allison's Sponsors, an adjustment for the settlement of litigation which originated with the Predecessor but was assumed by the Company as part of the Acquisition Transaction, public offering expenses and reductions of supply contract liabilities.

# Non-GAAP Reconciliations (2 of 3)

## Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,										Last twelve months ended September 30,
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Net Cash Provided by Operating Activities (GAAP)</b>	<b>\$169</b>	<b>\$389</b>	<b>\$469</b>	<b>\$498</b>	<b>\$464</b>	<b>\$573</b>	<b>\$580</b>	<b>\$591</b>	<b>\$658</b>	<b>\$837</b>	<b>\$877</b>
(Deductions) or Additions:											
Long-lived assets	(88)	(74)	(97)	(124)	(75)	(64)	(58)	(71)	(91)	(100)	(139)
Fee to terminate services agreement with Sponsors	—	—	—	16	—	—	—	—	—	—	—
Technology-related license expenses	9	2	10	12	6	6	—	—	—	—	—
Stockholder activism expenses	—	—	—	—	—	—	—	4	—	—	—
Excess tax benefit from stock-based compensation	—	—	—	5	14	25	8	6	—	—	—
2009 Non-Recurring Activity <sup>(1)</sup>	61	—	—	—	—	—	—	—	—	—	—
<b>Adjusted Free Cash Flow (non-GAAP)</b>	<b>\$151</b>	<b>\$317</b>	<b>\$383</b>	<b>\$407</b>	<b>\$409</b>	<b>\$540</b>	<b>\$530</b>	<b>\$530</b>	<b>\$567</b>	<b>\$737</b>	<b>\$738</b>

(1) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes (\$29) million, (b) cash restructuring charge \$51 million, (c) accounts payable early payments \$3 million, (d) delayed accounts receivable receipts \$19 million and (e) Lehman LIBOR swap settlement \$17 million.



# Non-GAAP Reconciliations (3 of 3)

## Guidance reconciliation

\$ in millions

	Guidance	
	Year Ending December 31, 2019	
	Low	High
Net Income (GAAP)	\$ 555	\$ 575
plus:		
Income tax expense	158	168
Interest expense, net	135	135
Depreciation and amortization	164	164
Stock-based compensation expense (a)	14	14
Expenses related to long-term debt refinancing (b)	1	1
UAW Local 933 retirement incentive (c)	8	8
Adjusted EBITDA (Non-GAAP)	<u>\$ 1,035</u>	<u>\$ 1,065</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 745	\$ 775
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	(175)	(165)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 570</u>	<u>\$ 610</u>

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