Q2 2021 Earnings Release
July 28, 2021

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Safe Harbor Statement

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: the duration and spread of the COVID-19 pandemic, including new variants of the virus and the pace and availability of vaccines, mitigating efforts deployed by government agencies and the public at large, and the overall impact from such outbreak on economic conditions, financial market volatility and our business, including but not limited to the operations of our manufacturing and other facilities, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flow; increases in cost, disruption of supply or shortage of labor, freight, raw materials or components used to manufacture or transport our products, including as a result of the COVID-19 pandemic; risks related to our substantial indebtedness; 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; U.S. and foreign defense spending; risks associated with our international operations, including increased trade protectionism; general economic and industry conditions; 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; our ability to identify, consummate and effectively integrate acquisitions; labor shortages, labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers or suppliers; 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, 2020.

Non-GAAP Financial Information

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, excluding non-recurring restructuring charges, after additions of long-lived assets.

Call Agenda

- Q2 2021 Performance
- 2021 Guidance

Q2 2021 Performance Summary

($ in millions)	Q2 2021	Q2 2020	% Variance
Net Sales	$603	$377	73.6%
Gross Margin %	47.8%	43.8%	400 bps
Net Income	$110	$23	378.3%
Adjusted EBITDA(1)	$213	$115	85.2%

Commentary

Net Sales: increase was principally driven by higher demand in the Global On-Highway and Service Parts, Support Equipment & Other end markets and price increases on certain products.

Gross Margin: increase was principally driven by higher net sales, 2020 restructuring charges that did not recur in 2021, and price increases on certain products partially offset by higher manufacturing expense commensurate with higher net sales, and unfavorable material costs.

Net Income: increase was principally driven by higher gross profit partially offset by higher selling, general and administrative expenses and increased product initiatives spending.

Adjusted EBITDA: increase was principally driven by higher gross profit partially offset by increased incentive compensation expense, increased product initiatives spending and higher commercial activities spending.

(1) See Appendix for the reconciliation from Net Income.

Q2 2021 Sales Performance

($ in millions)

End Markets	Q2 2021	Q2 2020	% Variance	Commentary
North America On-Hwy	$302	$164	84%	Principally driven by the continuing recovery in customer demand following the pandemic-related disruptions experienced in 2020
North America Off-Hwy	$9	$3	200%	Principally driven by higher demand for hydraulic fracturing applications
Defense	$48	$42	14%	Principally driven by higher demand for Tracked vehicle applications
Outside North America On-Hwy	$98	$60	63%	Principally driven by the continuing recovery in customer demand following the pandemic-related disruptions experienced in 2020
Outside North America Off-Hwy	$18	$19	(5%)	Principally driven by lower demand in the energy sector, partially offset by higher demand in the mining and construction sectors
Service Parts, Support Equipment & Other	$128	$89	44%	Principally driven by higher demand for North America service parts, aluminum die cast components and support equipment
Total	**$603**	**$377**	**60%**	

Q2 2021 Financial Performance

($ in millions, except per share data)	Q2 2021	Q2 2020	$ Var	% Var	Commentary
Net Sales	$603	$377	$226	59.9%	Increase was principally driven by higher demand in the Global On-Highway and Service Parts, Support Equipment & Other end markets and price increases on certain products
Cost of Sales	$315	$212	($103)	(48.6%)	
Gross Profit	$288	$165	$123	74.5%	Increase was principally driven by higher net sales, 2020 restructuring charges that did not recur in 2021, and price increases on certain products partially offset by higher manufacturing expense commensurate with higher net sales, and unfavorable material costs
Operating Expenses					
Selling, General and Administrative	$80	$69	($11)	(15.9%)	Increase was principally driven by higher incentive compensation expense and higher commercial activities spending partially offset by the impact of 2020 restructuring charges
Engineering – Research and Development	$41	$38	($3)	(7.9%)	Increase was principally driven by increased product initiatives spending partially offset by the impact of 2020 restructuring charges
Total Operating Expenses	$121	$107	($14)	(13.1%)	
Operating Income	$167	$58	$109	187.9%	
Interest Expense, net	($30)	($33)	$3	(9.1%)	Decrease was principally driven by lower interest rates related to long-term debt refinancing in the fourth quarter of 2020 that extended maturities at lower fixed interest rates
Other Income, net	$3	$5	($2)	(40.0%)	
Income Before Income Taxes	$140	$30	$110	366.7%	
Income Tax Expense	($30)	($7)	($23)	(328.6%)	Increase was principally driven by increased taxable income
Net Income	$110	$23	$87	378.3%	
Diluted Earnings Per Share	$1.01	$0.20	$0.81	405.0%	Q2 2021: 109M shares; Q2 2020: 114M shares
Adjusted EBITDA[(1)]	$213	$115	$98	85.2%	

(1) See Appendix for the reconciliation from Net Income.

Q2 2021 Cash Flow Performance

($ in millions)	Q2 2021	Q2 2020	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$143	$92	$51	55.4%	Principally driven by higher gross profit and lower cash interest expense partially offset by higher operating working capital requirements, higher cash income taxes, increased product initiatives spending and higher commercial activities spending
CapEx	$48	$28	$20	71.4%	Principally driven by product initiatives spending
Adjusted Free Cash Flow (1)	$95	$67	$28	41.8%	Principally driven by increased net cash provided by operating activities partially offset by increased capital expenditures

($ in millions)	Q2 2021	Q2 2020	$ Variance	% Variance	Commentary
Operating Working Capital(2) Percentage of LTM Sales	15.8%	12.9%	N/A	290 Bps	Principally driven by higher net sales
Cash Paid for Interest	$31	$57	($26)	(45.6%)	Principally driven by intra-year timing of payments
Cash Paid for Income Taxes	$44	$2	$42	2100.0%	Principally driven by increased taxable income

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.
(2) Operating Working Capital = A/R + Inventory – A/P.

2021 Guidance

($ in millions)	Guidance	Commentary
Net Sales	$2,325 to $2,475	Guidance reflects higher demand in the global On-Highway, Service Parts, Support Equipment & Other and North America Off-Highway end markets as a result of the ongoing global economic recovery and price increases on certain products
Net Income	$395 to $465	
Adjusted EBITDA	$795 to $885	
Net Cash Provided by Operating Activities	$585 to $655	
Adjusted Free Cash Flow	$415 to $475	Net Cash Provided by Operating Activities less Capital Expenditures
Capital Expenditures	$170 to $180	

APPENDIX
Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 3)

Adjusted EBITDA reconciliation

$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2016	2017	2018	2019	2020	2020	2021	2021
Net income (GAAP)	**$215**	**$504**	**$639**	**$604**	**$299**	**$23**	**$110**	**$367**
plus:								
Interest expense, net	101	103	121	134	137	33	30	130
Income tax expense	126	23	166	164	94	7	30	109
Loss associated with impairment of long-lived assets	—	—	—	2	—	—	—	—
Technology-related investment expenses	1	16	3	—	—	—	—	—
Impairments	—	32	4	—	—	—	—	—
Environmental remediation	—	—	—	(8)	—	—	—	—
Amortization of intangible assets	92	90	87	86	52	13	11	46
Depreciation of property, plant and equipment	84	80	77	81	96	24	26	101
Stockholder activism expenses	4	—	—	—	—	—	—	—
Dual power inverter module extended coverage	1	(2)	—	—	—	—	—	—
Restructuring charges	—	—	—	—	14	12	—	2
UAW Local 933 signing bonus	—	10	—	—	—	—	—	—
UAW Local 933 retirement incentive	—	—	15	5	7	—	—	7
Unrealized gain on commodity hedge contracts	(2)	—	—	—	—	—	—	—
Unrealized loss on foreign exchange	1	—	3	—	2	—	1	—
Expenses related to long-term debt refinancing	12	—	—	1	13	—	—	13
Acquisition-Related Earnouts	—	—	—	1	1	1	—	—
Stock-based compensation expense	9	12	13	13	17	2	5	20
Adjusted EBITDA (Non-GAAP)	**$644**	**$868**	**$1,128**	**$1,083**	**$732**	**$115**	**$213**	**$795**
Net Sales (GAAP)	**$1,840**	**$2,262**	**$2,713**	**$2,698**	**$2,081**	**$377**	**$603**	**$2,258**
Net income as a percent of net sales	**11.7%**	**22.3%**	**23.6%**	**22.4%**	**14.4%**	**6.1%**	**18.2%**	**16.3%**
Adjusted EBITDA as a percent of net sales	**35.0%**	**38.4%**	**41.6%**	**40.1%**	**35.2%**	**30.5%**	**35.3%**	**35.2%**

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Non-GAAP Reconciliations (2 of 3)

Adjusted Free Cash Flow reconciliation

$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2016	**2017**	**2018**	**2019**	**2020**	**2020**	**2021**	**2021**
Net Cash Provided by Operating Activities (GAAP)	**$591**	**$658**	**$837**	**$847**	**$561**	**$92**	**$143**	**$592**
(Deductions) or Additions:								
Long-lived assets	(71)	(91)	(100)	(172)	(115)	(28)	(48)	(135)
Restructuring charges	—	—	—	—	12	3	—	9
Stockholder activism expenses	4	—	—	—	—	—	—	—
Excess tax benefit from stock-based compensation	6	—	—	—	—	—	—	—
Adjusted Free Cash Flow (Non-GAAP)	**$530**	**$567**	**$737**	**$675**	**$458**	**$67**	**$95**	**$466**

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

$ in millions	Guidance Year Ending December 31, 2021	
	Low	High
Net Income (GAAP)	$ 395	$ 465
plus:		
Depreciation and amortization	152	152
Interest expense, net	118	118
Income tax expense	113	133
Stock-based compensation expense	16	16
Acquisition-related earnouts	1	1
Adjusted EBITDA (Non-GAAP)	$ 795	$ 885
Net Cash Provided by Operating Activities (GAAP)	$ 585	$ 655
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	$ (170)	$ (180)
Adjusted Free Cash Flow (Non-GAAP)	$ 415	$ 475