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Allison Transmission Holdings, Inc. (ALSN)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to Allison Transmission's second quarter 2025 earnings conference call. My name is Paul, and I will be your conference call operator today.

At this time, all participants are in a listen-only mode. After prepared remarks, Allison Transmission executives will conduct a question-and-answer session and conference call participants will be given instructions at that time. As a reminder, this conference call is being recorded. [Operator Instructions]

As a reminder, this conference is being recorded. I would now like to turn the conference call over to Jackie Bolles, Executive Director of Treasury and Investor Relations. Please go ahead, Jackie.

Jacalyn C. Bolles

Executive Director-Treasury & Investor Relations, Allison Transmission Holdings, Inc.

Thank you, Paul. Good afternoon and thank you for joining us for our second quarter 2025 earnings conference call. With me this afternoon are Dave Graziosi, our Chair and Chief Executive Officer; Fred Bohley, our Chief Operating Officer; and Scott Mell, our Chief Financial Officer and Treasurer. As a reminder, this conference call, webcast and this afternoon's presentation are available on the Investor Relations section of allisontransmission.com. A replay of this call will be available through August 18.

As noted on slide 2 of the presentation, many of our remarks today contain forward-looking statements based on current expectations. These forward-looking statements are subject to known and unknown risks, including those set forth in our second quarter 2025 earnings press release and our annual report on Form 10-K for the year

ended December 31, 2024. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those that we express today.

In addition, as noted on slide 3 of the presentation, some of our remarks today contain non-GAAP financial measures as defined by the SEC. You can find reconciliations of the non-GAAP financial measures to the most comparable GAAP measures attached as an appendix to the presentation and to our second quarter 2025 earnings press release.

Today's call is set to end at 5:45 PM Eastern Time. In order to maximize participation opportunities on the call, we'll take just one question from each analyst.

Please turn to slide 4 of the presentation for the call agenda. During today's call, Dave Graziosi and Fred Bohley will review recent announcements across our business, including the recently announced acquisition of Dana Incorporated's Off-Highway business. Scott Mell will then review our second quarter 2025 financial performance and full-year 2025 guidance prior to commencing Q&A.

Now, I'll turn the call over to Dave.

David S. Graziosi

Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.

Thank you, Jackie. Good afternoon and thank you for joining us. Starting with recent non-acquisition-related news during the quarter, we were pleased to announce that the Allison 3000 Series is now available in the CNG-powered Mack Granite truck. Following the successful launch in 2023 of our 4500 Series in the same vehicle, this expanded powertrain option gives customers more flexibility to optimize their trucks specifically for lighter-duty waste applications.

As mentioned on previous calls, Allison fully automatic transmissions are fuel-agnostic, leveraging our torque converter to ensure peak performance and fuel efficiency, pairing well with different fuel types, including diesel, compressed natural gas, and other alternatives. Unlike manuals and automated manual transmissions, our automatics maintain seamless full power shifts, enabling vehicles to travel farther in less time. This allows fleets to achieve sustainability goals without sacrificing productivity.

We are proud to partner with Mack on this initiative, highlighting Allison's ability to deliver optimized performance and capability in demanding vocations indifferent to the fuel source for the powertrain.

Also, during the quarter, we announced that the Maryland Department of Transportation selected buses equipped with the Allison eGen Flex hybrid propulsion system to operate in metropolitan Baltimore region.

Allison remains committed to collaborating with transit agencies nationwide, supporting them in their emission reduction goals by providing innovative solutions to achieve their sustainability goals. Over the last few years, we have made numerous announcements of transit properties across the United States, selecting the Allison eGen Flex as the propulsion solution of choice for their city buses. We are excited to add Maryland to the growing list.

Finally, within our defense end market, we are excited to announce that Allison has secured a new order for Allison 3040 MX cross-drive transmissions for Poland's Borsuk Infantry Fighting Vehicle program. This order maintains – follows the Memorandum of Understanding announced in 2023 between Allison and PGZ, one of the largest defense companies in Europe, for the cooperation on tracked vehicle programs and the expansion of our Authorized Service Network in Poland.

Our new 3040 MX brings Allison's proven durability, reliability, performance, and innovation to the medium tracked vehicle segment. The 3040 MX offers several key improvements that enhance its overall performance, including advanced electronic controls with integrated diagnostics, making it a significant step forward in defense vehicle propulsion.

Also in our defense end market, Allison was recently awarded a multimillion-dollar contract by the United States Army through their Ground Vehicle Systems Center for the second phase of the Next Generation Electrified Transmission, or NGET, program. We also refer to this product as the eGen Force. Following our announcement in 2022, highlighting the award of funding for Phase 1 of the NGET program, we are excited to continue our partnership with the Ground Vehicle Systems Center on this vital project.

Phase 2, which will focus on enhancing the eMachine and Inverter system, will bring us one step closer to delivering propulsion systems that not only meet but exceed the performance and efficiency needs of modern armored combat vehicles.

With the eGen Force, Allison anticipates meeting requirements across a wide spectrum of applications, including the US Army's Optionally Manned Fighting Vehicle, or OMFV, and main battle tank markets around the world. As a reminder, the OMFV program is expected to replace nearly 3,000 aging legacy Bradley vehicles, making it the US Army's largest armored vehicle procurement since the 1980s. The Allison eGen Force has been selected by American Rheinmetall for integration into its OMFV offering.

Currently in the development and prototype phase, the OMFV program is expected to progress into 2026, with US government testing of vehicles and start of production in 2029. With our expanded portfolio and Authorized Service Network, Allison is well-positioned to continue growth in the defense end market. We look forward to further announcements and awards with realization of our over \$100-million incremental annual revenue objective this year and future growth opportunities, including products such as the eGen Force.

I will now turn the call over to Fred for a recap of our strategic priorities and growth opportunities related to our recently announced acquisition of Dana's Off-Highway business. Fred?

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

Thank you, Dave. Good afternoon. As we announced in June, Allison has entered into a definitive agreement to acquire Dana's Off-Highway business. Today, I would like to briefly review the transaction while providing additional details on the strategic rationale and future growth opportunities.

Please turn to slide 5 of the presentation for an overview of the transaction highlights. The purchase price of approximately \$2.7 billion to be financed with new debt and cash on hand represents a 6.8 times multiple on 2024 adjusted EBITDA of approximately \$400 million. Including identified annual run rate synergies of \$120 million, the transaction value represents a 5.2 times multiple on the same metric.

The \$120 million of identified annual run rate synergies are expected to be driven primarily by opportunities in operations, procurement, engineering IR&D, and SG&A. Synergies are expected to ramp, with full realization anticipated by year four. We anticipate closing in late Q4 2025.

Please turn to slide 6 of the presentation. As discussed on prior earnings calls, we believe Allison merits a valuation that is more aligned with other publicly traded premier industrial assets. Our robust and stable cash

generation and comparative margin performance, along with current market position and future growth opportunities, warrant this belief. The acquisition of Dana's Off-Highway business will strengthen our position as a premier industrial company, accelerating current growth objectives while multiplying future global growth opportunities.

Starting with facilities and people, Allison's global reach will increase significantly with the addition of the Dana Off-Highway team and manufacturing presence across the globe. We will leverage Dana's Off-Highway global footprint for more Local for Local production, with increased proximity to customers and markets providing advantages in meeting both commercial and government customers' requirements.

One example of this is in the India defense market, where content requirements are critical for program releases and awards.

We are excited for the post-close welcome of the Dana Off-Highway team joining Allison. The combined company will comprise a sophisticated global workforce of nearly 15,000 employees with the addition of Dana's Off-Highway teams, which are located primarily outside of North America. This complements Allison's current workforce demographics, where 90% of our employee base is located in the United States.

In terms of products and customers, Allison is well-positioned for growth within corresponding propulsion categories that will extend the applications of our existing and combined portfolios.

We believe that the combined businesses' increased set of capabilities and products will allow Allison to penetrate and expand into markets that are growing yet currently underserved by our core business, such as the agricultural and construction markets. In addition, the acquisition allows us to utilize and advance electrified products that are already serving mature, early adopting end markets and segments.

Through the combined business, Allison will utilize the Dana Off-Highway business global technology centers for local development and realize cost synergies through combined engineering IR&D. We believe that complementary technical knowledge within the combined businesses in areas such as software and controls will accelerate product innovation and progress on key engineering capabilities and initiatives.

Allison also expects to reduce costs through greater purchasing scale, as well as vertical integration opportunities, while manufacturing locations in best-cost countries provides opportunities for cost reduction initiatives within our operations.

With this acquisition, Allison will continue our long history of engineering expertise, delivering products known for quality, reliability, and durability across the diverse, drivetrain components and work solutions.

Finally, while our focus on day one post-close will be the combination of the two businesses, the Dana Off-Highway business' established M&A playbook and the broader platform of the combined companies expands Allison's opportunities for further inorganic growth.

In this transformational moment in Allison's history, we are confident in our ability to combine the two businesses while realizing the identified annual run rate synergies and maintaining our focus on solid financial performance and continued growth as a premier industrial company. We appreciate your support as we move through this period.

Thank you. And I'll now turn the call over to Scott.

Scott A. Mell*Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.*

Thank you, Fred. I'll begin on slide 7 with a review of our second quarter financial performance, followed by an update to our full-year 2025 guidance. Year-over-year net sales of \$814 million were flat from the same period in 2024. In the defense end market, we continued to execute on our growth initiatives, with second quarter net sales increasing 47% year-over-year. Our top line results were further improved by record quarterly net sales of \$142 million, an 11% increase year-over-year in the Outside North America On-Highway end market. The increase was principally driven by higher demand in South America and Europe.

Finally, in the Service Parts, Support Equipment and Other end market, year-over-year net sales increased 6% in the second quarter, principally driven by higher demand for service parts and price increases on certain products, partially offset by lower demand for aluminum die cast components.

The aforementioned year-over-year net sales increases were offset by a 30% decrease in the Global Off-Highway end market and a 9% decrease in the North America On-Highway end market. Our second quarter results demonstrate the diversity of Allison's end markets and the incremental sales opportunities available from growth initiatives.

Moving on with our second quarter financial performance. Gross profit for the quarter was \$402 million, an increase of \$8 million from \$394 million for the same period in 2024. The increase was principally driven by price increases on certain products, partially offset by lower volumes and unfavorable direct material costs.

Net income for the quarter was \$195 million, an increase of \$8 million from \$187 million for the same period in 2024. The increase was principally driven by higher gross profit and unrealized mark-to-market adjustments for marketable securities, partially offset by increased selling, general, and administrative expenses, including \$15 million of costs associated with the acquisition of Dana's Off-Highway business.

Adjusted EBITDA for the quarter was \$313 million, an increase of 4% year-over-year. Adjusted EBITDA margin for the quarter was 38.5%, an increase of 160 basis points year-over-year. Diluted earnings per share increased 8% year-over-year to a quarterly record \$2.29. The increase was driven by higher net income and lower total diluted shares outstanding.

A detailed overview of our net sales by end market and Q2 2025 financial performance can be found on slides 8 and 9 of the presentation.

Please turn to slide 10 of the presentation for the Q2 2025 cash flow performance summary. Net cash provided by operating activities for the quarter was \$184 million compared to \$171 million for the same period in 2024. The increase was principally driven by lower operating working capital funding requirements and higher gross profit, partially offset by acquisition-related expenses.

We ended the first quarter with a net leverage ratio of 1.38 times, \$778 million of cash, and \$745 million of available revolving credit facility commitments. We continue to maintain a flexible, long dated, and covenant-light debt structure, with our earliest maturity due in October of 2027.

Please turn to slide 11 of the presentation for our 2025 guidance update. Given current end market conditions, anticipated acquisition-related expenses, and expected favorable cash income tax impacts from the recently passed One Big Beautiful Bill Act, we are revising our full-year 2025 guidance provided to the market on May 1. Allison now expects net sales to be in the range of \$3.075 billion to \$3.175 billion. In addition to Allison's 2025 net

sales guidance, we anticipate net income in the range of \$640 million to \$680 million, adjusted EBITDA in the range of \$1.130 billion to \$1.180 billion, net cash provided by operating activities in the range of \$785 million to \$835 million, capital expenditures in the range of \$165 million to \$175 million, and adjusted free cash flow in the range of \$620 million to \$660 million.

Finally, I'd like to note that we are maintaining the midpoint of the implied full-year adjusted EBITDA margin guidance.

This concludes our prepared remarks. Paul, please open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Rob Wertheimer with Melius Research.

Rob Wertheimer

Analyst, Melius Research LLC

Q

[indiscernible] (00:20:04) wanted to see if you'd expand on your comments, I mean, with the acquisition bringing you incremental geographic and other capabilities. You talked about the potential for inorganic growth. Could you characterize that? Does that mean there's bolt-ons, tuck-ins, et cetera., that could fit or do you have in mind any potentially other large assets? Thank you.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Hi, Rob. This is Fred. Relative to potential inorganic growth, if you think of us pre-acquisition, in North American-centric, very strong market share, clearly growing Outside North America, record quarter, but what we believe is that this transaction with a larger global footprint across On-Highway, Off-Highway, agricultural, construction, end markets presence in Europe, significant presence in Asia will ultimately provide more opportunities for potential bolt-on acquisitions.

Obviously, our focus day one is on combining the business, generating the cost synergies. And then even as we talked to in prepared remarks, we – while we haven't baked any revenue synergies into our business case, we do anticipate this is very complementary, being able to leverage footprints, engineering capability, Local for Local. So, we're very excited on the potential organic growth opportunities as well.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Okay. Thank you.

Operator: Our next question is from Kyle Menges (sic) [Ian Zaffino] with Oppenheimer...

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Hello, can you hear me?

G. Frederick Bohley*Chief Operating Officer, Allison Transmission Holdings, Inc.*

A

Yes.

David S. Graziosi*Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.*

A

Yeah.

Ian Zaffino*Analyst, Oppenheimer & Co., Inc.*

Q

Okay. Sorry, it's Ian Zaffino. I just wanted to kind of maybe drill down a little bit on the guidance change, kind of exactly what kind of – what lines are you seeing that? What areas are you seeing that in? Maybe just a little bit more color on that. And then as a follow-up, as you think about kind of the provisions and the One Big Beautiful Bill, I guess you kept CapEx the same, but are there any opportunities there? And then is there a possibility for any additional tax savings from the recent acquisition you did that you didn't know about prior to this bill? Thanks.

David S. Graziosi*Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.*

A

Ian, it's Dave. Good evening, and I appreciate the questions. Let me cover that first part in terms of guide change and then I'll turn it over to Scott. So, relative to what we've changed in the guide, as you know, from February to May, maintained overall guide, what we have certainly seen is the second half has shaped up. And I'm certainly not going to tell you or anybody else things you don't know at this point, but revisions in North America On-Highway build rates are significant. So, as we frankly entered late Q2, early Q3, you started to see announcements of layoffs, shift reductions, down-days, extended summer shutdowns, I would observe, we probably haven't seen anything quite like that in several years, the fact is OEMs are responding to near-term market demand conditions.

You'll notice plenty of comments, I think, from the OEMs relative to supporting market demand from dealer inventory. Inventories are relatively elevated. We talked earlier in the year about the expectation of medium-duty softening this year. That, in fact, has been the case. OEM comments for Q2 also indicated some level of moderation on the Class 8 straight vocational side as well.

So, that combination, if you really look and focus on the overall changes in the guide, that would be probably the most relevant thing to note for the second half as we rolled up everything. So, again, we're staying close to the market and are making sure that we can certainly meet customer requirements and timing. But at this point, we're sizing, as I think we even talked about in May, our run rates ourselves in terms of overall manpower and our own production rates. So, for us, it's really getting back to a more lean capacity rate.

Operations, as we've talked about in the past, very attractive to us in terms of incrementals, also allowing our team to really invest a little bit more time in the day-to-day operations relative to maintenance and also some of the quality initiatives that we've been pursuing.

So, that, combined with some operational efficiency projects and other things we've been looking to get some time to implement, we will be pursuing in this, I would say, quieter period. But overall, better positioned, we believe, to certainly meet market demand, as we've talked about the last few years with the number of investments in capacity, both in North America as well as Outside North America, with projects coming on,

capacity coming online or coming online shortly. I think it's also very important to us as we think about current market conditions as more of a deferral versus, say, any type of real permanent change in demand.

So, let me turn it over to Scott for the second part.

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah, hi. Hi, [ph] Kyle (00:26:15). It's Scott. So, we, like many, have been quickly assessing the anticipated impact of the OBBBA on our cash taxes, as I mentioned in the – in my comments. This year, we're expecting it to be a substantial item given really the catch-up on the full amortization of the R&D tax credit. So, that's going to be something in the mid-triple-digits (sic) [mid-double-digits] for the year. That includes both the R&D amortization as well as the fixed asset bonus depreciation and some of the changes in the foreign-derived intangible income rates.

And then going forward, less of an impact, primarily just because there's a one-time gain related to the amortization of the R&D this year. That's going to be, I would say, in the mid to upper-teens on an annualized basis, at least for the near-term.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

So, expected benefit this year in the mid-double-digit millions, right?

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah. Mid-double digit.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you very much.

Operator: Our next question is from Kyle Menges with Citi.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thank you. Can we just talk about what's embedded in the margin guidance a little bit for the back half and maybe some of the key puts and takes? Curious how strong pricing was in the quarter and expectations for pricing in the back half and then any incremental steel cost headwinds or other cost headwinds or tailwinds assumed in the back half. Would love to just hear you guys unpack what's in the assumed margin guidance. Thank you.

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah, hi, it's Scott. So, as we've guided toward – to pricing in the quarter, as we've done previously, it was north of 400 basis points. As we look at the second half of the year, we anticipate to see some of the same positive tailwinds from pricing. But obviously, we're going to see some volume deterioration relative to what we've seen in the same quarter last year. Really, some of that's going to be driven by the vocational activity in terms of the mix

component. And then obviously, the tariff impact, which is changing daily, but we do anticipate some meaningful impact from tariffs in the second half of the year, although we do anticipate to be able to recover a substantial amount of that from our customers. And so, that's really – I mean, there's really no meaningful material impact. It's really the volume story in the second half of the year.

I don't know, Fred, if you have some other thoughts on that.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

I think as we think about what we talked about last quarter, our overall exposure to tariffs is limited, as 85% of our direct material spend is with suppliers based in North America. Majority of those are located in the United States, and those in Canada and Mexico are currently under USMCA exemptions.

We do also with our agreements with our OEM customers have pass-through for the majority of our costs on steel and aluminum. Now, those do tend to lag 6 to 12 months. So, again, pretty fluid environment, but we continue to monitor and plan to offset the impact.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you, guys.

Operator: Our next question is from Tim Thein with Raymond James.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Q

Thank you. Good evening. I just had a question on just thinking about the incremental change to guidance, the – so call it a mid-30s – or your ability, rather, to hold decrementals to kind of a mid-30% number in the context of – with the vocational market being a lot heavier, obviously, that there's some good margin in that 4000 Series.

So, I'm just curious, are there other segments or benefits beyond the North America On-Highway coming off. I don't know, is the Parts business a little better? I'm just curious if there are other factors. I think all else equal, I would think that if – when you see that level of step-down in that business, North America On-Highway, I would normally think of it as carrying a little heavier decremental. So, maybe just if there's any color on that. Thank you.

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah, I mean, we do and we are anticipating and seeing some improvement in our defense business in the second half of the year relative to both the second half of last year as well as the first half of this year in terms of both our wheeled and tracked vehicles. So, we do have some real tailwinds there helping to offset what you're circling around on the North America On-Highway.

We also continue to see some stability in the Outside North America On-Highway segment as well. So, those two combined are helping – not completely offsetting what we're seeing in North America, but are mitigating some of the impact. And obviously, we're also managing our costs very closely here over the second half of the year.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Yeah, Tim, this is Fred. So, what we are seeing is some softness in the Class 8 straight truck. The municipal business is still very strong. Really where we've seen the – I'd say the most near-term softness has been in medium-duty. So, I think that probably addresses some of your mix concerns.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Q

Got it. Thank you.

Operator: Our next question is from Tami Zakaria with JPMorgan.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Hey, good afternoon. Thank you so much for taking my question. I wanted to get some color on your intended buyback. It seems like you did buy back some stocks in 2Q. Do you plan to keep buying back while the Dana deal is pending? And post close of the deal, do you intend to pause buyback or until leverage comes down to 2x or below, or do you want to keep buying back as and when cash is available?

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Hi, Tami. This is Fred. Thanks for the question. Our capital allocation policies really haven't changed. I mean, first and foremost, to fund the business for organic revenue, earnings growth, new product and technology development. We're in a position where this really for us isn't a do you buy back share, do you pay down debt? I mean, we can do all of those. So, we intend to return cash to shareholders via the dividend.

We will use a meaningful amount of cash from the balance sheet in the direction of the transaction. Obviously, we'll take on some additional debt, and as we've talked about, looking at getting to 2 times net leverage in the near term. But it really is a little bit of all of the above, and probably most important is we like to be opportunistic. But to your point, we did buy back over \$100 million worth of shares in the quarter.

As we talked about in our prepared remarks, and our view on us as a premier industrial company, the really compelling future growth opportunities with the transaction, accelerating the combined businesses' current growth objectives, multiplying really future growth objectives, and we think we kind of laid it out, what is a premier industrial [indiscernible] (00:35:28) we've got robust, stable cash generation, best-in-class margins, great market position. We've been growing this business since really our record pre-pandemic 2019 revenues up 20%, into 2024 up to \$500 million. We've identified \$400 million of growth opportunity.

But I think in order to get what we consider a premier industrial multiple, which for us is at least double-digits, we need to grow faster and we think the transaction will enable us to. And really is what we believe is as you look forward at this company and you take the combined EBITDA, the double-digit multiple, and the capital allocation priority of paying down debt, repurchasing shares, the current dividend policy, again, three years out from now, we believe that our stock should be trading north of \$200. And when you have that level of belief, it's very attractive to buy it back at \$90 a share.

Tami Zakaria*Analyst, JPMorgan Securities LLC*

Understood. Thank you.



Operator: Our next question is from Angel Castillo with Morgan Stanley...

Angel O. Castillo*Analyst, Morgan Stanley & Co. LLC*

Hi. Thanks for taking my question and good afternoon. Just wanted to touch base, just based on the backlogs that you see today, the kind of order trends that we've had year-to-date, I recognize it's extremely early, but I think I heard you say that maybe you kind of see some of these pockets of weakness and maybe more push-out of demand versus destruction. Could you then – are you, I guess, willing to comment on how you see 2026 demand maybe shaping out as you think about some of these markets, like medium-duty or vocational? And in particular, just kind of any thoughts on Section 232 review or kind of the EPA 27 regulation and what that might mean for customers' appetite to buy ahead of that or to wait till 2026 and buy then?

**David S. Graziosi***Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.*

Angel, it's Dave. Thank you for those questions. You got a lot in there. Let me try to unpack that one a little bit. So, your question or your comment on backlogs, clearly, the industry is catching up with what was a very challenging time for all market participants. So, a lot of costs being incurred to get product out the door. Clearly, the market's dramatically improved. Suppliers have caught up.



The one, I think, portion of the market that really is not – it's improved, but I don't think it's really moved yet, that's still a constraint, are bodybuilders. So, to your point on backlogs, yes, those have certainly come down, inventory's in a better position at the retail level.

There's also a fair amount of chassis sitting at bodybuilders, which is why we believe the North America OEMs, which I think is to your question, why they've made the adjustments. I don't think any of them really want to be in a position of entering 2026, to get to your other point there, in really what is an oversupplied market, especially given the [ph] amount of (00:38:56) topics for uncertainty, which seem to be frankly endless and being added to every day, whether it be tariffs, you asked about EPA emissions, financing costs, macroeconomic outlook, et cetera, pick your item. But it's hard – it's not unreasonable to appreciate the position of end users, which are really in a highly uncertain wait-and-see mode.

So, that reluctance is then translated into this point about deferring investment decisions till more clarity is available, and I think some of the OEMs have talked about that. Thus, the reduction in build rates, which I think better positions the overall industry going into 2026.

To get to your other points there in terms of Section 232, certainly, commercial vehicle industry has commented on that extensively with public comment letters, et cetera., So, we're tracking it as well as everybody else. Having said that, to earlier comments on the call, we believe we're very well-positioned in terms of USMCA sourcing. So, the vast majority of what we use is actually sourced out of the US, and to a degree, the balance out of Mexico and Canada. But we're, I think, very well-placed in that regard and positioned.

Also as part of that, as you think about other things that are happening from a regulatory perspective, the most recent announcements from the EPA over the last probably two to three weeks, as you know, are very meaningful

in terms of potentially changing the entire emissions regimen, if you will, around whether it be greenhouse gas, et cetera. So, we, like the rest of the industry, are waiting for clarity there.

That being said, as I think you're familiar, our products do not require significant meaningful changes with emissions changes. So, our product portfolio as it exists today for On-Highway is very well-placed to be compliant, whether that be current regs or future regulations.

So, the work is done, the products are ready. And I think we'll await more clarity from the market. But as I said earlier, overall, our view right now is North America On-Highway is more of a defer versus a loss in longer-term demand.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

That's very helpful. And if I could just one quick follow-up. I think I heard you say that Outside North America and defense continue to be stronger in the second half. What about the Service Parts business? That seemed to be pretty healthy in the first half as well. Just what do you expect there in second half?

David S. Graziosi

Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.

A

Yeah, part of obviously that particular end market for us is support equipment. So, it follows volume, right? So, to my comments in terms of the way the volume breaks first half, second half will have less demand for support equipment. That being said, I think the overall trends in terms of service requirements seem to be somewhat stable at this point. So, our channel checks would tell us that they're better positioned from a labor perspective.

The one item to keep an eye on, as I mentioned, with deferrals or uncertainty with end users is they're deferring capital investments. It's very hard to defer maintenance. At some point that becomes a challenge. So, these aging fleets vehicles are being utilized. We feel good about the overall market trends in terms of aftermarket and our continued high capture rate there.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

Operator: Thank you. There are no further questions at this time. I would like to hand the floor back over to Dave – David Graziosi for any closing comments.

David S. Graziosi

Chair & Chief Executive Officer, Allison Transmission Holdings, Inc.

Thank you, Paul, and thank all of you for your continued interest in Allison and for participating on today's call. Enjoy your evening.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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