

# Equity Investor Conference Presentation

June 2013



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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 the 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: 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; the failure of markets outside North America to increase adoption of fully-automatic transmissions; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies for hybrid vehicles, U.S. defense spending; 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 prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

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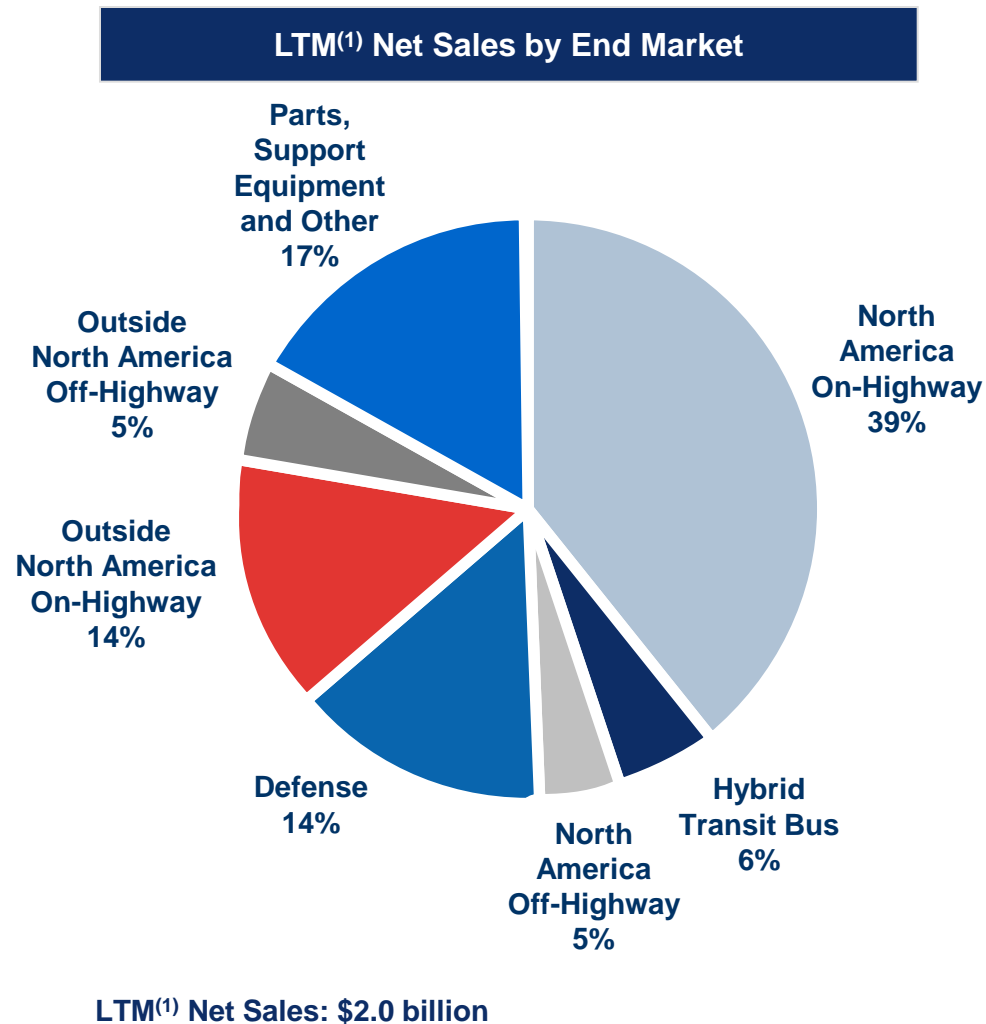
Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for year ended December 31, 2012 and Form 10-Q for quarter ending March 31, 2013.

# Business Overview



# Allison Transmission at a Glance








- **World's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles**
  - 62% global market share of fully-automatic transmissions
  - Virtually no exposure to Class 8 line-haul tractors
- **Allison is the premier fully-automatic transmission brand**
  - Premium price component frequently specified by end users
  - Differentiated technology
- **Well positioned for revenue and earnings growth**
  - Continued recovery in North America
  - Further adoption outside North America
  - Global off-highway growth opportunities
  - Expanding addressable market



(1) LTM 3/31/2013.

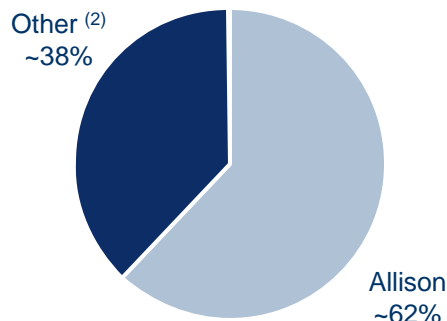
# Allison Is a Premier Industrial Asset



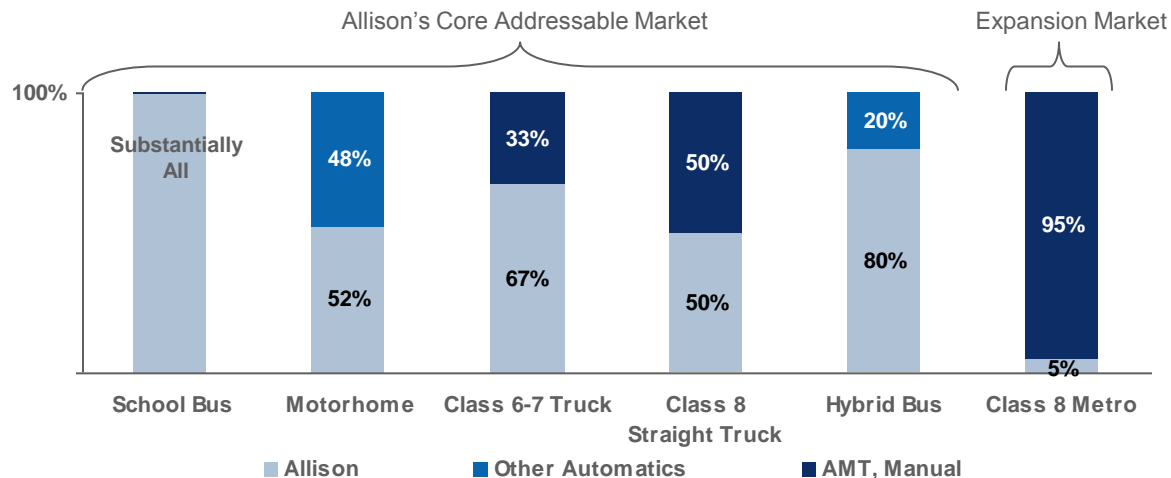
-  Global Market Leader
-  Premier Brand and End User Value Proposition
-  Technology Leadership - The Allison Advantage
-  Diverse End Markets with Long-Standing OEM Customer Relationships
-  Improved Margins and Low Capex Drive Strong Cash Flow Generation
-  Experienced Management Team
-  Multiple Organic Growth Opportunities

# Global Market Leader

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



North American Market Share<sup>(1)</sup>

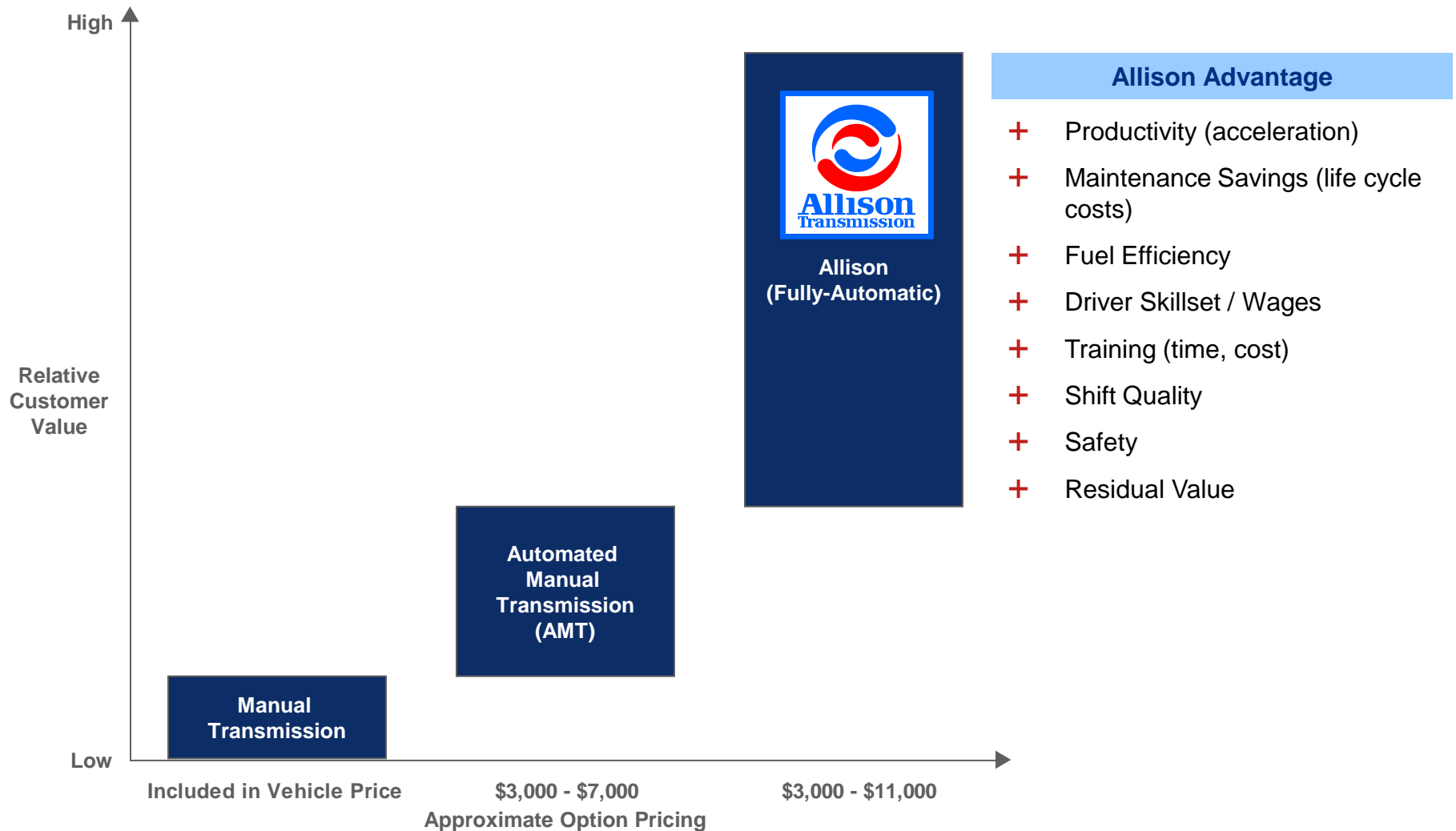


- **The “de facto” standard in medium- and heavy-duty applications**
  - Well established as standard in North America
- **Increasing presence in rapidly growing emerging markets which today are predominantly manual**
- **Virtually no exposure to more cyclical Class 8 line-haul tractors**

(1) 2012 Units. Source: Allison and ACT Research.

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

# End User Value Proposition



***End Users are Willing to Pay a Premium Price for Allison***



# End Market & Vocation Overview

## Global On-Highway

### Sample Vocations



### Select End Users



## Global Off-Highway



### Select End Users



### Select End Users



## North America Hybrid Transit Bus



### Select End Users



## Defense

## Parts, Support Equipment and Other





# Multiple Organic Growth Opportunities



**Benefit from Developed Markets Recovery**



**Increase Penetration of Fully Automatic Transmissions**



**Accelerate Adoption in Emerging Markets**



**Capitalize on Rising Demand for Energy and Commodities**



**Continue New Technology and Product Development**



**Increase Share in Underserved Markets**

# New Product Development

## Class 8 Metro

- Developing a ten-speed fully-automatic transmission targeted at Class 8 tractors serving urban markets
  - Large, addressable market size of ~60k units
  - Historically a “manual” market under addressed by Allison’s fully-automatic product portfolio
- Currently being tested by customers

**TRACTOR SERIES TC10**



## Hybrid Commercial Vehicle

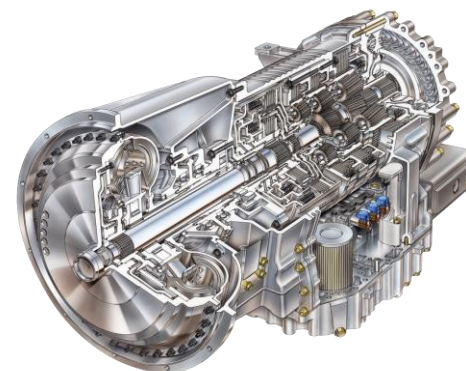
- Leading development of first fully-automatic hybrid truck transmission for the Class 6-7 market
- Awarded \$63 million U.S. Department of Energy cost-share grant for hybrid development
  - Fuel economy improvements of ~25%-35%
  - Target Vocations: Refuse, Pick-Up & Delivery/Distribution, Utility and Shuttle Bus



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

# Strategic Priorities

- **Expand global market leadership**
  - Capitalize on continued market recovery
  - New vocational offerings
- **Emerging markets penetration**
  - Vocational ladder strategy
  - Increase number of vehicle releases
- **Continued focus on new technologies and product development**
  - Address markets adjacent to core
  - Advanced fuel efficient technologies
- **Deliver strong financial results**
  - Earnings growth and cash flow generation
  - Focus on continued margin enhancement

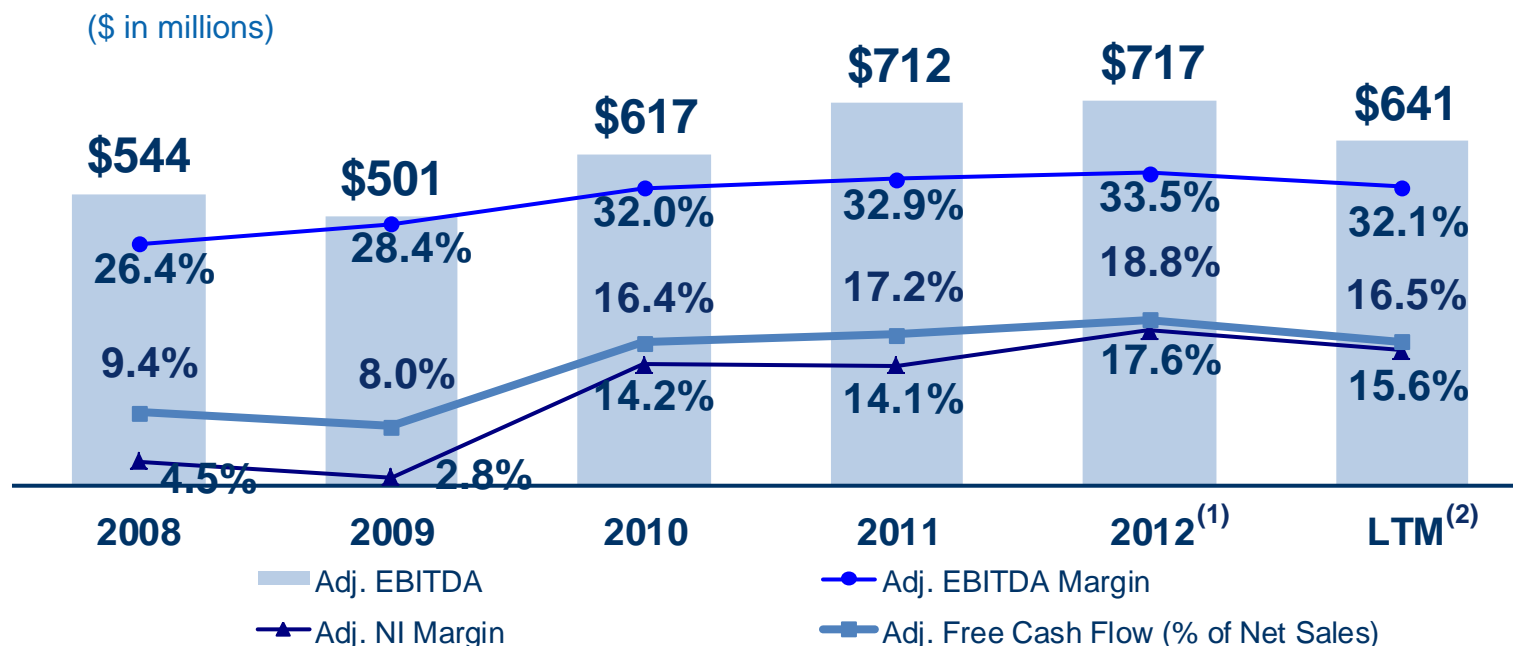


# Financial Overview



# Allison Key Financial Highlights

## Strong Financial Profile



- Strong, sustainable operating margins
- Low capital expenditure requirements
- Minimal cash income taxes / valuable U.S. tax shield (\$0.8-\$1.0bn present value)
- Positioned for long-term cash earnings growth

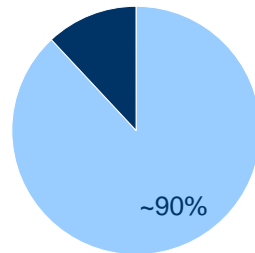
Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) 2012 Adjusted EBITDA and Adjusted EBITDA Margin excluding technology-related license expenses of \$12M.

(2) LTM 3/31/2013 Adjusted EBITDA and Adjusted EBITDA Margin excluding technology-related license expenses of \$18 million (Q3 2012 of \$12 million and Q1 2013 of \$6 million).

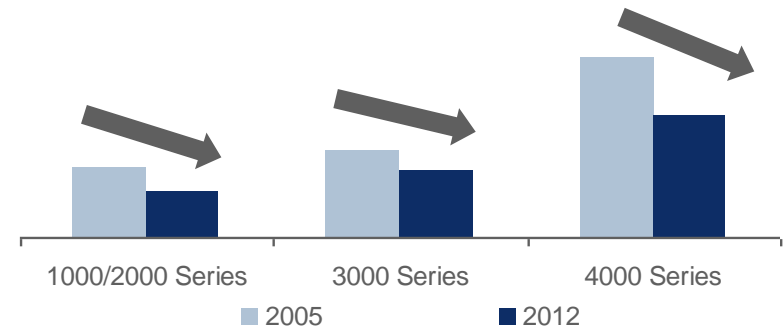
# Sustainable Margins with Further Enhancement Opportunities

## Long-Term Customer Supply Agreements



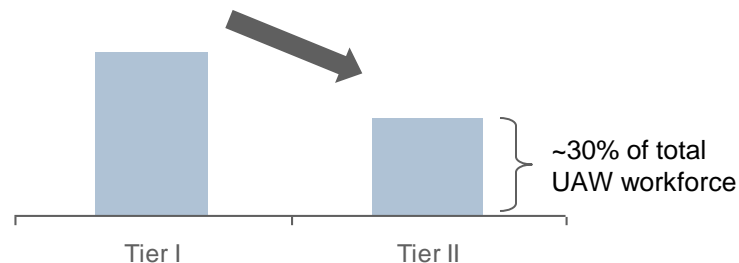
*~90% of 2012 N.A. On-Highway Unit Volume was covered by long-term customer supply agreements*

## Manufacturing Efficiencies (hours/unit)



*Hours Per Unit continue to decline*

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



*Significant savings driven by retirement of Tier I workers; 800 hourly employees are retirement eligible (~55% of workforce)*

## International Manufacturing <sup>(1)</sup>

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

- New facility constructed to better serve Asia-Pacific
- Phase I: In-sourced component manufacturing (Q3 2010)
- Phase II: Assembly of 1000/2000 Series (Q3 2012)

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

- Relocated assembly of 3000/4000 Series (Q2 2011)

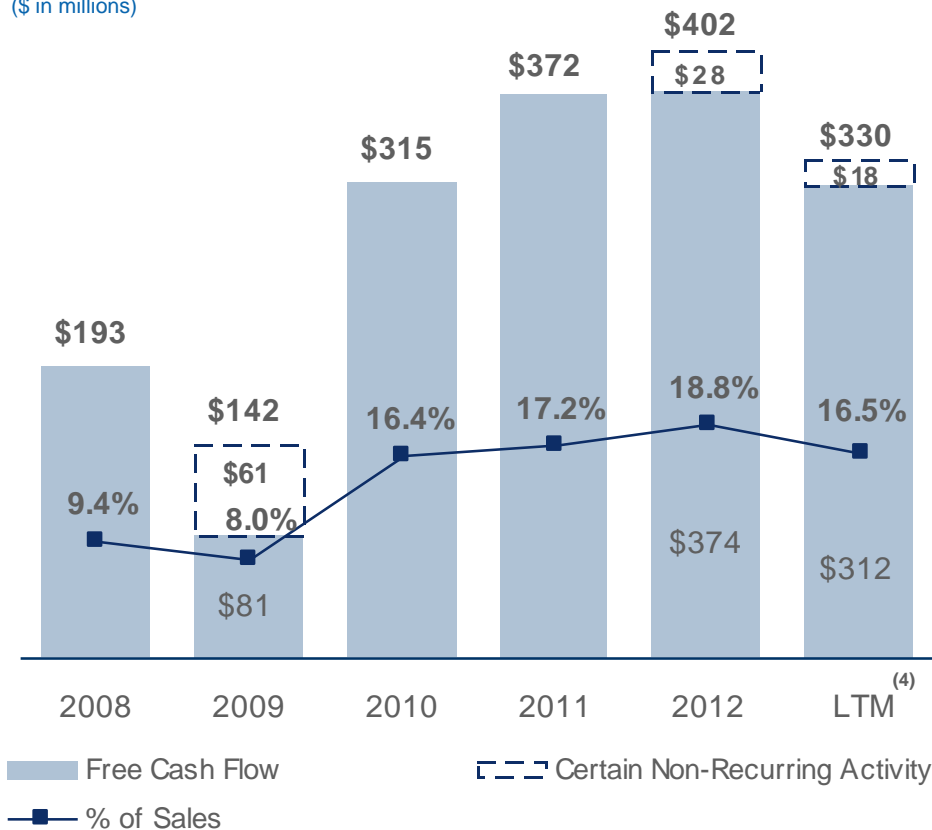
Source: Allison.  
(1) As of 3/31/13.



# Significant Cash Flow Generation

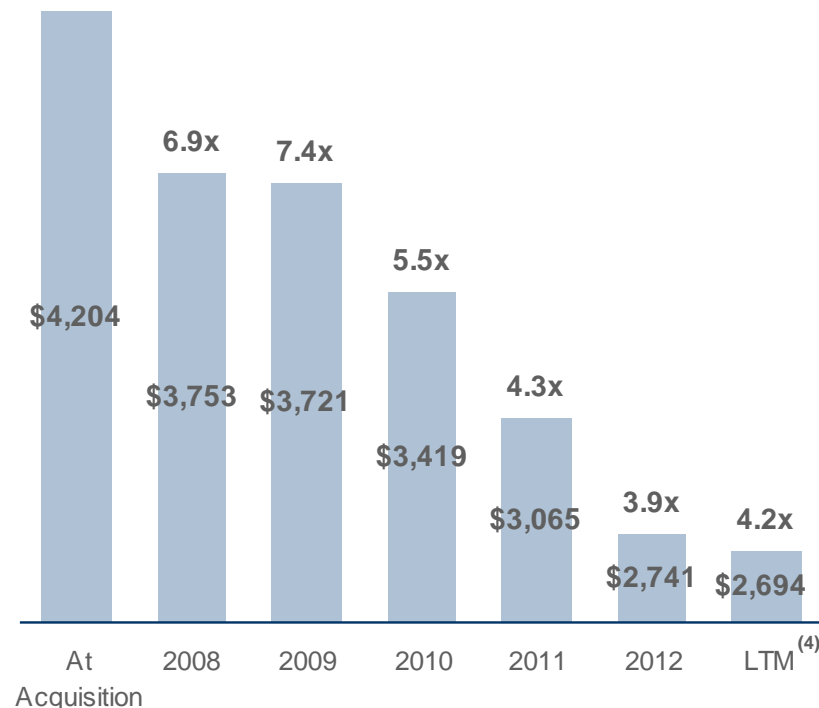
## Free Cash Flow Generation<sup>(1)</sup>

(\$ in millions)



## Net Debt<sup>(2)</sup>

(\$ in millions)



**Net debt reduction of more than \$1.47 bn since acquisition<sup>(3)</sup>**

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

(1) Free Cash Flow defined as net cash provided by operating activities less CapEx.

(2) Net debt defined as total debt minus cash and cash equivalents.

(3) Represents net debt reduction through 3/31/13 since acquisition in August 2007.

(4) LTM 3/31/13.

# Thank You



# Appendix: Non-GAAP Financial Information



# Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow to evaluate our performance relative to that of our peers. In addition, the Senior Secured Credit Facility has certain covenants that incorporate Adjusted EBITDA. However, Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow are not measurements of financial performance under GAAP, and these metrics may not be comparable to similarly titled measures of other companies. Adjusted net income is calculated as the sum of net income (loss), interest expense, net, income tax expense, trade name impairment and amortization of intangible assets, less cash interest, net and cash income taxes, and adjusted for certain non-recurring items. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest, net, cash income taxes, depreciation of property, plant and equipment and other adjustments as defined by the Senior Secured Credit Facility and as further described below. Adjusted EBITDA excluding technology-related license expenses is calculated as Adjusted EBITDA less technology-related license expenses. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Adjusted EBITDA margin excluding technology-related license expenses is calculated as Adjusted EBITDA excluding technology-related license expenses divided by net sales. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Adjusted free cash flow is free cash flow adjusted for non-recurring items.

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under GAAP and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the Acquisition Transaction. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses to evaluate and control our cash operating costs and to measure our operating profitability. We use adjusted free cash flow and free cash flow to evaluate the amount of cash generated by the business that, after the capital investment needed to maintain and grow our business, can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash and free cash flow enhances our investors' overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance, or as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of Allison's cash flow.

# Non-GAAP Reconciliations (1 of 2)

## Adjusted Net Income and Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,				Three months ended March 31,		Last twelve months ended March 31,
	2009	2010	2011	2012	2012	2013	2013
<b>Net (loss) income</b>	<b>(\$323.9)</b>	<b>\$29.6</b>	<b>\$103.0</b>	<b>\$514.2</b>	<b>\$58.0</b>	<b>\$27.5</b>	<b>\$483.7</b>
plus:							
Interest expense, net	234.2	277.5	217.3	151.2	40.7	33.9	144.4
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(36.1)	(30.0)	(161.2)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	25.2	16.9	(306.3)
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(2.9)	(1.2)	(9.0)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	16.0	—	—
Technology-related investment expenses	—	—	—	14.4	—	2.5	16.9
Initial public offering expenses	—	—	—	6.1	5.7	—	0.4
Trade name impairment	190.0	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.5	29.9	142.4
<b>Adjusted net income</b>	<b>\$49.6</b>	<b>\$273.7</b>	<b>\$305.4</b>	<b>\$375.9</b>	<b>\$144.1</b>	<b>\$79.5</b>	<b>\$311.3</b>
Cash interest expense	242.5	239.1	208.6	167.3	36.1	30.0	161.2
Cash income taxes	5.5	2.2	5.8	10.7	2.9	1.2	9.0
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	24.6	24.7	102.6
(Gain)/loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	13.5	—	8.6
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	—	—	9.4
UAW Local 933 signing bonus	—	—	—	8.8	—	—	8.8
Benefit plan re-measurement	—	—	—	2.3	—	—	2.3
Unrealized (gain) loss on hedge contracts	(5.8)	0.1	6.8	(0.9)	(0.7)	1.9	1.7
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—
Restructuring charges	47.9	—	—	—	—	—	—
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—
Other, net <sup>(1)</sup>	53.2	10.9	8.6	7.0	2.5	3.4	7.9
<b>Adjusted EBITDA</b>	<b>\$501.3</b>	<b>\$617.0</b>	<b>\$711.9</b>	<b>\$705.1</b>	<b>\$223.0</b>	<b>\$140.7</b>	<b>\$622.8</b>
<b>Adjusted EBITDA excluding technology-related license expenses</b>	<b>\$501.3</b>	<b>\$617.0</b>	<b>\$711.9</b>	<b>\$717.1</b>	<b>\$223.0</b>	<b>\$146.7</b>	<b>\$640.8</b>
<b>Net Sales</b>	<b>\$1,766.7</b>	<b>\$1,926.3</b>	<b>\$2,162.8</b>	<b>\$2,141.8</b>	<b>\$601.9</b>	<b>\$457.4</b>	<b>\$1,997.3</b>
<b>Adjusted EBITDA margin</b>	<b>28.4%</b>	<b>32.0%</b>	<b>32.9%</b>	<b>32.9%</b>	<b>37.0%</b>	<b>30.8%</b>	<b>31.2%</b>
<b>Adjusted EBITDA margin excl technology-related license expenses</b>	<b>28.4%</b>	<b>32.0%</b>	<b>32.9%</b>	<b>33.5%</b>	<b>37.0%</b>	<b>32.1%</b>	<b>32.1%</b>

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

# Non-GAAP Reconciliations (2 of 2)

## Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,				Three months ended March 31,		Last twelve months ended March 31,
	2009	2010	2011	2012	2012	2013	2013
<b>Net Cash Provided by Operating Activities</b>	<b>\$168.7</b>	<b>\$388.9</b>	<b>\$469.2</b>	<b>\$497.5</b>	<b>\$139.6</b>	<b>\$54.7</b>	<b>\$412.6</b>
(Deductions) or Additions:							
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(35.7)	(12.6)	(100.8)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	16.0	—	—
Technology-related license expenses	—	—	—	12.0	—	6.0	18.0
2009 Non-Recurring Activity <sup>(1)</sup>	61.0	—	—	—	—	—	—
<b>Adjusted Free Cash Flow</b>	<b>\$141.5</b>	<b>\$315.1</b>	<b>\$372.3</b>	<b>\$401.6</b>	<b>\$119.9</b>	<b>\$48.1</b>	<b>\$329.8</b>
<b>Net Sales</b>	<b>\$1,766.7</b>	<b>\$1,926.3</b>	<b>\$2,162.8</b>	<b>\$2,141.8</b>	<b>\$601.9</b>	<b>\$457.4</b>	<b>\$1,997.3</b>
<b>Adjusted Free Cash Flow (% to Net Sales)</b>	<b>8.0%</b>	<b>16.4%</b>	<b>17.2%</b>	<b>18.8%</b>	<b>19.9%</b>	<b>10.5%</b>	<b>16.5%</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.



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