

11-Feb-2025

Allison Transmission Holdings, Inc. (ALSN)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to Allison Transmission's Fourth Quarter 2024 Earnings Conference Call. My name is Paul, and I will be your conference 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]

I would now like to turn the conference 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 fourth quarter 2024 earnings conference call. With me this afternoon are Dave Graziosi, our Chair and Chief Executive Officer; and Fred Bohley, our Chief Operating Officer, Chief Financial Officer and Treasurer. As a reminder, this conference call's 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 February 25.

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 fourth quarter 2024 earnings press release and our Annual Report on Form 10-K for the year ended December 31, 2023. 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 fourth quarter 2024 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 will review highlights from our full year 2024 results. Fred Bohley will then review our fourth quarter 2024 financial performance and introduce full year 2025 guidance. Dave will then close with an update on recent announcements across our business prior to commencing the 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. I would like to start by thanking the Allison team and all of our partners for their support in making 2024 another record year as we achieved all time high net sales of \$3.2 billion. In our North America On-Highway end market demand for our 3000 Series and 4000 Series products drove full year net sales to a record \$1.8 billion, an increase of 15% from 2023. We have invested in our

operations and supply chain to increase output for these products and look forward to another notable year in 2025 as we anticipate ongoing US infrastructure spending to drive continued strong demand for Class 8 vocational vehicles.

Our full year performance was also driven by the execution of growth initiatives in our Defense and outside North America On-Highway end markets. In our Defense end market, full year net sales increased 28% year-over-year to a decade high \$212 million. Through the expansion of our product offerings and heightened geopolitical uncertainty across the world, we expect continued growth in this end market. Also contributing to our full year performance in 2024, we achieved record net sales of \$493 million in our outside North America On-Highway end market.

Our Wide Body Mining Dump truck initiative representing \$100 million of incremental annual revenue opportunity, continues to drive growth in this end market. We are pleased with the progress of this initiative ending 2024 with realization of around half of the opportunity. Finally, in addition to the significant top line performance in 2024, Allison's full year earnings per share increased to a company record diluted EPS of \$8.31, up 12% from 2023. We look forward to continued growth in our business while increasing earnings and maintaining our well-defined capital allocation priorities.

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

G. Frederick Bohley

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

Thank you, Dave. Following Dave's full year 2024 results comments, I'll discuss our fourth quarter financial performance and introduce our full year 2025 guidance. Please turn to slide 5 of the presentation for the Q4 2024 performance summary. Year-over-year net sales increased 3% from the same period in 2023 to a fourth quarter record of \$796 million. The increase in year-over-year results was led by a 10% increase in the North American On-Highway end market, principally driven by strengthened demand for Class 8 vocational vehicles and price increases on certain products.

Year-over-year net sales were further improved by a 5% increase in net sales in the service parts support equipment and other end market, principally driven by price increases. Finally, year-over-year results were improved by an 8% increase in net sales in the Defense end market. The increase was principally driven by increased demand for Tracked vehicle applications. Gross profit for the quarter was \$373 million, an increase of \$2 million from \$371 million for the same period in 2023. The increase in gross profit was principally driven by price increases on certain products, partially offset by higher manufacturing expense.

Net income for the quarter was \$175 million, an increase of \$5 million from \$170 million for the same period in 2023. The increase was principally driven by lower selling, general and administrative expenses, lower interest expense, net and higher gross profit, partially offset by unfavorable foreign exchange.

Adjusted EBITDA for the quarter was \$270 million compared to \$277 million for the same period in 2023. Diluted earnings per share increased 5% year-over-year to \$2.01. 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 Q4 2024 financial performance can be found on slides 6 and 7 of the presentation.

Please turn to slide 8 of the presentation for the Q4 2024 cash flow performance summary. Adjusted free cash flow for the quarter was \$136 million compared to \$186 million for the same period in 2023. The increase was driven by lower net cash provided by operating activities and higher capital expenditures. In 2024, we generated

\$658 million of adjusted free cash flow. A portion of this excess cash was used to delever the business as we paid down over \$100 million of existing term loan debt. We ended the year with net leverage ratio of 1.4 times, \$781 million of cash and \$744 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 2027. In addition to repayment of debt, we continue to return cash to shareholders through our quarterly dividend. Our current quarterly dividend of \$0.25 per share has increased 67% over the last five years. We also maintained our focus on returning cash to shareholders through our share repurchase program, ending 2024 with over \$500 million of authorization remaining. Under the repurchase program, we repurchased over 1% of our outstanding shares in the fourth quarter, bringing the total repurchased amount in 2024 to over \$250 million.

For the year, we repurchased shares at a weighted average price of \$88 per share. Since the IPO in 2012, we have repurchased over 63% of our outstanding shares. We continue to view share repurchases as an opportunistic and appropriate use of cash at current share prices. Even after our outperformance in 2024, we believe Allison is deserving of a valuation that is more aligned with other publicly traded premier industrial assets, given our robust and stable cash generation in addition to our market position and comparative margin performance.

We're committed to continuing our longstanding history of delivering premier products that are recognized by name and desired by customers for quality, reliability, durability. And we're excited to further grow our business while continuing to deliver our brand promise to provide the most reliable and valued propulsion solutions in the world.

With that being said, please turn to the slide 9 of the presentation for our initial 2025 guidance. For 2025, Allison expects net sales to be in the range of \$3,200 million to \$3,300 million. At the midpoint, we're guiding to another record revenue year driven by 400 basis points of price realization across our full business, increased demand for Tracked vehicle applications and robust North American vocational demand.

In addition to Allison's 2025 net sales guidance, we anticipate net income in the range of \$735 million to \$785 million, adjusted EBITDA in the range of \$1,170 million to \$1,230 million, net cash provided by operating activities in the range of \$800 million to \$860 million, capital expenditures in the range of \$165 million to \$175 million, and adjusted free cash flow in the range of \$635 million to \$685 million.

Thank you. And I'll now turn the call over to Dave for an update on recent announcements.

David S. Graziosi

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

Thank you, Fred. Last month we announced the debut of our 6000 Series transmissions, specifically for Wide Body Dump or WBD applications, originally designed for heavy duty vehicles, including off-highway trucks, oilfield rigs and cranes. This transmission now supports higher tonnage WBD trucks reaching a maximum gross vehicle weight of up to 136 metric tons.

Accompanying this release, we also announced our partnership with XCMG, one of the largest construction machinery manufacturers in the world for the release of our TerraTran in their XG110 WBD (sic) [WBMD] trucks, an upgraded variant of our proven 4000 Series transmission, the TerraTran is purpose built for global construction and mining markets.

As the WBD truck market continues to expand and evolve, Allison is committed to continually updating our products to provide customers with their broader portfolio of solutions based on their unique needs. The release of our 6625 WBD transmission and introduction of the TerraTran into the same segment marks yet another milestone in support of our realization of our \$100 million of incremental annual revenue opportunity.

As discussed in my opening remarks, our Defense end market continues to drive growth in our business as we capitalize on the defense upcycle both internationally through increased defense investments globally, amidst geopolitical uncertainties and domestically through opportunities with the United States modernization programs as well as increased international sales through the US Department of Defense.

Today, I would like to highlight the recent announcement that Allison was awarded a contract for over \$80 million to provide upgraded and new X1100 transmission supporting Abrams Main Battle Tank variants used by the United States Army as well as foreign military sales customers. Allison has long supported the US Army and its close partners and is proud to be part of the world's premier Main Battle Tank. We look forward to continuing our partnerships in support of these customers in the decades to come.

In closing, 2024 was a solid year of top line records and a demonstration of Allison's commitment to our capital allocation priorities. Our 2024 results and our 2025 guidance demonstrate the power of Allison as we continue to capitalize on opportunities in our end markets and make strides towards the realization of our growth initiatives.

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 Tami Zakaria with JPMorgan. Please proceed with your question.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Hey, thank you so much. So my question is on the North America On-Highway guide. I think you're expecting 1% growth. Could you give us some color on how much of volume versus price is embedded in there? The reason I ask I think I heard you say pricing for the enterprise would be about 400 basis points. So just trying to understand what that could look like for North America On-Highway?

G. Frederick Bohley

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

A

Hi Tami, this is Fred. So you're correct. In our prepared remarks, we talked about 400 basis points of price across our business. We've secured price across all of the end markets. Certainly, as we've talked about previously, a large portion of the North American On-Highway market did have expiring long-term agreements. And we've talked about the value that we've delivered and we have executed agreements with all of those customers. What I would tell you is that traditional long-term agreements, then between three to five years, these have leaned toward the shorter duration. And they have positive pricing in each year of the contract. Again though – as far as getting into specifics as to how much pricing we got in each market, we're going to avoid that. But broad based across our end markets, but certainly North America On-Highway being a driver.

So when you think of our guide, as you mentioned up 1%. We certainly have the volume, the expectation down year-over-year, primarily driven by medium-duty. I think that's consistent with the vehicle OEMs that have announced in front of us their views as well as certain engine manufacturers and then industry forecasters as well.

Tami Zakaria

Analyst, JPMorgan Securities LLC



Understood. Thank you. Very helpful.

Operator: Thank you. Our next question is from Tim Thein with Raymond James. Please proceed with your question.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.



Thank you. Maybe, Fred, just to continue on that thread, those LTSA historically have had other components to them, obviously, beyond pricing. I'm curious, obviously – not be the ideal forum to get into individual contractual agreements. But is there – are there other things beyond whether it's content or share, other things that you would highlight that elements of these contracts, obviously a very unique time in the – in what the market has gone through just given the tightness of supply. So I'm just curious if there are other things that you would you would flag or highlight that as we think about kind of what these contracts may entail beyond just what we know about, as you just mentioned, one year pricing, anything else you would provide there? Thank you.

G. Frederick Bohley

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



Yeah, sure. Tim, it's Fred again. There are a lot of different components, I think what's topical in the news probably important to highlight that these – the vast majority of these contracts have commodity pass-throughs both up and down. If you think about our exposure to aluminum and steel, about two-thirds of the aluminum is pass-through through long-term contracts with our OEM customers. And closer to 80 – sorry, about two-thirds of steel and closer to 80% of aluminum is pass-through through long-term contracts. But there are certain other components within those agreements that are, I think advantageous to both us and our OEM customers.

Operator: Thank you. Our next question is from Kyle Menges with Citigroup. Please proceed with your question.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.



Thanks. I was hoping if you could dive a little bit deeper into just what you're embedding in your North American On-Highway volume assumptions for 2025. It sounds like if total sales up 1% and there's at least 400 bps of pricing within that, would just be helpful to hear just kind of roughly what you're thinking about medium-duty versus Class 8 straight trucks, and those volumes up or down for 2025. Thank you.

David S. Graziosi

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



Hey, Kyle, it's Dave. Thank you for the question. So, pretty straightforward, as Fred mentioned, we're certainly assuming medium-duty softer market versus 2024. I think to Fred's comment as well, a number of the OEMs have already publicly reported, the third-party forecasting sources as well align with that. There's some questions around overall inventories. They've certainly improved in terms of medium-duty. Although, I think broadly

speaking, bodybuilders continue to be a bit of a constraint, but the medium-duty market would seem to be well-supplied versus a few years ago in terms of overall market position. So, we've certainly reflected that in our guidance.

Relative to vocational, as I mentioned in the prepared comments, continue to expect relatively robust demand there. As we've had some questions on our third quarter call, the conditions really haven't changed as far as we're aware. And again, I get back to others' comments here recently in terms of their thoughts on 2025, we don't, at this point, expect a significant change in terms of overall capacity numbers for the industry in terms of vocational. I think as we've talked about several times, those constraints continue to be, we believe, in the broader market. And again, back to – in terms of what bodybuilders are able to take, but inventory position on vocational certainly different than what medium-duty is currently positioned at.

So, I'd say, overall, short answer, medium-duty softer year-over-year, vocational more or less the same of what we've seen here over the last 12 months to 18 months.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.



That's helpful. Thank you.

Operator: Our next question is from Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer

Analyst, Melius Research LLC



Hi, thanks. In 2024, you used a bit of cash on debt paydown. I wonder if you could comment, do you expect to flow all the cash out to shareholders in forms of dividend and repurchases in 2025? Was there anything different that happened in 2024? And then, any comments on 2025 cash flow guidance, is there any additional investment or anything different going on there? Thank you.

G. Frederick Bohley

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



Yeah, Rob, this is Fred. As you mentioned, we did pay down \$100 million of our term loan with that refinancing in the first quarter of 2024. At this point, there's really nothing we need to do from a debt financing. The nearest maturity is October 2027. Those are callable at par beginning in the third quarter or October, in effect. But relative to capital allocation, I mean the playbook is the same. First and foremost, as you know, we're going to fund the business for organic revenue, earnings growth, new product and technology development.

We're certainly always looking this from a strategic acquisition, is there something that's better inside of Allison than out. But we're always focused on returning capital to shareholders. With the dividend now, we've increased the dividend five years in a row. And as we mentioned in our prepared remarks, we returned a significant amount of capital via share repurchases. And we also called out in our prepared remarks that we do look at our current valuation and feel like we are significantly undervalued, and that repurchasing shares is a very good return.

Rob Wertheimer

Analyst, Melius Research LLC



Thank you.

Operator: Our next question is from Ian Zaffino with Oppenheimer & Company. Please proceed with your question.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Hi. Great. Thank you very much for all the color. Question on FX, what are sort of the FX headwinds, tailwinds? Can you just walk us through that a little bit, because I know you kind of have a reversed relationship with the yen, which actually seems to be strengthening? But give us a sense of like what the headwinds are, tailwinds, et cetera. Thanks.

G. Frederick Bohley

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

A

Yeah, Ian. This is Fred. Traditionally, we're relatively naturally hedged. I – certainly the currencies were exposed to, but the purchases in yen versus the – and expense in yen versus the revenue isn't what hits us significantly. What will hit us is balance sheet revaluations and thinking just about year-over-year 2023 to 2024 we were positive on FX in 2023 negative on FX, so that hit us from an EBITDA margin close to a 100 basis points. So that's really where it's going to move as the dollar strengthens and we're holding assets in foreign currency, you get – you can get potential revaluations. It tends to move around. But specifically for this quarter, both on a sequential and a year-over-year basis, that was more negative than they would normally experience.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you very much.

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

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hi. Thanks for taking my question. Maybe this one's for Fred. You've been COO for a little bit over half a year now. And I think you've announced the India capacity expansion, but could you just talk about where you've maybe perhaps uncovered and be in your new role kind of beyond that as it pertains to kind of other opportunities for potential investments for growth, as well as kind of areas to drive incremental operational efficiency. And just kind of related to that, does the new administration's policies accelerate or give you pause in terms of where you might be or kind of the next steps you might be taking in terms of investments or efficiency? Just long winded way of saying what's your ability to kind of expand margins via self-help?

G. Frederick Bohley

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

A

A lot in there, Angel. So, yes, back to June when I took on the additional responsibilities, having said that, Dave and I have been working hand in hand for 17 years. Certainly the types of activities we've been working on, the announced investment in India. And when you think about that that's really going to allow us to kind of reset the capacity we're running through here, get out in Indianapolis, get after some operational efficiencies, build 3000, 4000, best cost country from a fabrication standpoint. That's a couple of year process. We've started investing obviously yet this year, the step up you saw in CapEx is driven by that project and will continue into 2026.

You talked about the new administration. It's – I think still a lot to be discovered. But I think when you think about the way we've invested in electrification and we've done it in a meaningful way, but measured and had really been focused on the right products when the market was going to be available, I think that really positions us well versus our competition, there's a lot of unknown clearly, some of the advantages we have is that, we source the vast majority of our products in North America. We produce the vast majority of our products in North America. So with the new administration, I think that the type of activities that they're looking to reward via their policies are things that we're already doing.

And I think we're well prepared to prosper in that environment. I would say as we look further down the road, Dave and I have our conversations, really one thing we're focused on is just getting back to the operation or level of efficiency we had pre-pandemic. There's still a lot of challenges in the supply chain. You've had a tremendous amount of turnover in employees. So it's really getting back to that level of performance that we've demonstrated we could do and feel that we are entitled to.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Very helpful. Thank you.

Operator: Our next question is from Luke Junk with Baird. Please proceed with your question.

Luke L. Junk

Analyst, Robert W. Baird & Co., Inc.

Q

Good afternoon. Thanks for taking question. Fred, just hoping you could double click on the moving pieces in the outside North America On-Highway guidance. I know trends have been kind of uneven by geography recently in that business, but just trying to square the blush outlook with the more open ended nature of that business's growth trajectory in longer term and I think what kind of year in, year out target of double-digit kind of growth there? Thank you.

G. Frederick Bohley

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

A

Thanks, Luke. And to start with, we're guiding to flat. We're not happy with that. But, as you know we challenged the team to double-digit growth every year. It is a challenging market backdrop. As Dave mentioned earlier, we've been having quite a bit of success in the Wide Body Mining Dumps produced in China, now also produced in India and really been distributed broadly across the globe. We had a really good year in Japan in 2024. Some of that was driven by some pull ahead volume associated with regulations and emissions changes in Australia that will be a challenge we'll need to overcome as we continue into 2025.

Within Western Europe, truck was very soft last year but we've secured a lot of wins in wheeled defense. And as we look out to 2025, the truck market feels a lot like 2024. But we continue to outgrow there with success in bus and wheeled defense. Down in South America, very excited about what our Brazilian team's doing, penetrating the school buses market. And that's something that we've been working on for four or five years and finally secured a portion of that rather large business and plan to continue to expand on that in 2025.

Lot of activity in Southeast Asia, feeding into the Middle East, feeding into South Africa that we're very focused on secured line releases, refuse pickup and delivery applications. But having said all that, a lot of really good work that's driving penetration, the backdrop is just fewer commercial vehicles expected to be built in 2025. Again, our guide, 0%, but trust me, the team is very focused on exceeding that.

Luke L. Junk

Analyst, Robert W. Baird & Co., Inc.

Got it. Great color. Thank you, Fred.



Operator: Our next question is from Jerry Revich with Goldman Sachs. Please proceed with your question.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Yes. Hi. Good afternoon, everyone. Fred, I'm wondering if we could just go back to the comments that you made, given the company's outstanding performance and the comparison versus the best-in-class industrials. Can you just talk about what level of content gains that you folks expect to achieve? What stands out in addition to the margins, where the [ph] experiential (00:32:43) comps is, just the organic growth track record and M&A track record. I'm wondering as we think about Allison, within that context, how should we be thinking about the go forward paradigm versus history?



G. Frederick Bohley

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

I think you hit on some of them. Obviously, it would be our ability to outgrow our markets. I think the consistency of our cash flow stream, as you know, we have no exposure to the more volatile over-the-road Class 8 line-haul market, a significant amount of our business, 30% to 40%, runs through municipalities, which continue to buy in downturns. Our ability to continue to drive our margins higher. We are obviously guiding to margin up this year, year-over-year, with volume down. We're guiding to margin up 80 basis points versus 2024 with, like I said, total volume down lower. So, I think those are the things that separate us.



And then, we look at the peer set. And while we've had a tremendous run in stock valuation primarily as the overhead of EVs rolled off, we're not back to where we used to be. We're maybe 9.5 turns on EBITDA where we used to be 12. We look at premier industrials that are 18, 20 times EBITDA and see no reason why we shouldn't carry that type of valuation.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

And Fred, Dave, can I just ask a shorter term question, in terms of manufacturing costs, you spoke this big focus for you, Dave, in the organization, what level of manufacturing cost inflation does the guidance embed in 2025 in terms of true underlying inflation versus allocated production costs as volumes are down in parts of the business. Can you just help us understand that a bit?



G. Frederick Bohley

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

Yeah, when we look at where we are right now, we have manufacturing costs down year-over-year. We do have our purchase components up. Our assumptions on raw material which were really anything from (sic) [were based on] a pre-tariff standpoint, we did have raw material inflating as the year progressed, and some negotiated price increases from our suppliers. So, that's where we're seeing cost pressure. Now, certainly, we've got inflation embedded within manufacturing, but we also have performance embedded, and we're guiding to less volume rolling through our facilities. And as we mentioned, we took the vast majority of the UAW contract increases in 2024. So, rolling out for this agreement, the economics are much closer to just a normal inflation sort of economics.



Jerry Revich*Analyst, Goldman Sachs & Co. LLC*

Thank you.

Operator: Our next question is from Sherif El-Sabbahy with Bank of America. Please proceed with your question.

Sherif El-Sabbahy*Analyst, BofA Securities, Inc.*

Good afternoon. Just to start off, maybe continuing discussion on some of your costs. Your guidance implies about 80 basis points of margin expansion at the midpoint on 400 basis points of price. Could you provide some color on maybe what your biggest cost buckets are embedded within that? You've mentioned some of your steel aluminum exposure and perhaps what contribution fixed cost absorption will have?

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

Sure, Sherif. I think it's fair. Everybody can pretty much drop to the 400 basis points that should drive for us. That should drive margins up 250 basis points. But clearly, we've got revenue down, roughly due to volume roughly \$100 million and we have obviously very attractive drop through is there. So that's hitting us for offsetting the price by about 90 basis points. And then looking at raw material pressures on the upward with about a third of those driven by – sorry, about a third driven by raw and the other two-thirds from a direct material purchase driven by value add, that's hitting us well. So it's 250 basis points from price and then pretty equally spread between the volume impact and the decrementsals on that and cost increases. Again, the vast majority of the cost increases are purchase components. We have engineering R&D relatively flat, SG&A relatively flat and manufacturing cost down year-over-year.

Sherif El-Sabbahy*Analyst, BofA Securities, Inc.*

Thank you.

Operator: Thank you. This concludes our question-and-answer session. I would now like to turn the floor back over to Dave Graziosi for any closing comments.

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

Thank 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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