

01-May-2025

Allison Transmission Holdings, Inc. (ALSN)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to the Allison Transmission's First Quarter 2025 Earnings Conference Call. My name is Matt 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 the conference call participants will be given instructions at that time. As a reminder, this conference call is being recorded.

I'd now like to turn the conference over to Jackie Bolles, Executive Director of Treasury and Investor Relations. Please go ahead.

Jacalyn C. Bolles

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

Thank you, Matt. Good afternoon and thank you for joining us for our first 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 newly appointed 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 May 15.

As noted on slide 2 of the presentation, many of our remarks today contain forward-looking statements based on current expectation. These forward-looking statements are subject to known and unknown risks, including those set forth in our first 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 first 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 will provide an update on recent announcements across our business, including a brief introduction and remarks from Scott Mell. Fred Bohley will then review our first quarter 2025 financial performance and full year 2025 guidance 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. First, I would like to welcome Scott Mell to the Allison executive team, serving as our newly appointed Chief Financial Officer and Treasurer. Scott joins us with almost 30 years of diverse experience providing strategic and financial leadership with an established and impressive track record. We are excited to welcome Scott and look forward to working with him as we continue to drive our vision and values and realize new opportunities that lie ahead. Scott, if you'd like to say a few words.

Scott A. Mell

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

Thank you, Dave. Good afternoon, everyone. I am thrilled to be stepping into the role of Chief Financial Officer and Treasurer here at Allison and delighted to be working with such an experienced management team led by Dave and Fred. Needless to say, it is a very interesting time for the company given current end market dynamics. But I am highly energized by the opportunity to help shape the future of our business, strategically guiding Allison through the next phase of our growth and development, while continuing to deliver exceptional financial results for our shareholders.

As a longtime resident of Greater Detroit, I am eager to get back to my roots of operating within the always interesting commercial vehicle industry, and specifically working with an icon of the industry, Allison Transmission. As I get up to speed. I look forward to further engagement with the broader investment community and helping guide Allison through the next phase of our growth and development.

Dave?

David S. Graziosi

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

Thank you, Scott. Moving on with other announcements during the quarter. Late last month, we were pleased to announce that Allison's 3040 MX medium weight cross-drive transmission was selected as the propulsion solution of choice across all OEMs competing for India's Future Infantry Combat Vehicle, or FICV, prototype. The FICV

program aims to modernize the Indian Army's fleet of aging infantry fighting vehicles with intention to procure approximately 1,750 FICVs. The total revenue opportunity for Allison could represent several hundred million dollars over the next two decades. Being selected by all OEMs competing in the FICV program is a testament to the superior durability, reliability and performance of our 3040 MX transmission and underscores Allison's commitment to growth in international defense market.

In March, we announced that Daimler Truck North America, or DTNA, has standardized Allison's FuelSense 2.0 Neutral at Stop technology for their Freightliner and Western Star Trucks. Allison's Neutral at Stop technology reduces engine load at stops and reduces unnecessary fuel consumption when vehicles are at idle. Our technology ensures that fuel is used for movement, not idling, enhancing overall fuel efficiency. We are pleased to partner with DTNA to make this innovative solution a standard offering for our customers, supporting fleets in their goals to reduce fuel consumption and vehicle emissions.

During the quarter, we also announced the expansion of our global service network across Japan and West Africa, bolstering our current network comprised of 1,600 independent dealer and distributor locations and underscoring Allison's commitment to delivering global customer support and service accessibility. We have entered into service dealer agreements and formed strategic partnerships to strengthen service capabilities in key regions. As we continue to see significant growth in the preference for fully automatic transmissions outside North America, strengthening our service network is key to supporting our growing global customer base.

Before passing it to Fred for a review of our financial performance, I would like to take a moment to share some perspective on the broader environment in which we are currently operating. Although ongoing geopolitical tensions and shifting trade policies are creating uncertainty across our end markets, Allison's strategic advantages provide us with the flexibility to tolerate the current environment.

Utilizing our global footprint, Allison can provide our North American customers with made-in-USA products and supply our outside North American customers with On-Highway products produced outside North America. In addition, over 85% of our direct material spend is with suppliers based in North America. A majority are located in the United States with those located in Canada and Mexico currently under USMCA exemption. Importantly, Allison's sourcing from China is minimal regarding the number of components and spend. Also, through our long-term supply agreements with customers, we pass through approximately two-thirds of steel and 80% of aluminum cost.

Finally, 30% to 40% of our North America On-Highway business is with municipal customers. As we have demonstrated through previous economic cycles, this portion of our business is insulated from the macro environment, with municipalities continuing to buy amidst uncertainty. When taken together, we believe Allison is well-positioned to continue to supply our end markets while maintaining strong financial performance, while remaining focused on our growth initiatives and operational efficiency, executing on both our near-term and longer-term strategic initiatives and proactively addressing changing market dynamics.

We appreciate your support as we move through this period with resilience, maintaining our commitment to delivering long-term sustainable growth.

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

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

Thank you, Dave. Following Dave's business update, I'll review our first quarter financial performance and our full year 2025 guidance.

Please turn to slide 5 of the presentation for the Q1 2025 performance summary. Year-over-year net sales decreased 3% from the same period in 2024 to \$766 million. Year-over-year results were driven by a 4% increase in the North American On-Highway end market, principally driven by price increases on certain products and continued strength in Class 8 vocational trucks, partially offset by lower demand for medium duty trucks. Year-over-year net sales were also driven by a 10% increase in net sales in the Defense end market, principally driven by price increases on certain product.

Gross profit for the quarter was \$378 million, an increase of \$12 million from \$366 million for the same period in 2024. The increase in gross profit was principally driven by price increases on certain product And UAW contracts signing incentives recognized in the first quarter of 2024 that did not reoccur in 2025.

Net income for the quarter was \$192 million, an increase of \$23 million from \$169 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. Diluted earnings per share increased 17% year-over-year to \$2.23. The increase was principally driven by higher net income and lower total diluted shares outstanding.

Adjusted EBITDA margin for the quarter was 37.5%, an increase of 90 basis points year-over-year. A detailed overview of our net sales by end market and Q1 2025 financial performance can be found on slides 6 and 7 of the presentation.

Please turn to slide 8 of the presentation for the Q1 2025 cash flow performance summary. Net cash provided by operating activities for the quarter was \$181 million compared to \$173 million for the same period in 2024. The increase was principally driven by UAW contract signing incentives paid in the first quarter of 2024 that did not reoccur in 2025. We ended the first quarter with a net leverage ratio of 1.43 times. \$753 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.

Allison remains committed to prudent balance sheet management and shareholder-friendly capital allocation priorities, as demonstrated by the sixth consecutive annual increase to our quarterly dividend. Our quarterly dividend has increased over 80% since 2019. Also in the quarter, we announced a \$1 billion increase in our authorization under our stock repurchase program. During the first quarter, we repurchased over \$150 million of our common stock, representing nearly 2% of outstanding shares. We ended the first quarter with nearly \$1.4 billion of authorization remaining.

Please turn to slide 9 of the presentation for our 2025 guidance. While our supply chain and manufacturing footprint minimizes our exposure to global trade uncertainties, we continue to monitor the tariff environment and plan to offset the impact. Consistent with our previous assumptions, including continued strength in demand for Class 8 vocational trucks and Defense vehicles, we are reaffirming our full year 2025 guidance provided to the market on February 11.

Allison expects net sales to be in the range of \$3.200 billion to \$3.300 billion. 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 billion to \$1.230 billion, 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.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] First question here is from Kyle Menges from Citigroup. Please go ahead.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. I thought it was nice margin performance in the quarter. I mean, margins increased 270 basis points year-over-year in the quarter versus the full year guide, implying 80 basis points at least for the full year margin expansion. So just can we unpack that a little bit? And what drove the really solid margin result in the quarter? I mean, especially considering that the higher margin parts business was down about 7.5% year-over-year.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Yeah, Kyle. Thank you. This is Fred. Really looking at the margins on a year-over-year basis, as you mentioned, certainly expanded. Specifically looking at gross margins and walking that through first quarter last year we were at 46.4%, coming in at 49.3%. And then dropping down to EBITDA margins, as you mentioned, 90 basis points of expansion. Relative to the gross margin expansion, price was meaningful, \$39 million in price in the quarter. We did have the one-time UAW signing incentives in gross profit last year that was excluded from EBITDA. But relative to gross profit, \$13 million in lower expense there. And then obviously, net sales was down after price, which impacted us \$37 million with material costs unfavorable \$6 million. So that'll basically bridge it to the \$12 million from a gross profit standpoint, and that all will be disclosed when we publish the Q tomorrow. Relative to EBITDA margin, that 90 basis points, net sales down \$20 million unfavorable vol/mix and really offset by the price, the \$39 million in price, a roughly 500 basis points of price recognized on a year-over-year basis.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.

Q

Thank you. That's helpful.

Operator: Our next question is from Ian Zaffino from Oppenheimer. Please go ahead.

Isaac Sellhausen

Analyst, Oppenheimer & Co., Inc.

Q

Hey good afternoon. This is Isaac Sellhausen on for Ian. Thanks for taking the question. I just have one. Could you provide some high level thoughts on just any vocational demand environment, maybe where specifically strength is coming from? And are you not seeing any weakness at all from customers or within the useful spending or funding, et cetera? Thanks.

David S. Graziosi

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

A

Hi. This is Dave. Couple things there. So, as we talked about and I'm sure you recall back both the most of our calls last year and followed by our call in February, in terms of North America, vocational continues to be – our

expectation was entering this year continued to be a relatively robust and strong market. I would certainly point you to the comments of certainly the North America OEMs and what they're seeing from a vocational perspective. Again, I would not disagree with their comments. We continue to enjoy a significant market position there, demand for our product, as you know, we've made some investments over the last number of years to increase capacity. So we're certainly well-positioned to supply the level of this market which more or less are relatively flat on a year-over-year basis, consistent with what we had mentioned in February.

So, as we discussed or mentioned in the prepared comments, again, with the underlying fundamentals, even with our portfolio around municipalities, they continue to be very present in the market for vocational vehicles. And I'm sure you're aware of other – the OEM comments that have vocational exposure to a number of the sub-segments there. So we're benefiting from that as well.

From the support perspective, as we've discussed, fair bit of investments happening out in the marketplace that dates back several years. I would also mention the more recent announcements with the new administration in Washington continues to be supportive of investment in the US. So, the team here is well-positioned to supply market demand and meet customer expectations.

Isaac Sellhausen

Analyst, Oppenheimer & Co., Inc.



Thanks very much.

Operator: The next question is from Tim Thein from Raymond James. Please go ahead.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.



Yeah. Great. Thank you and good afternoon. And Scott, welcome [indiscernible] (00:18:51) get to work with you. Maybe, Dave, just to start, with respect to looking at the cash balance and what looks to be another strong year of cash generation per usual, just how you're thinking about your capital allocation, especially with respect to M&A, obviously hasn't been a central part of the strategy historically, but just curious if you have any updated thoughts in terms of how you're thinking about M&A and other potential avenues to deploy capital? Thank you.

David S. Graziosi

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



You're welcome, Tim. And thank you for that question. I'll start and then Fred will finish here. But I would just say, consistent with our shareholder-friendly position with capital allocation, we increased our dividend earlier this year. We continued on that path of share repurchases. I'm sure you noticed from our results. And most importantly, beyond the two items that I mentioned, we're certainly fully funding our business at this point from an organic growth perspective as well as product variance as well as new products – completely new products. I think the team is executing well there overall and really driving towards that. So, beyond that, as we've talked about a number of different options out there for growth. And I'll let Fred comment on that.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.



Sure. Thanks, Dave. As Dave walked through, I mean, definitely we are sticking to our capital allocation priorities. First and foremost, funding the business, organic revenue growth. Capacity – the activities we're taking in India. But we're always looking at what could be better inside of Allison than out. So, we're certainly spending time proactively looking at different opportunities. Obviously, a little bit of a tough market back right now, but we

obviously sit here in a position of strength – strong balance sheet and a company that is able to generate meaningful cash in just about any market environment. We've actively mitigated the risk really proactively relative to our footprint and supply chain. But what we're seeing right now, while everybody's exposed to tariffs, the impact to us we feel very confident we can offset. So, sitting here from a strong financial profile, we'll continue to proactively look at what might be out there that would be a good fit, as you would expect.

Operator: Next question is from Rob Wertheimer from Melius. Please go ahead.

Rob Wertheimer*Analyst, Melius Research LLC*

Q

Thanks. There's a Trump administration led Section 232 investigation into sort of truck supply chains and so forth. And I'm not fully up to speed on where everybody makes transmissions. I know you guys have obviously extraordinarily high share in fully automatic transmissions. But maybe it'd be a good moment to check in on regional haul as well just to see if – I don't know if there's any mismatch basically in the supply base that could advantage you if things come down in that direction. Thank you.

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

A

Hey Rob. It's Dave. Thank you for that question. So, back to our prepared remarks, as we laid out, I think we're well-positioned given our footprint in North America, more specifically the US, to supply the North American On-Highway market with a high level of localized content, if you will. At the same time, relatively well-aligned with our outside North America On-Highway customers and demand by region. To your point on regional, the haul series or basically the day cab tractor market, as I'm sure you're aware that that forecast or forecasts that are out there for that particular market are relatively soft this year. So, we're pursuing our market share position there in terms of our regional haul series product. We don't at this point anticipate significant dislocation issues. To your question on other suppliers positions there, I think it's a market that's very well-established.

Having said that, I would say the tariff issue in general, as everybody knows, still it remains highly uncertain. I would also offer there can be and I would expect will be intended and unintended consequences of those that everybody is still trying to digest and understand. So, that's how we see things currently given what's been communicated. Your comment in terms of this 232 investigation, I guess, public comments are due on that. I believe the middle of this month-ish. So it'll be, again, something we'll keep an eye on and be responsive to.

Rob Wertheimer*Analyst, Melius Research LLC*

Q

Well, look forward to reading the comment. Perfect. And then you mentioned the kind of stability in Class 8. Any comments on medium duty and the dynamics in that market, it's already corrected somewhat, I wonder where you see it and what the drivers up and down are? And I'll stop there. Thank you.

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

A

Sure. The medium duty North America, I believe is your question, as we had mentioned back February 11th call our expectation and I believe the broader market was medium duty to be down on a year-over-year basis. The market has, in fact, played out that way, I would say. The most recent OEM comments are consistent with that as well. As we talked about in February, we saw the medium duty market well-supplied from an inventory perspective. And I do not believe at this stage we're expecting anything different than consistency with the guide that we had back in February.

Rob Wertheimer*Analyst, Melius Research LLC*

Thank you.

Operator: The next question is from Tami Zakaria from JPMorgan. Please go ahead.

Tami Zakaria*Analyst, JPMorgan Securities LLC*

Hey good afternoon. Thank you so much. So, it seems like pricing was up about 4.9%-ish in the quarter, which stepped up from about 3% in the fourth quarter. So, is the mid-single-digit percent price realization a good proxy for the rest of the year? Or could it accelerate as the year progresses?

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

Hi Tami. This is Fred. Your numbers are fairly accurate. So, when we initially guided, we talked about 400 basis points of price. We secured a little more price in the first quarter, closer to 500 basis points. As we look for the balance of the year, I think at this point we'll probably come in a little north of the 400 basis points. But to your point, is a mid-single-digit possible, I think the answer is yes.

Tami Zakaria*Analyst, JPMorgan Securities LLC*

Understood. Thank you.

Operator: Next question is from Angel Castillo from Morgan Stanley. Please go ahead.

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

Hi. Thanks for taking my question. Just maybe wanted to go back to some of the regulatory or administration related dynamics. There's also the EPA 27 regulation being kind of under review and some recent votes in the House kind of targeting CARB a little bit more. Just curious if there's any implications on your broader business as you think about what's kind of embedded in your outlook and what you're seeing in terms of demand as some of these emissions regulations maybe come under pressure or maybe get pushed out?

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

Sure. Thank you for that question. So, we certainly continue to monitor discussions of modifications to EPA 27 from the new administration and the executive orders, et cetera. Also, responses from the individual states. As we've talked about I believe before, our product does not require significant modification in order to pair with these new engines. So, with the proposed emissions regs. So, the short story there is largely our work is done. We've also announced a number of changes with our product lineup to align with the new engines and their ratings.

That being said, there's quite a bit of uncertainty surrounding what could happen, what will happen. In that regard, you can then get to the next question around potential impact on pre-buys, et cetera. I believe, we believe the industry has largely pivoted from a supply base perspective to align with the new emissions regulations that would be effective for 2027. The real question there is what the overall final regs we believe will drive requirements. And

thus, the cost of the vehicle. So, that's really the underlying issue we believe at this stage relative to any type of outsized demand or non-normal demand.

I would also offer, given these announcements by the new administration, there continues to be a fairly high level of interest from OEMs in our conventional fuel efficiency features. As we mentioned in the prepared remarks with DTNA's adoption of FuelSense and Neutral at Stop amongst a number of other technologies we deployed, we feel very well-positioned in terms of the new emissions, the push for more efficient, more fuel efficiency as well as alternate fuels across the board. So, we're pretty confident in terms of where we sit. I think now it's just a question, back to your question, which is what are the final answers going to be there. And that's something we're staying close to and will maintain very focused on as we get further into the year.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Thank you.

Operator: The next question is from Luke Junk from Baird. Please go ahead.

Luke L. Junk

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

Q

Yeah. Maybe just a quick one for me, hoping you just comment on the step-down in the parts business sequentially. Just anything in there that would be sticky or, conversely, one-time in nature? And just trying to square it with the full year view, which was I think flattish. Thank you.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Yeah, Luke. This Fred. There really isn't anything I'd say specifically. I would call out. It was year-over-year, unit sales were down. You had lower support equipment for the initial installation of those units. But we also saw just, I'd say, general weakness across the global service parts. So, nothing that I'd necessarily highlight. We're coming off of two really strong years in 2023 and 2024. Fairly robust out there. But I do think a lot of vehicles have been replaced. And we've got vehicles that are coming into service during some low volume years. When I say that, think about 2020 vehicles when volumes were down are now coming out of warranty and going into availability for retail sale parts. So, they're displacing some higher volume years, which is why our initial guide on that end market was I think 1% down.

Luke L. Junk

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

Q

Got it. Thank you for that, Fred.

Operator: The next question is from Jerry Revich from Goldman Sachs. Please go ahead.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good afternoon, everyone. And Scott, congratulations. I wanted to ask in terms of the production plan over the next couple of quarters, if truck demand does slow on the vocational side, as we've seen in medium duty and on the sleeper side, how much room do you have to reduce overtime? I know you folks have been sprinting hard, so presumably whenever that does happen, that first production cut, I believe, can likely be not too painful

for margins. But maybe you can expand on that. And can you also comment on the level of inventories that you folks are at? Did you bring up inventories because of the uncertainty around tariffs or any other moving pieces we should be aware of? Thank you.

G. Frederick Bohley

Chief Operating Officer, Allison Transmission Holdings, Inc.

A

Hi Jerry. It's Fred. Relative to overtime and thinking about how we run our manufacturing facilities, for the medium duty demand, we run that in a separate plant than we do for the severe service. So we're already in a situation with the softening of the medium duty demand where we've taken down some overtime, reset line rates. Relative to our larger On-Highway products, they're still running very robust. But to your question if there was to be softening, yes, that's the first lever that we would pull, which is to roll back that significant overtime that we've been running. And then on inventories, a lot of the inventory that we've ramped up, as you've seen, it's elevated, is really to support the ramp-up of our Defense volume. We've got the second half ramping up pretty aggressively off of first half. So, we've got a lot of parts in and in process relative to that. Looking at just the general On-Highway plants, the inventories are, I'd say, fairly optimal levels there.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: This concludes the question-and-answer session. I'd like to turn the floor back to management for any closing comment.

David S. Graziosi

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

Thank you, Matt. Thank you for your continued interest in Allison and for participating on today's call. Enjoy your evening.

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

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