

Q2 2020 Earnings Release

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Safe Harbor Statement

The following information contains, or may be deemed to contain, “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995). The words “believe,” “expect,” “anticipate,” “intend,” “estimate” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management’s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: the duration and spread of the COVID-19 outbreak, mitigating efforts deployed by government agencies and the public at large, and the overall impact from such outbreak on economic conditions, financial market volatility and our business, including but not limited to the operations of our manufacturing and other facilities, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flows; risks related to our substantial indebtedness; our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs; the concentration of our net sales in our top five customers and the loss of any one of these; the failure of markets outside North America to increase adoption of fully automatic transmissions; the success of our research and development efforts, the outcome of which is uncertain; our failure to identify, consummate or effectively integrate acquisitions; U.S. and foreign defense spending; general economic and industry conditions; increases in cost, disruption of supply or shortage of raw materials or components used in our products; 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; risks associated with our international operations, including increased trade protectionism; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; and our intention to pay dividends and repurchase shares of our common stock.

Allison Transmission cannot assure you that the assumptions made in preparing any of the forward-looking statements will prove accurate or that any long-term financial goals will be realized. All forward-looking statements included in this presentation speak only as of the date made, and Allison Transmission undertakes no obligation to update or revise publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise. In particular, Allison Transmission cautions you not to place undue weight on certain forward-looking statements pertaining to potential growth opportunities, long-term financial goals or the value we currently ascribe to certain tax attributes set forth herein. Actual results may vary significantly from these statements.

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2019 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Non-GAAP Financial Information

We use Adjusted EBITDA and Adjusted EBITDA as a percent of net sales to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA as a percent of net sales provide management, investors and creditors with useful measures of the operational results of our business and increase the period-to-period comparability of our operating profitability and comparability with other companies. Adjusted EBITDA as a percent of net sales is also used in the calculation of management's incentive compensation program. The most directly comparable U.S. generally accepted accounting principles ("GAAP") measure to Adjusted EBITDA and Adjusted EBITDA as a percent of net sales is Net income and Net income as a percent of net sales, respectively. Adjusted EBITDA is calculated as the earnings before interest expense, income tax expense, amortization of intangible assets, depreciation of property, plant and equipment and other adjustments as defined by Allison Transmission, Inc.'s, the Company's wholly-owned subsidiary, Second Amended and Restated Credit Agreement. Adjusted EBITDA as a percent of net sales is calculated as Adjusted EBITDA divided by net sales.

We use Adjusted Free Cash Flow to evaluate the amount of cash generated by our business that, after the capital investment needed to maintain and grow our business and certain mandatory debt service requirements, can be used for repayment of debt, stockholder distributions and strategic opportunities, including investing in our business. We believe that Adjusted Free Cash Flow enhances the understanding of the cash flows of our business for management, investors and creditors. Adjusted Free Cash Flow is also used in the calculation of management's incentive compensation program. The most directly comparable GAAP measure to Adjusted Free Cash Flow is Net cash provided by operating activities. Adjusted Free Cash Flow is calculated as Net cash provided by operating activities, excluding non-recurring restructuring charges, after additions of long-lived assets.

Call Agenda

- **Q2 2020 Performance**
- **Q2 2020 Liquidity Update**

Q2 2020 Performance Summary

(\$ in millions)	Q2 2020	Q2 2019	% Variance
Net Sales	\$377	\$737	(48.8%)
Gross Margin %	43.8%	52.8%	(900) bps
Net Income	\$23	\$181	(87.3%)
Adjusted EBITDA ⁽¹⁾	\$115	\$308	(62.7%)

Commentary

Net Sales: decrease was principally driven by the ongoing effects of the COVID-19 pandemic on the global economy, resulting in lower demand in all end markets except for the Defense end market.

Gross Margin: decrease was principally driven by lower net sales and restructuring charges recorded in the second quarter of 2020 partially offset by lower incentive compensation expense, price increases on certain products and favorable material costs.

Net Income: decrease was principally driven by lower net sales and restructuring charges partially offset by lower selling, general and administrative expenses.

Adjusted EBITDA: decrease was principally driven by lower gross profit partially offset by lower selling, general and administrative expenses.

(1) See Appendix for a reconciliation of Adjusted EBITDA.

Q2 2020 Sales Performance

(\$ in millions)

End Markets	Q2 2020	Q2 2019	% Variance	Commentary
North America On-Hwy	\$164	\$398	(59%)	Principally driven by lower demand for Rugged Duty Series and Highway Series models primarily due to the effects of the pandemic
North America Off-Hwy	\$3	\$9	(67%)	Principally driven by lower demand for hydraulic fracturing applications
Defense	\$42	\$37	14%	Principally driven by higher Tracked vehicle demand
Outside North America On-Hwy	\$60	\$106	(43%)	Principally driven by lower global demand due to the effects of the pandemic
Outside North America Off-Hwy	\$19	\$40	(53%)	Principally driven by lower demand in the energy, mining and construction sectors
Service Parts, Support Equipment & Other	\$89	\$147	(39%)	Principally driven by lower demand for North America service parts and support equipment primarily due to the effects of the pandemic partially offset by aluminum die cast component volume associated with the acquisition of Walker Die Casting
Total	\$377	\$737	(49%)	

Q2 2020 Financial Performance

(\$ in millions, except per share data)	Q2 2020	Q2 2019	\$ Var	% Var	Commentary
Net Sales	\$377	\$737	(\$360)	(48.8%)	Decrease was principally driven by the ongoing effects of the pandemic on the global economy, resulting in lower demand in all end markets except for the Defense end market
Cost of Sales	\$212	\$348	\$136	39.1%	
Gross Profit	\$165	\$389	(\$224)	(57.6%)	Decrease was principally driven by lower net sales and restructuring charges partially offset by lower manufacturing expense commensurate with decreased net sales, lower incentive compensation expense, price increases on certain products and favorable material costs
Operating Expenses					
Selling, General and Administrative	\$69	\$93	\$24	25.8%	Decrease was principally driven lower commercial activities spending, lower incentive compensation expense, lower intangible amortization expense and lower stock compensation expense partially offset by product warranty adjustments and restructuring charges
Engineering – Research and Development	\$38	\$37	(\$1)	(2.7%)	
Total Operating Expenses	\$107	\$130	\$23	17.7%	
Operating Income	\$58	\$259	(\$201)	(77.6%)	
Interest Expense, net	(\$33)	(\$33)	\$0	0.0%	
Other Income, net	\$5	\$3	\$2	66.7%	
Income Before Income Taxes	\$30	\$229	(\$199)	(86.9%)	
Income Tax Expense	(\$7)	(\$48)	\$41	85.4%	Decrease was principally driven by decreased taxable income
Net Income	\$23	\$181	(\$158)	(87.3%)	
Diluted Earnings Per Share	\$0.20	\$1.46	(\$1.26)	(86.3%)	Q2 2020: 114M shares; Q2 2019: 124M shares
Adjusted EBITDA⁽¹⁾	\$115	\$308	(\$193)	(62.7%)	

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

Q2 2020 Cash Flow Performance

(\$ in millions)	Q2 2020	Q2 2019	\$ Var	% Var	Commentary
Net Cash Provided by Operating Activities	\$92	\$239	(\$147)	(61.5%)	Principally driven by lower gross profit, higher cash interest expense and cash restructuring charges partially offset by lower cash income taxes, lower operating working capital requirements and lower commercial activities spending
CapEx	\$28	\$25	\$3	12.0%	Principally driven by increased spending related to investments in productivity and replacement programs, and engineering and testing capabilities
Adjusted Free Cash Flow ⁽¹⁾	\$67	\$214	(\$147)	(68.7%)	Principally driven by lower net cash provided by operating activities
(\$ in millions)	Q2 2020	Q2 2019	\$ Var	% Var	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	12.9%	11.5%	N/A	140 Bps	Principally driven by lower net sales
Cash Paid for Interest	\$57	\$39	\$18	46.2%	Principally driven by intra-year timing of payments
Cash Paid for Income Taxes	\$2	\$49	(\$47)	(95.9%)	Principally driven by decreased taxable income

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.

(2) Operating Working Capital = A/R + Inventory – A/P.

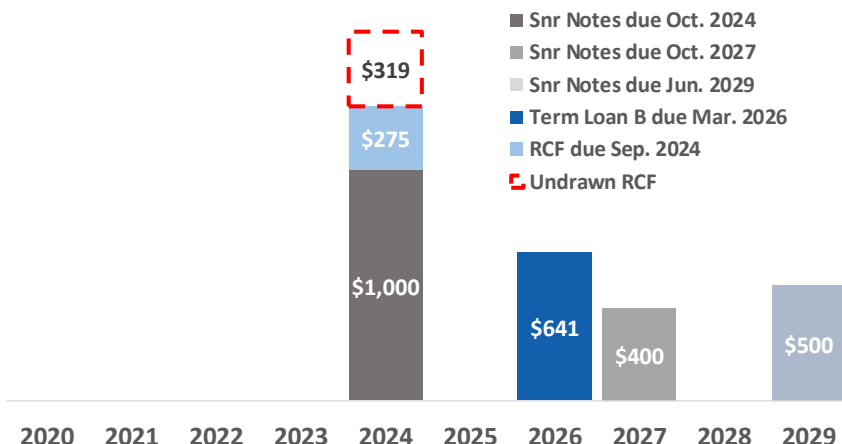
Strong Liquidity Profile

- Cash and Available Borrowing Capacity of \$753 million as of June 30, 2020
 - \$434 million of cash and cash equivalents
 - \$319 million of available revolving credit facility commitments, expiring in September 2024
- History of robust free cash flow generation
- Staggered, flexible, long-dated and covenant light debt structure with the earliest maturity due in Sep 2024
- Financial Covenants point to First Lien Net Leverage Ratio
 - Maximum threshold of 5.5x First Lien Net Leverage ratio (Net First Lien Debt to LTM Adj. EBITDA)
 - First Lien Net Leverage ratio of 0.56x as of June 30, 2020
- Net Leverage of 2.78x (Net Debt to LTM Adj. EBITDA) as of June 30, 2020

Long-term Debt Profile & Credit Statistics

(\$ in millions)	6/30/2020
Cash and cash equivalents	\$434
Revolving Credit Facility due Sep 2024	\$275
Senior Secured Term Loan B due Mar 2026	\$641
Total First Lien Debt	\$916
Senior Notes due Oct 2024	\$1,000
Senior Notes due Oct 2027	\$400
Senior Notes due Jun 2029	\$500
Total Debt	\$2,816
Net Debt	\$2,382
First Lien Net Debt	\$482
Credit Statistics:	
LTM Adjusted EBITDA	\$857
First Lien Net Leverage Ratio	0.56x
Net Leverage Ratio	2.78x

Current Debt Maturity Profile



APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended		Last twelve
						June 30,		months ended
	2015	2016	2017	2018	2019	2019	2020	June 30,
	2019	2020	2020					
Net income (GAAP)	\$182	\$215	\$504	\$639	\$604	\$181	\$23	\$418
plus:								
Interest expense, net	114	101	103	121	134	33	33	131
Income tax expense	107	126	23	166	164	48	7	121
Loss associated with impairment of long-lived assets	—	—	—	—	2	—	—	2
Technology-related investment expenses	—	1	16	3	—	—	—	—
Impairments	81	—	32	4	—	—	—	—
Environmental remediation	14	—	—	—	(8)	—	—	(8)
Amortization of intangible assets	97	92	90	87	86	21	13	72
Depreciation of property, plant and equipment	88	84	80	77	81	19	24	90
Loss on redemptions and repayments of long-term debt	1	—	—	—	—	—	—	—
Stockholder activism expenses	—	4	—	—	—	—	—	—
Dual power inverter module extended coverage	(2)	1	(2)	—	—	—	—	—
Restructuring charges	—	—	—	—	—	—	12	12
UAW Local 933 signing bonus	—	—	10	—	—	—	—	—
UAW Local 933 retirement incentive	—	—	—	15	5	—	—	5
Unrealized loss (gain) on commodity hedge contracts	1	(2)	—	—	—	—	—	—
Unrealized loss on foreign exchange	1	1	—	3	—	1	—	2
Expenses related to long-term debt refinancing	25	12	—	—	1	—	—	—
Acquisition-Related Earnouts	—	—	—	—	1	—	1	2
Stock-based compensation expense	11	9	12	13	13	5	2	10
Adjusted EBITDA (Non-GAAP)	\$720	\$644	\$868	\$1,128	\$1,083	\$308	\$115	\$857
Net Sales (GAAP)	\$1,986	\$1,840	\$2,262	\$2,713	\$2,698	\$737	\$377	\$2,300
Net income as a percent of net sales	9.2%	11.7%	22.3%	23.6%	22.4%	24.6%	6.1%	18.2%
Adjusted EBITDA as a percent of net sales	36.2%	35.0%	38.4%	41.6%	40.1%	41.8%	30.5%	37.3%

Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2015	2016	2017	2018	2019	2019	2020	2020
Net Cash Provided by Operating Activities (GAAP)	\$580	\$591	\$658	\$837	\$847	\$239	\$92	\$654
(Deductions) or Additions:								
Long-lived assets	(58)	(71)	(91)	(100)	(172)	(25)	(28)	(177)
Restructuring charges	—	—	—	—	—	—	3	3
Stockholder activism expenses	—	4	—	—	—	—	—	—
Excess tax benefit from stock-based compensation	8	6	—	—	—	—	—	—
Adjusted Free Cash Flow (Non-GAAP)	\$530	\$530	\$567	\$737	\$675	\$214	\$67	\$480