

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): October 26, 2022

ALLISON TRANSMISSION HOLDINGS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware
(State or other jurisdiction
of incorporation)

001-35456
(Commission
File Number)

26-0414014
(IRS Employer
Identification No.)

One Allison Way, Indianapolis, Indiana
(Address of principal executive offices)

46222
(Zip Code)

Registrant's telephone number, including area code (317) 242-5000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value	ALSN	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition.

On October 26, 2022, Allison Transmission Holdings, Inc. ("Allison") published an earnings release reporting its financial results for the three months ended September 30, 2022. A copy of the earnings release is attached as Exhibit 99.1 hereto. Following the publication of the earnings release, Allison will host an earnings call on October 26, 2022 at 5:00 p.m. ET on which its financial results for the three months ended September 30, 2022 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On October 26, 2022, Allison posted the materials attached as Exhibits 99.1 and 99.2 on its web site (www.allisontransmission.com).

As discussed on page 2 of Exhibit 99.2, the investor presentation contains forward-looking statements within the meaning of the federal securities laws. These statements are present expectations, and are subject to the limitations listed therein and in Allison's other Securities and Exchange Commission filings, including that actual events or results may differ materially from those in the forward-looking statements.

The foregoing information (including the exhibits hereto) is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
99.1	Earnings release dated October 26, 2022.
99.2	Investor presentation materials dated October 26, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Allison Transmission Holdings, Inc.

Date: October 26, 2022

By: /s/ Eric C. Scroggins
Name: Eric C. Scroggins
Title: Vice President, General Counsel



News Release

Allison Transmission Announces Third Quarter 2022 Results

- * Net Sales of \$710 million, up 25% year over year
- * Diluted EPS of \$1.45, up 63% year over year
- * Record quarterly net sales of \$118 million in the Outside North America On-Highway end market

INDIANAPOLIS, October 26, 2022 – Allison Transmission Holdings Inc. (NYSE: ALSN), a leading designer and manufacturer of conventional and electrified vehicle propulsion solutions and the largest global manufacturer of medium- and heavy-duty fully automatic transmissions for commercial and defense vehicles, today reported net sales for the third quarter of \$710 million, a 25 percent increase from the same period in 2021, driven by resilient customer demand despite persistent supply chain challenges, price increases and the continued execution of growth initiatives.

David S. Graziosi, Chairman and Chief Executive Officer of Allison Transmission commented, “Despite the broad and ongoing challenges to supply chains, our third quarter 2022 results demonstrate notable performance with net sales in five out of six end markets up twenty percent or more year over year and record quarterly net sales in our Outside North America On-Highway end market. Year over year net sales growth of 25 percent was surpassed by even stronger growth in diluted EPS, up 63 percent.”

Graziosi continued, “During the third quarter, we maintained our well-defined approach to capital allocation by repurchasing \$109 million of our common stock, representing 3 percent of outstanding shares, and paying a dividend of \$0.21 per share. In spite of a challenging environment, Allison’s global On- and Off-Highway end markets continue to show strength and as a result we are pleased to raise full year 2022 midpoint guidance.”

Third Quarter Financial Highlights

Net sales for the quarter were \$710 million. Year over year results were led by:

- A 24 percent increase in net sales in the North America On-Highway end market principally driven by continued strength in customer demand for last mile delivery, regional haul and vocational trucks,
- A 25 percent increase in net sales in the Service Parts, Support Equipment and Other end market principally driven by global service parts and support equipment, and aluminum die cast components,
- A \$26 million increase in net sales in the Global Off-Highway end markets driven by demand for hydraulic fracturing applications in the energy sector as well as higher demand in the mining and construction sectors, and
- Record quarterly net sales in the Outside North America On-Highway end market, as a result of a 27 percent increase in net sales driven by the continued execution of our growth initiatives in Europe, Asia and South America

Net income for the quarter was \$139 million. Diluted EPS for the quarter was \$1.45. Adjusted EBITDA, a non-GAAP financial measure, for the quarter was \$245 million. Net cash provided by operating activities for the quarter was \$207 million. Adjusted free cash flow, a non-GAAP financial measure, for the quarter was \$182 million.

Third Quarter Net Sales by End Market

End Market	Q3 2022	Q3 2021	% Variance
	Net Sales (\$M)	Net Sales (\$M)	
North America On-Highway	\$ 340	\$ 275	24%
North America Off-Highway	\$ 24	\$ 20	20%
Defense	\$ 35	\$ 39	(10%)
Outside North America On-Highway	\$ 118	\$ 93	27%
Outside North America Off-Highway	\$ 36	\$ 14	157%
Service Parts, Support Equipment & Other	\$ 157	\$ 126	25%
Total Net Sales	\$ 710	\$ 567	25%

Third Quarter Financial Results

Gross profit for the quarter was \$328 million, an increase of 26 percent from \$261 million for the same period in 2021. The increase in gross profit was principally driven by increased net sales and price increases on certain products partially offset by higher direct material costs.

Selling, general and administrative expenses for the quarter were \$78 million, an increase of \$5 million from \$73 million for the same period in 2021. The increase was principally driven by higher commercial activities spending.

Engineering – research and development expenses for the quarter were \$47 million, an increase of \$5 million from \$42 million for the same period in 2021. The increase was principally driven by increased product initiatives spending.

Net income for the quarter was \$139 million, an increase of \$45 million from \$94 million for the same period in 2021. The increase was principally driven by higher gross profit partially offset by an unrealized loss on marketable securities and increased product initiatives and commercial activities spending.

Net cash provided by operating activities was \$207 million, an increase of \$11 million from \$196 million for the same period in 2021. The increase was principally driven by higher gross profit partially offset by fluctuations in operating working capital funding requirements and higher cash income taxes.

Third Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was \$245 million, an increase of \$56 million from \$189 million for the same period in 2021. The increase in Adjusted EBITDA was principally driven by higher gross profit partially offset by increased product initiatives and commercial activities spending.

Adjusted free cash flow for the quarter was \$182 million, an increase of \$29 million from \$153 million for the same period in 2021. The increase was driven by lower capital expenditures and higher net cash provided by operating activities.

2022 Guidance Update

Given third quarter 2022 results and current end markets conditions, we are raising our full year 2022 guidance midpoints and narrowing ranges. Allison expects 2022 Net Sales in the range of \$2,690 to \$2,740 million, Net Income in the range of \$490 to \$510 million, Adjusted EBITDA in the range of \$915 to \$945 million, Net Cash Provided by Operating Activities in the range of \$620 to \$650 million, Capital Expenditures in the range of \$160 to \$170 million, and Adjusted Free Cash Flow in the range of \$460 to \$480 million.

Our 2022 net sales guidance reflects higher customer demand in the Global On-Highway, Global Off-Highway and Service Parts, Support Equipment & Other end markets, price increases on certain products and the continued execution of growth initiatives.

Conference Call and Webcast

The company will host a conference call at 5:00 p.m. ET on Wednesday, October 26 to discuss its third quarter 2022 results. The dial-in phone number for the conference call is 1-877-425-9470 and the international dial-in number is 1-201-389-0878. A live webcast of the conference call will also be available online at <http://ir.allisontransmission.com>.

For those unable to participate in the conference call, a replay will be available from 8:00 p.m. ET on October 26 until 11:59 p.m. ET on November 2. The replay dial-in phone number is 1-844-512-2921 and the international replay dial-in number is 1-412-317-6671. The replay passcode is 13733359.

About Allison Transmission

Allison Transmission (NYSE: ALSN) is a leading designer and manufacturer of propulsion solutions for commercial and defense vehicles and the largest global manufacturer of medium- and heavy-duty fully automatic transmissions that *Improve the Way the World Works*. Allison products are used in a wide variety of applications, including on-highway trucks (distribution, refuse, construction, fire and emergency), buses (school, transit and coach), motorhomes, off-highway vehicles and equipment (energy, mining and construction applications) and defense vehicles (tactical wheeled and tracked). Founded in 1915, the company is headquartered in Indianapolis, Indiana, USA. With a presence in more than 150 countries, Allison has regional headquarters in the Netherlands, China and Brazil, manufacturing facilities in the USA, Hungary and India, as well as global engineering resources, including electrification engineering centers in Indianapolis, Indiana, Auburn Hills, Michigan and London in the United Kingdom. Allison also has more than 1,400 independent distributor and dealer locations worldwide. For more information, visit allisontransmission.com.

Forward-Looking Statements

This press release contains forward-looking statements. 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: increases in cost, disruption of supply or shortage of labor, freight, raw materials, energy or components used to manufacture or transport our products or those of our customers or suppliers, including as a result of the war in Ukraine and the COVID-19 pandemic; global economic volatility; the duration and spread of the COVID-19 pandemic, including new variants of the virus and the pace and availability of vaccines and boosters, 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, the availability of labor, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flow; our participation in markets that are competitive; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs, including with respect to electric hybrid and fully electric commercial vehicles; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; 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; U.S. and foreign defense spending; risks associated with our international operations, including acts of war and increased trade protectionism; general economic and industry conditions including the risk of recession; 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 identify, consummate and effectively integrate acquisitions and collaborations; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers or suppliers; risks related to our indebtedness; and other risks and uncertainties associated with our business described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that the expectations will be attained or that any deviation will not be material. All information is as of the date of this press release, and we undertake no obligation to update any forward-looking statement to conform the statement to actual results or changes in expectations and risks related to our indebtedness.

Use of Non-GAAP Financial Measures

This press release contains information about Allison's financial results and forward-looking estimates of financial results which are not presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Such non-GAAP financial measures are reconciled to their closest GAAP financial measures at the end of this press release. Non-GAAP financial measures should not be considered in isolation or as a substitute for our reported results prepared in accordance with GAAP and, as calculated, may not be comparable to other similarly titled measures of other companies.

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 GAAP measure to Adjusted EBITDA is Net income. The most directly comparable GAAP measure to Adjusted EBITDA as a percent of net sales is Net Income as a percent of net sales. Adjusted EBITDA is calculated as the earnings before interest expense, net, 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 the 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, after additions of long-lived assets.

Attachments

- Condensed Consolidated Statements of Operations
- Condensed Consolidated Balance Sheets
- Condensed Consolidated Statements of Cash Flows
- Reconciliation of GAAP to Non-GAAP Financial Measures
- Reconciliation of GAAP to Non-GAAP Financial Measures for Full Year Guidance

Contacts

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Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, dollars in millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net sales	\$ 710	\$ 567	\$ 2,051	\$ 1,758
Cost of sales	382	306	1,092	918
Gross profit	328	261	959	840
Selling, general and administrative	78	73	231	226
Engineering - research and development	47	42	136	121
Operating income	203	146	592	493
Interest expense, net	(29)	(28)	(88)	(87)
Other (expense) income, net	(15)	6	(28)	12
Income before income taxes	159	124	476	418
Income tax expense	(20)	(30)	(86)	(94)
Net income	<u>\$ 139</u>	<u>\$ 94</u>	<u>\$ 390</u>	<u>\$ 324</u>
Basic earnings per share attributable to common stockholders	<u>\$ 1.46</u>	<u>\$ 0.89</u>	<u>\$ 4.02</u>	<u>\$ 2.97</u>
Diluted earnings per share attributable to common stockholders	<u>\$ 1.45</u>	<u>\$ 0.89</u>	<u>\$ 4.02</u>	<u>\$ 2.97</u>

Allison Transmission Holdings, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, dollars in millions)

	September 30, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 180	\$ 127
Accounts receivable, net	374	301
Inventories	223	204
Other current assets	61	39
Total Current Assets	838	671
Property, plant and equipment, net	711	706
Intangible assets, net	889	917
Goodwill	2,074	2,064
Other non-current assets	81	99
TOTAL ASSETS	\$ 4,593	\$ 4,457
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 227	\$ 179
Product warranty liability	26	33
Current portion of long-term debt	6	6
Deferred revenue	39	37
Other current liabilities	189	204
Total Current Liabilities	487	459
Product warranty liability	20	20
Deferred revenue	95	99
Long-term debt	2,502	2,504
Deferred income taxes	525	514
Other non-current liabilities	202	227
TOTAL LIABILITIES	3,831	3,823
TOTAL STOCKHOLDERS' EQUITY	762	634
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 4,593	\$ 4,457

Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net cash provided by operating activities	\$ 207	\$ 196	\$ 433	\$ 467
Net cash used for investing activities (a) (b)	(25)	(50)	(93)	(119)
Net cash used for financing activities	(123)	(122)	(285)	(396)
Effect of exchange rate changes on cash	(1)	(1)	(2)	(1)
Net increase (decrease) in cash and cash equivalents	58	23	53	(49)
Cash and cash equivalents at beginning of period	122	238	127	310
Cash and cash equivalents at end of period	<u>\$ 180</u>	<u>\$ 261</u>	<u>\$ 180</u>	<u>\$ 261</u>
Supplemental disclosures:				
Income taxes paid	\$ 26	\$ 3	\$ 85	\$ 48
Interest paid	\$ 27	\$ 34	\$ 84	\$ 72
(a) Additions of long-lived assets	\$ (25)	\$ (43)	\$ (75)	\$ (112)
(b) Business acquisitions	\$ —	\$ —	\$ (23)	\$ —

Allison Transmission Holdings, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
(Unaudited, dollars in millions)

	Three months ended		Nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income (GAAP)	\$ 139	\$ 94	\$ 390	\$ 324
plus:				
Interest expense, net	29	28	88	87
Income tax expense	20	30	86	94
Depreciation of property, plant and equipment	29	26	82	77
Amortization of intangible assets	12	12	35	35
Unrealized loss on marketable securities (a)	9	—	20	—
Stock-based compensation expense (b)	5	3	14	11
Technology-related investments gain (c)	—	(3)	(6)	(3)
Unrealized loss (gain) on foreign exchange (d)	2	(1)	5	(1)
Acquisition-related earnouts (e)	—	1	2	1
UAW Local 933 retirement incentive (f)	—	(1)	—	(1)
Adjusted EBITDA (Non-GAAP)	<u>\$ 245</u>	<u>\$ 189</u>	<u>\$ 716</u>	<u>\$ 624</u>
Net sales (GAAP)	\$ 710	\$ 567	\$2,051	\$1,758
Net income as a percent of net sales (GAAP)	19.6%	16.6%	19.0%	18.4%
Adjusted EBITDA as a percent of net sales (Non-GAAP)	34.5%	33.3%	34.9%	35.5%
Net cash provided by operating activities (GAAP)	\$ 207	\$ 196	\$ 433	\$ 467
Deductions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(25)	(43)	(75)	(112)
Adjusted free cash flow (Non-GAAP)	<u>\$ 182</u>	<u>\$ 153</u>	<u>\$ 358</u>	<u>\$ 355</u>

- (a) Represents a loss (recorded in Other (expense) income, net) related to an investment in the common stock of Jing-Jin Electric Technologies Co. Ltd.
- (b) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
- (c) Represents a gain (recorded in Other (expense) income, net) related to investments in co-development agreements to expand our position in propulsion solution technologies.
- (d) Represents losses (gains) (recorded in Other (expense) income, net) on intercompany financing transactions related to investments in plant assets for our India facility.
- (e) Represents expenses (recorded in Selling, general and administrative, Engineering—research and development and Other (expense) income, net) for earnouts related to our acquisition of Vantage Power Limited.
- (f) Represents adjustments (recorded in Cost of sales) related to a retirement incentive program for certain employees represented by the International Union, United Automobile, Aerospace and Agriculture Implement Workers of America (“UAW”) pursuant to the UAW Local 933 collective bargaining agreement effective through November 2023.

Allison Transmission Holdings, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures for Full Year Guidance
(Unaudited, dollars in millions)

	Guidance	
	Year Ending	December 31, 2022
	Low	High
Net Income (GAAP)	\$ 490	\$ 510
plus:		
Depreciation and amortization	155	155
Interest expense, net	118	118
Income tax expense	114	124
Unrealized loss on marketable securities (a)	20	20
Stock-based compensation expense (b)	17	17
Unrealized loss on foreign exchange (c)	5	5
Acquisition-related earnouts (d)	2	2
Technology-related investments gain (e)	(6)	(6)
Adjusted EBITDA (Non-GAAP)	<u>\$ 915</u>	<u>\$ 945</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 620	\$ 650
(Deductions) to Reconcile to Adjusted Free Cash Flow:		
Additions of long-live assets	\$ (160)	\$ (170)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 460</u>	<u>\$ 480</u>

- (a) Represents a loss (recorded in Other (expense) income, net) related to an investment in the common stock of Jing-Jin Electric Technologies Co. Ltd.
- (b) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
- (c) Represents losses (recorded in Other (expense) income, net) on intercompany financing transactions related to investments in plant assets for our India facility.
- (d) Represents expenses (recorded in Selling, general and administrative, Engineering—research and development and Other (expense) income, net) for earnouts related to our acquisition of Vantage Power Limited.
- (e) Represents a gain (recorded in Other (expense) income, net) related to investments in co-development agreements to expand our position in propulsion solution technologies.

Q3 2022 Earnings Release

October 26th, 2022

Dave Graziosi, Chairman & Chief Executive Officer

Fred Bohley, Senior Vice President & Chief Financial Officer



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: increases in cost, disruption of supply or shortage of labor, freight, raw materials, energy or components used to manufacture or transport our products or those of our customers or suppliers, including as a result of the war in Ukraine and the COVID-19 pandemic; global economic conditions; the duration and spread of the COVID-19 pandemic, including new variants of the virus and the pace and availability of vaccines and boosters, 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, the availability of labor, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flow; our participation in markets that are competitive; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs, including with respect to electric hybrid and fully electric commercial vehicles; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; 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; U.S. and foreign defense spending; risks associated with our international operations, including acts of war and increased trade protectionism; general economic and industry conditions, including the risk of recession; 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 identify, consummate and effectively integrate acquisitions and collaborations; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers or suppliers; and risks related to our indebtedness.

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 or long-term financial goals 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, 2021 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2022.

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, net, 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

- **Q3 2022 Performance**
- **2022 Guidance Update**

Q3 2022 Performance Summary

(\$ in millions, except per share data)	Q3 2022	Q3 2021	% Variance
Net Sales	\$710	\$567	25%
Gross Profit	\$328	\$261	26%
Net Income	\$139	\$94	48%
Adjusted EBITDA ⁽¹⁾	\$245	\$189	30%
Diluted Earnings Per Share	\$1.45	\$0.89	63%

- Net Sales: increase principally driven by:
 - 24 percent increase in net sales in the North America On-Highway end market
 - 25 percent increase in net sales in the Service Parts, Support Equipment & Other end market
 - \$26 million increase in net sales in the Global Off-Highway end markets
 - 27 percent increase in net sales in the Outside North America On-Highway end market
- Gross Profit: increase was principally driven by increased net sales and price increases on certain products partially offset by higher direct material costs.
- Net Income: increase was principally driven by higher gross profit partially offset by an unrealized loss on marketable securities and increased product initiatives and commercial activities spending.
- Adjusted EBITDA: increase was principally driven by higher gross profit partially offset by increased product initiatives and commercial activities spending.
- Diluted Earnings Per Share: increase was principally driven by higher net income and lower total shares outstanding.

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

Q3 2022 Net Sales Performance

(\$ in millions)

End Markets	Q3 2022	Q3 2021	% Variance	Commentary
North America On-Hwy	\$340	\$275	24%	Primarily driven by continued strength in customer demand for last mile delivery, regional haul and vocational trucks
North America Off-Hwy	\$24	\$20	20%	Primarily driven by demand for hydraulic fracturing applications
Defense	\$35	\$39	-10%	Primarily driven by lower demand for Wheeled vehicle applications
Outside North America On-Hwy	\$118	\$93	27%	Primarily driven by the continued execution of our growth initiatives in Europe, Asia and South America
Outside North America Off-Hwy	\$36	\$14	157%	Primarily driven by higher demand in the mining, construction and energy sectors
Service Parts, Support Equipment & Other	\$157	\$126	25%	Primarily driven by higher demand for global service parts and support equipment and aluminum die cast components
Total	\$710	\$567	25%	

Q3 2022 Financial Performance

(\$ in millions, except per share data)	Q3 2022	Q3 2021	\$ Var	% Var	Commentary
Net Sales	\$710	\$567	\$143	25%	Increase was principally driven by higher demand in the NA On-Highway, Service Parts, Support Equipment & Other, Global Off-Highway, and ONA On-Highway end markets, the continued execution of our growth initiatives and price increases on certain products
Cost of Sales	\$382	\$306	(\$76)	-25%	Increase was principally driven by increased direct material and manufacturing expense commensurate with increased net sales and higher direct material costs
Gross Profit	\$328	\$261	\$67	26%	Increase was principally driven by increased net sales and price increases on certain products partially offset by higher direct material costs
Operating Expenses					
Selling, General and Administrative	\$78	\$73	(\$5)	-7%	Increase was principally driven by higher commercial activities spending
Engineering – Research and Development	\$47	\$42	(\$5)	-12%	Increase was principally driven by increased product initiatives spending
Total Operating Expenses	\$125	\$115	(\$10)	-9%	
Operating Income	\$203	\$146	\$57	39%	
Interest Expense, net	(\$29)	(\$28)	(\$1)	-4%	
Other (Expense) Income, net	(\$15)	\$6	(\$21)	-350%	Decrease was principally driven by unrealized loss on marketable securities, unfavorable foreign exchange and a prior year, one-time gain related to technology-related investments
Income Before Income Taxes	\$159	\$124	\$35	28%	
Income Tax Expense	(\$20)	(\$30)	\$10	33%	Decrease was principally driven by enacted state tax rate legislation resulting in a deferred tax benefit, partially offset by increased taxable income
Net Income	\$139	\$94	\$45	48%	Increase was principally driven by higher gross profit partially offset by an unrealized loss on marketable securities and increased product initiatives and commercial activities spending
Diluted Earnings Per Share	\$1.45	\$0.89	\$0.56	63%	Increase was principally driven by higher net income and lower total shares outstanding (Q3 2022: 96m shares, Q3 2021: 106m shares)
Adjusted EBITDA ⁽¹⁾	\$245	\$189	\$56	30%	

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

Q3 2022 Cash Flow Performance

(\$ in millions)	Q3 2022	Q3 2021	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$207	\$196	\$11	6%	Principally driven by higher gross profit partially offset by fluctuations in operating working capital funding requirements and higher cash taxes
CapEx	\$25	\$43	(\$18)	(42%)	Principally driven by intra-year timing
Adjusted Free Cash Flow ⁽¹⁾	\$182	\$153	\$29	19%	Principally driven by lower capital expenditures and higher net cash provided by operating activities
(\$ in millions)	Q3 2022	Q3 2021	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	14.5%	14.0%	N/A	50 Bps	Increased operating working capital partially offset by higher levels of net sales
Cash Paid for Interest	\$27	\$34	(\$7)	(21%)	Principally driven by prior year interest payments timing
Cash Paid for Income Taxes	\$26	\$3	\$23	767%	Principally driven by increased taxable income and prior year income tax payments timing

(1) See Appendix for a reconciliation from Net Cash Provided by Operating Activities.

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

2022 Guidance Update

We are raising our full year 2022 guidance midpoints and narrowing ranges provided to the market on August 3.

(\$ in millions)	Guidance
Net Sales	\$2,690 to \$2,740
Net Income	\$490 to \$510
Adjusted EBITDA ¹	\$915 to \$945
Net Cash Provided by Operating Activities	\$620 to \$650
Capital Expenditures	\$160 to \$170
Adjusted Free Cash Flow ¹	\$460 to \$480

- Guidance reflects higher customer demand in the Global On-Highway, Global Off-Highway and Service Parts, Support Equipment & Other end markets, price increases on certain products and the continued execution of our growth initiatives

(1) See Appendix for the Guidance Reconciliation.

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 3)

Adjusted EBITDA Reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended September 30,		Last twelve months ended September 30,
	2017	2018	2019	2020	2021	2021	2022	2022
Net Income (GAAP)	\$504	\$639	\$604	\$299	\$442	\$94	\$139	\$508
plus:								
Interest expense, net	103	121	134	137	116	28	29	117
Income tax expense	23	166	164	94	130	30	20	122
Loss associated with impairment of long-lived assets	—	—	2	—	—	—	—	—
Technology-related investments expense/(gain)	16	3	—	—	(3)	(3)	—	(6)
Impairments	32	4	—	—	—	—	—	—
Environmental remediation benefit	—	—	(8)	—	—	—	—	—
Amortization of intangible assets	90	87	86	52	46	12	12	46
Depreciation of property, plant and equipment	80	77	81	96	104	26	29	109
Dual power inverter module extended coverage	(2)	—	—	—	—	—	—	—
Restructuring charges	—	—	—	14	—	—	—	—
UAW Local 933 signing bonus	10	—	—	—	—	—	—	—
UAW Local 933 retirement incentive	—	15	5	7	(2)	(1)	—	(1)
Unrealized loss/(gain) on foreign exchange	—	3	—	2	—	(1)	2	6
Expenses related to long-term debt refinancing	—	—	1	13	—	—	—	—
Acquisition-Related Earnouts	—	—	1	1	1	1	—	2
Unrealized (gain)/loss on marketable securities	—	—	—	—	(4)	—	9	16
Stock-based compensation expense	12	13	13	17	14	3	5	17
Adjusted EBITDA (Non-GAAP)	\$868	\$1,128	\$1,083	\$732	\$844	\$189	\$245	\$936
Net Sales (GAAP)	\$2,262	\$2,713	\$2,698	\$2,081	\$2,402	\$567	\$710	\$2,695
Net income as a percent of net sales	22.3%	23.6%	22.4%	14.4%	19.8%	16.6%	19.6%	18.8%
Adjusted EBITDA as a percent of net sales	38.4%	41.6%	40.1%	35.2%	35.1%	33.3%	34.5%	34.7%

Non-GAAP Reconciliations (2 of 3)

Adjusted Free Cash Flow Reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended September 30,		Last twelve months ended September 30,
	2017	2018	2019	2020	2021	2021	2022	2022
Net Cash Provided by Operating Activities (GAAP)	\$658	\$837	\$847	\$561	\$635	\$196	\$207	\$601
(Deductions) or Additions:								
Long-lived assets	(91)	(100)	(172)	(115)	(175)	(43)	(25)	(138)
Restructuring charges	—	—	—	12	—	—	—	—
Adjusted Free Cash Flow (non-GAAP)	\$567	\$737	\$675	\$458	\$460	\$153	\$182	\$463

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

\$ in millions	Guidance	
	Year Ending December 31, 2022	
	Low	High
Net Income (GAAP)	\$ 490	\$ 510
plus:		
Depreciation and amortization	155	155
Interest expense, net	118	118
Income tax expense	114	124
Stock-based compensation expense	17	17
Unrealized loss on marketable securities	20	20
Unrealized loss on foreign exchange	5	5
Acquisition-related earnouts	2	2
Technology-related investments gain	(6)	(6)
Adjusted EBITDA (Non-GAAP)	<u>\$ 915</u>	<u>\$ 945</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 620	\$ 650
(Deductions) to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	\$ (160)	\$ (170)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 460</u>	<u>\$ 480</u>