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Allison Transmission Holdings, Inc. (ALSN)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to Allison's Third Quarter 2026 Earnings Conference Call. My name is Samantha, and I will be your conference call operator today. At this time, all participants are in a listen-only mode. After prepared remarks, Allison 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.

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, Samantha. Good afternoon, and thank you for joining us for our third quarter 2026 earnings conference call. With me this afternoon are Dave Graziosi, our Chair, President, and Chief Executive Officer; Scott Mell, our Chief Financial Officer and Treasurer; Fred Bohley, Allison's Chief Operating Officer and Allison Transmission Business Unit Leader; and Craig Price, Allison Off-Highway Business Unit Leader.

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 November 16th.

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 annual report on Form 10-K for the year ended December 31, 2025. 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 third quarter 2026 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 a business update, including recent announcements across Allison. Dave will also provide detail on capabilities of the combined Allison product portfolio, a key piece of our growth strategy, before concluding with a brief review of the business unit's net sales performance for the third quarter. Scott Mell will then review Allison's third quarter 2026 financial performance and our full year guidance update prior to commencing the Q&A.

Now I'll turn the call over to Dave Graziosi.

David S. Graziosi

Chairman, President & Chief Executive Officer, Allison Transmission Holdings, Inc.

Thank you, Jackie. Good afternoon, and thank you for joining us. Please turn to slide 5 of the presentation for our third quarter business update. Before we begin, I would like to take a moment to reiterate our go-forward brand

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architecture announced last month. Under this structure, the Allison Transmission and Allison Off-Highway business units, along with their combined product portfolios now operate under the unified Allison name.

Our products have a long history, earning the trust of customers over many decades. Much of what they value about Allison is embodied in the product brands themselves. As we announced, trusted brands such as Allison Transmission, Spicer, Brevini, GWB, Fairfield, and Graziano will be retained and will continue to be developed, sold, and serviced as they have been. Importantly, customers, distributors, and dealers across both business units can continue to expect the high standards of the products and parts they rely on, now strengthened by the resources and global reach of the Allison enterprise.

Moving on to a few articles that were recently posted on our Allison in Action page, located in the Newsroom on our corporate site, allisontransmission.com. First, I want to highlight a milestone from Japan that shows how the Allison value proposition delivers in real-world applications. In August, we celebrated the delivery of our 20,000th Allison-equipped Isuzu Erga city bus to Keisei Bus Chiba West, which runs roughly 2,300 buses across Tokyo, Chiba, and Ibaraki.

This story highlights the structural megatrends shaping our end markets and positioning Allison for growth around the world. In Japan, where some of the world's most congested city roads meet a shrinking labor force and driver pool, operators are finding it increasingly difficult to recruit drivers for manual transmission vehicles because of the physical strain and skill required for manual transmission shifting. Under these conditions, it's no surprise that Isuzu has moved entirely away from manual transmissions in its city buses, with Allison's fully automatic transmissions now found in over 70% of large city buses across Japan.

Our second highlight comes from the UK with Supacat and their High Mobility Transporter, or HMT, known within the British Army as the Jackal. The Jackal is a wheeled defense vehicle used for reconnaissance and long-range patrol, tasked with getting soldiers deep into hostile terrain and bringing them home safely. More than 25 years after Supacat was first integrated with the Allison 2500 Series fully automatic transmission into the HMT platform, they continue to specify the same drivetrain, underscoring the durability and reliability of Allison products in demanding defense applications, the long service life of these vehicles, and the trust we've built as a longstanding partner.

Finally, showcasing the power of Allison from the harsh conditions of the Gobi Desert in Mongolia, Vertex, an end user at the Mongolia Energy Resources coal mine, had been struggling with unusually high transmission failure rates across the wide-body mining dump trucks. And with no local service network, downtime and fleet availability became an even greater challenge. So, when Vertex expanded its fleet by 100 trucks in 2025, choosing Allison was the clear decision. In addition to the proven reliability of our products, our service network stands out, with our local presence allowing operators to cut troubleshooting repair times that once took weeks.

To experience the full testimonials, I encourage those of you that have not already done so to visit the Allison in Action page and subscribe to our email alerts by clicking the link at the top of the page.

Before covering Allison's third quarter net sales performance, please turn to slide 6 of the presentation for an outline of Allison's combined product portfolio opportunities, a key piece of our growth strategy. As a combined company, Allison is moving up the value chain, transitioning to a full-scale, integrated propulsion systems provider capable of designing, validating, and delivering complete optimized propulsion systems. This improves performance, efficiency, and time to market for OEMs and unlocks the value for Allison and our shareholders.

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With an expanded product portfolio and a pipeline of combined drivetrain products in development, Allison has opportunities to capture more content, fundamentally changing our position in the end markets we serve. As we leverage our suite of capabilities, we believe we can capture more content per vehicle with an enhanced value-selling approach, leading to margin expansion opportunities across the business.

Our expanded portfolio is energy-agnostic, with solutions spanning conventional ICE platforms, hybrid, as well as advanced electric propulsion. This portfolio reduces concentration risk, protects revenue streams through market transitions, and enables Allison to meet customers wherever they are in their technology journey.

Finally, with a combined global footprint, we can support our customers with local engineering, manufacturing, sales, and service. This not only increases Allison's competitive position but also unlocks synergies and opportunities for margin expansion, scaling our profitability. Importantly, our combined product portfolio and our role as an integrated propulsion systems provider are only part of the story. With our combined portfolio, we can provide complementary products to existing customers and unlock cross-selling opportunities. This positions us to capture additional value as customer needs evolve and further strengthens our long-term growth potential.

Turning to the right-hand of the slide, you will see some representative applications utilizing Allison's developing product portfolio. To summarize, the Allison Off-Highway acquisition has transformed the Allison growth algorithm. We are transitioning to a full-scale, integrated propulsion systems provider, able to capture more content, expand value-selling opportunities, and strengthen OEM relationships as a single source offering energy agnostic solution. This transition positions us to win more programs, realize new growth opportunities, and leverage our global capabilities and presence to unlock synergies and expand margins. The result is a strengthened position as a premier industrial asset.

Moving now to Allison's third quarter net sales performance and end-market outlook for both of our business units. Please turn to slide 7 of the presentation. Third quarter net sales were $1.534 billion, an increase of 121% year-over-year. In addition to the $653 million contributed by the newly acquired Allison Off-Highway business unit, revenue in the Allison Transmission business unit increased 27% year-over-year, reaching a quarterly record of $881 million.

Within the Allison Transmission business unit, all five end markets were up year-over-year. Demand accelerated for medium-duty and Class 8 vocational trucks, driving record quarterly revenue of $462 million for the North America On-Highway end market, an increase of 41% year-over-year. Within the Allison Off-Highway business unit, when we step back and take a look across our end markets, clear that demand patterns are not uniform.

We continue to see strong momentum in mining and the construction and material handling end market accelerated year-over-year across every region, exceeding our expectations heading into 2026. However, our industrial and agricultural end markets remain muted as ongoing geopolitical developments continue to temper customer purchasing activity. You can find detailed breakdowns by end market for both business units on slides 8 and 9 of the presentation.

Now I'll turn the call over to Scott for a review of Allison's third quarter 2026 financial performance and full year 2026 guidance update. Scott?

Scott A. Mell

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

Thank you, Dave, and thanks to those of you joining us on the call. Please flip to slide 10 of the presentation. As Dave covered in his prepared remarks, net sales in the third quarter increased 121% year-over-year to $1.534

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billion. The year-over-year increase was driven by the addition of the Allison Off-Highway business unit, along with a 27% increase in the Allison Transmission business unit, with record quarterly net sales of $881 million.

Consolidated adjusted EBITDA for the quarter was $400 million, increasing 56% year-over-year, representing a 26.1% margin. Third quarter adjusted diluted EPS was $2.90, increasing 59% year-over-year. Favorable end market demand conditions and operational execution drove strong cash generation in the third quarter. While capital expenditures increased $21 million year-over-year, adjusted free cash flow of $278 million increased $94 million, or 51%.

During the third quarter, we repurchased $57 million of our common stock and paid $23 million for our quarterly dividend. We also completed a partial redemption of $100 million of our 2027 notes, bringing total debt repayment year-to-date to over $400 million. Despite near-term headwinds from increased raw material costs and other inflationary pressures, our margin outlook remains positive, and Allison's ability to generate substantial cash flow is hard to overstate. Also, as a combined company, our top line growth opportunities have never been stronger. You can find further detail on financial performance by segment on slide 11 of the presentation. There will also be more detail provided in our Form 10-Q to be published later this week.

Please turn to slide 12 for our full year 2026 guidance update. Given our third quarter results and improved conditions across the majority of our key end markets, we are increasing our full year 2026 guidance for revenue, earnings, and cash flow for the second consecutive quarter. For 2026 revenue, we expect consolidated net sales in the range of $5.975 billion to $6.075 billion. For earnings, we expect consolidated net income in the range of $645 million to $685 million, subject to the completion of purchase price accounting associated with the acquisition of the Allison Off-Highway business unit.

Our net income guidance for 2026 includes approximately $125 million of one-time pre-tax expenses associated with the separation, integration, and restructuring of the Allison Off-Highway business unit. This includes restructuring charges related to manufacturing footprint optimization in our European operations and approximately $65 million of expenses related to the stepped-up basis in inventory. Despite these one-time costs, we expect the Allison Off-Highway acquisition to be accretive to net income and earnings per share in 2026.

Further, we expect consolidated adjusted EBITDA in the range of $1.530 billion to $1.580 billion. At the midpoint, this implies a 25.8% adjusted EBITDA margin. For our 2026 cash flow guidance, we anticipate consolidated net cash provided by operating activities in the range of $1.110 billion to $1.140 billion, consolidated capital expenditures in the range of $240 million to $260 million, including onetime separation and integration spending of approximately $20 million, and consolidated adjusted free cash flow in the range of $850 million to $900 million.

Please note that our consolidated net cash provided by operating activities guidance includes approximately $60 million of one-time cash outlays associated with our acquisition of the Allison Off-Highway business unit.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question is from Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thanks. A lot of numbers going up to ask about. I guess I'll pick a couple of the biggest in medium and vocational. Just one question on just channel inventory there. I know there's some kind of flex and accordion kind of structures, at body builders, et cetera. Could you remind us of where you think that stands right now? And then is it your view some of this demand is pre-buy related, or is it just that the market needs replacement and therefore could continue into next year? Thanks.

G. Frederick Bohley
Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

Rob, this is Fred. Relative to the channel inventory, our checks would suggest there's not a significant number of trucks on the OEM dealer lots. And then relative to body builders, the vast majority of that's been worked through. So, we would define that as somewhat normalized at this point. And then I think your second question was relative to demand in medium-duty as well as for us Class 8 vocational. So, from a medium-duty standpoint, we've seen a gradual ramp throughout the year and talked about it on the Q1 and Q2 calls. But certainly saw, a significant uptick in medium-duty in the third quarter. If you think about our end market, we're up 41% year-over-year. I think ACT has Class 6/7 up about 30% year-over-year, and Class 8 straight truck up 29%, school bus relatively flat. So certainly some strong performance from our standpoint within the end market.

Specific to demand, we are starting to see the lease rentals guys lean into the medium-duty market. We really don't see this necessarily as a pre-buy activity. Their fleets are very aged, and we think there's some element of pent-up demand in the market that should continue to drive things upward from where we sit into Q4 and on into 2027. And then with Class 8 vocational, I would just continue to describe it as robust, and it's been very steady and strong, primarily being driven by all the infrastructure spend going on. So, again, from an outlook standpoint going into 2027, that feels good as well.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you.

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

Tim W. Thein
Analyst, Raymond James & Associates, Inc.

Q

Thank you. Good evening. I'll ask one with a little bit more of a longer-term bent to it. And I'm just curious, if we could speak to the margin profile of the business. Now that you've had a bit more time with the Off-Highway guys under your belt, you did 26% EBITDA margins in what is, I'd imagine, the seasonally softest quarter of the year. So, maybe speak to, as you look beyond this year, obviously, synergies will play an important role, but just kind of how you would think about, again, looking out a bit longer term kind of the – where you see the underlying margin performance of this newly configured asset? Thank you.

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Scott A. Mell
Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah, Tim, it's Scott. I'll take a shot at this one. I mean, I think as you mentioned, we delivered 26% plus margins in the third quarter, recognizing that the third quarter is cyclically the softest quarter for the Off-Highway business unit given the holiday shutdowns in August. So I think the takeaway is, we remain very positive relative to our ability to continue to grow the margin profile of the combined business. We'll – we've noted in the release that while we are price/cost positive on a consolidated basis in the quarter, we are seeing meaningful material cost increases impacting the margin profile just given some of the cyclical timing of getting those recoveries.

So as we look forward, we think to your point, volume growth will be incremental. The synergies that we continue to have high confidence in delivering as we get into next year. And then if we start to see some improvement relative to inflationary pressure, not only in material but otherwise that's an upside opportunity for us as we look going forward.

Tim W. Thein
Analyst, Raymond James & Associates, Inc.

Q

Got it. Thank you, guys.

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

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Hi, great. Thank you very much. On slide 6, I found this very interesting, and maybe we could just get a little bit more color here. What are you seeing either from the market or your customers as it relates to transitioning to anything related to electrification? I know in the past you talked about lack of standards and some other kind of difficulties there, but are you seeing any type of acceleration there or anything that kind of is driving, calling it out in this slide? And then maybe talk about the cost you might have to incur to do any type of transition, whether it's dollars, margins, people, or anything like that. Thank you.

David S. Graziosi
Chairman, President & Chief Executive Officer, Allison Transmission Holdings, Inc.

A

Ian, it's Dave. I appreciate that question. So on electrification, as you know, post-acquisition as part of bringing the Allison Off-Highway product portfolio in, what that did amongst other things is really allow our portfolio to expand from high voltage all the way back to low voltage. So I'm sure as you know, low voltage continues to be, I would say, a much more mature adopting end market and space versus high voltage. The fact is, I think putting – if you look at the overall portfolio now with Off-Highway – Allison Off-Highway whether it's e-axles, e-transmissions, e-hub drives, et cetera.

We have a pretty fulsome portfolio. It's also, I think, very much applicable or weighted to where you have adoption heavy, which is low voltage. So for us, working across that spectrum from low to high, I think to your question, we are very much focused on the lower voltage range right now simply because that's where the demand is. And we've talked about that for a number of years, as you know, which is the right products at the right time. Clearly, the right products being in more so in low voltage. We are not seeing much, I would tell you, in terms of high voltage adoption.

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We continue to stay close to our development work, our relationships with the OEMs, end users, et cetera. But we do not see that necessarily that adoption curve is accelerating on the high-voltage side. That being said, we're continuing to monitor overall developments in the technology, and again, we'll stay close to that. And I would just offer, as you know, our strategy right along has been to really time our activities appropriate with market developments. And I think you've seen whether that's certainly, North America On-Highway, quite a few things have really slowed down from some of the initial plans for the broader industry. So again, we're there, we're following the trends, and we'll continue to stay close.

From an overall investment perspective, I would say, our curve, just looking at the combination with the Off-Highway business, has at some level really allowed us to combine and conquer, if you will. So the teams are working together very well. And also looking at the application of the different teams', frankly, know-how and technology across that entire range, whether it be low voltage or high voltage. So again, we're excited about the opportunities that we have near-term, but also continue to stay close to the overall market developments.

Ian Zaffino Q
Analyst, Oppenheimer & Co., Inc.

Okay. Thank you very much.

Operator: Our next question is from Jerry Revich with Wells Fargo. Please proceed with your question.

Jerry Revich Q
Analyst, Wells Fargo Securities LLC

Hi. Good afternoon, everyone. I'm wondering if we could just have a high-level conversation around the moving pieces into margins overall for next year. And obviously, we can put a finer point on guidance in three months. But it sounds like pricing in the base business should be moving higher. We've got the synergies on the Off-Highway business coming in. Any other big-ticket moving pieces that we should be keeping in mind as we think about 2027 margins versus 2026?

Scott A. Mell A
Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

Well, Jerry, Scott, thanks for the question. I mean, I think consistent with what I said on the previous question, I think we have incremental volume opportunities as we move into 2027. We're not going to get into that conversation on this call, but certainly, I think we're optimistic, 2027 will continue some of the demand momentum that we've seen. Obviously, agriculture within the Off-Highway business unit has been very soft this year. To the extent you see fundamentals improving in agriculture, that's an opportunity as we get into 2027.

I think you mentioned pricing. We expect to continue to have positive price costs on a consolidated basis for the enterprise. So that's an expectation for next year. And then really, again, not to repeat myself, but to the extent that we see some softening, stabilization as it relates to commodity costs, specifically steel and aluminum have been a meaningful headwind this year. If we start to see some resolution in the Middle East and some of the other geopolitical issues going on, we're hopeful that that could be another tailwind as we get into next year.

G. Frederick Bohley A
Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

And Jerry, specific to the ATBU, I mean, we were clearly, price/cost positive in the quarter. Scott's mentioned some of the meaningful cost pressures, really the largest being raw material. As you know, we do have commodity pass-throughs, and you've seen some of that flow through. And we initially talked about 325 basis

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points of price for the BU. We were 460 basis points year-over-year in Q3. Going forward, I mean, we have numerous cost reduction initiatives across the company above and beyond the $120 million of synergies that have been identified.

And then as we've talked about relative to the transmission business, when you have inflationary technology (sic) [inflationary and technology] changes that drive up the price of the vehicles, that really just increases the value proposition that our products deliver. And our products really improve the way that vehicles function, increase productivity, vehicle uptime, with more work completed with fewer vehicles, reduce maintenance costs, improve fuel economy, safety, driver retention. So, again, as those things inflate up, which you're seeing, the vehicles, the maintenance costs, the drivers, the value of our product really shines. So, for that reason, as Scott mentioned, we've got high level of confidence being able to price in an inflationary environment. And we clearly expect to be price/cost positive in 2027.

Jerry Revich
Analyst, Wells Fargo Securities LLC

Q

Thanks, Fred. Thanks, Scott.

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, good evening, and thanks for taking my question. Just maybe wanted to touch on a little bit on the margin, continue to unpack that a bit more, but specifically on the third quarter, your SG&A in the legacy Allison business was pretty low, around 7% of sales, just could you just unpack that, and to the extent that there was anything there that was one-time? Or should we think about that as kind of the right run rate going forward here? Just I think that was pretty solid performance and helps offset some of the COGS inflation that you've been talking about.

And maybe as a secondary or follow-on to that, if you could just also comment on – you just mentioned numerous cost reduction initiatives beyond the $120 million in synergies. Curious if any of that is initiatives that you have in flight that are maybe impacting that SG&A number. Any more color or kind of finer points that you can put on quantifying what those cost reduction initiatives might be and maybe what segment do they hit? That'd be helpful. Thank you.

G. Frederick Bohley
Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

Let me take the cost reduction initiatives and then throw it over to Scott for some commentary on SG&A. If you think about the investment that we made in our India plant in Chennai, doubling the size of that plant, that is going to allow us to reduce cost, probably more importantly, increase capacity. And then our sales team's actively out selling that capacity. Case in point, all five end markets up, record quarterly revenue. Pre-transaction, we had a lot of activities in flight relative to purchase components and engineering and resourcing activities to take costs out of our product that way.

Scott, you want to speak a little bit to the SG&A?

Scott A. Mell
Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

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Yeah, I mean, I think a couple things, Angel. One is, obviously, this year, we started reporting a central group function, and we've talked about it before, but essentially costs at – kind of sit at the corporate level and support both business units. So, number one, we've moved some costs out of the legacy Allison Transmission business unit. But specific to the question, I think the 7% number is probably a good estimate for you as you go forward. I will say that we are seeing some positive trends within the SG&A.

To Fred's point, we are looking to optimize our cost structure now that we have a much broader global platform, and that includes where do we put SG&A and other type of back office activities. We're also seeing some positive warranty expense in the quarter. I think coming out of COVID, we, like many others, were challenged as it related to just the change in the labor force. And we saw some strength in the warranty expense in the quarter, which impacted that number as well. But I think going forward, to Fred's point, we're very focused on cost containment, I would say, just ensuring that we're taking advantage of the synergies from combining the two businesses and that includes the SG&A side as well.

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

Q

Very helpful. Thank you.

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

Kyle Menges
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you. I would love to hear a little bit more about defense and specifically just the capacity investments that you've been making and maybe plan to make over the next 12 months or maybe even beyond that? And on the order book as well, I noticed that there was a comment about the order book being nearly full for 2027. So we'd just love to understand maybe the investments in capacity that have already happened this year. And it sounds like I think there's some planned for next year. Not sure if there's anything with the acquired – any acquired Dana facilities that can help, add some defense capacity. And I guess also what I'm trying to get at is if that order book for 2027 does end up filling completely, which it sounds like there's a good chance, just what that would mean for year-over-year volume growth in that business.

G. Frederick Bohley
Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

Yeah, Kyle, this is Fred. Let me first address kind of demand. What obviously clearly a very robust year. You've seen our business move from being predominantly to the US government to much more exposure to outside North America. We're also launching two new products, the eGen Force and the 3040 MX and 4040 MX – with the 3040 MX, 4040MX primarily focused outside North America.

So from a capacity standpoint, most of the investments have been to be positioned to ramp up those two products. Specific into 2027, and we have pretty good line of sight at this point. And we'll need to see how we finish the year, but I think that the big step up that you saw from 2025 to 2026, that pretty much kind of sets us to where we expect to be for 2027. Again, there's still some room for more volume to come in, but it's more of a transition from the traditional business we sold to the US government into new products and sales outside North America, into Europe, into Korea. We announced the BAE Hägglunds order back, middle of the year that was our largest defense order in history over $250 million in revenue associated with that order. So the – definitely the – as you asked, the order book is filling in nicely.

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Operator: Our next question is from Tami Zakaria with JPMorgan. Please proceed with your question.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you so much. So I think I heard you mention the third quarter is seasonally the softest quarter. I think you said for Off-Highway as well. So your Off-Highway EBITDA margin was 12.7%. What's the typical sequential step-up in margins for that segment in the fourth quarter? Is it similar to what we saw in the first half or still below the first half but better than 3Q?

Craig Price
President & Business Unit Leader-Allison Off-Highway Drive & Motion Systems, Allison Transmission Holdings, Inc.

A

So hey, Tami, this is Craig. So yeah, as Scott said in the remarks, the third quarter for us, just given such a significant part of our business in Europe, is typically our weakest quarter. The second quarter typically is our strongest. So the fourth is somewhere in between. So we would naturally see a step-up that's predominantly due to that increase in that volume.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: We have reached the end of the question-and-answer session. I would like to turn the floor back over to David Graziosi for closing comments.

David S. Graziosi
Chairman, President & Chief Executive Officer, Allison Transmission Holdings, Inc.

Thank you, Samantha, and 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 for your participation.

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