Q3 2016 Earnings Release

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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 the 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: our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; the failure of markets outside North America to increase adoption of fully-automatic transmissions; risks related to our substantial indebtedness; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies and other external factors impacting demand for hybrid vehicles; U.S. defense spending; general economic and industry conditions; 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 prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

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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, 2015.

Non-GAAP Financial Information

We use Adjusted EBITDA and Adjusted EBITDA margin to measure our operating profitability. We believe that Adjusted EBITDA and Adjusted EBITDA margin 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 margin 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 is Net income. 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 our debt agreement. Adjusted EBITDA margin 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 any mandatory debt service requirements, can be used for repayment of debt, stockholder distributions and strategic opportunities, including investing in our business and strengthening our balance sheet. 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.

Call Agenda

- **Q3 2016 Performance**
- **Full Year 2016 Guidance Update**

Q3 2016 Performance Summary

($ in millions)	Q3 2016	Q3 2015	% Variance
Net Sales	$434	$493	(11.9%)
Gross Margin %	47.1%	47.9%	(80 bps)
Net Income	$45	$47	(4.1%)
Adjusted EBITDA(1)	$151	$174	(13.6%)
Adjusted Free Cash Flow (1)	$116	$148	(21.7%)

Commentary

Net Sales: decrease was principally driven by lower demand in the North America On-Highway and Off-Highway end markets partially offset by stronger demand in the Outside North America On-Highway end market.

Gross Margin: decrease was principally driven by decreased net sales partially offset by favorable material costs.

Net Income: decrease was principally driven by decreased gross profit, expensing previously recorded deferred financing costs as a result of the long-term debt refinancing in 2016 and higher incentive compensation expense partially offset by the environmental remediation expenses charge in 2015, favorable mark-to-market adjustments for our interest rate derivatives, unfavorable product warranty adjustments in 2015 and decreased engineering – research and development expenses driven by the cadence of certain product initiatives.

Adjusted EBITDA: decrease was principally driven by decreased net sales and higher incentive compensation expense partially offset by unfavorable product warranty adjustments in 2015, lower manufacturing expense commensurate with decreased net sales, decreased engineering – research and development expenses and favorable material costs.

Adjusted Free Cash Flow: decrease was principally driven by decreased net sales and increased Operating Working Capital(2) partially offset by increased excess tax benefit from stock-based compensation and decreased capital expenditures.

(1) See Appendix for a reconciliation of Adjusted EBITDA and Adjusted Free Cash Flow.
(2) Operating Working Capital = A/R + Inventory – A/P.

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Q3 2016 Sales Performance

($ in millions)

End Markets	Q3 2016	Q3 2015	% Variance	Commentary
North America On-Hwy	$224	$262	(15%)	Principally driven by lower demand for Rugged Duty Series, Highway Series and Pupil Transport/Shuttle models partially offset by higher demand for Transit/Other Bus models
North America Hybrid-Propulsion Systems for Transit Bus	$8	$12	(33%)	Principally driven by lower demand due to engine emissions improvements and other alternative technologies
North America Off-Hwy	$1	$12	(92%)	Principally driven by the previously contemplated impact of low energy prices
Defense	$25	$34	(26%)	Principally driven by lower demand for Tracked Defense partially offset by higher demand for Wheeled Defense
Outside North America On-Hwy	$78	$67	16%	Principally driven by higher demand in Europe and Japan partially offset by lower demand in China
Outside North America Off-Hwy	$2	$4	(50%)	Principally driven by lower demand in the mining sector
Service Parts, Support Equipment & Other	$96	$102	(6%)	Principally driven by lower demand for North America service parts
Total	**$434**	**$493**	**(12%)**	

Q3 2016 Financial Performance

($ in millions, except share data)	Q3 2016	Q3 2015	$ Var	% Var	Commentary
Net Sales	$434.3	$493.0	($58.7)	(11.9%)	Decrease was principally driven by lower demand in the North America On-Highway and Off-Highway end markets partially offset by stronger demand in the Outside North America On-Highway end market
Cost of Sales	$229.6	$256.9	$27.3	10.6%	
Gross Profit	$204.7	$236.1	($31.4)	(13.3%)	Decrease was principally driven by decreased net sales partially offset by lower manufacturing expense commensurate with decreased net sales and favorable material costs
Operating Expenses					
Selling, General and Administrative Expenses	$80.0	$86.6	$6.6	7.6%	Decrease was principally driven by unfavorable product warranty adjustments in 2015 partially offset by higher incentive compensation expense
Engineering – Research and Development	$20.7	$23.6	$2.9	12.3%	Decrease was principally driven by the cadence of certain product initiatives
Environmental Remediation	$0.0	$14.0	$14.0	100.0%	Expenses charge in 2015 pursuant to the 2007 asset purchase agreement with General Motors
Total Operating Expenses	$100.7	$124.2	$23.5	18.9%	
Operating Income	$104.0	$111.9	($7.9)	(7.1%)	
Interest Expense, net	($22.2)	($33.7)	$11.5	34.1%	Decrease principally driven by favorable mark-to-market adjustments for our interest rate derivatives
Expenses Related to Long-Term Debt Refinaning	($11.6)	($0.2)	($11.4)	(5700.0%)	Increase driven by expensing previously recorded deferred financing costs as a result of the long-term debt refinancing completed in September 2016
Other Income (Expense), net	$0.8	($4.2)	$5.0	119.0%	Change principally driven by foreign exchange gains on intercompany financing and gains on derivative contracts
Income Before Income Taxes	$71.0	$73.8	($2.8)	(3.8%)	
Income Tax Expense	($26.4)	($27.3)	$0.9	3.3%	
Net Income	$44.6	$46.5	($1.9)	(4.1%)	
Diluted Earnings Per Share	$0.27	$0.27	$0.00	0.0%	Q3 2016: 167.9M shares; Q3 2015: 175.0M shares
Adjusted EBITDA[(1)]	$150.5	$174.1	($23.6)	(13.6%)	
Adjusted EBITDA Margin[(1)]	34.7%	35.3%	-	(0.6%)	

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

Q3 2016 Cash Flow Performance

($ in millions)	Q3 2016	Q3 2015	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$128	$162	($34)	(21.4%)	Principally driven by decreased net sales and increased operating working capital(2)
CapEx	$14	$15	($1)	(7.2%)	
Adjusted Free Cash Flow (1)	$116	$148	($32)	(21.7%)	Principally driven by decreased net cash provided by operating activities partially offset by increased excess tax benefit from stock-based compensation and decreased capital expenditures

($ in millions)	Q3 2016	Q3 2015	$ Variance	% Variance	Commentary
Operating Working Capital(2) Percentage of LTM Sales	12.1%	11.6%	N/A	50 bps	Principally driven by decreased net sales
Cash Paid for Interest	$21	$22	($1)	(6.0%)	
Cash Paid for Income Taxes	$2	$1	$1	118.2%	Principally driven by increased estimated taxable income for certain foreign entities

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.
(2) Operating Working Capital = A/R + Inventory – A/P.

2016 Guidance Update - Summary

	Guidance	Commentary
Net Sales Change from 2015	(8.5) to (9.5) percent	Guidance reflects expectations for no meaningful relief from the global Off-Highway end market challenges and tempering demand conditions in the North America On-Highway end market partially offset by increased demand in the Outside North America On-Highway end market. Guidance also assumes previously considered reductions in demand for North America Hybrid-Propulsion Systems for Transit Bus due to engine emissions improvements and other alternative technologies.
Adjusted EBITDA Margin	34.0 to 35.0 percent	Principally driven by net sales and the execution of several initiatives to align costs and programs across our business with challenging end markets demand conditions
Adjusted Free Cash Flow ($ in millions)	$435 to $455	
CapEx ($ in millions) Maintenance New Products	 $65 $5 to $10	Subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$10 to $15	U.S. income tax shield and net operating loss utilization

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 September 30,		Last twelve months ended September 30,
	2011	2012	2013	2014	2015	2015	2016	2016
Net income	**$103.0**	**$514.2**	**$165.4**	**$228.6**	**$182.3**	**$46.5**	**$44.6**	**$166.7**
plus:								
Interest expense, net	217.3	151.2	132.9	138.4	114.5	33.7	22.2	104.9
Income tax expense (benefit)	47.6	(298.0)	100.7	139.5	106.5	27.3	26.4	99.6
Fee to terminate services agreement with Sponsors	—	16.0	—	—	—	—	—	—
Technology-related investment expenses	—	14.4	5.0	2.0	—	—	1.0	1.0
Public offering expenses	—	6.1	1.6	1.4	—	—	—	—
Impairments	—	—	—	15.4	81.3	—	—	80.0
Environmental Remediation	—	—	—	—	14.0	14.0	—	—
Amortization of intangible assets	151.9	150.0	105.3	98.8	97.1	24.3	23.0	93.6
Depreciation of property, plant and equipment	103.8	102.5	98.7	93.8	88.3	22.4	21.1	85.3
Loss on redemptions and repayments of long-term debt	16.0	22.1	0.8	0.5	0.3	—	—	0.1
Stockholder activism expenses	—	—	—	—	—	—	—	3.7
Dual power inverter module extended coverage	—	9.4	(2.4)	1.0	(2.1)	(0.3)	(0.2)	1.3
UAW Local 933 signing bonus	—	8.8	—	—	—	—	—	—
Benefit plan re-measurement	—	2.3	—	—	—	—	—	—
Unrealized loss (gain) on commodity hedge contracts	6.5	(1.0)	1.5	(1.0)	1.1	0.7	(0.2)	(1.3)
Unrealized loss (gain) on foreign exchange	0.3	0.1	2.3	5.2	1.4	2.8	(1.1)	0.5
Expenses related to long-term debt refinancing	56.9	—	—	—	25.3	0.2	11.6	11.6
Restructuring charges	—	—	1.0	0.7	—	—	—	—
Other, net[(1)]	8.6	7.0	13.8	14.7	9.8	2.5	2.1	9.0
Adjusted EBITDA	**$711.9**	**$705.1**	**$626.6**	**$739.0**	**$719.8**	**$174.1**	**$150.5**	**$656.0**
Net Sales	**$2,162.8**	**$2,141.8**	**$1,926.8**	**$2,127.4**	**$1,985.8**	**$493.0**	**$434.3**	**$1,849.5**
Adjusted EBITDA margin	**32.9%**	**32.9%**	**32.5%**	**34.7%**	**36.2%**	**35.3%**	**34.7%**	**35.5%**

(1) Includes income related to benefit plan adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors

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Non-GAAP Reconciliations (2 of 2)

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,
	2011	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**	**2016**
Net Cash Provided by Operating Activities	**$469.2**	**$497.5**	**$463.5**	**$573.3**	**$579.9**	**$162.4**	**$127.7**	**$590.4**
(Deductions) or Additions:								
Long-lived assets	(96.9)	(123.9)	(74.4)	(64.1)	(58.1)	($15.2)	($14.1)	($64.7)
Fee to terminate services agreement with Sponsors	—	16.0	—	—	—	—	—	—
Technology-related license expenses	—	12.0	6.0	6.1	0.2	$0.2	—	—
Stockholder activism expenses	—	—	—	—	—	—	$0.1	$3.7
Excess tax benefit from stock-based compensation	—	5.3	13.7	24.6	8.4	$0.2	$1.8	$2.3
Adjusted Free Cash Flow	**$372.3**	**$406.9**	**$408.8**	**$539.9**	**$530.4**	**$147.6**	**$115.5**	**$531.7**
Net Sales	**$2,162.8**	**$2,141.8**	**$1,926.8**	**$2,127.4**	**$1,985.8**	**$493.0**	**$434.3**	**$1,849.5**
Adjusted Free Cash Flow (% to Net Sales)	**17.2%**	**19.0%**	**21.2%**	**25.4%**	**26.7%**	**29.9%**	**26.6%**	**28.7%**

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