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Allison Transmission Holdings, Inc. (ALSN)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to Allison's Fourth Quarter 2025 Earnings Conference Call. My name is Paul 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. [Operator Instructions]

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

Jacalyn C. Bolles

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

Thank you, Paul. Good afternoon and thank you for joining us for our fourth quarter 2025 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 March 9.

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, 2024 and quarterly report on Form 10-Q for the quarter ended September 30, 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 fourth quarter 2025 earnings press release.

Today's call is set to end at 5:45 PM Eastern Time. In order to maximize participation opportunities on the call, we'll take just one question from each analyst.

Please turn to slide 4 of the presentation for the call agenda. During today's call, Dave Graziosi will reaffirm strategic opportunities presented by the acquisition of Dana's Off-Highway business and introduce Craig Price, Allison Off-Highway's President. Following remarks from Craig, Dave will present the Allison go-forward business unit reporting structure prior to reviewing highlights from Allison Transmission's full-year 2025 results.

Fred Bohley will then review recent announcements across our business. Scott Mell will end the prepared remarks with a review of Allison Transmission's fourth quarter 2025 financial performance and Allison's full-year 2026 guidance prior to commencing the Q&A.

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

David S. Graziosi

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

Thank you, Jackie. Good afternoon and thank you for joining us. In January, we announced the completion of our acquisition of the Off-Highway Drive and Motion Systems business of Dana Incorporated. I would like to welcome our new colleagues around the world. We are excited to bring these two world-class businesses together with 14,000 employees operating in 25 countries, creating a truly global leader in the end markets we serve.

In late January, we welcomed our new colleagues and celebrated our combined company through nearly 50 events across our global sites. I want to thank everyone who participated in these events, marking our first opportunity to come together as one Allison team. The sense of unity across our sites was clear and encouraging.

Together, we begin this journey with a substantially expanded market reach, a much broader portfolio of high-quality and reliable products, creating a platform that will continue to deliver strong financial performance from both organic and inorganic growth. Our talented colleagues are dedicated to helping support our customers and their end users as they continue to respond to the global megatrends shaping the modern industrial world.

On slide 5 of the presentation, we outline attributes strengthening our position as a premier industrial company. As a combined company, Allison will leverage an expanded global footprint for more Local for Local production, with increased proximity to customers and markets, providing advantages in meeting both commercial and government customers' requirements. Allison will also utilize our global technology centers for local development, with realization of cost synergies through combined engineering, research and development.

We believe that complementary technical knowledge within the combined business in areas such as software and controls, fully integrated commercial duty propulsion solutions and electrification will accelerate product innovation and progress on key engineering capabilities and initiatives. We will continue our long history of engineering expertise, delivering products known for quality, reliability and durability across diverse drivetrain components and work solutions. With greater purchasing scale as well as vertical integration opportunities and manufacturing in best-cost countries, Allison expects opportunities for synergy realization and cost reduction initiatives within our operations.

Finally, while our focus over the last two months post-close has been on successful combination and integration of our businesses, our teams are working diligently on synergy capture and growth initiatives. In this transformational moment in Allison's history, we are confident in our ability to combine the two businesses while realizing annual run rate synergies, maintaining our focus on solid financial performance, and continued growth as a premier industrial company.

With regards to our reporting structure, as described in the press release announcing the acquisition close, the combined company will be comprised of two business units: Allison Transmission and Allison Off-Highway Drive and Motion Systems. Allison Transmission will be led by Fred Bohley and Allison Off-Highway Drive and Motion Systems will be led by Craig Price. Both hold the title of President and Business Unit Leader reporting to me. Fred will continue to serve as Allison's Chief Operating Officer.

Craig, if you'd like to say a few words?

Craig Price

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

Thank you, Dave. Good afternoon, everyone. I am honored to step into the role of Off-Highway President and excited to be part of this pivotal moment in Allison's history. With the close of the acquisition, we are entering a new chapter focused on sustainable growth, disciplined execution, and long-term value creation.

From my earliest conversations with Allison's leadership team, it was clear that our businesses share a strong alignment around innovation, operational excellence, and delivering meaningful value to customers and shareholders. This combination brings together highly complementary strengths. The Off-Highway business contributes deep end markets expertise, a proven track record, and a highly capable engaged team. Together, we are positioned to leverage enhanced scale resources and global platforms to accelerate growth opportunities.

As we move forward, our priorities are clear: seamless integration whilst maintaining disciplined execution. We are confident in our ability to implement our plans and look forward to updating you on our progress in the quarters ahead. Dave?

David S. Graziosi

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

Thank you, Craig. Moving on to Allison Transmission's full-year 2025 performance highlights, before I begin, please note that these 2025 results do not reflect the financial results of the Off-Highway business we acquired from Dana on January 1.

The year began with strong momentum; however, as the year progressed, our performance was negatively impacted by broader macroeconomic factors, including global trade policies uncertainties and sluggish economic growth in most of the regions in which we operate. Despite these external headwinds, we remain disciplined, focusing on cost control and execution.

Although full-year revenue was down 7% year-over-year, we increased full-year adjusted EBITDA margin by 140 basis points year-over-year to 37.5%. With recent events providing improved clarity on the timing and impact of tariffs and emissions regulations, we are beginning to see early signs of demand improvements within our largest end market, North America On-Highway, and a rebound from the trough in the third quarter of 2025. We enter 2026 confident in our ability to navigate ongoing uncertainty.

In addition, we are pleased with the ongoing performance of our Defense end market, which, for the year, increased revenue by 26% to \$267 million. We have now achieved our \$100 million incremental annual revenue objective for this end market and remain focused on further growth opportunities given substantial increases in global defense spending commitments.

Throughout the year, we are also satisfied, our capital allocation priorities. For the full year, we repurchased \$328 million of common stock, representing 4% of outstanding shares. We also increased our quarterly dividend in the first quarter of 2025 to \$0.27 per share. The ability to complete an acquisition while simultaneously returning capital to shareholders underscores the strength of our balance sheet and the resilience of our cash flow. We remain focused on maintaining our shareholder-aligned capital allocation priorities as we progress with the integration of the Allison Off-Highway business segment.

In summary, although 2025 was challenging, we exited the year with reaffirmed confidence in our business, and we look forward to the future as we enter a new chapter in Allison's over 110-year history.

Now, I'll pass it over to Fred to review recent announcements across our business. Fred?

G. Frederick Bohley

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

Thank you, Dave. Good afternoon, everyone. In early December, we outlined our expanding footprint and investment in India, with strategic initiatives spanning multiple sectors. Starting with Defense, we recently signed a Memorandum of Understanding with Armoured Vehicles Nigam Limited, a government-owned defense manufacturer. The multiphase agreement marks a significant step towards establishing a maintenance, repair and overhaul center in India to service current and future Allison cross-drive transmission programs.

This partnership aligns with India's broader defense modernization and localization efforts, including the ongoing future infantry combat vehicle program utilizing our 3040 MX cross-drive transmission. In the Indian mining sector, Allison's industry-leading value proposition continues to drive business expansion by contributing to the nation's infrastructure development and resource extraction efficiency. End users are expanding their fleets of wide-body dump trucks equipped with our 4800 Series fully automatic transmissions, citing the consistent reliability and performance of Allison products in challenging environments.

The integration of local production and global sales is underscored by Allison's strategic position within India's export hub. Daimler India Commercial Vehicles has begun shipments of Allison's 3000 Series fully automatic transmissions integrated into Fuso's medium-duty trucks exported to South Africa. These developments are supported by Allison's capital investments in the region. The company's state-of-the-art facility expansion in Chennai announced in late 2024 is operational and will ramp to full capacity in 2027.

In addition, we're excited for the opportunities presented by our expanded footprint and presence in India, with four manufacturing plants and around 4,000 employees joining Allison from the Off-Highway Drive and Motion System team. Our strategic investments not only reinforce Allison's ability to meet increasing demand across global markets, but it also solidifies the company's role as a key partner in India's industrial growth, with more local for local production and partnership with OEMs supporting the Made (sic) [Make] in India framework. Allison's opportunities are expanding and our competitive advantages are strengthened.

Thank you, and I'll now call – turn the call over to Scott for a recap of Allison Transmission's fourth quarter 2025 financial performance and introduction of Allison's 2026 guidance.

Scott A. Mell

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

Thank you, Fred. Please turn to slide 6 of the presentation for the Q4 2025 performance summary. Year-over-year net sales of \$737 million were down 7% from the same period in 2024. In the outside North American On-Highway end market, we achieved record fourth quarter revenue, leading to record full-year revenue of \$507 million. In the Defense end market, we continue to execute on our growth initiatives, with fourth quarter net sales of \$73 million, up 7% year-over-year.

Although fourth quarter net sales were down year-over-year in our North America On-Highway end market, the sequential improvement of 10% from the trough in the third quarter demonstrates the positive impact that improved clarity has had on end user purchasing decisions.

Net income for the quarter was \$99 million, a decrease of \$76 million from \$175 million for the same period in 2024. This year-over-year decrease in net income reflects two meaningful one-time items. First, we recorded a \$29 million impairment related to our investment in electrification. Second, we incurred approximately \$26 million of expenses related to the Dana Off-Highway business acquisition.

When adjusting net income for the impairment loss and the acquisition-related expenses, our fourth quarter net income was \$141 million with diluted earnings per share of \$1.68. Despite a net sales decrease of 7% year-over-year, adjusted EBITDA margin increased over 200 basis points to 36% for the fourth quarter.

Net cash provided by operating activities for the quarter was \$243 million, an increase of \$32 million from the same period in 2024. The increase was principally driven by lower cash income taxes, reduced engineering R&D spending, and lower operating working capital funding requirements, which more than offset lower gross profit and \$17 million of payments for acquisition-related expenses.

Our cash generation remains a key strength of our business, with adjusted free cash flow of \$169 million dollars in the fourth quarter. We continue to maintain solid operating cash flow, reflecting in the resilience of our operations and disciplined cost management. We expect to continue to generate substantial and sustainable free cash flow as a combined business, with our robust cash generation ensuring our capital allocation priorities remain intact.

We will continue to invest in our businesses to drive long-term growth and innovation with accelerated debt reduction, which will allow us to reach our leverage targets in the near term. We've already started to pay down debt incurred for the Off-Highway acquisition and we'll continue to provide updates as we progress.

Importantly, Allison remains fully committed to returning capital to shareholders through ongoing share repurchases and consistent dividend payments, reinforcing our disciplined approach to creating long-term value. A detailed overview of Allison Transmission's net sales by end market and Q4 2025 financial performance can be found on slides 7, 8 and 9 of the presentation.

Please turn to slide 10 of the presentation for Allison's 2026 guidance. Before I cover our 2026 guidance, I want to highlight that starting with our Q1 2026 10-Q, we will be providing two-segment reporting, one for the Allison Transmission business unit, which will, for the most part, reflect the historical Allison Transmission's business; and one for the Allison Off-Highway Drive and Motion Systems business unit, which will reflect the business acquired from Dana. In addition, we will report financial results for the Allison Group, which will include primarily functional costs that support both business segments. We will provide additional details on this reporting structure as we move forward.

For the full-year 2026, we are providing the following guidance: consolidated net sales in the range of \$5,575 million to \$5,925 million. This includes net sales for the Allison Transmission segment in the range of \$3,025 million to \$3,175 million and net sales for the Allison Off-Highway Drive and Motion Systems segment in the range of \$2,550 million to \$2,750 million.

Consolidated net income in the range of \$600 million to \$750 million, subject to the completion of purchase price accounting associated with the acquisition of the Allison Off-Highway segment. Our net income guidance for 2026 includes approximately \$70 million of one-time pre-tax expenses associated with the sepagra – pardon me, separation, integration and restructuring of the Allison Off-Highway segment.

Even with 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 \$1,365 million to \$1,515 million. At the midpoint, this implies a 25% adjusted EBITDA margin.

Our adjusted EBITDA margin guidance assumes continued softness in the North America On-Highway end market, particularly for medium-duty trucks, with no meaningful recovery model for Class 8 vocational trucks. Also, key Allison Off-Highway end markets are expected to remain at or near trough.

As previously communicated, we expect to capture approximately \$120 million of annual run rate synergies over the next few years. Once the full synergy capture is realized and we see moderate improvements in end market conditions, we expect consolidated adjusted EBITDA margins in the range of 27% to 29%.

For our 2026 cash flow guidance, we anticipate consolidated net cash provided by operating activities in the range of \$970 million to \$1,100 million; consolidated capital expenditures in the range of \$295 million to \$315 million, including one-time separation and integration CapEx of approximately \$45 million; and consolidated adjusted free cash flow in the range of \$655 million to \$805 million.

Please note that our consolidated net cash provided by operating activities guidance includes approximately \$55 million of one-time cash outlays associated with our acquisition of the Off-Highway Drive and Motion Systems business unit. In addition to our financial guidance, slides 11 and 12 in the presentation provide commentary on our 2026 outlook for the Allison Transmission and Allison Off-Highway end markets, respectively.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] In the interest of time, we ask that participants limit themselves to one question. One moment, please, while we poll for questions. Thank you.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Hi, thanks. Could you talk just briefly about what your pricing expectations are for 2026, what your rate of inflation is and just kind of what's embedded in the ever-changing tariff situation? And just for clarity, when you do disclose the segment data, you will do an EBITDA by segment or operating income by segment? And any comments on kind of the core legacy business, whether profits are up or down in your embedded guide? Thank you.

G. Frederick Bohley

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

A

You want to...

Scott A. Mell

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

A

Yeah, I...

G. Frederick Bohley

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

A

...take the first piece and maybe I'll chime in towards the end, Scott?

Scott A. Mell

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

A

Yeah. Yeah, I'll take the first question, which I think started with pricing and led into tariffs. So I think as we've talked about before, given our LTA negotiations over the last few years, we expect to continue to see meaningful year-over-year pricing. And I think we've also said it certainly may not be at the rate that we've seen in the last few years. I think somewhere between 250 and 400 basis points of pricing is probably directionally where we'll end up.

I think us, like others, are facing substantial inflationary pressure across not only people costs but material costs or otherwise. I would point you to sort of what you're seeing in inflationary forward indicators as what we're experiencing. And then, obviously, on the tariffs, I haven't been online today so I'm not sure where we're at, but I think we expect to recover a meaningful amount of our tariff on a year-over-year basis through pricing actions that we've taken, but it certainly will be a net drag on margins on a year-over-year basis. I think that answered the beginning of the question, Fred, what was the...

G. Frederick Bohley

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

A

And, I guess, I would say, Scott's comments relative to pricing were for the Allison Transmission business unit. We'll obviously be combining in looking at pricing in total. And to his point, we do have customers we put on LTAs and we do expect better than traditional pricing that we've done in the past of 50 basis points to 100 basis points. And then the other question really was on level of reporting, Scott, down to...

Scott A. Mell

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

A

Oh. Yeah, so I think the expectations, as you'll see from net sales down through an operating profit level with enough detail around depreciation and amortization that you can get to an EBITDA number, so there'll probably be some cash flow metrics as well, but I think you'll certainly have enough detail as we report the first Q here to be able to distinguish between the two business segments.

Rob Wertheimer

Analyst, Melius Research LLC

Q

Thank you.

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

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Q

Thank you. Good afternoon and congrats on getting all this work done and behind you. Just on the – I recognize that there's always challenges in fixing to a midpoint, but just if we did that, if you think about the kind of the midpoint EBITDA estimate of \$1.4 billion, if we assume – and it's probably not the right assumption, but if we assume that the Allison business is flat year-over-year despite growing on the top line, that would imply that the Off-Highway business is doing something like a 11%, 12% EBITDA margin on, call it, net \$2.6 billion in revenues.

Are there things we should think about? Is that, I don't know, some one-time items going through there? Or maybe just help us there in terms of the implied EBITDA of the acquired business? Thank you.

Scott A. Mell

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

A

Well, this is Scott. Thank you for the question. I think as you try to do your math there, I would encourage you to keep in mind that while we're going to have sales growth on the top line, as we start to look at the end markets, in particular, the Class 8 straight, we are going to have a substantially different mix than we had in 2025. As Fred mentioned, or Dave mentioned on the call, 2025, the first quarter into the second quarter was stronger in the North America On-Highway end market and we're – as I mentioned in our call, we're not expecting a meaningful improvement and we're modeling it or we're looking at it closer to kind of where it was in the second half of last year. So that will impact the margin outlook for the traditional Allison Transmission business.

G. Frederick Bohley

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

A

And then we still have to work out...

[indiscernible] (00:27:57)

G. Frederick Bohley

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

A

...on allocating...

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Q

...your North America On-Highway forecast is assuming kind of run rate where you exited the year, is that right, Scott? Thank you.

G. Frederick Bohley

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

A

I'll take that, Tim, this is Fred. Yes, I mean, we – we're – what we're seeing and what we said in our prepared remarks is very, very soft conditions relative to medium-duty, and we have not modeled any meaningful recovery in Class 8 straight. So to Scott's point, on a year-over-year basis, that would be negative from a mix standpoint because the first half was very, very robust from a Class 8 straight truck.

And then really getting down into each segment's margins at this point is challenging because there's still a lot of work being done here relative to how corporate costs are going to be allocated, and that work still yet to be done in the first quarter and will be represented in the results that we post up in May.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Operator: Our next question is from Ian Zaffino with Oppenheimer & Company.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

Hi, great. Thank you very much. Wanted to drill down on the acquisition. I guess you've been operating it for a couple of months now. How should we think about synergies? I think you initially outlined, I think, \$120 million or \$125 million. How do you feel about it now? And then what amount of that is actually in guidance and how do we think about kind of cadence of that? Thanks.

David S. Graziosi

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

A

Ian, appreciate the question, it's Dave. So, in terms of the synergies, back to the prepared comments and what we actually talked about when we announced the acquisition, that \$120 million run rate of synergies few years out, that's exactly where we sit today. The team and I say that both Allison Transmission and the Off-Highway segment are very engaged right now at a functional level, analyzing what you would expect.

So I believe you were kind in two months with the company. If you actually think about just closing and getting the teams organized, it's been a very busy 40 to 50 days, but despite that and I give the team a tremendous amount of credit in really digging in on the synergies work that was outlined. As you would expect, from our perspective, operations, procurement, engineering and some SG&A are really the focus areas for our team.

So, we're certainly excited about that when you think about the global footprint that we now enjoy, especially in the context of some of these trade policy developments that are out there, and frankly, I think the team is very engaged in analyzing some broader opportunities there.

I would also offer, we really have scratched the surface in terms of other synergies as well, so as the year progresses here, we'll be providing some level of update. To answer your – the last part of your question, we have not assumed any synergies in the 2026 guide at this point.

To Scott's comments, I think it's important, when you look at the reoccurring business guidance that's being provided, is really the – I think the go forward in terms of setting expectations, where we are. But there's a tremendous amount of work that the global team is undertaking this year, as you could imagine, from some of the investments that we announced.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

All right. Thank you very much.

Operator: Our next question is from Jerry Revich with Wells Fargo Securities.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Yes, hi. Good afternoon and good evening and congratulations on the closing. I want to ask Fred, as we think about the margin profile for the legacy Allison business going forward, are the 40% EBITDA margins that we saw the business hit in 2018, 2019, are those feasible in this coming cycle the way you see the business setting up? Can you just give us an update on if we think we can go back to those margin levels?

And then, Craig, just to follow up on the last question, do you – would you mind just sharing your maybe top two or three priorities for the business over the next 12 months? Thank you.

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

A

Jerry, this is Fred. So, clearly, you look at the performance we had in 2025, revenue down 7% and EBITDA margin up 140 basis points, with a significant amount of cost pressures relative to tariffs to the extent that you get a lift in the top line, and we've made investments such that we are bringing on additional capacity. We're growing the business outside North America, record revenue outside North America in 2025, again, with some choppy end markets.

The opportunities that we have relative to the combined footprint that Dave put – talked about and ability to just leverage and optimize a much larger global footprint, the fact that our products are very well-received, our largest obviously driver in North American On-Highway is Class 8 straight truck, share last year was up 1%, so we've been able to pass on price, we've been able to actually increase share. So we have a significant value proposition, so I certainly would not rule out returning to those peak margins, 40%.

I think what needs be understood is we are making peak earnings on everything we send out the door. So, we saw significant cost increases and we haven't been able to price it \$2 for every dollar of cost increase. Obviously, margin's compressed on a percentage basis, but absolute margins on what we sell is – has never been higher. And the team is very focused on getting after cost, best in quality, and continuing to grow in – outside North America.

So, again, that doesn't always come with the same margins initially. Sometimes there's an element of penetration pricing. But the short of it is you're putting it all together, I think 40% is achievable. But from our standpoint, it is what's the dollar amount of EBITDA we make and, ultimately, how much of that can we convert to cash? I mean, that's truly what the team is focused on.

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

A

And, Jerry, it's Dave. To your question for Craig, the good news is his top three priorities are the same as everybody else in Allison, which is meeting customer commitments; seamless integration and combination, which is a tremendous amount of work this year; and execution. As Fred mentioned, we're right back into it here. Many of the end markets that we're dealing with are at or coming off trough levels. There'll be a fair bit of work continuing to be highly aligned with our customers around return of volume, managing the supply base, et cetera and so forth. So a lot of work there to be done this year, but again, it's really back to meeting customer commitments, the separation/integration work, and most importantly, just execution across the board.

Jerry Revich*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

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

Tami Zakaria*Analyst, JPMorgan Securities LLC*

Q

Hey, good afternoon. Thank you so much. I wanted to clarify two things. The first one on Off-Highway Drive and Motion segment guide, that guidance, the midpoint, how much is Dana Off-Highway growing like-for-like year-over-year embedded in that guide?

David S. Graziosi

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

A

Tami, it's Dave. If you look at it, and again, like-for-like, understanding the 2025 results are not out there on a, I would say, apples to apples basis for what we, as Allison, have as Allison Off-Highway now, but I would put it in the – on a year-over-year basis, mid-plus, single-digit rate on a year-over-year basis, that top line.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Understood. That's helpful. And then the second question, I hear the 25% EBITDA margin guide for the year. How should we model the seasonality between the four quarters? And related to that, how should gross margin be throughout the year versus the high 40% that you ended with last year?

David S. Graziosi

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

A

Tami, it's Dave, let me take the first part of that and then Scott can chime in. In terms of seasonality, it's interesting, when you look at the way our guide is built this year, it's really not – and I would say very uneven quarter at this point just given the nature of the two segments we now have. So if you – broadly looking at sales, first half, second half, very similar on a total Allison basis.

So, as you know, historically, Allison's had some level of seasonality in the fourth quarter. The last few years have changed that dynamic a bit. So I would say generally speaking, as you think about the year from an overall pace perspective, as we sit today, relatively level, so – and Scott, on the margins?

Scott A. Mell

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

A

Yeah, I mean, working toward annual midpoint of 25%, I don't think you're going to see, to Dave's point, substantial swings in margins just given some of the nature of the sales,, which are going to be even over the course of the year. So there, I wouldn't build in any substantial changes in margins, although I would say we – as we get to the second half of the year on the Transmission side, we're cautiously optimistic that we'll start to see some improvement in medium-duty demand potentially, so that might be a driver in the second half of the year.

Tami Zakaria

Analyst, JPMorgan Securities LLC

Q

Understood. Thank you.

Operator: Our next question is from Angel Castillo with Morgan Stanley.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Q

Hi, good afternoon. Thanks for taking my question. Just was hoping you could unpack the end market guidance in a little bit more detail. I guess I'm a little bit surprised, just the assumptions around no recovery in Class 8 trucks. And I think you mentioned that assuming Off-Highway remain kind of at or near trough, just when I think about versus what we're hearing from either other OEMs on the truck side or even on construction or ag side, it seems like there's a little bit more kind of upbeat sentiment that there could be a little bit of more recovery or improvement, at least in the second half.

And I think you had mentioned – you mentioned very soft conditions I think in the vocational markets. So just can you unpack that a little bit more? Like to what degree is it that you're seeing something in kind of the latest order books that seems to suggest a little bit more cautiousness is warranted versus maybe just it being early in the year versus what other people are seeing?

G. Frederick Bohley

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

A

Angel, this is Fred. I'll take on the Allison Transmission portion and then Dave will go through the Allison Off-Highway. Start with our largest end market, North America On-Highway, again, we are seeing very, very soft medium-duty activity. A lot of that's driven by the large lease rental players. They have really not reentered the market. Class 8 straight is, I would call it, steady, and there's still a decent amount of uncertainty as to whether there's going to be a pre-buy in the second half of the year. We have not modeled in that pre-buy.

So, really, when you look at it on a year-over-year basis, with the strength we had in the first half, certainly unit volumes for us are down. Now, that's being offset by continued momentum in Defense, primarily outside North America and non-US government sales. Volume going to Hanwha out of Korea with their K9 howitzer, the Poland Borsuk, the Turkey KORKUT, some programs that we've talked about that are – have been announced but are now generating revenue. So we definitely expect Defense to continue to accelerate, and a decent portion of International that we have in the plan as well is going in that direction.

Outside North America, again, record in 2025, but we expect continued growth. We're seeing some strength in vocational truck in Europe, wheeled defense. As Dave mentioned, Japan was really dealing with Australian vehicle regulations, was a little soft last year. Some of that volume was pulled into 2024, so we had that in our favor, and that's a market that in certain classes we have over 60% share.

China, forward momentum on the wide-body mining dump business, vocational haul, fire crane. South America, we've penetrated school buses, we're seeing success in vocational truck. So walk through the end markets outside North America, Defense up, but then you've got lower volume assumptions in North America On-Highway. With that, Dave, do you want to comment on Off-Highway?

David S. Graziosi

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

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Sure. Angel, it's Dave. Just on Off-Highway, just to level set, if you think about the five end markets for Off-Highway that we list in the call presentation, the largest of those is construction and material handling. That's the – right behind that would be service parts, specialty and other, and then agriculture and then, obviously, industrial mining.

So I think to your comments in terms of what some of our customers are saying in terms of – relevant to those individual end markets, I would offer, as we think about starting with construction and material handling, although construction markets, you're seeing, I would say, a steady level in terms of civil engineering and some of the infrastructure work that's going on, the fact is residential is still relatively weak as we know given its rate sensitivity.

If you think about the material handling side, again, very much subject to what's been going on in the trade space as we mentioned earlier. I would certainly provide some backdrop to that by saying the team, I believe overall, the guidance that we're providing on this call for 2026, we're taking a prudent approach. So, I would say the same thing, frankly, when you start thinking about agriculture. A lot of moving pieces there, as you know. If you look

through the public comments from customers, there's many assumptions that are going into that at this point. There's bifurcation in terms of equipment sizing, where the market is, where inventory levels are.

Commodity prices, certainly a bit challenged right now for a number of reasons. There's some assumptions that some are making around farm subsidies, et cetera, that drive that market as well, but margins are still very challenged for farming overall so the team has taken that into account. Beyond that, industrial, they certainly expect to benefit from some of these larger projects that are tied to industrial output and manufacturing.

And finally, mining, we have some assumptions there around – just given commodity prices for things we find most, or at least relevant to our Off-Highway business being gold, copper, rare earth, minerals, et cetera. We are certainly assuming some growth there, directional, with what you've heard from some, but again, that's a bit of a first half, second half story as well in terms of overall approach or expectations for the year.

Angel O. Castillo

Analyst, Morgan Stanley & Co. LLC

Very helpful. Thank you.



Operator: Our next question is from Luke Junk with Baird.

Luke L. Junk

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

Good afternoon. Thanks for taking my question. Just hoping we could maybe discuss pricing in the Off-Highway business that you acquired, both in the near term, I would assume there's probably some tariff impacts and recovery in the business this year, but also be curious just to get your bigger picture thoughts and aspirations for pricing in that business longer term as well. Thank you.



David S. Graziosi

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

Yes. Luke, it's Dave, appreciate the question there. So, I would say for 2026, as we've done with the Allison Transmission business, as we've discussed, the team's approach certainly is to mitigate the tariffs. So that's incorporated into some of the top line changes you see from 2026 versus 2025. I would say overall for the Off-Highway business, in totality, price relatively neutral year-over-year, with the exception of some of the tariff activities that I mentioned.



The approach, as you know, for Allison is to sell our products based on value. I think the Off-Highway team certainly is aligned with that approach historically. I think some of that, frankly, in terms of our expectations are really tied to overall market conditions. As you know, as we mentioned, relatively trough levels almost across the board, so we would expect, commensurate with those market conditions improving, some improvement in terms of overall price.

But as we, again, entered the year, top priority being meeting these customer commitments, we're obviously staying close to overall volume expectations and developments.

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

Kyle Menges

Analyst, Citigroup Global Markets, Inc.



Thanks for taking the question. I was hoping we could revisit the cost synergies. It sounded like that there were no cost synergies embedded in your guidance, just wanted to clarify that. And then just would love to hear what cost synergies you're targeting for the first 12 months and how to think about the magnitude of impact that could potentially drive. Thank you.

David S. Graziosi

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



Kyle, it's Dave. So, on synergies, again, very confident in the \$120 million annual run rate that we've talked about. There's a tremendous amount of work going on amongst the global team. You can imagine the scope of that undertaking just given the amount of facilities, different products, et cetera, so we're taking, as best we can, a very thoughtful, measured approach by functions, whether it's operations, procurement, et cetera, is being very deliberate about stepping through that.

That is why I'd answer your – or answer your question there in terms of 12-month assumption really aligns with our 2026 guide. The answer is we've not assumed any, for that reason, was we get, as I mentioned earlier, further into the year and certainly for 2027 guidance, we can provide a pretty fulsome update at that point. But I would tell you, just given the amount of activity that's being undertaken around separation that does involve a number of agreements, et cetera, there's a fairly high-level work that's involved there.

So this is the same group of people doing many, many things right now, so we're going to do it right and make sure that we have the outcome that we're looking for. But there's certainly doubt from the Allison team's perspective that we are committed to deliver those synergies.

Operator: Thank you. That is all the time we have for questions today. I would now like to pass the floor back over to David Graziosi for any closing comments.

David S. Graziosi

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

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

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

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