

# Q2 2022 Earnings Release

August 3rd, 2022

**Dave Graziosi, Chairman & Chief Executive Officer**

**Fred Bohley, Senior Vice President & Chief Financial Officer**



# Safe Harbor Statement

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

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

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2021 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2022.

# Non-GAAP Financial Information

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

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

# Call Agenda

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- **Q2 2022 Performance**
- **2022 Guidance Update**

# Q2 2022 Performance Summary

(\$ in millions)	Q2 2022	Q2 2021	% Variance
Net Sales	\$664	\$603	10%
Gross Profit	\$311	\$288	8%
Net Income	\$122	\$110	11%
Adjusted EBITDA <sup>(1)</sup>	\$227	\$213	7%
Diluted Earnings Per Share	\$1.26	\$1.01	25%

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

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

# Q2 2022 Net Sales Performance

(\$ in millions)

End Markets	Q2 2022	Q2 2021	% Variance	Commentary
North America On-Hwy	\$340	\$302	13%	Principally driven by continued strength in customer demand for last mile delivery, regional haul and vocational trucks
North America Off-Hwy	\$20	\$9	122%	Principally driven by sustained demand for hydraulic fracturing applications
Defense	\$29	\$48	-40%	Principally driven by lower demand for Tracked vehicle applications
Outside North America On-Hwy	\$105	\$98	7%	Principally driven by higher demand in Europe and South America and the continued execution of our growth initiatives
Outside North America Off-Hwy	\$32	\$18	78%	Principally driven by higher demand in the mining, construction and energy sectors
Service Parts, Support Equipment & Other	\$138	\$128	8%	Principally driven by North America service parts and global support equipment
<b>Total</b>	<b>\$664</b>	<b>\$603</b>	<b>10%</b>	

# Q2 2022 Financial Performance

(\$ in millions, except per share data)	Q2 2022	Q2 2021	\$ Var	% Var	Commentary
Net Sales	\$664	\$603	\$61	10%	Increase was principally driven by price increases on certain products, higher demand in the NA On-Highway, Global Off-Highway, Service Parts, Support Equipment & Other and ONA On-Highway end markets and the continued execution of our growth initiatives
Cost of Sales	\$353	\$315	(\$38)	-12%	Increase was principally driven by unfavorable material costs and increased direct material and manufacturing expense commensurate with increased net sales
Gross Profit	\$311	\$288	\$23	8%	Increase was principally driven by price increases on certain products and higher net sales partially offset by unfavorable material costs
Operating Expenses					
Selling, General and Administrative	\$78	\$80	\$2	3%	Decrease was principally driven by lower commercial activities spending
Engineering – Research and Development	\$46	\$41	(\$5)	-12%	Increase was principally driven by increased product initiatives spending
Total Operating Expenses	\$124	\$121	(\$3)	-2%	
Operating Income	\$187	\$167	\$20	12%	
Interest Expense, net	(\$30)	(\$30)	\$0	0%	
Other (Expense) Income, net	(\$3)	\$3	(\$6)	-200%	Decrease was driven by unfavorable foreign exchange partially offset by an unrealized gain on marketable securities
Income Before Income Taxes	\$154	\$140	\$14	10%	
Income Tax Expense	(\$32)	(\$30)	(\$2)	-7%	Increase was principally driven by increased taxable income
Net Income	\$122	\$110	\$12	11%	Increase was principally driven by higher gross profit partially offset by increased product initiatives spending
Diluted Earnings Per Share	\$1.26	\$1.01	\$0.25	25%	Increase was principally driven by higher net income and lower total shares outstanding (Q2 2022: 97m shares, Q2 2021: 109m shares)
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$227</b>	<b>\$213</b>	<b>\$24</b>	<b>7%</b>	

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

# Q2 2022 Cash Flow Performance

(\$ in millions)	Q2 2022	Q2 2021	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$66	\$140	(\$74)	(53%)	Principally driven by higher operating working capital funding requirements and higher cash income taxes partially offset by higher gross profit
CapEx	\$30	\$45	(\$15)	(33%)	Principally driven by intra-year timing
Adjusted Free Cash Flow <sup>(1)</sup>	\$36	\$95	\$59	62%	Principally driven by lower net cash provided by operating activities partially offset by lower capital expenditures
(\$ in millions)	Q2 2022	Q2 2021	\$ Variance	% Variance	Commentary
Operating Working Capital <sup>(2)</sup> Percentage of LTM Sales	15.9%	15.8%	N/A	10 bps	Higher levels of net sales offset by increased operating working capital
Cash Paid for Interest	\$31	\$31	\$0	0%	In line with prior year
Cash Paid for Income Taxes	\$58	\$44	\$14	32%	Principally driven by increased taxable income

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

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



# 2022 Guidance Update

We are narrowing the full year 2022 guidance ranges provided to the market on February 16.

(\$ in millions)	Guidance
Net Sales	\$2,650 to \$2,750
Net Income	\$450 to \$500
Adjusted EBITDA <sup>1</sup>	\$885 to \$955
Net Cash Provided by Operating Activities	\$590 to \$660
Capital Expenditures	\$170 to \$180
Adjusted Free Cash Flow <sup>1</sup>	\$420 to \$480

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

(1) See Appendix for the Guidance Reconciliation.

# APPENDIX

## Non-GAAP Financial Information

# Non-GAAP Reconciliations (1 of 3)

## Adjusted EBITDA Reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2017	2018	2019	2020	2021	2021	2022	2022
<b>Net Income (GAAP)</b>	<b>\$504</b>	<b>\$639</b>	<b>\$604</b>	<b>\$299</b>	<b>\$442</b>	<b>\$110</b>	<b>\$122</b>	<b>\$463</b>
plus:								
Interest expense, net	103	121	134	137	116	30	30	116
Income tax expense	23	166	164	94	130	30	32	132
Loss associated with impairment of long-lived assets	—	—	2	—	—	—	—	—
Technology-related investments expense/(gain)	16	3	—	—	(3)	—	—	(9)
Impairments	32	4	—	—	—	—	—	—
Environmental remediation benefit	—	—	(8)	—	—	—	—	—
Amortization of intangible assets	90	87	86	52	46	11	12	46
Depreciation of property, plant and equipment	80	77	81	96	104	26	26	106
Dual power inverter module extended coverage	(2)	—	—	—	—	—	—	—
Restructuring charges	—	—	—	14	—	—	—	—
UAW Local 933 signing bonus	10	—	—	—	—	—	—	—
UAW Local 933 retirement incentive	—	15	5	7	(2)	—	—	(2)
Unrealized loss on foreign exchange	—	3	—	2	—	1	2	3
Expenses related to long-term debt refinancing	—	—	1	13	—	—	—	—
Acquisition-Related Earnouts	—	—	1	1	1	—	1	3
Unrealized (gain)/loss on marketable securities	—	—	—	—	(4)	—	(4)	7
Stock-based compensation expense	12	13	13	17	14	5	6	15
<b>Adjusted EBITDA (Non-GAAP)</b>	<b>\$868</b>	<b>\$1,128</b>	<b>\$1,083</b>	<b>\$732</b>	<b>\$844</b>	<b>\$213</b>	<b>\$227</b>	<b>\$880</b>
<b>Net Sales (GAAP)</b>	<b>\$2,262</b>	<b>\$2,713</b>	<b>\$2,698</b>	<b>\$2,081</b>	<b>\$2,402</b>	<b>\$603</b>	<b>\$664</b>	<b>\$2,552</b>
<b>Net income as a percent of net sales</b>	<b>22.3%</b>	<b>23.6%</b>	<b>22.4%</b>	<b>14.4%</b>	<b>19.8%</b>	<b>18.2%</b>	<b>18.4%</b>	<b>18.1%</b>
<b>Adjusted EBITDA as a percent of net sales</b>	<b>38.4%</b>	<b>41.6%</b>	<b>40.1%</b>	<b>35.2%</b>	<b>35.1%</b>	<b>35.3%</b>	<b>34.2%</b>	<b>34.5%</b>

# Non-GAAP Reconciliations (2 of 3)

## Adjusted Free Cash Flow Reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2017	2018	2019	2020	2021	2021	2022	2022
<b>Net Cash Provided by Operating Activities (GAAP)</b>	<b>\$658</b>	<b>\$837</b>	<b>\$847</b>	<b>\$561</b>	<b>\$635</b>	<b>\$140</b>	<b>\$66</b>	<b>\$593</b>
(Deductions) or Additions:								
Long-lived assets	(91)	(100)	(172)	(115)	(175)	(45)	(30)	(156)
Restructuring charges	—	—	—	12	—	—	—	—
<b>Adjusted Free Cash Flow (non-GAAP)</b>	<b>\$567</b>	<b>\$737</b>	<b>\$675</b>	<b>\$458</b>	<b>\$460</b>	<b>\$95</b>	<b>\$36</b>	<b>\$437</b>

# Non-GAAP Reconciliations (3 of 3)

## Guidance Reconciliation

\$ in millions	Guidance	
	Year Ending December 31, 2022	
	Low	High
Net Income (GAAP)	\$ 450	\$ 500
plus:		
Depreciation and amortization	158	158
Income tax expense	130	150
Interest expense, net	119	119
Stock-based compensation expense	18	18
Unrealized loss on marketable securities	11	11
Unrealized loss on foreign exchange	3	3
Acquisition-related earnouts	2	2
Technology-related investments gain	(6)	(6)
Adjusted EBITDA (Non-GAAP)	<u>\$ 885</u>	<u>\$ 955</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 590	\$ 660
(Deductions) to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	\$ (170)	\$ (180)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 420</u>	<u>\$ 480</u>