

# Investor Relations Presentation

Third Quarter 2013 (Published Nov 4, 2013)



# 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 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: risks related to our substantial indebtedness; 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; 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 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.

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, long-term financial goals or the value we currently ascribe to certain tax attributes set forth herein. Actual results may vary significantly from these statements.

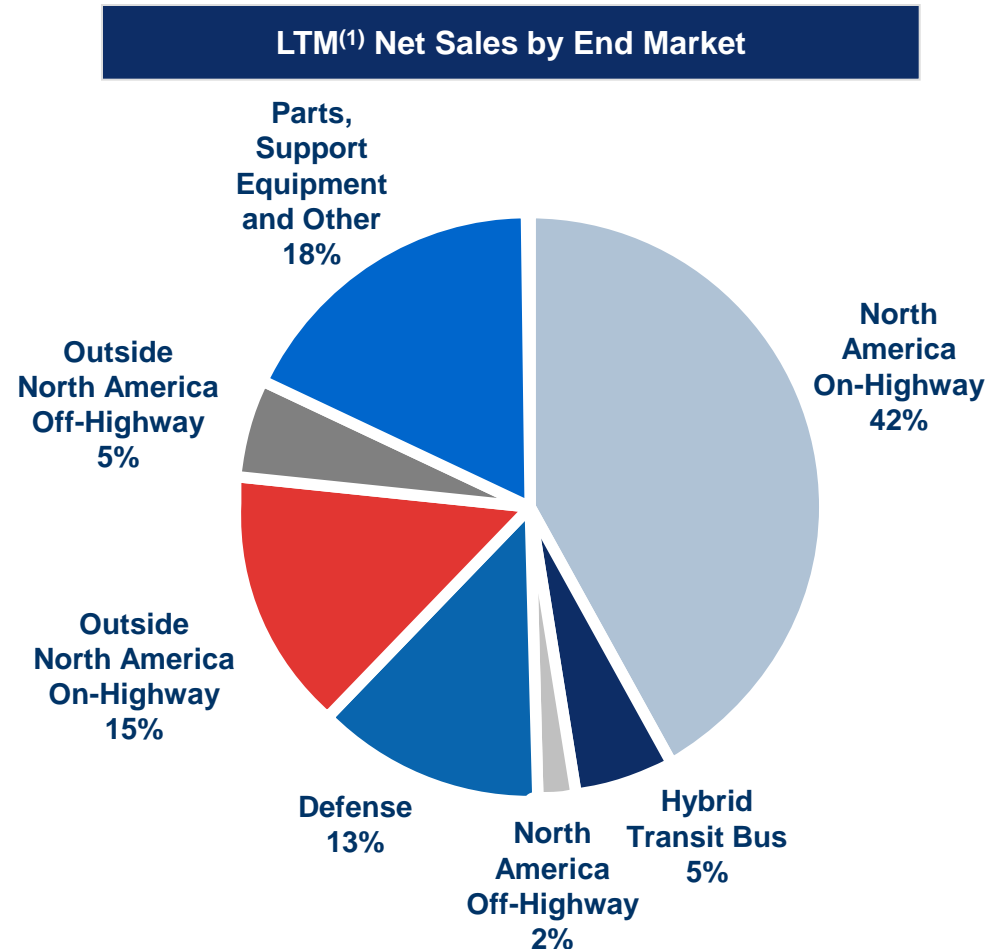
Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2012.

# Business Overview



# Allison Transmission at a Glance

- **World's largest manufacturer of fully-automatic transmissions for medium- and heavy-duty commercial vehicles**
  - 62% global market share of fully-automatic transmissions
  - Virtually no exposure to Class 8 line-haul tractors
- **Allison is the premier fully-automatic transmission brand**
  - Premium price component frequently specified by end users
  - Differentiated technology
- **Well positioned for revenue and earnings growth**
  - Continued recovery in North America
  - Further adoption outside North America
  - Global off-highway growth opportunities
  - Expanding addressable market

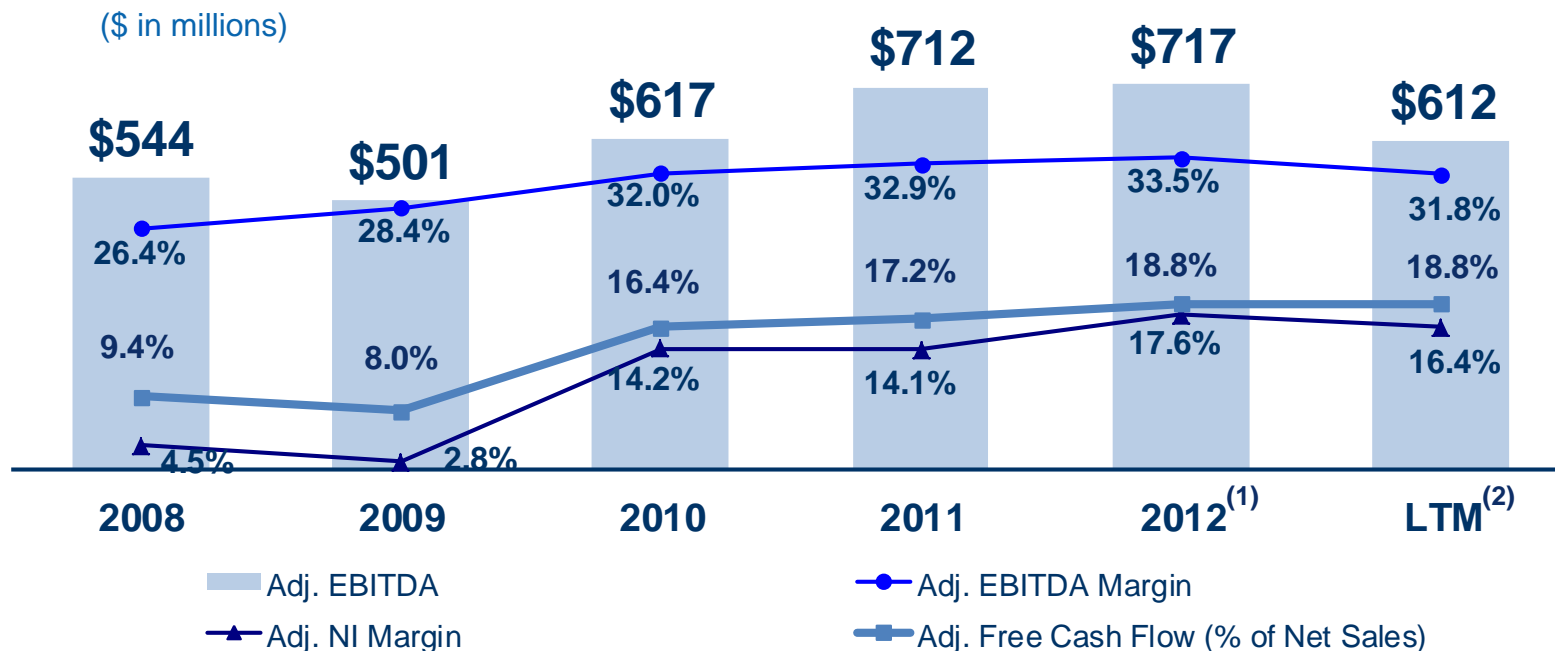


LTM<sup>(1)</sup> Net Sales: \$1.9 billion

(1) LTM 9/30/2013.

# Allison Key Financial Highlights

## Strong Financial Profile



- Strong, sustainable operating margins
- Low capital expenditure requirements
- Minimal cash income taxes / valuable U.S. tax shield (\$0.8-\$1.0bn present value)
- Positioned for long-term cash earnings growth

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) 2012 Adjusted EBITDA and Adjusted EBITDA Margin excluding technology-related license expenses of \$12 million.

(2) LTM 9/30/2013 Adjusted EBITDA and Adjusted EBITDA Margin excluding technology-related license expenses of \$6 million for 1Q 2013.

# Allison Is a Premier Industrial Asset



**Global Market Leader**



**Premier Brand and End User Value Proposition**



**Technology Leadership - The Allison Advantage**



**Diverse End Markets with Long-Standing OEM Customer Relationships**



**Improved Margins and Low Capex Drive Strong Cash Flow Generation**



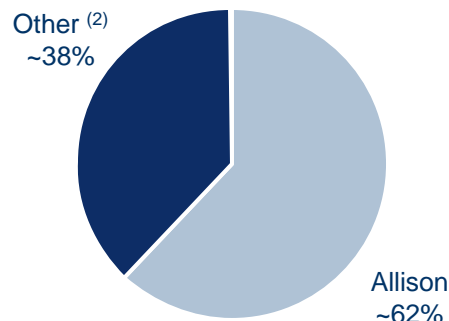
**Experienced Management Team**



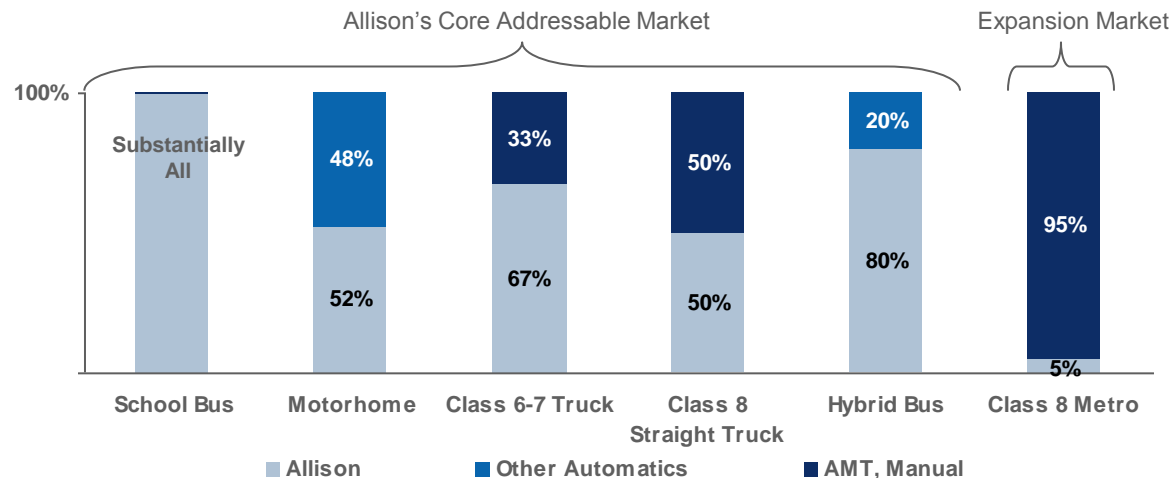
**Multiple Organic Growth Opportunities**

# Global Market Leader

Global On-Highway Fully-Automatic Share<sup>(1)</sup>



North American Market Share<sup>(1)</sup>



- The “de facto” standard in medium- and heavy-duty applications
  - Well established as standard in North America
- Increasing presence in rapidly growing emerging markets which today are predominantly manual
- Virtually no exposure to more cyclical Class 8 line-haul tractors

(1) 2012 Units. Source: Allison and ACT Research.

(2) Majority of “Other” volume is in North American Class 4-5 truck and European bus.



# Allison Is a Recognized and Respected Brand

- **The Allison brand is associated with:**
  - High Quality
  - Reliability
  - Durability
  - Vocational Value and Expertise
  - Technological Leadership
  - Superior Customer Service
  - Attractive Total Lifecycle Value
- **95+ year history of providing high-quality innovative products and demonstrated value to end users**



**HOW CAN YOU TELL  
THIS FREIGHTLINER  
IS OPTIMIZED?**

**LOOK FOR THIS.**

When your new Freightliner is Allison Optimized you can be assured that it will deliver the best combination of power, performance, reliability and fuel economy. That's because it brings together the latest

Allison advancements and technical know-how, along with unprecedented integration with Freightliner. The result is a more productive, cost-effective, hard working truck for you. If it's not Allison, it's not optimized.

**FREIGHTLINER**  
Run Smart™

**Allison**  
Transmission  
DRIVING TRANSMISSION TECHNOLOGY™  
[www.allisontransmission.com](http://www.allisontransmission.com)

*End Users Frequently Request Allison Transmissions by Name and Pay a Premium for Them*



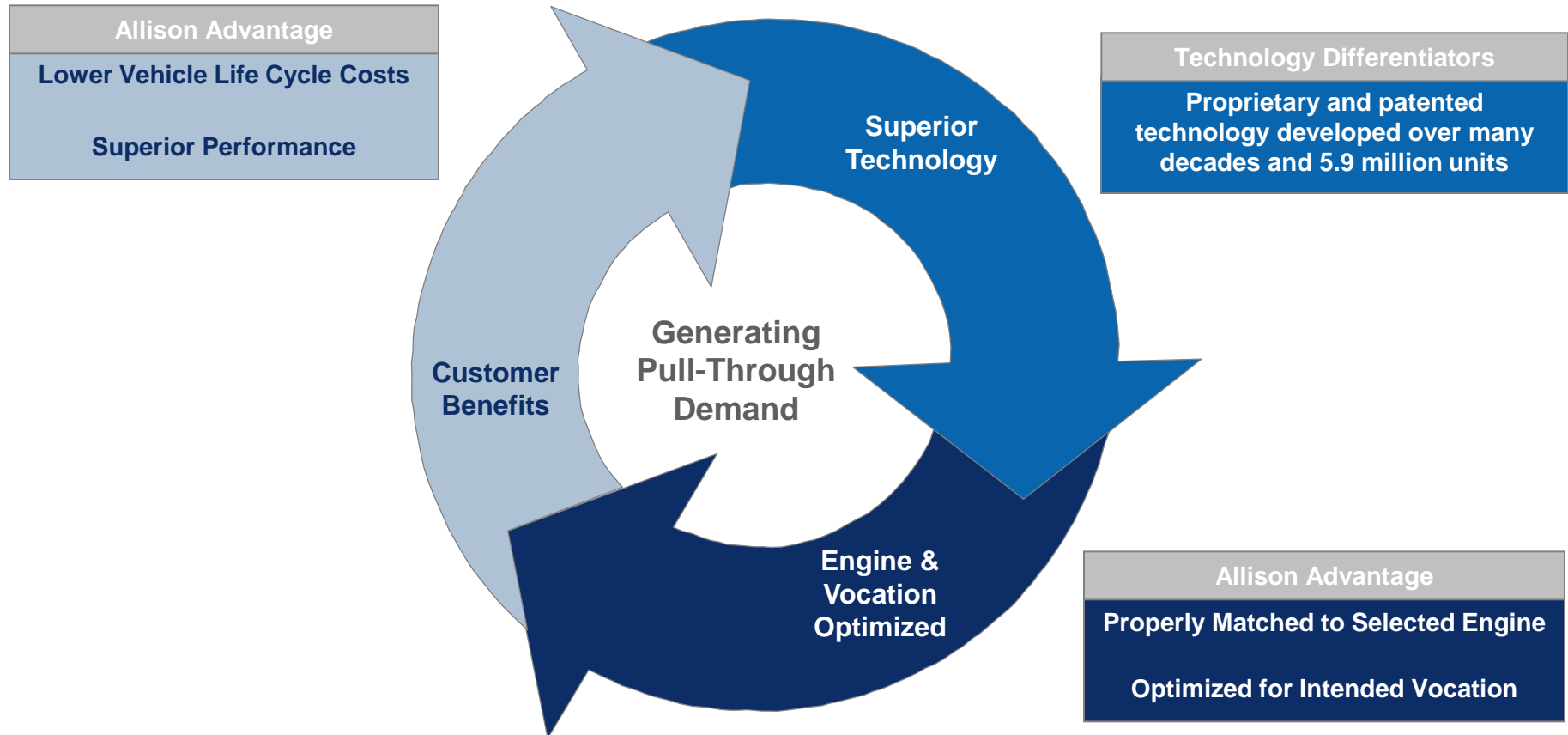
# End User Value Proposition



**End Users are Willing to Pay a Premium Price for Allison**

# Technology Leadership – The Allison Advantage

*Allison transmissions employ complex software algorithms that are individually tailored to maximize end user performance in thousands of vocational duty cycles*



# End Market & Vocation Overview

## Global On-Highway

### Sample Vocations

### Select End Users

Distribution



Emergency Vehicle



Motorhome



Rugged Duty



School Bus / Shuttle Bus



Transit Bus



## Global Off-Highway



### Select End Users



## Defense



### Select End Users



## North America Hybrid Transit Bus

**Allison Hybrid**



### Select End Users



## Parts, Support Equipment and Other



**Allison Transmission**

# OEMs Rely on Allison for Fully-Automatic Transmissions

North America	On-Highway	        
	Hybrid Transit Bus	     
	Off-Highway	    
Outside North America	On-Highway	             
	Off-Highway	      
Defense	Medium- and Heavy-Tactical	    

Over 45 Year Relationship with Many Industry-Leading OEMs

# Premier Industrial Asset Financial Profile Resulting from Experienced Management and Execution

	2008	Today 2013 <sup>(1)</sup>	△	
Net Sales	\$2,061mm	\$1,922mm	(6.7%)	Despite 2009 cyclical low industry volumes, significant improvement in EBITDA margin and Adjusted Net Income
Adj. EBITDA	\$544mm	\$612mm	+12.5%	
% Margin	26.4%	31.8%	+540bps	
Adj. Net Income	\$93mm	\$316mm	+239.8%	
Employees	3,300	2,800	(15.2%)	2009 Hourly buyout plan reduced headcount by ~25%, positioning the company to replace Tier I with Tier II workers and realize operating leverage
UAW Contract	Part of GM	Allison Only		
UAW Wage Structure	Single-Tier	Multi-Tier		
Technology Focus	Enhance Existing Products	New, More Fuel Efficient Technologies		Investing in the development of next generation technologies

**Net Debt Reduction of More Than \$1.63 <sup>(2)</sup> Billion Since Acquisition in August 2007**

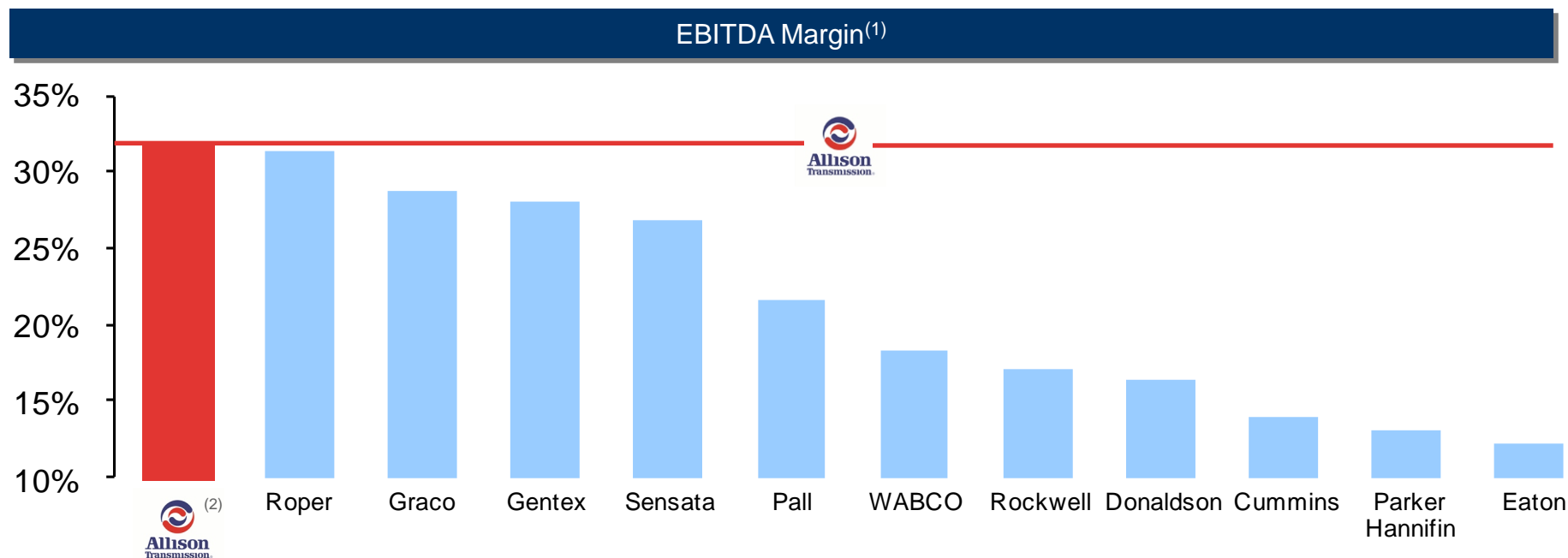
Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) LTM 9/30/2013 Adjusted EBITDA and Adjusted EBITDA Margin excluding technology-related license expenses of \$6 million for 1Q 2013.

(2) Represents Net Debt reduction through 9/30/2013.



# Premier Industrial Asset



(1) The LTM period and LTM EBITDA, which excludes non-recurring or one-time items as designated by each entity, are based on information available in the entity's most recent quarterly or annual report as of 10/28/2013. EBITDA included above may not be consistent with such entity's reported EBITDA or Adjusted EBITDA, if available.

(2) Represents Adjusted LTM EBITDA excluding technology-related license expenses.

See appendix for comments regarding the presentation of non-GAAP financial information.



# Multiple Organic Growth Opportunities



**Benefit from Developed Markets Recovery**



**Increase Penetration of Fully Automatic Transmissions**



**Accelerate Adoption in Emerging Markets**



**Capitalize on Rising Demand for Energy and Commodities**



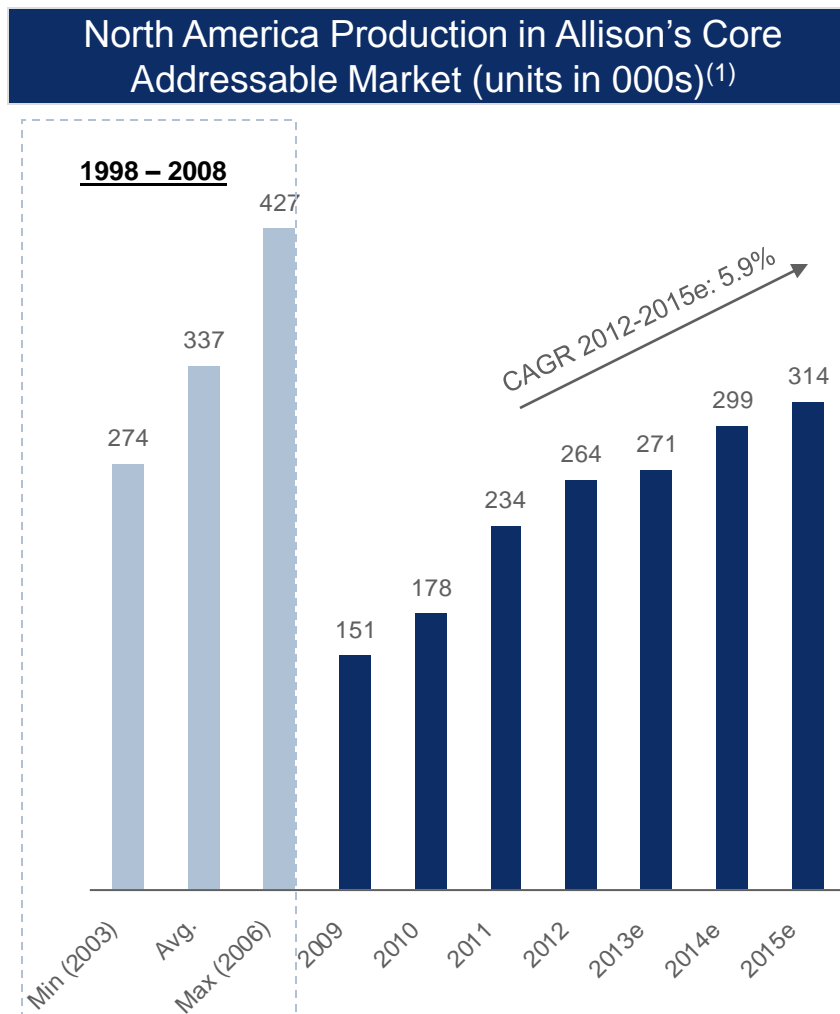
**Continue New Technology and Product Development**



**Increase Share in Underserved Markets**

# Continued Recovery in Developed On-Highway Markets

- **Growth opportunity driven by continued cyclical recovery in core North American market (~42% of LTM total sales)**
- **Production has rebounded from cyclical lows with further growth fueled by pick-up in economic activity**
  - Housing recovery and increased construction activity drives greater demand for medium and heavy duty trucks
- **Allison's growth is also supported by**
  - Pent up demand from deferred purchases
  - Continued demand for fuel efficient vehicles



(1) Source: ACT Research, October 2013. Includes: Class 4 thru 8 less Class 8 Line Haul & Class 8 Straight with Sleeper. 2013e: Total 459,440 less Class 8 Line Haul of 186,311 less Class 8 Straight with Sleeper of 2,013.

# Increased Penetration of Fully-Automatic Transmissions

- **Ongoing need for productivity improvements**

- Better acceleration and trip times allow increased miles and revenue
- Improved fuel efficiency as a function of work performed
- More vehicle uptime

- **Focus on reducing life-cycle costs**

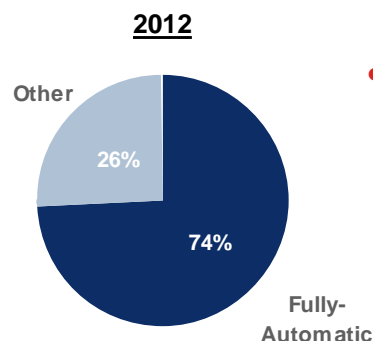
- Lower maintenance expense
- Improved fuel efficiency
- Increased vehicle residual value

- **Micro / demographic trends**

- Easier to operate – increases pool of qualified drivers
- Less driver training and turnover
- Safety factors

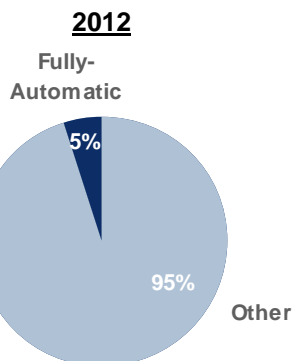
## Global Penetration of Fully-Automatic Transmissions

### North America<sup>(1)</sup>



- Since our first transmission over 60yrs ago, we have driven the trend towards increasing automaticity by targeting a diverse range of commercial vehicle vocations

### Outside-North America<sup>(2)</sup>



- Low penetration in markets outside North America presents a significant growth opportunity

Source: Allison.

(1) Includes Class 4-7 trucks, Class 8 straight trucks, buses (school, conventional transit, shuttle and coach) and motorhomes.

(2) Includes medium- and heavy-duty commercial vehicles.

# Increasing Adoption in Emerging Markets – China Case Study

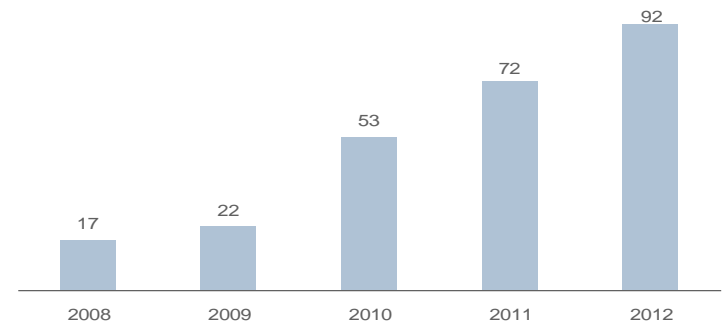
- **Allison is the #1 supplier of fully-automatic transmissions in China as a result of targeting specific vocations**
  - Substantial installed base of over 45,000 transmissions in China
  - Secular growth due to low penetration
- **Allison's existing bus presence serves as entry point for incremental penetration**
- **Significant growth opportunities by targeting a wide range of vocational applications**
  - Government emphasis on equipment modernization for mining, rescue operations, school buses and other applications
  - Construction and oil field sector

(1) Source: Allison.

## Allison's China Truck Vocational Focus



## Allison's Cumulative China Truck OEM Releases<sup>(1)</sup>



# Global Off-Highway Growth Opportunities

## • Energy Sectors

- Considerable end market cyclicality
- Multiple opportunities in exploration, fracturing and oil and gas support
  - Currently at trough levels
- 5% of LTM<sup>(1)</sup> total sales<sup>(2)</sup>



## • Mining and Construction

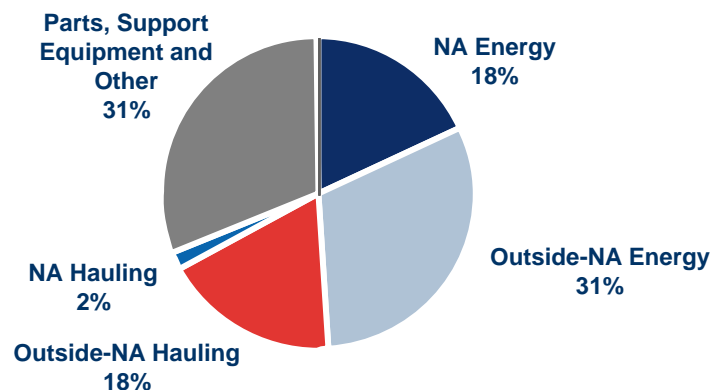
- NA, Europe, Middle East, Africa and China
- Increasing global demand for commodities
- Increasing urbanization in emerging markets
- 2% of LTM<sup>(1)</sup> total sales<sup>(2)</sup>



(1) LTM 9/30/2013.

(2) Excluding replacement parts and support equipment.

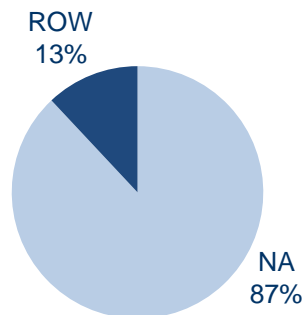
## LTM<sup>(1)</sup> Allison Global Off-Highway Sales



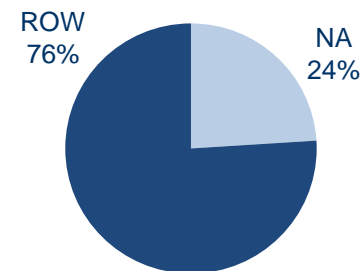
LTM<sup>(1)</sup> Global Off-Highway Sales: \$213 million (11% of total sales)

## Hydraulic Fracturing Activity

### Current Activity<sup>(3)</sup>



### Total Recoverable Shale Gas<sup>(4)</sup>



(3) Source: Spears & Associates, June 2012.

(4) Source: U.S. Energy Information Administration, June 2013.



# New Product Development

## Class 8 Metro

- Developing a ten-speed fully-automatic transmission targeted at Class 8 tractors serving urban markets
  - Large, addressable market size of ~60k units
  - Historically a “manual” market under addressed by Allison’s fully-automatic product portfolio
- Available for order at Navistar with initial deliveries expected to occur in the first quarter of 2014

**TRACTOR SERIES TC10**



## Hybrid Commercial Vehicle









- Leading development of first fully-automatic hybrid truck transmission for the Class 6-7 market
- Awarded \$63 million U.S. Department of Energy cost-share grant for hybrid development
  - Fuel economy improvements of ~25%-35%
  - Target Vocations: Refuse, Pick-Up & Delivery/Distribution, Utility and Shuttle Bus



**Average Annual Spend over \$110 Million in Product-Related Research and Development Since Acquisition**



# Well Positioned to Gain Share in Underserved Markets

North America								
	Class 1-3	Underserved Class 4-5	Core Addressable Market				Underserved Class 8 Metro	Class 8 Linehaul
Vehicles								
Weight (000s of lbs)	< 14 lbs	14 – 19 lbs	16 – 33 lbs	16 – 33 lbs	19 – 33 lbs	33 lbs+	33 lbs+	33 lbs+
2012 Industry Units Produced	5,612,500	67,211	12,692	27,590	78,398	72,316	64,811	141,595
2012 Allison Share	0%	8%	52%	Substantially All	67%	50%	5%	0%

- Historically, this market had been dominated by Ford and GM who offered their own light-duty/uprated automotive transmissions
- GM exited Medium-Duty truck market in 2009

- “Metro” is a term for tractors that are used primarily in urban environments, which represent ~30% of the Class 8 tractor market between 1998 and 2012; target market for the TC10 transmission

Note: Analysis excludes Allison's Transit/Coach Bus and Hybrid Transit Bus end markets.  
Source: Allison and ACT Research.

# Financial Overview



# Allison Financial Highlights

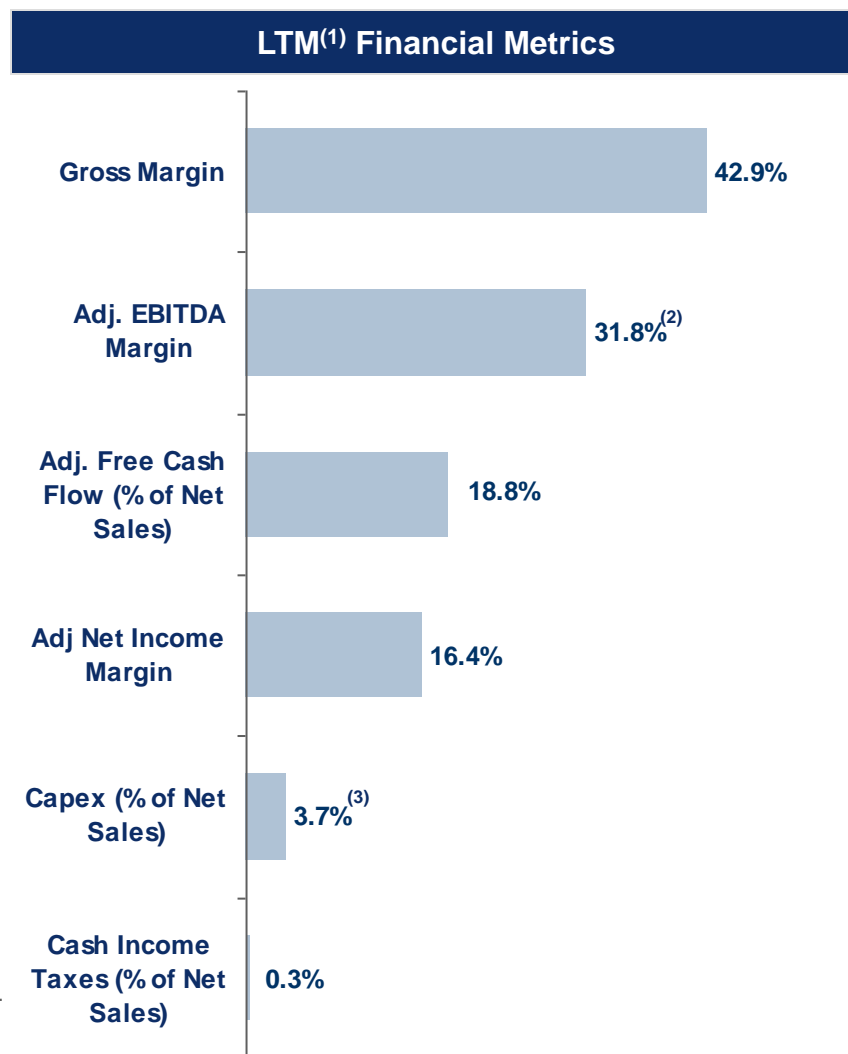
- **Sustainable operating margins with further enhancement opportunities**
  - End markets diversity
  - Premium vocational pricing model
  - Cost controls and productivity improvements
  - Multi-Tier UAW wage and benefits structure
- **Low capital expenditure requirements**
- **Minimal cash income taxes / valuable U.S. tax shield (\$0.8-\$1.0bn present value)**
- **Positioned for long-term cash earnings growth**
  - Multiple growth opportunities
  - De-leveraging
- **Strong free cash flow supports \$0.12 per share quarterly dividend, up from \$0.06 per share at time of IPO**

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) LTM 9/30/2013.

(2) Excluding technology-related license expenses of \$6 million for Q1 2013.

(3) 2.8% excluding Outside-North America manufacturing expansion and new products related.



# Strong Financial Profile

## Financial Summary

In \$ millions	Annual					Quarterly		LTM <sup>(1)</sup>
	2008	2009	2010	2011	2012	3Q 2012	3Q 2013	
Net Sales	\$2,061	\$1,767	\$1,926	\$2,163	\$2,142	\$494	\$466	\$1,922
% Growth	(5.2%)	(14.3%)	9.0%	12.3%	(1.0%)	(14.0%)	(5.7%)	(11.5%)
Adjusted EBITDA <sup>(2)</sup>	544	501	617	712	717	172	162	612
% Margin	26.4%	28.4%	32.0%	32.9%	33.5%	34.8%	34.7%	31.8%
Effective Cash Tax Rate <sup>(3)</sup>	NM	NM	2.7%	3.9%	4.9%	5.3%	0.7%	2.4%
Adjusted Net Income	93	50	274	305	376	100	101	316
% of Net Sales	4.5%	2.8%	14.2%	14.1%	17.6%	20.2%	21.7%	16.4%
Total CapEx	75	88	74	97	124	31	15	71
% of Net Sales <sup>(4)</sup>	3.7%	5.0%	3.8%	4.5%	5.8%	6.4%	3.3%	3.7%
Adj. Free Cash Flow	193	142	315	372	402	120	116	362
% of Net Sales	9.4%	8.0%	16.4%	17.2%	18.8%	24.2%	24.8%	18.8%

- Resiliency through the 2009 downturn, evidenced by increasing EBITDA margins and strong free cash flow generation
- Continued investments in global commercial capabilities, new product development and low-cost country manufacturing
- Strong free cash flow driven by high margins, low maintenance capex, and de minimis cash income taxes

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) LTM 9/30/2013.

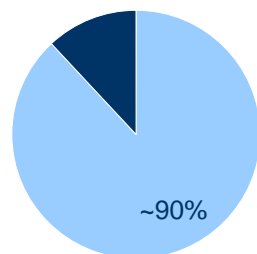
(2) Q3 2012 technology-related license expenses of \$12 million and Q1 2013 technology-related license expenses of \$6 million excluded.

(3) Effective cash tax rate defined as cash income taxes divided by income (loss) before taxes.

(4) 2011 is 2.7%, 2012 is 2.8% and LTM is 2.8% excluding Outside-North America manufacturing expansion and new products related.

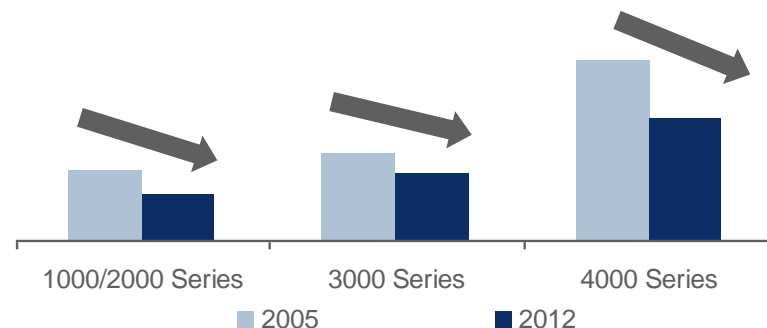
# Sustainable Margins with Further Enhancement Opportunities

## Long-Term Customer Supply Agreements



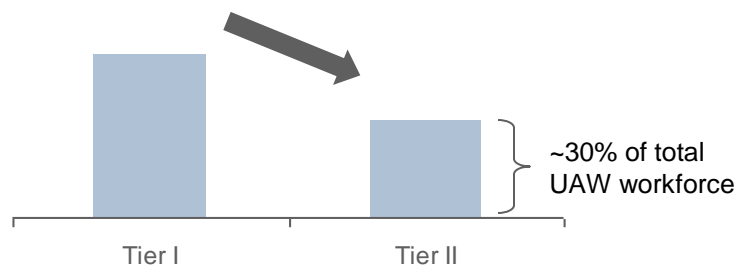
*~90% of 2012 N.A. On-Highway Unit Volume was covered by long-term customer supply agreements*

## Manufacturing Efficiencies (hours/unit)



*Hours Per Unit continue to decline*

## Workforce Optimization (cost/employee) <sup>(1)</sup>



*Significant savings driven by retirement of Tier I workers; 800 hourly employees are retirement eligible (~50% of workforce)*

## International Manufacturing <sup>(1)</sup>

### India (~\$103mm total investment)

- New facility constructed to better serve Asia-Pacific
- Phase I: In-sourced component manufacturing (Q3 2010)
- Phase II: Assembly of 1000/2000 Series (Q3 2012)

### Hungary (~\$17mm total investment)

- Relocated assembly of 3000/4000 Series (Q2 2011)

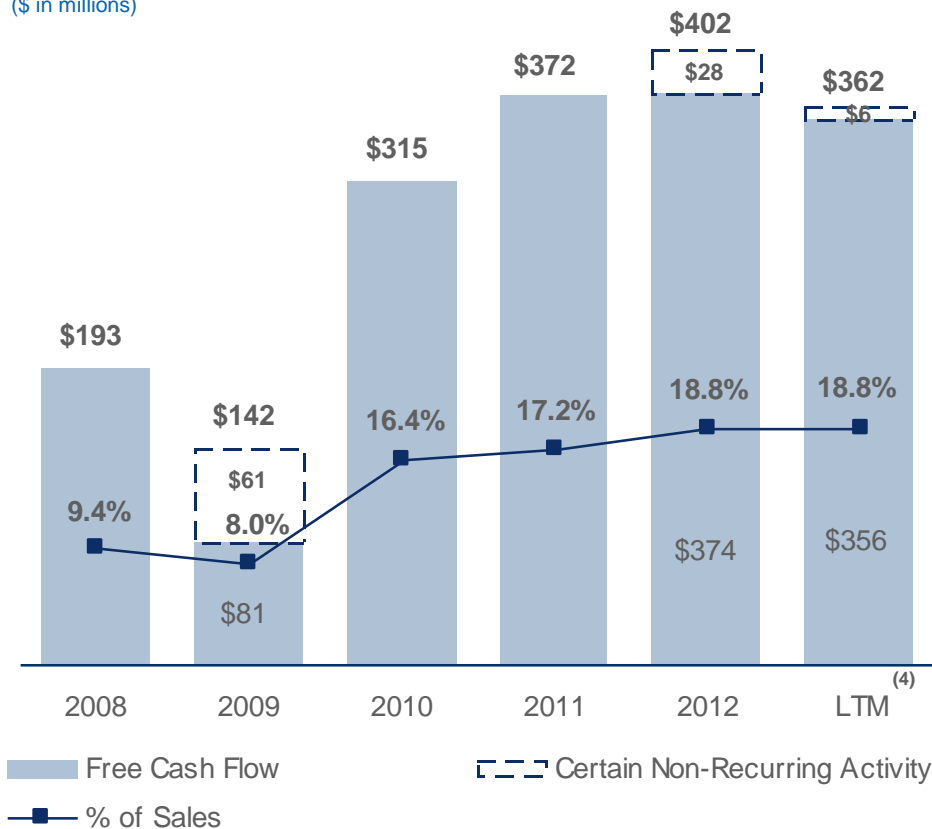
Source: Allison.

(1) As of 12/31/2012.

# Significant Cash Flow Generation

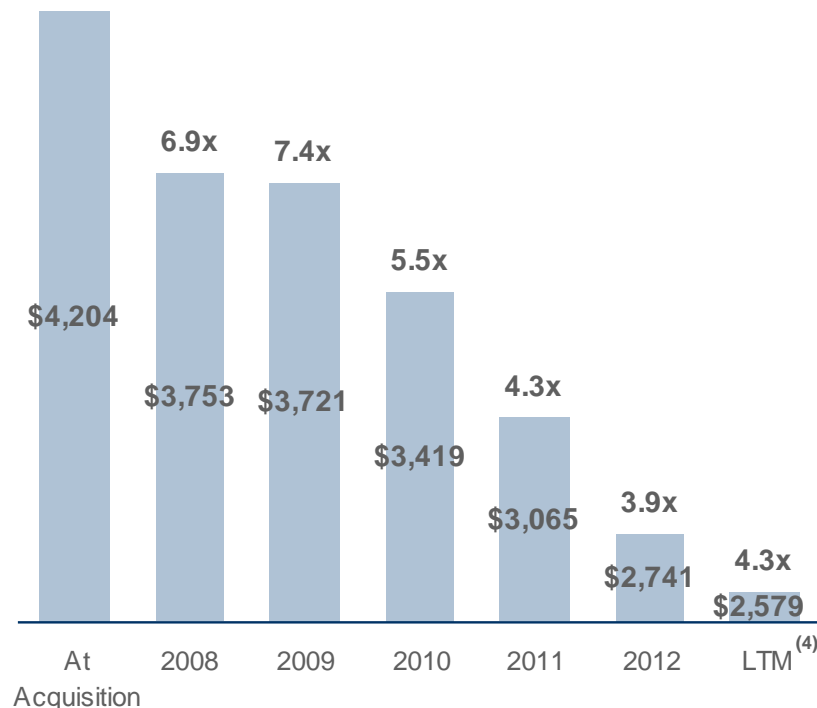
## Free Cash Flow Generation<sup>(1)</sup>

(\$ in millions)



## Net Debt<sup>(2)</sup>

(\$ in millions)



**Net debt reduction of more than \$1.63 bn since acquisition<sup>(3)</sup>**

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

(1) Free Cash Flow defined as net cash provided by operating activities less CapEx.

(2) Net debt defined as total debt minus cash and cash equivalents.

(3) Represents net debt reduction through 9/30/2013 since acquisition in August 2007.

(4) LTM 9/30/2013.



# Income Tax Attributes

## Income Tax Attributes Overview

- Carlyle and Onex acquired Allison from General Motors in August 2007
  - Asset deal structure
  - Step-up in basis for U.S. federal income tax purposes
- As of 12/31/2012 Allison had \$3.0bn of unamortized intangible assets
  - Expect annual U.S. federal income tax deductions of \$315mm through 2021 and \$183mm in 2022
- Net operating loss carryforward of \$363mm as of 12/31/2012

(\$ millions)	Total	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Annual tax amortization	\$3,018	\$315	\$315	\$315	\$315	\$315	\$315	\$315	\$315	\$315	\$183
<b>Cash tax savings<sup>(1)</sup></b>	<b>1,162</b>	121	121	121	121	121	121	121	121	121	70
<b>Cash tax savings of NOLs<sup>(2) (3)</sup></b>	<b>127</b>										
<b>Grand total</b>	<b>( \$1,289 )</b>										

***Results in present value tax savings of \$825-\$1,020mm<sup>(4)</sup>***

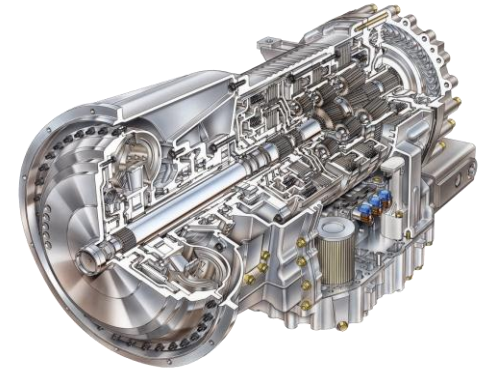
- (1) Assuming continued profitability and no limitations at an assumed 38.5% federal and state tax rate.
- (2) Calculated at a 35.0% federal tax rate on the \$363mm of federal NOL carry forward balance as of 12/31/2012.
- (3) We are a controlled company, with two of our shareholders owning approximately 82% of our common stock, and should either of these shareholders sell a significant amount of their holdings we may experience a delay in our ability to recognize a portion of our net operating losses under Internal Revenue Code 382.
- (4) Based on annual discount rate of 5-10%; includes both amortization of intangibles and federal NOL's (contingent on timing of taxable income).

# Summary / Guidance / Q&A



# Strategic Priorities

- **Expand global market leadership**
  - Capitalize on continued market recovery
  - New vocational offerings
- **Emerging markets penetration**
  - Vocational ladder strategy
  - Increase number of vehicle releases
- **Continued focus on new technologies and product development**
  - Address markets adjacent to core
  - Advanced fuel efficient technologies
- **Deliver strong financial results**
  - Earnings growth and cash flow generation
  - Focus on continued margin enhancement



# 2013 Full Year Guidance

	Guidance	Commentary on Full Year
Net Sales (\$ in millions)	\$1,920 to \$1,935	We expect net sales to stabilize on a year-over-year basis, an improvement relative to the sales decline through the first three quarters of the year. We continue to anticipate improving trends in the fourth quarter of 2013 which we expect to be driven by growth in global On-Highway and Service Parts, Support Equipment & Other end markets, and abating year-over-year declines in the North America Off-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets.
Adjusted EBITDA excluding technology-related license expenses (\$ in millions)	\$630 to \$640	
Adjusted EBITDA Margin excluding technology-related license expenses	32.75 to 33.24 percent	
Adjusted Free Cash Flow (\$ in millions)	\$340 to \$360	
CapEx (\$ in millions) Maintenance New Product Programs	\$63 to \$66 \$12 to \$14	Subject to timely completion of development and sourcing milestones
Cash Income Taxes (\$ in millions)	\$8 to \$12	U.S. income tax shield and net operating loss utilization

Note: See appendix for comments regarding the presentation of non-GAAP financial information.

# Appendix: Non-GAAP Financial Information



# Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow to evaluate our performance relative to that of our peers. In addition, the Senior Secured Credit Facility has certain covenants that incorporate Adjusted EBITDA. However, Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow are not measurements of financial performance under GAAP, and these metrics may not be comparable to similarly titled measures of other companies. Adjusted net income is calculated as the sum of net income (loss), interest expense, net, income tax expense (benefit), trade name impairment and amortization of intangible assets, less cash interest, net and cash income taxes, and adjusted for certain non-recurring items. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest, net, cash income taxes, depreciation of property, plant and equipment and other adjustments as defined by the Senior Secured Credit Facility and as further described below. Adjusted EBITDA excluding technology-related license expenses is calculated as Adjusted EBITDA less technology-related license expenses. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Adjusted EBITDA margin excluding technology-related license expenses is calculated as Adjusted EBITDA excluding technology-related license expenses divided by net sales. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Adjusted free cash flow is free cash flow adjusted for non-recurring items.

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under GAAP and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the Acquisition Transaction. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses to evaluate and control our cash operating costs and to measure our operating profitability. We use adjusted free cash flow and free cash flow to evaluate the amount of cash generated by the business that, after the capital investment needed to maintain and grow our business, can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and adjusted free cash flow enhances our investors' overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance, or as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of Allison's cash flow.



# Non-GAAP Reconciliations (1 of 2)

## Adjusted Net Income and Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,				Three months ended September 30,		Last twelve months ended September 30,
	2009	2010	2011	2012	2012	2013	2013
<b>Net (loss) income</b>	<b>(\$323.9)</b>	<b>\$29.6</b>	<b>\$103.0</b>	<b>\$514.2</b>	<b>\$32.2</b>	<b>\$44.5</b>	<b>\$133.7</b>
plus:							
Interest expense, net	234.2	277.5	217.3	151.2	40.8	37.3	140.1
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(31.8)	(33.3)	(159.6)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	17.0	27.9	86.0
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(2.6)	(0.5)	(5.2)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related investment expenses	—	—	—	14.4	6.4	—	2.5
Public offering expenses	—	—	—	6.1	—	0.3	0.9
Trade name impairment	190.0	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	37.5	25.1	117.6
<b>Adjusted net income</b>	<b>\$49.6</b>	<b>\$273.7</b>	<b>\$305.4</b>	<b>\$375.9</b>	<b>\$99.5</b>	<b>\$101.3</b>	<b>\$316.0</b>
Cash interest expense	242.5	239.1	208.6	167.3	31.8	33.3	159.6
Cash income taxes	5.5	2.2	5.8	10.7	2.6	0.5	5.2
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	26.1	24.4	100.6
(Gain)/loss on repurchases of long-term debt	(8.9)	(3.3)	16.0	22.1	0.5	0.5	1.0
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	—	(2.4)	(2.4)
UAW Local 933 signing bonus	—	—	—	8.8	—	—	8.8
Benefit plan re-measurement	—	—	—	2.3	—	—	—
Unrealized (gain) loss on commodity hedge contracts	(5.8)	0.3	6.5	(1.0)	(2.1)	(0.8)	1.0
Unrealized (gain) loss on foreign exchange	—	(0.2)	0.3	0.1	0.0	1.8	2.6
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—
Restructuring charges	47.9	—	—	—	—	—	1.0
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—
Other, net <sup>(1)</sup>	53.2	10.9	8.6	7.0	1.1	3.0	12.4
<b>Adjusted EBITDA</b>	<b>\$501.3</b>	<b>\$617.0</b>	<b>\$711.9</b>	<b>\$705.1</b>	<b>\$159.5</b>	<b>\$161.6</b>	<b>\$605.8</b>
<b>Adjusted EBITDA excluding technology-related license expenses</b>	<b>\$501.3</b>	<b>\$617.0</b>	<b>\$711.9</b>	<b>\$717.1</b>	<b>\$171.5</b>	<b>\$161.6</b>	<b>\$611.8</b>
<b>Net Sales</b>	<b>\$1,766.7</b>	<b>\$1,926.3</b>	<b>\$2,162.8</b>	<b>\$2,141.8</b>	<b>\$493.5</b>	<b>\$466.3</b>	<b>\$1,922.8</b>
<b>Adjusted EBITDA margin</b>	<b>28.4%</b>	<b>32.0%</b>	<b>32.9%</b>	<b>32.9%</b>	<b>32.3%</b>	<b>34.7%</b>	<b>31.5%</b>
<b>Adjusted EBITDA margin excl technology-related license expenses</b>	<b>28.4%</b>	<b>32.0%</b>	<b>32.9%</b>	<b>33.5%</b>	<b>34.8%</b>	<b>34.7%</b>	<b>31.8%</b>

(1) Includes charges or income related to legacy employee benefits, shared income with General Motors, benefit plan adjustments, transitional costs to establish Allison as a stand-alone entity, pension curtailment adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors and an adjustment for the settlement of litigation which originated with the Predecessor but was assumed by the Company as part of the Acquisition Transaction.

# 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,
	2009	2010	2011	2012	2012	2013	2013
<b>Net Cash Provided by Operating Activities</b>	<b>\$168.7</b>	<b>\$388.9</b>	<b>\$469.2</b>	<b>\$497.5</b>	<b>\$138.9</b>	<b>\$131.0</b>	<b>\$427.5</b>
(Deductions) or Additions:							
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(31.4)	(15.4)	(71.2)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—
Technology-related license expenses	—	—	—	12.0	12.0	—	6.0
2009 Non-Recurring Activity <sup>(1)</sup>	61.0	—	—	—	—	—	—
<b>Adjusted Free Cash Flow</b>	<b>\$141.5</b>	<b>\$315.1</b>	<b>\$372.3</b>	<b>\$401.6</b>	<b>\$119.5</b>	<b>\$115.6</b>	<b>\$362.3</b>
<b>Net Sales</b>	<b>\$1,766.7</b>	<b>\$1,926.3</b>	<b>\$2,162.8</b>	<b>\$2,141.8</b>	<b>\$493.5</b>	<b>\$466.3</b>	<b>\$1,922.8</b>
<b>Adjusted Free Cash Flow (% to Net Sales)</b>	<b>8.0%</b>	<b>16.4%</b>	<b>17.2%</b>	<b>18.8%</b>	<b>24.2%</b>	<b>24.8%</b>	<b>18.8%</b>

(1) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes (\$29) million, (b) cash restructuring charge \$51 million, (c) accounts payable early payments \$3 million, (d) delayed accounts receivable receipts \$19 million and (e) Lehman LIBOR swap settlement \$17 million.

# Key Definitions



# Key Definitions

Types of Transmissions		
<b>Fully-automatic transmission</b>	Utilize technology that smoothly shifts gears without power interruption	
<b>Automated manual transmission</b>	Manual transmissions that feature automated operation of the disconnect clutch with power interruption	
<b>Manual transmission</b>	Utilize a disconnect clutch with power interruption	Most prevalent transmission type used in North America Class 8 tractors and in medium and heavy-duty commercial vehicles outside North America
End Markets	North America	Outside North America
	On-Highway	On-Highway
	Off-Highway	Off-Highway
	Hybrid Transit Bus	
	Defense	
	Service Parts, Support Equipment and Other	Service Parts, Support Equipment and Other

# End Markets – North America (1 of 2)

On-Highway		
Trucks	Classes	Vocation
	Class 4-5 - Medium duty Class 6-7 - Heavy duty	Lease and rental Emergency - ambulance, fire, rescue Distribution - logistics, parcel delivery Airport operations Refuse Utilities
	Class 8 Straight	Refuse Distribution Emergency - fire Construction Transport cargo (dock spotters)
	Metro Tractor Tractor	Distribution Line haul
Buses	Buses	School Transit: Conventional (urban) Shuttle (airport) Coach (long distance)
	Motorhomes	Type A - large (gasoline and diesel)
Hybrid Transit Bus		
	Buses and shuttle buses	Public transit

# End Markets – North America (2 of 2)

Off-Highway		
	Vehicle	Vocation
	Well-stimulation equipment (stationary and mobile) Pumping equipment, Well servicing rigs	Energy
	Rigid dump trucks Underground trucks Heavy haul tractor trailer trucks	Mining
	Specialty vehicles Airport crash trucks (large fire trucks)	Construction / Specialty
Defense		
	Medium- and heavy- tactical wheeled platforms	Armored security vehicle (ASV) Family of medium tactical vehicles (FMTV) Heavy expanded mobility tactical truck (HEMTT) Heavy equipment transporter (HET) Logistic vehicle system replacement (LVSr) Mine resistant ambush protected (MRAP) Palletized load system (PLS) M900 family of vehicles Stryker
	Tracked combat platforms	Abrams Tank M113
Service Parts, Support Equipment and Other		
	Service parts, support equipment, remanufactured transmissions, fluids	

# End Markets – Outside North America (1 of 2)

On-Highway		
Trucks	Classes	Vocation
	3.5 – 7.5 tonnes 7.5 – 16 tonnes	Commercial – lease and rental Emergency – ambulance, fire, rescue Distribution – logistics, parcel delivery Airport operations Refuse Utilities
	Greater than 16 tonnes Straight Truck	Refuse Distribution Emergency – fire Transport cargo (dock spotters) Specialty vehicles (crane carriers) Construction
	Metro Tractor	Distribution
Buses	Buses	School Transit: Conventional (urban) Shuttle (airport) Coach (long distance)



# End Markets – Outside North America (2 of 2)

Off-Highway		
	Vehicle	Vocation
	Well stimulation equipment (stationary and mobile)	Energy
	Rigid dump trucks	Mining
	Underground trucks	
	Heavy haul tractor trailer trucks	
	Specialty vehicles	Construction / Specialty
	Airport crash trucks (large fire trucks)	
Service Parts, Support Equipment and Other		
	Service parts, support equipment, remanufactured transmissions, fluids	

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