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Allison Transmission Holdings, Inc. (ALSN)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to Allison Transmission's First Quarter 2023 Earnings Conference Call. My name is Camilla and I will be your conference call operator today. At this time, all participants are in a listen-only mode. After prepared remarks, Allison Transmission executive will conduct a question-and-answer session and conference call participants will be given instructions at that time. As a reminder, this conference call is being recorded.

I would now like to turn the 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, Camilla. Good afternoon and thank you for joining us for our first quarter 2023 earnings conference call. With me this afternoon are Dave Graziosi, our Chairman and Chief Executive Officer; and Fred Bohley, our Senior Vice President, Chief Financial Officer and Treasurer.

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 May 11.

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 first quarter 2023 earnings press release and our annual report on Form 10-K for the year ended December 31, 2022 as well as other general economic factors. 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 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 first quarter 2023 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 review highlights from our first quarter 2023 results and provide an operational update. Fred Bohley will then review our first quarter financial performance and update to our full year 2023 guidance prior to commencing the Q&A.

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

David S. Graziosi

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

Thank you, Jackie. Good afternoon and thank you for joining us. After a record year for Allison in 2022, our first quarter results show a strong start for 2023 and an exciting year to come for the business.

During the first quarter, we achieved record revenue of $741 million, an increase of 9% from 2022. Not unlike previous quarter, sales growth was outperformed by EBITDA margin growth and EPS growth, demonstrating Allison's commitment to operating performance.

In the first quarter, we grew EPS to $1.85, up 42% year-over-year. Our quarterly results demonstrate not only the strength of our core end markets, particularly in North America, but also the value proposition of the Allison fully automatic transmission, which enables customers to get more work done with our quality, durability, and reliability promise.

As cost inflation continues throughout the industry, vehicle prices inflate and Allison's value proposition increases, providing an opportunity to further increase market share as well as realize price. For the first quarter, we achieved gross margin expansion of 145 basis points compared to the same period in 2022.

Our operating performance has enabled us to maintain our capital allocation priorities by investing in Allison's conventional and next generation propulsion products. We also remain committed to returning capital to shareholders through our quarterly dividend and share repurchase program. During the first quarter, we increased our quarterly dividend by 10% to $0.23 per share, marking the fourth consecutive year of dividend increases. Also during the quarter, we repurchased 1% of our shares outstanding, with 60% of our shares outstanding repurchased since Allison's IPO in 2012. We ended the first quarter with approximately $1 billion of authorized share repurchase capacity.

During the quarter, Allison attended the Raymond James Institutional Investors Conference where we highlighted progress of our China wide body mining dump growth initiative. We have resized the annual revenue opportunity from $50 million to $100 million as our Allison automatic 4000 Series has gained quick adoption in the Chinese market as well as export markets. As we discussed on the last earnings conference call, we are pleased with the early success of the initiative, gaining over 10% share in 18 months.

In early April, we announced another growth initiative for the wide body mining dump export market through our partnership with SANY, a global heavy equipment manufacturer for the mining and construction markets. Our Letter of Intent to supply Allison's 4000 Series 7-speed transmission for SANY's 96-ton wide body mining dump truck for the India market demonstrates our commitment to expanding our global penetration in this vocation. This partnership will draw on our joint success in the Chinese wide body mining dump market to create an ecosystem of innovation and growth in the fast-developing India market.

On our last earnings call, we reiterated the announcement of Allison's award-winning 3414 Regional Haul Series transmission by being available in DTNA's Class 8 Freightliner Cascadia day cab model paired with Cummins' natural gas engine. Today, would also like to announce that the 3414 paired with the Detroit DD13 diesel engine is now available for order in DTNA's M2 truck. The 3414 is the lightest transmission in the segment at up to 11% lighter than the closest competitor and provides numerous benefits, including improved fuel economy by up to 8% regardless of fuel type. The announcement represents the fuel agnostic nature of Allison's products and the commitment to evolving our propulsion solutions to help OEMs and fleet customers meet sustainability goals.

We have made numerous announcements for our defense end market in the last few quarters and today, we would like to take some time to outline our strategy and opportunities in this unique market. Historically, Allison's defense and market sales were primarily attributable to United States Department of Defense, and we continue to provide the transmissions for all tactical-wheeled vehicles heavier than a Humvee and more than half of the armored combat vehicles used by the US military.

In February, the contract award for the JLTV A2 was announced by the U.S. Army. Allison has been the propulsion supplier of the JLTV A1 since 2015 and we are proud that our 2500 Specialty Series will remain the propulsion solution of choice for this program with the JLTV A2. The first delivery is expected in Q3 of 2024 with the US department – defense department forecasting 55,000 JLTV A1 and JLTV A2 vehicles over the next two decades.

Today, global defense spending is on the rise, driven by the Ukraine war, shifts in geopolitical dynamics and the U.S. Department of Defense modernization priorities. Allison is poised to capture growth in this cycle by continuing our long-standing partnership with the U.S. Department of Defense while diversifying our revenue sources by increasing our international sales. In the next few years, we expect this growth to drive $100 million of incremental annual revenue in our defense end market.

Starting in the US, we have already announced several programs such as the Army's Mobile Protected Firepower or MPF, the M88A3 recovery vehicle, and the continuation of the Abrams contract. These programs mentioned are all tracked vehicle programs where we expect to see the most growth. In addition to these tracked programs, there are numerous wheeled vehicle programs with the U.S. Department of Defense which will continue to drive growth in the coming years. All of these programs are expected to last decades and continue Allison's long-standing partnership with the U.S. Department of Defense. We also expect a significant portion of growth in the defense end market to come from international opportunities.

In 2022, international sales accounted for 29% of the revenue in our defense end market. In coming years, we expect the international revenue will grow to more than 50% as a result of these strategies. First, the expansion of sales of existing products such as our X1100 and the Abrams main battle tank. Over the next three years, the US government plans to sell more than 430 Abrams tanks to Taiwan, Australia, and Poland.

Second, our sales to the international defense market through partnerships with global defense OEMs such as South Korea's Hanwha Aerospace. Hanwha is a global leader in armored combat vehicles and increased sales of its K9 Thunder self-propelled howitzer to both Egypt and Poland has led to Hanwha becoming one of Allison's largest defense OEMs.

And finally, our development of new products such as the 3040 MX medium weight cross-drive transmission and product variants such as the Abrams X1100 variant developed for the Turkish Firtina, self-propelled howitzer program, which are gaining interest around the world. The 3040 MX has already been selected for the U.S. Army's MPF program and has since gained traction in new programs in countries such as Poland, Turkey, and India.

Last quarter, we mentioned India's Future (sic) [Futuristic] (10:30) Infantry Combat Vehicle or FICV and the opportunity for approximately 750 (sic) [1,750] (10:36) units over the next two decades, utilizing the Allison 3040 MX.

With our new eGen Force electric hybrid propulsion system for tracked combat vehicles, we are looking forward to even longer term growth opportunities in our defense end market. The Allison eGen Force has already been selected by American Rheinmetall for the Optionally Manned Fighting Vehicle or OMFV, with the U.S. Army planning to down select this summer followed by testing in 2026 and estimated start of production in 2029.

The defense end market is unique in that armored vehicle programs typically take between 7 and 10 years from idea to production. This requires the industry to self-invest prior to final vehicle selection and production, often with uncertain timelines, with the opportunity being decades-long production and aftermarket for most programs. Allison is committed to investing in and pursuing growth in our defense end market in order to capture the opportunities from an expected multi-year increase in global defense spending and we look forward to providing updates on specific milestones.

In summary, Allison's first quarter results demonstrate not only the current success of our business, but the notable growth opportunities to come. We continue to invest in our business in order to achieve our growth ambitions while returning capital to shareholders and delivering on our brand promise to improve the way the world works.

Thank you and I'll now turn the call over to Fred.

G. Frederick Bohley

Senior Vice President, Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

Thank you, Dave. Following Dave's first quarter 2023 results comments, I'll discuss the Q1 2023 performance summary, key income statement line items, and cash flow. I'll then provide updates to the full year 2023 guidance. Please turn to slide 5 of the presentation for the Q1 2023 performance summary.

First quarter net sales increased 9% from the same period in 2022 to a record of $741 million. The increase in year-over-year results was led by a $44 million increase in the Service Parts, Support Equipment, and Other end market, leading to record quarterly sales of $183 million. The increase was driven by higher demand for global Service Parts and Support Equipment, higher demand for aluminum diecast components, and price increases on certain products.

Year-over-year results were also improved by a $30 million increase in net sales in the North American On-Highway end market, principally driven by strength and customer demand for medium-duty and Class 8 vocational trucks and price increases on certain products.

Gross profit for the quarter was $361 million, a 13% increase from $320 million from the same period in 2022. The increase was principally driven by price increases on certain products, partially offset by higher manufacturing expense and direct material costs.

Net income for the quarter was $170 million compared to $129 million from the same period in 2022. The increase was principally driven by higher gross profit.

Adjusted EBITDA for the quarter was $276 million compared to $244 million for the same period in 2022. The increase was principally driven by higher gross profit, partially offset by increased selling, general and administrative expenses.

Diluted earnings per share increased 42% from the same period in 2022. First quarter EPS of $1.85 was driven by higher net income and lower total shares outstanding. A detailed overview of our net sales by end market can be found on slide 6 of the presentation. Please turn to slide 7 of the presentation for the Q1 2023 financial performance summary.

Selling, general, administrative expenses increased $12 million from the same period in 2022, principally driven by higher commercial activity spending and increased product warranty expense. Engineering research and development expenses for the quarter were essentially flat with the same period in 2022. Please turn to slide 8 of the presentation for the Q1 2023 cash flow performance summary.

Adjusted free cash flow for the quarter was $169 million compared to $142 million from the same period in 2022. The increase was principally driven by higher net cash provided by operating activities, partially offset by increased capital expenditures. During the quarter, we increased our quarterly dividend by 10% to $0.23 per share. This marks the fourth consecutive annual increase to our dividend. We further returned capital to shareholders by repurchasing $40 million of our common stock. For the quarter, this represents 1% of our outstanding shares, with 60% of our outstanding shares repurchased since Allison's IPO in 2012. We ended the quarter with a net leverage ratio of 2.2 times, $344 million of cash, and $644 million of available revolving credit facility commitments.

In addition, we continue to maintain a flexible, long-dated, and covenant-light debt structure with the earliest maturity due in 2026. Of our $2.5 billion of outstanding debt, $623 million is subject to variable interest rates, of which $550 (sic) [$500] (16:12) million is hedged, resulting in 95% of our debt being fixed to the third quarter of 2025. Please turn to slide 9 of the presentation for the update to our 2023 guidance.

Given first quarter 2023 results and current end market conditions, we are raising our full year 2023 guidance. Allison expects net sales to be in the range of $2.9 billion to $3 billion. At the midpoint, this represents over 6% year-over-year growth based on continued strength in demand in our end markets, price increases on certain products, and the continued execution of growth initiatives, leading to another anticipated record net sales year.

In addition to Allison's 2023 net sales guidance, we anticipate net income in the range of $550 million to $600 million, adjusted EBITDA in the range of $1.01 billion to $1.09 billion, net cash provided by operating activities in the range of $635 million to $695 million, capital expenditures in the range of $125 million to $135 million, and adjusted free cash flow in the range of $510 million to $560 million.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Tim Thein with Citi. Please proceed with your question.

Tim W. Thein
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Hey, guys. Good afternoon. The question is on the Service Parts and Support Equipment that over the years that part of the business is going through some periods where you get kind of outsized growth and I'm just curious. As we look at this quarter and maybe what you can foresee or envision for the balance of the year, is that attributed to that part of the business where you get some – a little bit more pricing leverage? So, I'm curious. Did that maybe play a bigger role in the first quarter or – and I guess second part of the question is would you expect this part of the business to, at least the On-Highway business, to flow just kind of directionally with new deliveries? Or is there something else driving the business? I'm just trying to [ph] open the (19:22) spirit of the question is, is this kind of a one-time deal or do you see further momentum in that particular part of the business? Thank you.

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

A

Tim, it's Dave. Good evening and thank you for the questions. So a few items. I think your reference to years ago in terms a bit of an ebb and flow and some increases, I'm assuming you're referring to some of the Off-Highway that activity that we saw probably five, six years ago. And really that was a result of fleet size increases years before that and then, of course, coming in for rebuilds. And that market has really run its course in terms of those particular units being replaced with new units and such. As you're familiar with the Q1 results, a number of things driving that.

As you're well aware, the overall industry has been constrained by a number of inputs, mostly labor and to a degree, parts. We certainly saw some improvement going into the second half of last year and even into the fourth quarter. I think actually if you look at our fourth quarter results, we were starting to reflect some of that. The improvements in those input constraints really started to take, I would say, more meaningful hold as we entered 2023. The channel is able to catch up with some of the work that they've really stocked up. At the same time, we've seen some improvement in terms of supplier delivery with what's needed ultimately by the channel. So, the Q1 results reflect a number of those attributes as well as when you think about to your question is a one and done, I believe.

As we think about the balance of the year, we expect some continuation of that level of improvement. Some of it is burning through for the industry backlog that you see, some impact in the first quarter and we would expect some of that in the second quarter. But ultimately to get back to more normalized levels, as you also know, with the fleet aging the way it is, aftermarket will continue to be what we believe is a pretty strong market for us. It's also a market that's seen a range of price increases over the last 18 to 24 months as well, which is playing a role there.

I think beyond, those are really – vast majority of my comments are really directed to the On-Highway business and I would just offer as well. Again, as you think about the aftermarket, you also mentioned this point about being tied to the units, which is really tied to what we refer to as Support Equipment, which is tied to new unit sales. So, to the extent that volumes are up, which our guide implies they are, that will certainly pull through some increased Support Equipment sales as well.

Tim W. Thein
Analyst, Citigroup Global Markets, Inc.

Q

Very good. Thank you, Dave. Appreciate the color.

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

A

Welcome.

Operator: Thank you. Our next question is from Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Thank you. I wonder if I can kind of squeeze two together on some of the many announcements on new business that you kind of detailed in your prepared remarks and have released over the last 12 to 18 months. The wide body dump market, you expand, I guess, with SANY heavy into India. I wonder if you can just give us – and I think you characterized that as a $100 million annual opportunity in revenue. I wonder if you can give us the current state of that, the growth rate. I don't know if it'll take a couple years to design a launch, [ph] arbitrary (23:18) launched. Just an update there.

And I wonder if you could tell us anything on the A2 versus the JLTV, how that revenue opportunity annually compares with the prior version. And just when – if there is [ph] enough shift (23:34) when it comes.

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

A

Rob, good evening. It's Dave. Let me cover off of that material. So with the wide body mining dump, the reference to India, that's relatively new, thus the announcement. Having said that, it's not a new chassis or vehicle per se. It's with a vehicle that's actually been produced, being produced so elsewhere. So the idea there is to ultimately have that released ultimately start to take place in India. So it's, to your question, relatively early days for India.

Having said that, we've had a fair bit of successes, as mentioned, with the China market as well as export markets. We continue to be pleased there and also with the level of engagement with OEMs as well as end users in that particular market. But I think it's – certainly to our prepared comments and a number of other calls, the realization of that growth initiative has been a bit faster than we were certainly expecting and looking to build upon that success, the team's efforts, to then start look at more directly export markets as well as a market like India which we believe is relatively early days.

So, the pace at which we ultimately get to, say, that $100 million incremental growth initiative target will largely depend, I think, on the success of the OEMs ultimately to penetrate with the end users in terms of that particular vehicle application.

On your JLTV question, the transmissions between the A1 and the A2 are identical. So the only difference is the OEM that's essentially making the vehicle. So at this point, as we're – per our remarks, we're very pleased with the continuation of that program and look forward to working with both of those OEMs in terms of the vehicle lineups and delivering to the demand commitments that are out there. That relative program size of 55 is rather large, but when you extend it over a period of time, it's something again that can be really subject to the OEM schedules and ultimately end user demand. But we're certainly pleased to continue in the platform and are prepared to supply to demand.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Okay. Thank you.

Operator: Thank you. [Operator Instructions] Our next question is from Jamie Cook with Credit Suisse. Please proceed with your question.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good evening. I guess just two questions. One, can you just talk about your order book for 2023, how much visibility you have and how you're thinking about the order book for 2024 and when you start to open that?

And then my second question is just with regards the implied incrementals. It looks like the first quarter's probably the strongest and then it tapers off from there. So, Fred, any color you could give on that? Thank you.

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

A

Jamie, good evening. It's Dave. I'll start and then hand it over to Fred. So the 2023 order book, as you mentioned, really is consistent with other public company comments you've already heard in terms of relatively strong demand. So we, as our guide implies, continue to look forward to supplying to that demand.

I would say the underlying dynamics of North America right now, medium-duty and vocational, continue to be strong. So what we're hearing, at least relative to OEM expectations, are rather full year for 2023. I think it's a little early to call a 2024 forecast. The third-party forecast providers are out there, as you well know. I would certainly say, as we've said over a number of quarters now, the last few years, it's really going to be very much dependent on the broader industry's ability to both supply the required components and then, of course, build them.

The constraint situation, we would describe as some level of improvement. I think that's consistent with what other public companies have provided in their comments for first calendar quarter. I would offer, though, we continue to see a lack of buffers in the market. So it does create some level of disruption on a relatively short notice basis. So we're still seeing some of that and of course, labor, I think, broadly is – continues to be a constraint.

So 2023, strong demand. We expect that some of that certainly carryover in 2024, again, subject to the overall ability of the market, and the suppliers as well as the OEMs to ultimately produce. I'll hand it over to Fred for your other question.

G. Frederick Bohley
Senior Vice President, Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Thanks, Jamie. As you mentioned, it was certainly a strong Q1. EBITDA margin's up 120 basis points to 37.25 on a year-over-year basis, higher gross profit driving it; over 800 basis points of price on a year-over-year basis; favorable mix with the parts in the North American On- Highway and that being offset by cost increases and higher SG&A expenses in the quarter.

As we think about the updated guidance, at the midpoint, we updated revenue by $75 million, with $55 million of that dropping through the EBITDA at the midpoint. So, 73% drop-throughs. So, certainly a robust drop-throughs there. And then relative to the comment on incrementals and clearly you've capped them at the midpoint, we have Q2 through Q4 well down off of the strong margin performance in Q1. Still, the implied guide would have you up close to 100 basis points versus Q2 to Q4 of 2022.

Jamie Cook Q
Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Operator: Thank you. Our next question is from Felix Boeschen with Raymond James. Please proceed with your question.

Felix Boeschen Q
Analyst, Raymond James & Associates, Inc.

Hey. Good afternoon, everybody.

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

Afternoon.

Felix Boeschen Q
Analyst, Raymond James & Associates, Inc.

Hey. I'm just curious, if you don't mind expanding on a comment you made in your prepared remarks but with vehicle prices up substantially globally, I would think that makes the value proposition of an Allison transmission higher. I guess I'm wondering. Could you maybe just expand on that idea? And what I'm really curious about is to what degree do you think that could open maybe some underpenetrated vehicle verticals or should we think about it really more of a pricing opportunity through cycles? I appreciate it.

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

Good evening, Felix. It's Dave, I guess let me try to cover that. So just very briefly, when you think about our – as you mentioned, our end user value proposition, it's multiple attributes, right? It's productivity. We get into maintenance savings which really get to lifecycle cost, fuel efficiency, driver skillset, training, shift quality, safety, residual value.

As you all know, the price of vehicles, given inflation and a number of other market dynamics, are all up. When you look at the value proposition attributes that I just mentioned, inflation has impacted all of those, whether it be wages, the cost of repairs, the downtime for vehicle repairs, the lead times to actually get the work done, the availability of skilled drivers to actually operate a manual transmission versus a fully automatic product, et cetera; so the training time, which would be necessarily shorter, as you couldn't expect for an automatic versus a manual, and ultimately the performance of the fully automatic product in certain vocations.

So to your question, when you think about all those attributes and all of them have gone up in terms of cost, the value proposition of the Allison necessarily has increased and that's really the focus. I think your comment in terms of opening up other markets, we've seen even outside of North America with the dynamics and some of that was certainly accelerated by COVID, there's also regions that are struggling with the same thing that the US is in terms of skilled drivers relative to manual transmission.

So it is certainly opening up, I think, more opportunities for fully automatic penetration. And just given all the cost inflation, which is global, the last time we checked, you have an improved value proposition throughout the world. So the team is obviously taking that opportunity to continue to point out why the Allison is a better solution and we've said many times we sell based on value to the end user, not our cost. So everything that I just rolled through certainly pushes you or certainly gets you to a point where you could conclude that the Allison – the value of the Allison has certainly gone up and as we should, we're achieving more value for the product in the marketplace.

Felix Boeschen
Analyst, Raymond James & Associates, Inc.

Q

Thank you.

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

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you so much and congrats on excellent results. My first question is on the defense segment. I think it saw negative growth in the first quarter. Are you still expecting sort of 8% growth throughout the year and if so, what would be the cadence of growth in that segment?

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

A

Tami, it's Dave. Thank you for the question. Defense, you understand at least with tracked programs, generally are subject to a number of program execution requirements and timelines. In many cases, Allison doesn't control those. We try our best but I would say generally speaking, the broader industry at this point is pretty challenged with anything that's low-volume, heavy-duty type of products.

So the team here is working through a number of constraints as well as the OEMs. First quarter, I would certainly describe as an outlier when you look at the balance of the year in terms of our expectations. So I would – if you look at the guide overall, we're certainly still comfortable with that plus or minus 8% year-over-year. I would, though, point you to just given schedules on the tracked side that we expect second half to be heavier than first half for a number of reasons. So hopefully, that answered your question.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

It does. Thank you so much. That's very helpful. And apologies if I'm repeating what you already answered earlier. But did you give what was price cost impact in the quarter and what was pricing in general in the quarter?

G. Frederick Bohley
Senior Vice President, Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Sure, Tami. This is Fred. We realized the $56 million in price in the quarter, so over 800 basis points of price. But as you look throughout the year, it's important to realize that we had multiple price actions in 2022. So the first quarter is clearly our easiest comp from a pricing standpoint. Yeah, as we're looking at full year, when we came out with initial guide in February, we were about 400 basis points of price. Based on where we've ended up, we're anticipating being closer to 475 basis points in price. We were unfavorable from a material and a manufacturing cost standpoint in Q1 on a year-over-year basis. Direct material cost excluding volume was up $8 million and manufacturing cost was up about $10 million, but certainly have cost us significantly or price at this point significantly outrunning cost.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Got it. And is that a fair run rate sort of for the remaining three quarters, like positive price cost?

G. Frederick Bohley
Senior Vice President, Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

It will be – positive price cost is definitely what we're anticipating for the balance of the year.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you so much.

G. Frederick Bohley
Senior Vice President, Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

You're welcome.

Operator: Thank you. There are no further questions at this time. I would like to turn the floor back over to Dave Graziosi for closing comments.

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

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

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