

Q4 2014 Earnings Release

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



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, 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, 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.



Call Agenda

- **Q4 2014 Performance**
- **2015 Guidance**

Q4 2014 Performance Summary

| (\$ in millions) | Q4 2014 | Q4 2013 | % Variance |
|--|---------|---------|------------|
| Net Sales | \$544 | \$491 | 10.9% |
| Gross Margin % | 47.0% | 43.1% | +390 bps |
| Adjusted Net Income ⁽¹⁾ | \$117 | \$78 | 50.7% |
| Adjusted Free Cash Flow ⁽¹⁾ | \$129 | \$109 | 18.0% |

Commentary

Net Sales: the increase was principally driven by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market, partially offset by lower demand in the Outside North America On-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets.

Gross Margin: the increase was principally driven by increased net sales and price increases on certain products.

Adjusted Net Income: the increase was principally driven by increased net sales, price increases on certain products, decreased cash interest expense and favorable product warranty expense adjustments partially offset by increased global commercial spending activities and product initiatives spending, and a \$3 million increase in technology-related license expenses.

Adjusted Free Cash Flow: the increase was principally driven by increased net cash provided by operating activities, decreased capital expenditures, increased excess tax benefit from stock-based compensation and a \$3 million increase in technology-related license expenses.

(1) See Appendix for a reconciliation of Adjusted Net Income and Adjusted Free Cash Flow.

Q4 2014 Sales Performance

(\$ in millions)

| End Markets | Q4 2014 | Q4 2013 | % Variance | Commentary |
|---|--------------|--------------|------------|---|
| North America On-Hwy | \$256 | \$210 | 22% | Principally driven by higher demand for Rugged Duty Series models |
| North America Hybrid-Propulsion Systems for Transit Bus | \$17 | \$32 | (47%) | Principally driven by intra-year movement in the timing of orders and lower demand due to engine emissions improvements and non-hybrid alternatives that generally require a fully-automatic transmission (e.g. xNG) |
| North America Off-Hwy | \$36 | \$14 | 157% | Principally driven by higher demand from hydraulic fracturing applications |
| Defense | \$38 | \$35 | 9% | Principally driven by revenue deferred in the prior year period for certain tracked transmissions that were not shipped at the request of the U.S. government partially offset by previously considered reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts |
| Outside North America On-Hwy | \$65 | \$86 | (24%) | Principally driven by weakness in China Bus and Europe Truck |
| Outside North America Off-Hwy | \$19 | \$14 | 36% | Principally driven by improved demand in the China energy sector partially offset by lower demand in the global mining sector |
| Service Parts, Support Equipment & Other | \$113 | \$100 | 13% | Principally driven by higher demand for North America Off-Highway service parts |
| Total | \$544 | \$491 | 11% | |

Q4 2014 Financial Performance

| (\$ in millions, except share data) | Q4 2014 | Q4 2013 | \$ Var | % Var | Commentary |
|--|----------------|----------------|---------------|--------------|--|
| Net Sales | \$544.4 | \$491.0 | \$53.4 | 10.9% | Increase principally driven by the continued recoveries in the North America On-Highway and Off-Highway end markets, and higher demand in the Service Parts, Support Equipment & Other end market partially offset by lower demand in the Outside North America On-Highway and North America Hybrid-Propulsion Systems for Transit Bus end markets |
| Cost of Sales | \$288.8 | \$279.6 | (\$9.2) | (3.3%) | |
| Gross Profit | \$255.6 | \$211.4 | \$44.2 | 20.9% | Increase principally driven by increased net sales and price increases on certain products |
| Operating Expenses | | | | | |
| Selling, General and Administrative Expenses | \$88.8 | \$87.4 | (\$1.4) | (1.6%) | Increase principally driven by increased global commercial spending activities partially offset by favorable product warranty expense adjustments |
| Engineering – Research and Development | \$33.6 | \$24.4 | (\$9.2) | (37.7%) | Increase principally driven by increased product initiatives spending and a \$3 million increase in technology-related license expenses |
| Impairment Loss ⁽¹⁾ | \$15.4 | \$0.0 | (\$15.4) | N/A | |
| Total Operating Expenses | \$137.8 | \$111.8 | (\$26.0) | (23.3%) | |
| Operating Income | \$117.8 | \$99.6 | \$18.2 | 18.3% | |
| Interest Expense, net | (\$37.4) | (\$28.4) | (\$9.0) | (31.7%) | Increase principally driven by less favorable mark-to-market adjustments for LIBOR swaps partially offset by the expiration of certain LIBOR swaps, lower amortization of deferred financing charges and debt repayments |
| Other Expense, net | (\$2.6) | (\$3.7) | \$1.1 | 29.7% | |
| Income Before Income Taxes | \$77.8 | \$67.5 | \$10.3 | 15.3% | |
| Income Tax Expense | (\$27.3) | (\$24.6) | (\$2.7) | (11.0%) | Effective tax rates: 2014 35%; 2013 36% |
| Net Income | \$50.5 | \$42.9 | \$7.6 | 17.7% | |
| Diluted Earnings Per Share | \$0.28 | \$0.23 | \$0.05 | 21.7% | 2014: 182.3M shares; 2013: 187.9M shares |
| Adjusted Net Income⁽²⁾ | \$117.1 | \$77.7 | \$39.4 | 50.7% | |
| Adjusted EBITDA⁽²⁾ | \$185.3 | \$152.7 | \$32.6 | 21.3% | |
| Adjusted EBITDA excluding technology-related license expenses⁽²⁾ | \$188.1 | \$152.7 | \$35.4 | 23.2% | |

(1) Long-lived assets and accrued expenses related to the production of the H3000 and H4000 hybrid-propulsion systems.

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



Q4 2014 Cash Flow Performance

| (\$ in millions) | Q4 2014 | Q4 2013 | \$ Variance | % Variance | Commentary |
|---|---------|---------|-------------|------------|--|
| Net Cash Provided by Operating Activities | \$141 | \$138 | \$3 | 2.0% | Primarily driven by increased net sales and price increases on certain products partially offset by increased SG&A, product initiatives spending, technology-related license expenses and excess tax benefit from stock-based compensation |
| CapEx | \$27 | \$33 | (\$6) | (20.2%) | Reduced maintenance and new product initiatives spending |
| Adjusted Free Cash Flow ⁽¹⁾ | \$129 | \$109 | \$20 | 18.0% | Primarily driven by increased cash provided by operating activities, decreased capital expenditures, increased excess tax benefit from stock-based compensation and increased technology-related license expenses |

| (\$ in millions) | Q4 2014 | Q4 2013 | \$ Variance | % Variance | Commentary |
|--|---------|---------|-------------|------------|---|
| Operating Working Capital ⁽²⁾ Percentage of LTM Sales | 9.4% | 9.6% | N/A | (20 bps) | In line with prior period |
| Cash Paid for Interest | \$37 | \$46 | (\$9) | (20.7%) | Primarily driven by expiration of certain LIBOR swaps and debt repayments |
| Cash Paid for Income Taxes | \$1 | \$0 | \$1 | - | In line with prior period |

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.

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



2015 Guidance – End Markets Net Sales Commentary

(\$ in millions)

| End Market | 2014 Net Sales | 2015 Midpoint | Commentary |
|---|----------------|---------------|--|
| North America On-Hwy | \$988 | +8% | Principally driven by continued market recovery |
| North America Hybrid-Propulsion Systems for Transit Bus | \$93 | (13%) | Principally driven by engine emissions improvements and non-hybrid alternative technologies that generally require a fully-automatic transmission (e.g. xNG) |
| North America Off-Hwy | \$100 | (30%) | Principally driven by decreased demand from hydraulic fracturing applications |
| Defense | \$157 | (34%) | Principally driven by continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts |
| Outside North America On-Hwy | \$264 | 0% | Principally driven by increased fully-automatic penetration offset by continued challenging market demand conditions |
| Outside North America Off-Hwy | \$81 | (20%) | Principally driven by continued weakness in the energy and mining sectors |
| Service Parts, Support Equipment & Other | \$444 | (5%) | Principally driven by decreased demand for North America Off-Highway service parts |

Allison expects first quarter net sales to be higher than the same period in 2014. The anticipated year-over-year increase in first quarter net sales is principally driven by higher demand in the North America On-Highway and Off-Highway end markets, partially offset by previously considered reductions in Defense net sales and lower demand in the North America Hybrid-Propulsion Systems for Transit Bus end market.



2015 Guidance - Summary

| | Guidance | Commentary |
|---|----------------------------|---|
| Net Sales Change from 2014 | 0 to (5) percent | Guidance reflects a cautious approach given the heightened level of uncertainty and the lack of near term visibility and confidence in the global Off-Highway end markets. Our net sales outlook also assumes a continued recovery in the North America On-Highway end market, previously considered reductions in the U.S. defense spending, continued weakness in the Outside North America On-Highway end market and lower demand for North America Hybrid-Propulsion Systems for Transit Bus. |
| Adjusted EBITDA Margin | 34.0 to 35.5 percent | Principally driven by sales mix and volume timing |
| Adjusted Free Cash Flow (\$ in millions) | \$475 to \$525 | \$2.60 to \$2.90 per diluted share |
| CapEx (\$ in millions) Maintenance New Product Programs | \$60 to \$65 \$0 to \$5 | Subject to timely completion of development and sourcing milestones |
| Cash Income Taxes (\$ in millions) | \$10 to \$15 | U.S. income tax shield and net operating loss utilization |

APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted Net Income and Adjusted EBITDA reconciliation

| \$ in millions, Unaudited | For the year ended December 31, | | | | | Three months ended December 31, | |
|--|---------------------------------|------------------|------------------|------------------|------------------|------------------------------------|----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2013 | 2014 |
| | Net income | \$29.6 | \$103.0 | \$514.2 | \$165.4 | \$228.6 | \$42.9 |
| plus: | | | | | | | |
| Interest expense, net | 277.5 | 217.3 | 151.2 | 132.9 | 138.4 | 28.4 | 37.4 |
| Cash interest expense | (239.1) | (208.6) | (167.3) | (159.2) | (140.0) | (46.3) | (36.7) |
| Income tax expense (benefit) | 53.7 | 47.6 | (298.0) | 100.7 | 139.5 | 24.6 | 27.3 |
| Cash income taxes | (2.2) | (5.8) | (10.7) | (3.8) | (5.0) | (0.3) | (1.5) |
| Fee to terminate services agreement with Sponsors | — | — | 16.0 | — | — | — | — |
| Technology-related investment expenses | — | — | 14.4 | 5.0 | 2.0 | 2.5 | — |
| Public offering expenses | — | — | 6.1 | 1.6 | 1.4 | 0.7 | — |
| Impairments | — | — | — | — | 15.4 | — | 15.4 |
| Amortization of intangible assets | 154.2 | 151.9 | 150.0 | 105.3 | 98.8 | 25.2 | 24.7 |
| Adjusted net income | \$273.7 | \$305.4 | \$375.9 | \$347.9 | \$479.1 | \$77.7 | \$117.1 |
| Cash interest expense | 239.1 | 208.6 | 167.3 | 159.2 | 140.0 | 46.3 | 36.7 |
| Cash income taxes | 2.2 | 5.8 | 10.7 | 3.8 | 5.0 | 0.3 | 1.5 |
| Depreciation of property, plant and equipment | 99.6 | 103.8 | 102.5 | 98.7 | 93.8 | 24.6 | 22.8 |
| (Gain)/loss on redemptions and repayments of long-term debt | (3.3) | 16.0 | 22.1 | 0.8 | 0.5 | 0.3 | 0.2 |
| Dual power inverter module extended coverage | (1.9) | — | 9.4 | (2.4) | 1.0 | — | 1.0 |
| UAW Local 933 signing bonus | — | — | 8.8 | — | — | — | — |
| Benefit plan re-measurement | — | — | 2.3 | — | — | — | — |
| Unrealized loss (gain) on commodity hedge contracts | 0.3 | 6.5 | (1.0) | 1.5 | (1.0) | 0.4 | 0.7 |
| Unrealized (gain) loss on foreign exchange | (0.2) | 0.3 | 0.1 | 2.3 | 5.2 | — | 1.8 |
| Premiums and expenses on tender offer for long-term debt | — | 56.9 | — | — | — | — | — |
| Restructuring charges | — | — | — | 1.0 | 0.7 | — | — |
| Reduction of supply contract liability | (3.4) | — | — | — | — | — | — |
| Other, net ⁽¹⁾ | 10.9 | 8.6 | 7.0 | 13.8 | 14.7 | 3.1 | 3.5 |
| Adjusted EBITDA | \$617.0 | \$711.9 | \$705.1 | \$626.6 | \$739.0 | \$152.7 | \$185.3 |
| Adjusted EBITDA excluding technology-related license expenses | \$617.0 | \$711.9 | \$717.1 | \$632.6 | \$745.1 | \$152.7 | \$188.1 |
| Net Sales | \$1,926.3 | \$2,162.8 | \$2,141.8 | \$1,926.8 | \$2,127.4 | \$491.0 | \$544.4 |
| Adjusted EBITDA margin | 32.0% | 32.9% | 32.9% | 32.5% | 34.7% | 31.1% | 34.0% |
| Adjusted EBITDA margin excl technology-related license expenses | 32.0% | 32.9% | 33.5% | 32.8% | 35.0% | 31.1% | 34.6% |

(1) Includes charges or income related to benefit plan 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 December 31, | |
|---|---------------------------------|------------------|------------------|------------------|------------------|---------------------------------|----------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2013 | 2014 |
| Net Cash Provided by Operating Activities | \$388.9 | \$469.2 | \$497.5 | \$453.5 | \$556.9 | \$138.1 | \$140.9 |
| (Deductions) or Additions: | | | | | | | |
| Long-lived assets | (73.8) | (96.9) | (123.9) | (74.4) | (64.1) | (33.2) | (26.5) |
| Fee to terminate services agreement with Sponsors | — | — | 16.0 | — | — | — | — |
| Technology-related license expenses | — | — | 12.0 | 6.0 | 6.1 | — | 2.8 |
| Excess tax benefit from stock-based compensation | — | — | 5.3 | 13.7 | 24.6 | 4.4 | 11.8 |
| Adjusted Free Cash Flow | \$315.1 | \$372.3 | \$406.9 | \$398.8 | \$523.5 | \$109.3 | \$129.0 |
| Net Sales | \$1,926.3 | \$2,162.8 | \$2,141.8 | \$1,926.8 | \$2,127.4 | \$491.0 | \$544.4 |
| Adjusted Free Cash Flow (% to Net Sales) | 16.4% | 17.2% | 19.0% | 20.7% | 24.6% | 22.3% | 23.7% |