Allison Transmission

# Deutsche Bank Global Industrial & Basic Materials Conference

June 13, 2012


Lawrence Dewey, Chairman, President & Chief Executive Officer
David Graziosi, Executive Vice President & Chief Financial Officer

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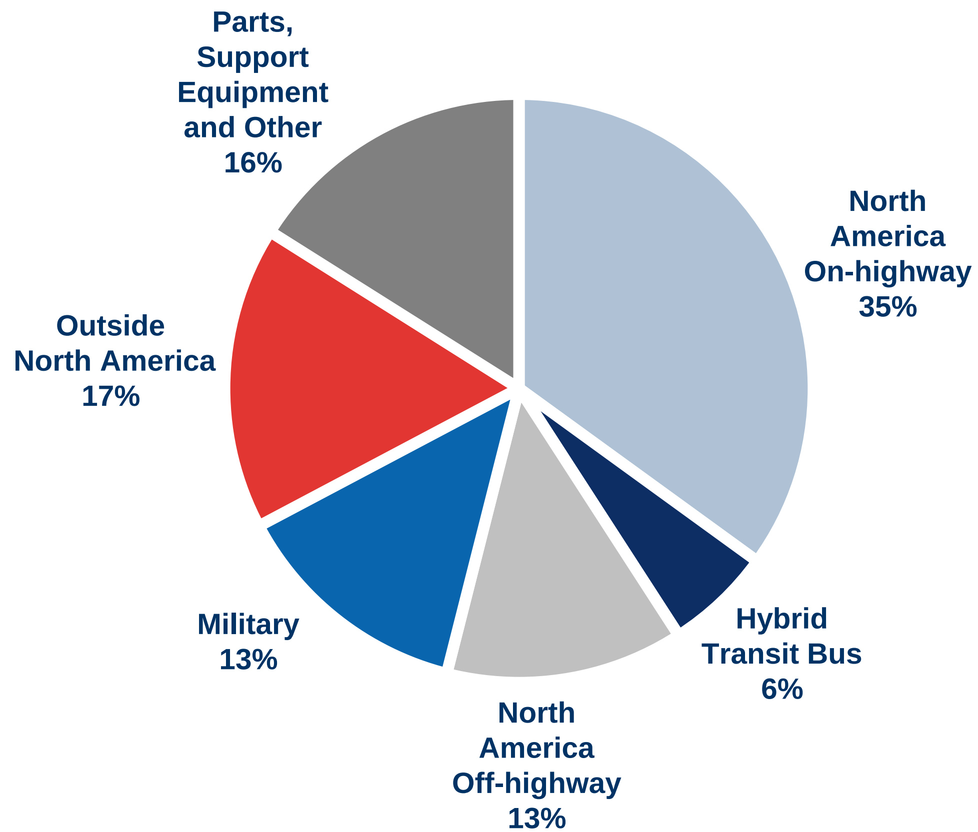
# Business Overview

# 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[1] Net Sales by End Market**




**LTM Net Sales: $2.2 billion**

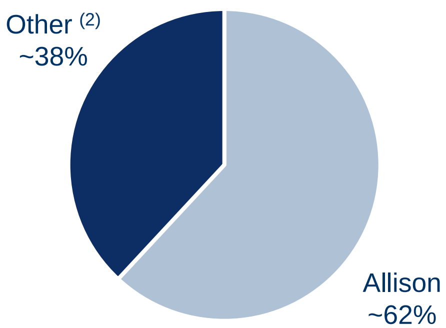
(1) LTM 3/31/2012.

# Allison Is a Premier Industrial Asset

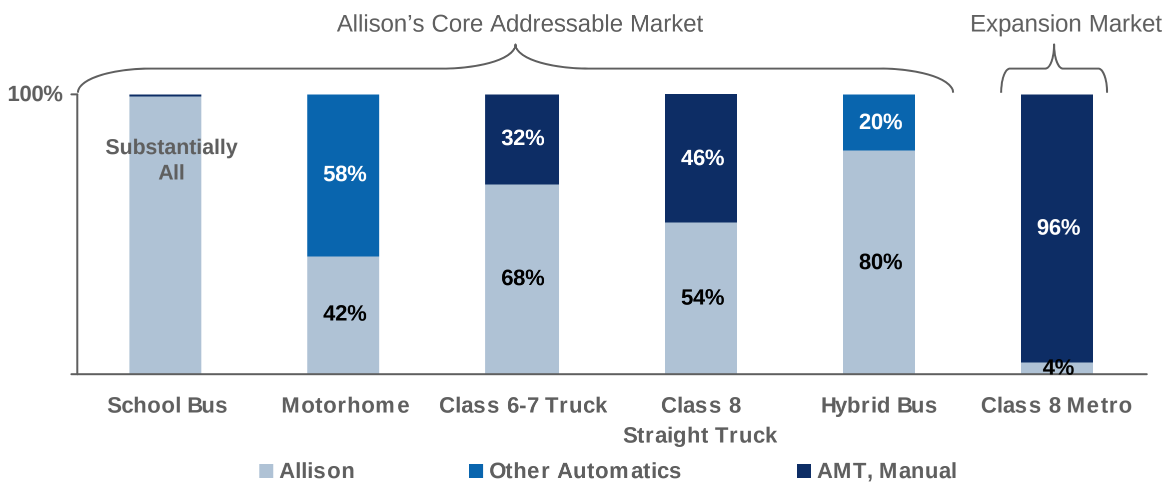
- Global Market Leader
- Premier Brand and End User Value Proposition
- Technology Leadership - The Allison Advantage
- Diverse End Markets with Long-Standing OEM Customer Relationships
- Improved Margins and Low Capex Drive Strong Cash Flow Generation
- Experienced Management Team
- Multiple Organic Growth Opportunities

# Global Market Leader

## Global On-Highway Fully-Automatic Share(1)



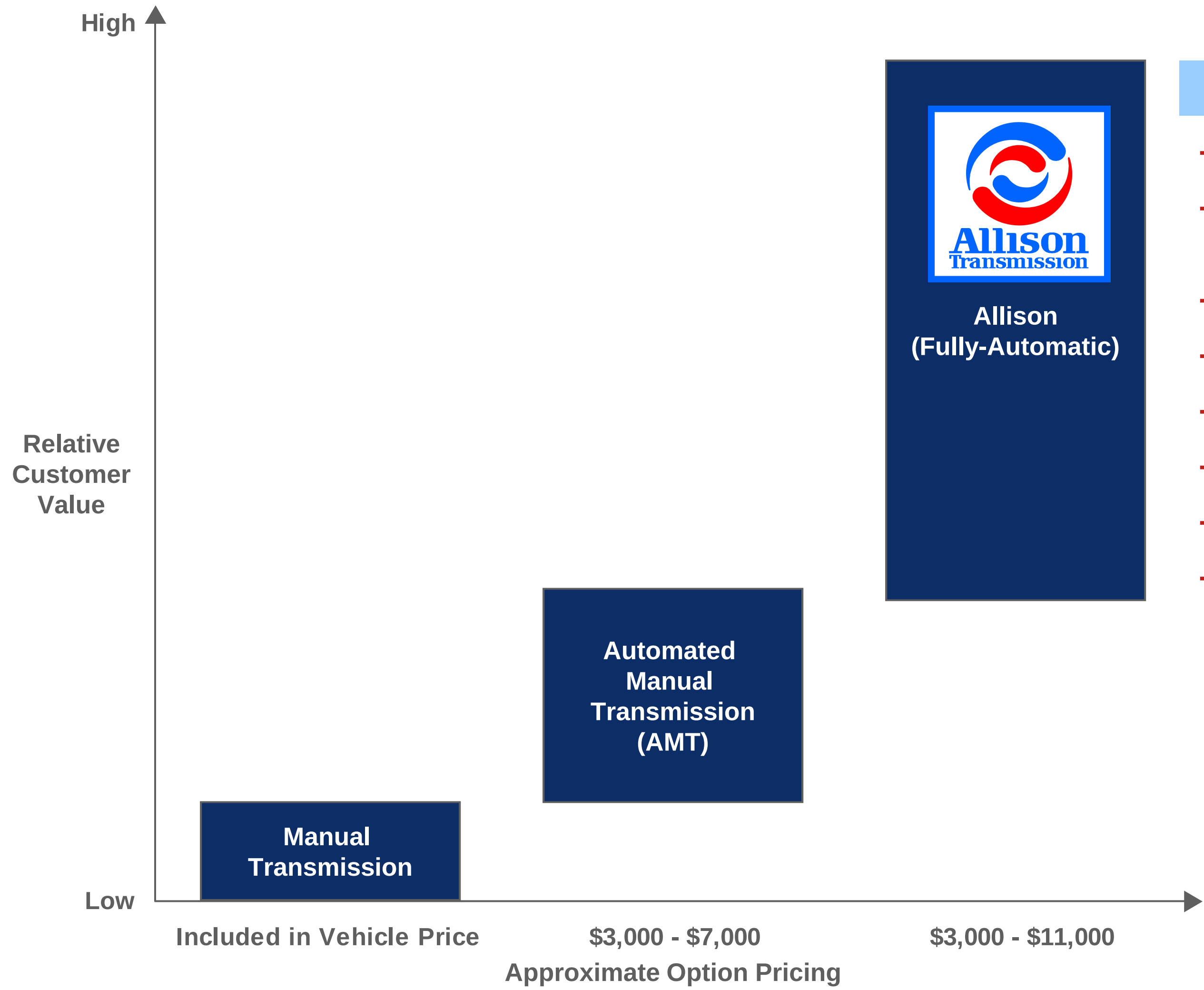

## North American Market Share(1)




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

(1) 2011 Units. Source: Allison management estimates and ACT research.
(2) Majority of "Other" volume is in North American Class 4-5 truck and European bus.

# End User Value Proposition




**Allison Advantage**

+ Productivity (acceleration)
+ Maintenance Savings (life cycle costs)
+ Fuel Efficiency
+ Driver Skillset / Wages
+ Training (time, cost)
+ Shift Quality
+ Safety
+ Residual Value

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

# End Market & Vocation Overview

## Global On-Highway

| | Sample Vocations | Select End Users |
|---|---|---|
| Distribution |  | Coca-Cola, PENSKE Truck Leasing, FritoLay, pepsi, ups, FedEx, Ryder |
| Emergency Vehicle |  | Fire Department City of New York, BAA British Airport Authority |
| Motorhome |  | WINNEBAGO INDUSTRIES, THOR INDUSTRIES, INC., PREVOST |
| Rugged Duty |  | WM WASTE MANAGEMENT, VEOLIA ENVIRONMENTAL SERVICES, The City of New York Department of Sanitation |
| School Bus / Shuttle Bus |  | First Student |
| Transit Bus |  | BMCT Beijing City Transit, New Delhi Transit |

## Global Off-Highway

### Select End Users

HALLIBURTON, BJ, JEREH, NHL, TEREX

## North America Hybrid Transit Bus

Allison Hybrid

### Select End Users

SEPTA, M metro, King County METRO

## Military

### Select End Users

United States, United Kingdom, South Korea

## Parts, Support Equipment and Other



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# 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

# 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
- Currently being tested by customers

TRACTOR SERIES TC10

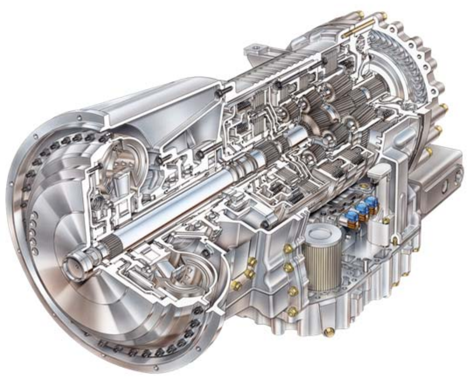

## Hybrid Commercial Vehicle

- Leading development of first fully-automatic hybrid truck transmission for the Class 6-7 market
- Awarded $62.8 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***

# 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





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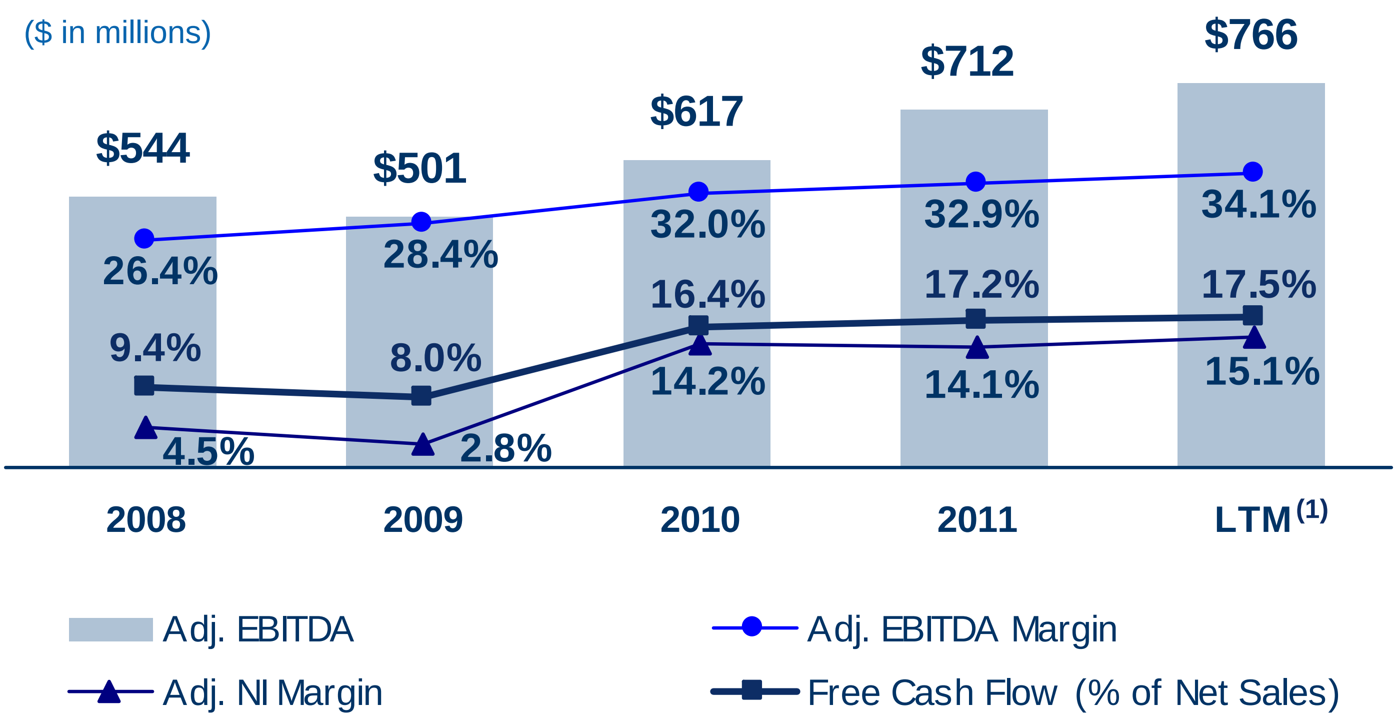
# Financial Overview

# Allison Key Financial Highlights

## Strong Financial Profile(2)

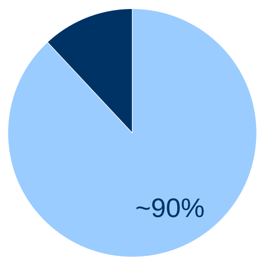



- **Strong, sustainable operating margins**
- **Low capital expenditure requirements**
- **Minimal cash income taxes / valuable U.S. tax shield ($0.9-1.1bn present value)**
- **Positioned for long-term cash earnings growth**

(1) LTM 3/31/2012.
(2) Note: See appendix for comments regarding the presentation of non-GAAP financial information.

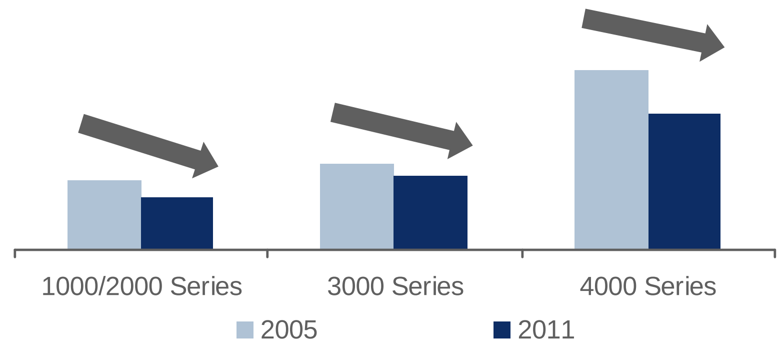
# Sustainable Margins with Further Enhancement Opportunities

## Long-Term Customer Supply Agreements



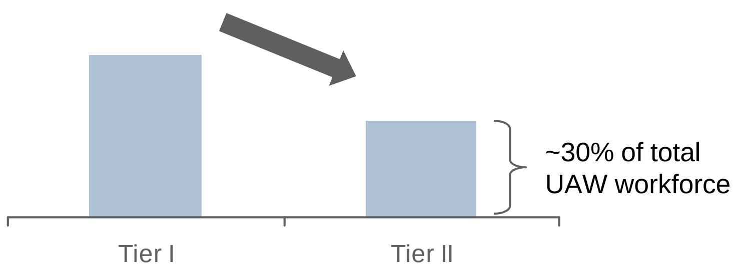

***~90% of 2011 N.A. On-Highway Unit Volume was covered by long-term customer supply agreements***

## Manufacturing Efficiencies (hours/unit)




***Hours Per Unit continue to decline***

## Workforce Optimization (cost/employee)




***Significant savings driven by retirement of Tier I workers; 800 hourly employees are retirement eligible (~53% of workforce)***

## International Manufacturing

**<u>India (~$107mm total investment; ~$7mm remaining[(1)])</u>**

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

**<u>Hungary (~$17mm total investment [(1)])</u>**

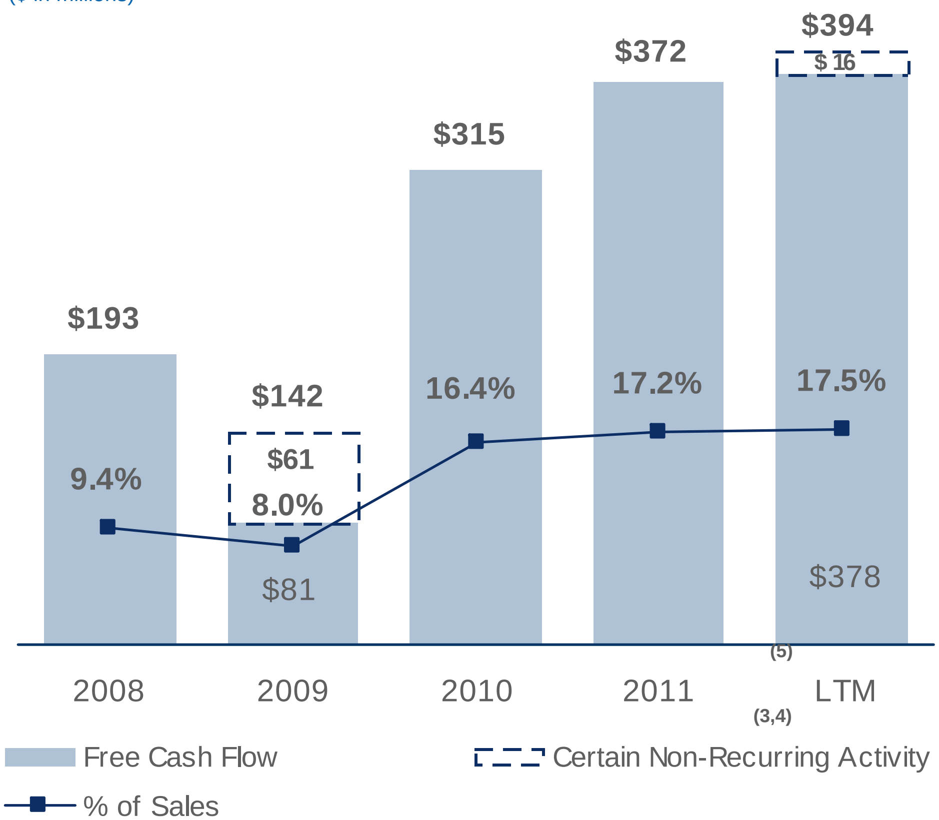
- Relocate assembly of 3000/4000 Series (Q2 2011)

Source: Allison.
(1) As of 3/31/2012.

# Significant Cash Flow Generation

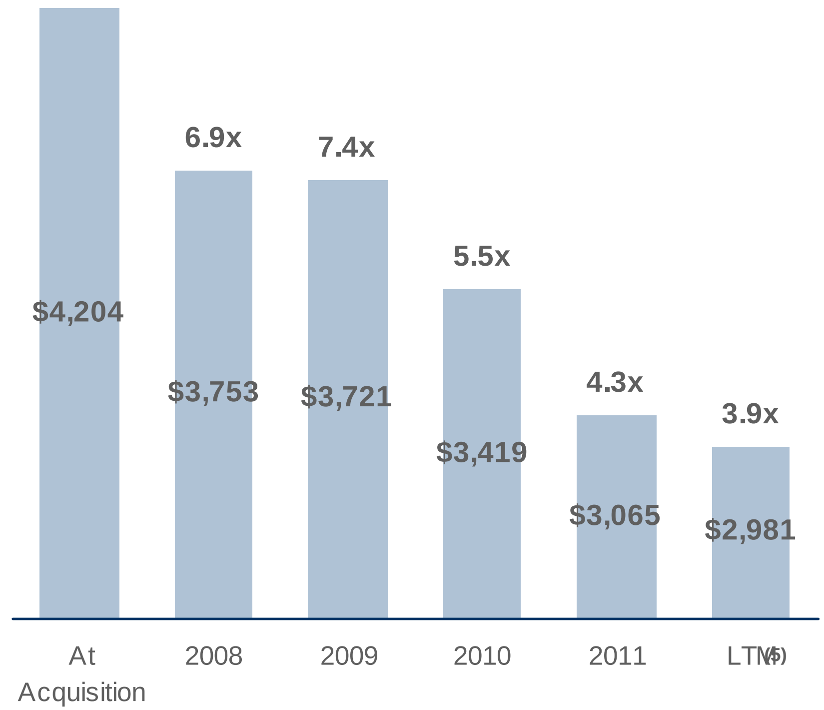
## Free Cash Flow Generation[1]

($ in millions)




## Net Debt[2]

($ in millions)




***Net debt reduction of more than $1.2 bn since acquisition[6]***

Note: See appendix for comments regarding the presentation of non-GAAP measures.
(1) Free cash flow defined as cash flow from operations less capex.
(2) Net debt defined as total debt minus cash and cash equivalents.
(3) 2009 free cash flow adjusted for certain non-recurring activity of (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.
(4) LTM free cash flow adjusted for certain non-recurring activity: 1Q 2012 Fee to terminate services agreement with sponsors $16
(5) LTM 3/31/2012
(6) Represents debt reduction through 3/31/2012.



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# Q&A

# Appendix: Non-GAAP Financial Information

# Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA margin, 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 margin, 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, trade name impairment and amortization of intangible assets, less cash interest expense, net and cash income taxes. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest expense, 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 margin is calculated as Adjusted EBITDA 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 taxes paid rather than our 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 and Adjusted EBITDA margin 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 margin, adjusted free cash and 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 margin, 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 | For the year ended December 31, | | | | Three months ended March 31, | | Last twelve months ended March 31, |
|---|---|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** | **2011** | **2012** | **2012** |
| **Net (Loss) Income** | **($328.1)** | **($323.9)** | **$29.6** | **$103.0** | **$36.9** | **$58.0** | **$124.1** |
| plus: | | | | | | | |
| Interest expense, net | 385.9 | 234.2 | 277.5 | 217.3 | 49.6 | 40.7 | 208.4 |
| Cash interest expense, net | (334.2) | (242.5) | (239.1) | (208.6) | (29.9) | (36.1) | (214.8) |
| Income tax expense | 37.1 | 41.4 | 53.7 | 47.6 | 18.0 | 25.2 | 54.8 |
| Cash income taxes | (4.3) | (5.5) | (2.2) | (5.8) | (1.6) | (2.9) | (7.1) |
| Fee to terminate services agreement with Sponsors | — | — | — | — | — | 16.0 | 16.0 |
| Initial public offering expenses | — | — | — | — | — | 5.7 | 5.7 |
| Trade name impairment | 179.8 | 190.0 | — | — | — | — | — |
| Amortization of intangible assets | 156.5 | 155.9 | 154.2 | 151.9 | 38.0 | 37.5 | 151.4 |
| **Adjusted Net Income** | **$92.7** | **$49.6** | **$273.7** | **$305.4** | **$111.0** | **$144.1** | **$338.5** |
| Cash interest expense, net | 334.2 | 242.5 | 239.1 | 208.6 | 29.9 | 36.1 | 214.8 |
| Cash income taxes | 4.3 | 5.5 | 2.2 | 5.8 | 1.6 | 2.9 | 7.1 |
| Depreciation of property, plant and equipment | 106.6 | 105.9 | 99.6 | 103.8 | 25.7 | 24.6 | 102.7 |
| Loss on repurchases of long-term debt | — | — | — | — | — | 13.5 | 13.5 |
| Premiums and expenses on tender offer of long-term debt | — | — | — | 56.9 | — | — | 56.9 |
| Dual power inverter module extended coverage | 2.2 | 11.4 | (1.9) | — | — | — | — |
| (Gain) / loss on repurchases of long-term debt | (21.0) | (8.9) | (3.3) | 16.0 | — | — | 16.0 |
| Unrealized (gain) loss on hedge contracts | — | (5.8) | 0.1 | 6.8 | (1.6) | (0.7) | 7.7 |
| Reduction of supply contract liability | — | — | (3.4) | — | — | — | — |
| Restructuring charges | 15.7 | 47.9 | — | — | — | — | — |
| Other, net[(1)] | 9.3 | 53.2 | 10.9 | 8.6 | 2.7 | 2.5 | 8.4 |
| **Adjusted EBITDA** | **$544.0** | **$501.3** | **$617.0** | **$711.9** | **$169.3** | **$223.0** | **$765.6** |
| **Net Sales** | **$2,061.4** | **$1,766.7** | **$1,926.3** | **$2,162.8** | **$517.0** | **$601.9** | **$2,247.7** |
| **Adjusted EBITDA Margin** | **26.4%** | **28.4%** | **32.0%** | **32.9%** | **32.7%** | **37.0%** | **34.1%** |

(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

| $ in millions | For the year ended December 31, | | | | Three months ended March 31, | | Last twelve months ended March 31, |
|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 | 2012 |
| **Net Cash Provided by Operating Activities** | **$268.1** | **$168.7** | **$388.9** | **$469.2** | **$109.9** | **$139.6** | **$498.9** |
| (Deductions) or Additions: | | | | | | | |
| Long-lived assets | (75.3) | (88.2) | (73.8) | (96.9) | (11.6) | (35.7) | (121.0) |
| Fee to terminate services agreement with Sponsors | — | — | — | — | — | 16.0 | 16.0 |
| Non-Recurring Activity (1) | — | 61.0 | — | — | — | — | — |
| **Adjusted Free Cash Flow** | **$192.8** | **$141.5** | **$315.1** | **$372.3** | **$98.3** | **$119.9** | **$393.9** |
| | | | | | | | |
| **Net Sales** | **$2,061.4** | **$1,766.7** | **$1,926.3** | **$2,162.8** | **$517.0** | **$601.9** | **$2,247.7** |
| **Adjusted Free Cash Flow (% to Net Sales)** | **9.4%** | **8.0%** | **16.4%** | **17.2%** | **19.0%** | **19.9%** | **17.5%** |

(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.



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