

Q3 2024 Earnings Release

October 29th, 2024



Dave Graziosi, Chair & CEO
Fred Bohley, COO, CFO & Treasurer



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

Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2023.

Non-GAAP Financial Information

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

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



Call Agenda

- Q3 2024 Performance
- 2024 Guidance Update

Q3 2024 Performance Summary

(\$ in millions, except per share data; variance % from Q3 2023)

Net Sales

\$824
+12%

Increase principally driven by:

- 22 percent increase in net sales in the North America On-Highway end market
- 23 percent increase in net sales in the Defense end market
- 7 percent increase in net sales in the Outside North America On-Highway end market

Gross Profit

\$396
+11%

Increase was principally driven by increased net sales and price increases on certain products, partially offset by higher manufacturing expense.

Net Income

\$200
+27%

Increase was principally driven by higher gross profit and lower interest expense, net.

Adjusted EBITDA*

\$305
+14%

Increase was principally driven by higher gross profit.

Diluted Earnings Per Share







\$2.27
+29%

Increase was principally driven by higher net income and lower total shares outstanding.

*See Appendix for the reconciliation from Net Income

Q3 2024 Net Sales Performance

(\$ in millions, variance % from Q3 2023)

End Markets	Q3 2024	Variance	Commentary
 North America On-Hwy	\$457	22%	Principally driven by strength in demand for Class 8 vocational vehicles and medium-duty trucks and price increases on certain products
 North America Off-Hwy	\$1	(89%)	Principally driven by lower demand from the energy sector
 Defense	\$53	23%	Principally driven by increased demand for Tracked vehicle applications
 Outside North America On-Hwy	\$126	7%	Principally driven by higher demand in Asia and price increases on certain products, partially offset by lower demand in Europe
 Outside North America Off-Hwy	\$19	0%	Principally driven by lower demand from the mining and construction sectors, partially offset by strength in demand from the energy sector
 Service Parts, Support Equipment & Other	\$168	(2%)	Principally driven by lower demand for global service parts, partially offset by price increases on certain products

Q3 2024 Financial Performance

(\$ in millions, except per share data)	Q3 2024	\$ Variance*	% Variance*	Commentary
Net Sales	\$824	\$88	12%	Increase was principally driven by strength in the North America On-Highway, Defense and Outside North America On-Highway end markets and price increases on certain products, partially offset by lower demand in the Global Off-Highway and Service Parts, Support Equipment and Other and end markets
Cost of Sales	\$428	\$49	13%	Increase was principally driven by higher direct material and manufacturing expense commensurate with increased net sales and higher manufacturing expense
Gross Profit	\$396	\$39	11%	Increase was principally driven by increased net sales and price increases on certain products, partially offset by higher manufacturing expense
Operating Expenses				
Selling, General and Administrative	\$85	(\$1)	(1%)	Decrease was principally driven by lower intangible amortization expense, partially offset by increased commercial activities spending and higher incentive compensation expense
Engineering - Research and Development	\$51	\$2	4%	
Total Operating Expenses	\$136	\$1	1%	
Operating Income	\$260	\$38	17%	
Interest Expense, net	(\$21)	\$6	22%	Decrease was principally driven by higher interest income on cash and cash equivalents and lower interest expense on ATI's Term Loan due primarily to the repayment of \$101 million of principal in Q1 2024
Other Income, net	\$10	\$12	600%	Increase was principally driven by favorable foreign exchange and unrealized mark-to-market adjustments for marketable securities
Income Before Income Taxes	\$249	\$56	29%	
Income Tax Expense	(\$49)	(\$14)	(40%)	Increase was principally driven by higher taxable income
Net Income	\$200	\$42	27%	Increase was principally driven by higher gross profit and lower interest expense, net
Diluted Earnings Per Share	\$2.27	\$0.51	29%	Increase was principally driven by higher net income and lower total diluted shares outstanding (Q3 2024: 88m shares, Q3 2023: 90m shares)
Adjusted EBITDA**	\$305	\$38	14%	

*Variance from Q3 2023

**See Appendix for the reconciliation from Net Income

Q3 2024 Cash Flow Performance

(\$ in millions, variance from Q3 2023)	Q3 2024	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$246	\$34	16.0%	Principally driven by higher gross profit, partially offset by higher operating working capital funding requirements and higher cash income taxes
CapEx	\$36	\$6	20.0%	Principally driven by intra-year timing
Adjusted Free Cash Flow*	\$210	\$28	15.4%	Driven by higher net cash provided by operating activities, partially offset by higher capital expenditures
Operating Working Capital** Percentage of LTM Sales	14.9%	N/A	30 bps	Principally driven by increased operating working capital, partially offset by increased net sales
Net Cash Paid for Interest	\$26	(\$2)	(7.1%)	Principally driven by lower interest expense on ATI's Term Loan due to repayment of \$101 million of principal in Q1 2024
Cash Paid for Income Taxes	\$51	\$8	18.6%	Principally driven by increased taxable income

2024 Guidance Update

(\$ in millions)

Increasing full year 2024 guidance previously provided to the market on July 25, 2024

\$3,135 - \$3,215	\$675 - \$725	\$1,115 - \$1,175	\$740 - \$800	\$135 - \$145	\$605 - \$655
Net Sales	Net Income	Adjusted EBITDA*	Net Cash Provided by Operating Activities	Capital Expenditures	Adjusted Free Cash Flow*

Net sales guidance reflects higher net sales driven by price increases on certain products, increased North America On-Highway and Defense end market demand and the continued execution of growth initiatives.

*See Appendix for the Guidance Reconciliation



Appendix

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 3)

Adjusted EBITDA Reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended		Last twelve
						September 30,		months ended
	2019	2020	2021	2022	2023	2023	2024	September 30,
Net Income (GAAP)	\$604	\$299	\$442	\$531	\$673	\$158	\$200	\$726
plus:								
Income tax expense	164	94	130	114	154	35	49	167
Depreciation of property, plant and equipment	81	96	104	109	109	28	28	110
Interest expense, net	134	137	116	118	107	27	21	92
Amortization of intangible assets	86	52	46	46	45	11	1	20
Stock-based compensation expense	13	17	14	18	22	6	6	25
Equity earnings in equity method investments	—	—	—	—	—	—	1	1
Unrealized loss on foreign exchange	—	2	—	6	—	—	1	1
Unrealized (gain) loss on marketable securities	—	—	(4)	22	1	2	(2)	10
Pension plan settlement loss	—	—	—	—	—	—	—	4
Expenses related to long-term debt refinancing	1	13	—	—	—	—	—	—
Technology-related investments (gain) loss	—	—	(3)	(6)	(3)	—	—	1
UAW Local 933 contract signing incentives	—	—	—	—	—	—	—	12
Loss associated with impairment of long-lived assets	2	—	—	—	—	—	—	1
Acquisition-related earnouts	1	1	1	2	—	—	—	—
Pension curtailment	—	—	—	1	—	—	—	—
UAW Local 933 retirement incentive	5	7	(2)	—	—	—	—	2
Restructuring charges	—	14	—	—	—	—	—	—
Environmental remediation benefit	(8)	—	—	—	—	—	—	—
Adjusted EBITDA (Non-GAAP)	\$1,083	\$732	\$844	\$961	\$1,108	\$267	\$305	\$1,172
Net Sales (GAAP)	\$2,698	\$2,081	\$2,402	\$2,769	\$3,035	\$736	\$824	\$3,204
Net income as a percent of net sales (GAAP)	22.4%	14.4%	18.4%	19.2%	22.2%	21.5%	24.3%	22.7%
Adjusted EBITDA as a percent of net sales (Non-GAAP)	40.1%	35.2%	35.1%	34.7%	36.5%	36.3%	37.0%	36.6%

Non-GAAP Reconciliations (2 of 3)

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,
	2019	2020	2021	2022	2023	2023	2024	2024
Net Cash Provided by Operating Activities (GAAP)	\$847	\$561	\$635	\$657	\$784	\$212	\$246	\$828
(Deductions) or Additions:								
Long-lived assets	(172)	(115)	(175)	(167)	(125)	(30)	(36)	(120)
Restructuring charges	—	12	—	—	—	—	—	—
Adjusted Free Cash Flow (non-GAAP)	\$675	\$458	\$460	\$490	\$659	\$182	\$210	\$708

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

\$ in millions	Guidance	
	Year Ending December 31, 2024	
	Low	High
Net Income (GAAP)	\$ 675	\$ 725
plus:		
Income tax expense	170	180
Depreciation of property, plant and equipment	113	113
Interest expense, net	90	90
Amortization of intangible assets	11	11
Stock-based compensation expense	26	26
UAW Local 933 contract signing incentives	14	14
Unrealized loss on marketable securities	8	8
Pension plan settlement loss	4	4
Unrealized loss on foreign exchange	1	1
Equity in earnings of equity method investments	1	1
Technology-related investments loss	1	1
Loss associated with impairment of long-lived assets	1	1
Adjusted EBITDA (Non-GAAP)	\$ 1,115	\$ 1,175
Net Cash Provided by Operating Activities (GAAP)	\$ 740	\$ 800
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	\$ (135)	\$ (145)
Adjusted Free Cash Flow (Non-GAAP)	\$ 605	\$ 655