27-Jul-2023

Allison Transmission Holdings, Inc. (ALSN)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and thank you for standing by. Welcome to Allison Transmission's Second Quarter 2023 Earnings Conference Call. My name is Darryl 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'd now like to turn the conference 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, Darryl. Good afternoon and thank you for joining us for our second 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 August 10.

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 second 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 that 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 second 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 second quarter 2023 results and provide an operational update. Fred Bohley will then review our second quarter financial performance and review updates to our full year 2023 guidance prior to commencing the Q&A.

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

David S. Graziosi

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

Thank you, Jackie. Good afternoon and thank you for joining us. Our second quarter results continued to the trend from the first quarter to prove 2023 to be an exciting year for the business, as Allison remains positioned for success with growth opportunities and strong demand across our largest end markets.

Net sales increased 18% year-over-year to a quarterly record of $783 million, leading to all-time high first half revenue of over $1.5 billion. Given these results in the current end markets conditions, we are pleased to raise our full year 2023 guidance with a revenue expectation of $3 billion at the midpoint. Although our operating environment remains challenged, Allison continues to realize year-over-year price while working to mitigate the cost pressures in our business.

During the second quarter, we increased our gross margin 190 basis points year-over-year, along with EPS growth of 52% year-over-year to $1.92. Allison's strong operating performance allows us to fund and invest in our business for long-term growth while maintaining our capital allocation priorities and returning capital to shareholders through our quarterly dividend and share repurchase program.

During the second quarter, we paid a dividend of $0.23 per share and repurchased over 2% of our shares outstanding. On our last earnings conference call, we outlined opportunities within our defense end market which we expect to lead to $100 million of incremental annual revenue in the coming years.

Global defense budget continue to rise. Allison is poised to capture growth in this cycle through our long-standing partnership with the United States Department of Defense, while diversifying our revenue sources by increasing our international sales. We expect an increase in international sales due to continued demand for our current products, particularly the X1100 cross-drive transmission as over 400 Abrams Main Battle Tanks are expected to be delivered overseas by the U.S. Department of Defense in the next three years.

Allison also expects to realize growth internationally through our relationships with global defense OEMs. Late this summer, Allison will deliver the first X1100 transmission to Turkey for their Firtina self-propelled howitzer program. Further, international growth is anticipated from South Korea's Hanwha Aerospace, with sales of their K9 Thunder self-propelled howitzer, also equipped with an X1100 variant to countries such as Egypt, Australia, Norway and Poland.

Additionally, development of new products such as 3040MX medium weight cross-drive transmission will drive international growth in the near future as the demand for medium weight armored combat vehicles increases with shifts in geopolitical dynamics.

As we have previously mentioned, the 3040MX has already been selected for India's Future Infantry Combat Vehicle, as well as Poland's Borsuk infantry fighting vehicle, with further opportunities in other European infantry fighting vehicle programs.

Domestically, Allison is involved in several programs with the U.S. Department of Defense, including tracked platforms such as the U.S. Army's Mobile Protected Firepower, or MPF, and the M88A3 armored recovery vehicle. During the quarter, the MPF was renamed the M10 Booker light tank, with the U.S. Army funding a second production contract for the program. Allison will supply our 3040MX as the propulsion solution of choice for the program.

For the M88A3, equipped with our X1100-5B, Allison has worked closely with the U.S. Army and is expecting government testing to begin on the program late this year. In addition to the $100 million of incremental annual revenue opportunity in the medium term, 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 as modernization programs become a priority.

As we have previously mentioned, the Allison eGen Force was selected by American Rheinmetall as the propulsion system for their Optionally Manned Fighting Vehicle or OMFV program offering. In late June, the U.S. Army re-designated the OMFV program, the XM30 Mechanized Infantry Combat Vehicle and down-selected from five OEMs to two. We are pleased that American Rheinmetall was selected to continue into the detailed design and prototype build and testing phases and look forward to future announcements as the U.S. Army plans to start testing in 2026 with estimated start of production in 2029 for the XM30.

Allison remains committed to investing and pursuing growth in our defense end market, leveraging our asset-light business model and long-standing relationship with defense OEMs as a competitive advantage. We are enthusiastic for the upcoming programs and opportunities from the U.S. Department of Defense, as well as international OEMs and end users in both wheeled and tracked applications. Our team is focused and aligned to realize $100 million of incremental annual revenue in the coming years and we look forward to providing updates in the near future.

Moving on, I would like to highlight a few other announcements Allison made during the second quarter. In June, we released our 2022 Environmental, Social and Governance Report. Allison and its peers are navigating an evolving commercial vehicle industry in preparation for upcoming changes to emissions standards. One of the ways we are driving the next generation of propulsion solutions is through our eGen family of fully electric and electric hybrid propulsion solutions.

In previous quarters, we have announced numerous awards and partnerships with transport authorities across the United States that will utilize the eGen Flex zero emission capable electric hybrid system. We recently announced that the Indianapolis Public Transportation Corporation, or IndyGo, is applying its recent grant from the Federal Transit Administration towards expanding its fleet of Allison eGen Flex equipped buses. This partnership is representative of our efforts to expand the market share of the eGen Flex with transit agencies across the country, advancing clean transportation and enabling a greener future with fewer emissions.

Also during the quarter, we announced that our new hydraulic fracturing transmission, the FracTran has been released in China. The FracTran represents an opportunity of $100 million of incremental annual revenue in our Global Off-Highway end market, expansion into energy markets in China signifies the strong demand we are experiencing outside of North America and reiterates our efforts in designing a clean sheet transmission, specific to the needs of service operators and producers.

In conclusion, Allison's second quarter results illustrate the current success of our business and operating performance, as well as our future opportunities for growth. We remain diligent in our investments in order to achieve our growth initiatives 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 second quarter 2023 comments, I'll discuss the Q2 2023 performance summary, key income statement line items and cash flow. I will then provide updates to the full year 2023 guidance.

Please turn to slide 5 of the presentation for the Q2 2023 performance summary. Second quarter net sales increased 18% from the same period in 2022 to a record of $783 million. The increase in year-over-year results was led by a $57 million increase in net sales in the North American on-highway end market, principally driven by strength in customer demand for medium-duty and Class 8 vocational trucks and price increases on certain products; a $43 million increase in the Service Parts, Support Equipment & Other end market principally driven by higher demand for global service parts and support equipment and price increases. Year-over-year results were also improved by an $18 million increase in net sales in the outside North American on-highway end market principally driven by strength in customer demand in Europe and Asia, the continued execution of our growth initiatives and price increases.

Gross profit for the quarter was $381 million, a 23% increase from the $311 million for the same period in 2022. The increase was principally driven by price increases on certain products and increased net sales, partially offset by higher manufacturing expense.

Net income for the quarter was $175 million, compared to $122 million for the same period in 2022. The increase was primarily driven by higher gross profit, partially offset by increased selling, general and administrative expense.

Adjusted EBITDA for the quarter was $288 million compared to $227 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 52% from the same period in 2022. Second quarter EPS of $1.92 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 Q2 2023 financial performance summary. Selling, general and administrative expenses increased $14 million from the same period in 2022 principally driven by increased commercial activity spending, incentive compensation expense and 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 Q2 2023 cash flow performance summary. Adjusted free cash flow for the quarter was $122 million, compared to $34 million for the same period in 2022. The increase was principally driven by higher gross profit, lower operating working capital requirements and lower capital expenditures partially offset by higher cash income taxes. During the second quarter, we returned capital to shareholders through our quarterly dividend of $0.23 per share and repurchasing $97 million of our common stock. For the quarter, this represented over 2% of our outstanding shares, with nearly 61% of our outstanding shares repurchased since Allison's IPO in 2012.

We ended the quarter with a net leverage ratio of 2.1 times, $351 million of cash and $645 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, $622 million is subject to variable interest rates, of which $500 million is hedged, resulting in 95% of our debt being fixed through the third quarter of 2025.

Please turn to slide 9 of the presentation for the update to our 2023 guidance. Given first half of 2023 results and current in-market conditions, we are raising our full year 2023 guidance for net sales, earnings and cash flow. Allison expects net sales to be in the range of $2.96 billion to $3.04 billion. At the midpoint this represents over 8% year-over-year growth based on the continued strength in demand in our end markets, price increases on certain products and the continued execution of our 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 $575 million to $625 million, adjusted EBITDA in the range of $1.05 billion to $1.11 billion, net cash provided by operating activities in the range of $675 million to $725 million, capital expenditures in the range of $125 million to $135 million and adjusted free cash flow in the range of $550 million to $590 million.

This concludes our prepared remarks. Darryl, 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] Our first question comes from the line of Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Howdy. So that was a litany of good news. And unfortunately, I'm going to ask you about potentially good news that's not even in your list. Regulators in Europe have moved to make hydrogen combustion an acceptable sort of zero emission strategy. And I think the US is maybe moving in that direction, too. I assume that's positive because I assume a hydrogen combustion and medium-duty truck would use same transmissions as not. I wonder if you can just comment generally on, if you see hydrogen combustion as making progress in the regulatory world and if it's neutral or negative or positive for – play out in emissions in trucks versus diesel operations? Thanks.

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

A

Rob, good afternoon. It's Dave. Thank you for the question. I'd say the short answer there is, we believe it's a positive. We certainly hear many of the things that you and other others are hearing about hydrogen. And I think it's been long a subject of discussion, just given the existing investments in conventional assets that can be deployed, as you well know, for hydrogen in many ways. So, I think from an overall industry perspective as well as – frankly, I think the a number of different alternatives being available, it's one of many, as you know, we're certainly a supporter of an all of the above strategy.

I think the development in Europe, my guess is – or our guess is it'll – you'll see more of that elsewhere to your question, because it's – as you can tell, given a number of developments around emissions in the US, there continues to be a fair number of constraints that everybody is trying to work through as you know. With our strategy, really getting the right solutions at the right time, time appears to be getting stretched out a bit, just given the realities of a number of the constraints, whether they be infrastructure, the maturity of the technology, et cetera.. So, we're certainly staying close to those particular topics and look forward to further developments on the regulatory side.

Rob Wertheimer
Analyst, Melius Research LLC

Q

I think that was not me.

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

A

No.

Jacalyn C. Bolles
Executive Director-Treasury and Investor Relations, Allison Transmission Holdings, Inc.

A

That was [indiscernible] (00:19:34) I'm sorry about that.

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

Rob, this is Fred. Just a little quick follow-up on that. I know that from your question, you're aware, but just for the broader audience. Hydrogen combustion engine will use a conventional transmission. So back to your question, certainly that's the path that's broadly adopted, you'll be able to use, obviously, assets of an internal combustion engine, but also conventional transmissions. So, certainly that's obviously favorable for us.

Rob Wertheimer
Analyst, Melius Research LLC
Q

Perfect. You said one question, so I'll stop there and get back in line. Thank you.

Operator: Thank you. Our next questions comes from the line of Ian Zaffino with Oppenheimer. Please proceed with your questions.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.
Q

Hi. Great. Thank you very much. Question would be, I guess, on all the defense success. Maybe help us understand what's differentiating yourselves where you win all this business [audio gap] (00:20:35)

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

Hey, Ian, good afternoon. It's Dave. I guess, in terms of the success, you start out with...

[indiscernible] (00:20:45)

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

...the advantage of our technology, when you think about fully automatic solutions as they've evolved over the years. On the wheeled side, we certainly have a very significant position with the U.S. military with fully automatic transmissions for their wheeled fleet. On the tactical side, I think as you continue to think about the issues on the commercial side with labor and the challenges of, frankly, manual transmissions, the training, the wear and tear, the fully automatic product, as you well know, has a significant amount advantages over availability, uptime and performance. So, the same could be said on the tracked side in terms of the developments, our technology and the Abrams is 40-plus year platform at this point, many advances over time. But the differentiation there beyond the capability to deliver a highly reliable solution does come down to the – as well incumbency and the installed base there when you think about what's been accumulated from an experience standpoint.

And also the assets that are deployed for those particular cross-drive solutions, it can be a very capital intensive process and one that requires a fairly high level of technical skill, both on the engineering side as well as manufacturing. And when you think about that type of product, which is typically by on-highway measure, relatively low volumes, it does have a number of challenges when you think about sustaining a low level of very complex production over a period of time. And that goes whether we are fabricating or our supplier partners. But it's fairly complex to actually launch propulsion solutions into that particular market. I would also add the other differentiator for us is our team, which we have a global organization that we are able to cross-functionally leverage, whether that be technical sales, marketing, service channel, et cetera. But our reach is really critical when you think about deploying systems and the need to be able to service those on a global basis in a timely fashion.

Ian Zaffino
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you very much.

Operator: Thank you. Our next question comes from the line of Tim Thein with Citi. Please proceed with your questions.

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

Q

Great. Thank you. And good afternoon. And Dave or Fred, the question is really on the North America On-Highway segment. And I'm just curious as to – if you look at the forecast from some – or I guess the one independent consultancy out there, they're calling, especially in the Class 8 straight truck market a pretty significant step-down in the fourth quarter. And I'm just curious – and this would extend to the lesser extent to medium-duty as well. But I'm just curious, as you – is that the messaging you're getting from your OEM customers, and then B, is I'm curious, is your guidance you just laid out today, does that assume that kind of follows that pattern of what ACT is assuming in terms of that sequential step-down in the fourth quarter? Or is it something different? Because it seems to be the messaging from certain of your OEM customers seems to be more of that – not that far off. So basically, the spirit of the question is what your guidance assumes, is it that falloff or not? Thank you.

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

A

Tim. It's Dave. Good afternoon. So, I would just – you mentioned the forecaster. I would tell you as we see things developing right now and the feedback that we have from our OEM partners, we're really not expecting that kind of result, frankly, in Q4. I would say, as the phrase goes, trees don't grow to the sky. And I think one thing that becomes clear as we get further into comping over last year, I would certainly expect, we're getting to more of a normalized run rate as you know some – many supply constraints have been resolved or certainly improving. I wouldn't say they're all resolved, but it's better than it was a year ago. It's better than it was six months ago.

I think some of that ultimately is playing into the mindset of everybody adjusting to this new reality, which continues to be more variable, but it's improving. I would say the underlying fundamentals as we see impacting Class 8 straight and medium-duty, medium-duty, as you know, has been very undersupplied. So, OEMs are still catching up with that level of pent-up demand. Vehicles are aging. As you know, lease rental is a big part of the medium-duty market. Those fleets are getting pretty long in the tooth that they're going to need to be replaced.

So, we see certainly medium-duty continuing to be pretty strong. I would say vocational, the underlying support there in terms of vocational drivers such as infrastructure spending, the number of trucks again that have not been produced continues to be a relatively strong market. So overall, we see favorable demand dynamics continuing into the second half. But clearly, some level of normalization are relative to our 2022 performance into the second half should be anticipated at this point. But I think our – frankly, our bigger concerns [ph] if any (00:27:17) are the entire industry being able to produce at higher levels. As I said, constraints are not been all resolved. And you would assume, given the carry over into this year with very strong demand, some of that is expected to move into 2024 as well.

Having said that, backlogs as you well know have been burned down a bit. So, I think some of that will get further focus and frankly, clarity as order books are opened by a number of the OEMs yet this year, certainly by the end of this quarter. So that's the next thing for us to be focused on. In the meantime, we're prepared to supply to whatever demand is required.

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

Q

Yeah. Very good. Thank you, Dave.

Operator: Thank you. Our next question comes from the line of Larry de Maria with William Blair. Please proceed with your question.

Lawrence T. de Maria
Analyst, William Blair & Co. LLC

Q

Hey. Thanks. Good afternoon, everybody. I want to talk about the big 31% increase in Service Parts [indiscernible] (00:28:22) nice growth and you've had a strong year overall, even on some not even necessarily easy comps. But can you – I don't know, maybe deconstruct your price volume and talk about sustainability of Service Parts growth, and what's going on specifically, is it a catch-up from supply chain challenges or mostly price? Can you just kind of deconstruct what's going on there for us and sustainability, please?

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

A

Sure, Larry. This is Fred. When you break it down, there's certainly, an element of everything you mentioned. The North American service business, very strong for the quarter, on a year-over-year basis driving about half of the uplift. But, outside North America's up, support equipment sold to our OEMs with the higher volumes up. Our business coming out of Walker Die Cast is up.

And then relative to pricing, I mean, in the quarter we had significant price in total, $45 million in price, over 600 basis points. And that's also providing a lift in the parts category as well. But we are getting price across all of our end markets.

Lawrence T. de Maria
Analyst, William Blair & Co. LLC

Q

Okay. That's helpful. Thank you very much.

Operator: Thank you. Our next question comes from the line of Tami Zakaria with JPMorgan. Please proceed with your question.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you so much. I was hoping to ask two questions. So my first question is, I think you mentioned pricing was $45 million so more than 6%. What was the cost headwind like I'm trying to get a sense of the price/cost. And then what's the pricing outlook for the back half?

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

A

Sure. Tami, this is Fred. Yes, $45 million in price on a year-over-year basis, over 600 basis points in the quarter. That was off of 800 basis points of price in Q1. As you're aware, we did multiple intra-year pricing last year. So the comps from a price in total do get more difficult as you move into Q3 and Q4. Initially when we provided guide back in February, we were expecting to get about 400 basis points of price on a year-over-year basis. At this point, we should be closer to 500 basis points of price.

In the quarter material cost benefited from commodity prices coming off. So, our total material cost on a year-over-year basis was basically neutral. We did incur about $17 million of the additional manufacturing cost. Obviously, some of that associated with getting more volume out the door based on our initial guide, increasing guidance, Q1 and then again increasing guide in Q2, we are accruing higher incentive comp, expenses as well, which is driving some of that manufacturing expense up.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Got it. Thank you. If I may ask one more question. As you look at your gross margins, they've been pretty strong this year. So if we look to next year, let's say, on-highway volumes or let's say flattish. Do you expect to hold gross margins in a flattish environment? Or how should we think about gross margin, let's say, in a flat volume year?

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

A

Tami, this is Fred again. I mean, I start with, as you mentioned – I mean, gross margins, certainly, strong in the quarter. The incremental drop-throughs on the revenues is very strong. It's just thinking of the quarter, I mean, revenue up 18%, EBITDA margins up 260 basis points, net income up 43%, EPS up 52%. So definitely a very strong performing quarter. As we think what is 2024 going to look like, obviously, we're not providing guide for 2024. But as we look out, there – one, the cost of everything has been inflating. So, if you think about the cost of vehicles going up, the cost of labor going up, the cost to get your vehicle repaired going up, maintenance parts going up, what that really has generated is a situation where we deliver products that make the vehicles run more efficiently.

Ultimately, you can get from point A to B quicker. You don't have the maintenance downtime. You can size smaller fleets and fewer drivers. So, the cost increases has really driven for us a significant improvement in our value proposition, which is obviously already very strong. So, as costs continue to go up, we definitely have to manage them from a price/cost standpoint but it positions us with more – delivering a greater value proposition to both further increase market share as well as get price.

So as we're thinking about where we sit right now, we're still – we're not having conversations with our customers on 2024 pricing, we're really trying to understand what the expectations are for cost. But, we're well positioned to continue to get price. And then, as the supply chain begins to normalize, we're going to get after the operating inefficiencies that are out there, whether that be expedited freight or our plant productivity measures where, don't always have every parts you need to produce a product. And at times you're running on overtime, which really is unnecessary if you had all parts. So, there's definitely cost opportunities to get out. But we do, expect that labor is going to continue to be challenged and that's going to drive some cost pressures across the business and industry.

Tami Zakaria
Analyst, JPMorgan Securities LLC

Q

Got it. That's very helpful color. Thank you.

Operator: Thank you. Our next question comes from the line of Jerry Revich with Goldman Sachs. Please proceed with your question.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good evening everyone. I'm wondering if you could talk about your views on the opportunities for natural gas and landfill gas powered engines in particular, in terms of what that would mean for an automatic attachment rates? And can you comment specifically whether you're going to be specced on the new upcoming 15-liter natural gas engines that are set to come out over the next 18 to 24 months? Thanks.

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

A

Hey, Jerry, it's Dave. Good evening. Relative to natural gas – and Fred mentioned this earlier on the question about hydrogen, nat gas has some interesting attributes in terms of power density. So one of the things that it requires is ways that you can actually increase the power at the lower end in terms of RPM performance. So what that requires is an Allison Transmission, a fully automatic overcomes that lag if you have this sense of hesitation when you would try to accelerate. That's the advantage of a fully automatic [indiscernible] (00:37:09).

So to your point on natural gas, we certainly view ourselves in an advantaged position relative to transmission solutions to pair with natural gas. So, your comment or question around engine releases, that situation continues to evolve for a number of reasons. We'll allow the OEMs and the engine providers to ultimately get there in terms of their maps and their product introduction, timing. But suffice to say, I think we're certainly the preferred solution from a transmission perspective with natural gas engines.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Rob Wertheimer with Melius Research. Please proceed with your question.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Hey, guys. Thanks for the follow-up. Just a quick one. Just for grounding, what has changed in margin structure from the kind of pre-COVID levels? I'll call it peak, but I'm not sure is a very high peak in your end markets. Is there anything that's structurally downshifted for you in margin or is that something you hope to win back over time as price and volume catch up?

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

A

Yeah. Rob, I mean, probably the only thing that's changed structurally would be the acquisition of Walker Die Cast and the portion of that business that's been – is represented in outside sales and parts, that's not – that's a lower margin business than the balance of our parts business. But really beyond that, I think, we've had a high-class problem in that, you have roughly 50% margin. So in order to maintain those margins for every dollar cost you get, you're going to get $2 in price. Clearly, we're price/cost positive and we're making more on everything that goes out the door, when you think about gross margin or gross profit per unit, we're making more even though you've seen margins – gross margins down a couple hundred basis points from peak. But, we're certainly – as I talked earlier with the pricing opportunities that's out there is certainly something we're focused on. But, for us, the real focus is always, EBITDA really as a proxy for cash and how much cash can we generate? And the good news is we are generating more cash on what's going out the door now relative to what was pre-COVID.

Rob Wertheimer
Analyst, Melius Research LLC

Q

Okay. Thank you.

Operator: Thank you. We have reached the end of our question and answer session. I would now like to turn the call back over to David Graziosi for closing comments.

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

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

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.