UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): July 27, 2023

ALLISON TRANSMISSION HOLDINGS, INC.
(Exact Name of Registrant as Specified in Charter)

Delaware	**001-35456**	**26-0414014**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

One Allison Way, Indianapolis, Indiana	**46222**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (317) 242-5000

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	ALSN	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On July 27, 2023, Allison Transmission Holdings, Inc. ("Allison") published an earnings release reporting its financial results for the three months ended June 30, 2023. A copy of the earnings release is attached as Exhibit 99.1 hereto. Following the publication of the earnings release, Allison will host an earnings call on July 27, 2023 at 5:00 p.m. EDT on which its financial results for the three months ended June 30, 2023 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On July 27, 2023, Allison posted the materials attached as Exhibits 99.1 and 99.2 on its web site (www.allisontransmission.com).

As discussed on page 2 of Exhibit 99.2, the investor presentation contains forward-looking statements within the meaning of the federal securities laws. These statements are present expectations, and are subject to the limitations listed therein and in Allison's other Securities and Exchange Commission filings, including that actual events or results may differ materially from those in the forward-looking statements.

The foregoing information (including the exhibits hereto) is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit Number	Description
99.1	Earnings release dated July 27, 2023.
99.2	Investor presentation materials dated July 27, 2023.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Allison Transmission Holdings, Inc.

Date: July 27, 2023

By:	/s/ Eric C. Scroggins
Name:	Eric C. Scroggins
Title:	Vice President, General Counsel and Secretary

Allison Transmission News Release

Allison Transmission Announces Second Quarter 2023 Results

* **Record quarterly net sales of $783 million, up 18% year over year**
* **Net Income of $175 million, 22% of net sales, up 43% year over year**
* **Diluted EPS of $1.92, up 52% year over year**
* **Increasing 2023 Net Sales, Earnings and Cash Flow Guidance**

INDIANAPOLIS, July 27, 2023 – Allison Transmission Holdings Inc. (NYSE: ALSN), today reported second quarter net sales of $783 million, an 18 percent increase from the same period in 2022 and diluted EPS of $1.92, a 52 percent increase from the same period in 2022.

David S. Graziosi, Chairman and Chief Executive Officer of Allison Transmission commented, “We are pleased to report record quarterly net sales as demand remains strong across our largest end markets and the Allison team remains focused on realizing our growth initiatives. Year over year net sales growth of 18 percent was surpassed by even stronger growth in diluted EPS, up 52 percent. Furthermore, our gross margin expansion of 190 basis points year over year demonstrates our continued efforts toward price realization and cost mitigation in an inflationary environment.”

Graziosi continued, “We remain committed to our capital allocation priorities by investing in the business while returning capital to shareholders through our quarterly dividend and share repurchase program. During the second quarter, we paid a quarterly dividend of $0.23 per share and repurchased over 2 million shares of our common stock, representing over 2 percent of shares outstanding. Given second quarter results and current end markets conditions, we are raising our full year 2023 net sales guidance to $3 billion at the midpoint.”

Second Quarter Financial Highlights

Net sales for the quarter were a record high of $783 million. Year over year results were led by:

- A $57 million increase in net sales in the North America 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 net sales in the Service Parts, Support Equipment and Other end market principally driven by higher demand for global service parts and support equipment and price increases on certain products, and
- An $18 million increase in net sales in the Outside North America On-Highway end market driven by strength in customer demand in Europe and Asia, the continued execution of our growth initiatives and price increases on certain products.

Net income for the quarter was $175 million. Diluted EPS for the quarter was $1.92. Adjusted EBITDA, a non-GAAP financial measure, for the quarter was $288 million. Net cash provided by operating activities for the quarter was $141 million. Adjusted free cash flow, a non-GAAP financial measure, for the quarter was $122 million.

Second Quarter Net Sales by End Market

End Market	Q2 2023 Net Sales ($M)	Q2 2022 Net Sales ($M)	% Variance
North America On-Highway	**$ 397**	**$ 340**	**17%**
North America Off-Highway	**$ 25**	**$ 20**	**25%**
Defense	**$ 33**	**$ 29**	**14%**
Outside North America On-Highway	**$ 123**	**$ 105**	**17%**
Outside North America Off-Highway	**$ 24**	**$ 32**	**(25%)**
Service Parts, Support Equipment & Other	**$ 181**	**$ 138**	**31%**
Total Net Sales	**$ 783**	**$ 664**	**18%**

Second Quarter Financial Results

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

Selling, general and administrative expenses for the quarter were $92 million, an increase of $14 million from $78 million for the same period in 2022. The increase was principally driven by increased commercial activities spending, incentive compensation expense and product warranty expense.

Engineering – research and development expenses for the quarter were $47 million, an increase of $1 million from $46 million for the same period in 2022.

Net income for the quarter was $175 million, an increase of 43 percent from $122 million for the same period in 2022. The increase was principally driven by higher gross profit partially offset by increased selling, general and administrative expense.

Net cash provided by operating activities was $141 million, an increase of $77 million from $64 million for the same period in 2022. The increase was principally driven by higher gross profit and lower operating working capital requirements partially offset by higher cash income taxes and increased commercial activities spending.

Second Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was $288 million, an increase of $61 million from $227 million for the same period in 2022. The increase in Adjusted EBITDA was principally driven by higher gross profit partially offset by increased selling, general and administrative expenses.

Adjusted free cash flow for the quarter was $122 million, an increase of $88 million from $34 million for the same period in 2022. The increase was driven by higher net cash provided by operating activities and lower capital expenditures.

2023 Guidance Update

Given first half of 2023 results and current end markets conditions, we are raising our full year 2023 guidance. Allison expects 2023 Net Sales in the range of $2.96 to $3.04 billion, Net Income in the range of $575 to $625 million, Adjusted EBITDA in the range of $1.05 to $1.11 billion, Net Cash Provided by Operating Activities in the range of $675 to $725 million, Capital Expenditures in the range of $125 to $135 million, and Adjusted Free Cash Flow in the range of $550 to $590 million.

Our 2023 net sales guidance reflects higher customer demand in the Global On-Highway and Service Parts, Support Equipment & Other end markets, price increases on certain products and the continued execution of growth initiatives.

Conference Call and Webcast

The company will host a conference call at 5:00 p.m. ET on Thursday, July 27, 2023 to discuss its second quarter 2023 results. The dial-in phone number for the conference call is +1-877-425-9470 and the international dial-in number is +1-201-389-0878. A live webcast of the conference call will also be available online at http://ir.allisontransmission.com.

For those unable to participate in the conference call, a replay will be available from 9:00 p.m. ET on July 27 until 11:59 p.m. ET on August 10. The replay dial-in phone number is +1-844-512-2921 and the international replay dial-in number is +1-412-317-6671. The replay passcode is 13739627.

About Allison Transmission

Allison Transmission (NYSE: ALSN) is a leading designer and manufacturer of propulsion solutions for commercial and defense vehicles and the largest global manufacturer of medium- and heavy-duty fully automatic transmissions that *Improve the Way the World Works*. Allison products are used in a wide variety of applications, including on-highway trucks (distribution, refuse, construction, fire and emergency), buses (school, transit and coach), motorhomes, off-highway vehicles and equipment (energy, mining and construction applications) and defense vehicles (tactical wheeled and tracked). Founded in 1915, the company is headquartered in Indianapolis, Indiana, USA. With a presence in more than 150 countries, Allison has regional headquarters in the Netherlands, China and Brazil, manufacturing facilities in the USA, Hungary and India, as well as global engineering resources, including electrification engineering centers in Indianapolis, Indiana, Auburn Hills, Michigan and London in the United Kingdom. Allison also has more than 1,600 independent distributor and dealer locations worldwide. For more information, visit allisontransmission.com.

Forward-Looking Statements

This press release contains forward-looking statements. The words “believe,” “expect,” “anticipate,” “intend,” “estimate” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management’s good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: increases in cost, disruption of supply or shortage of labor, freight, raw materials, energy or components used to manufacture or transport our products or those of our customers or suppliers, including as a result of the war in Ukraine and the COVID-19 pandemic; global economic volatility; the duration and spread of the COVID-19 pandemic, including new variants of the virus and the pace and availability of vaccines and boosters, mitigating efforts deployed by government agencies and the public at large, and the overall impact from such outbreak on economic conditions, financial market volatility and our business, including but not limited to the operations of our manufacturing and other facilities, the availability of labor, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flow; our participation in markets that are competitive; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs, including with respect to electric hybrid and fully electric commercial vehicles; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; the concentration of our net sales in our top five customers and the loss of any one of these; the failure of markets outside North America to increase adoption of fully automatic transmissions; the success of our research and development efforts, the outcome of which is uncertain; U.S. and foreign defense spending and the timing of defense programs; risks associated with our international operations, including acts of war and increased trade protectionism; general economic and industry conditions including the risk of recession; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; our ability to identify, consummate and effectively integrate acquisitions and collaborations; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers or suppliers; risks related to our indebtedness; and other risks and uncertainties associated with our business described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that the expectations will be attained or that any deviation will not be material. All information is as of the date of this press release, and we undertake no obligation to update any forward-looking statement to conform the statement to actual results or changes in expectations and risks related to our indebtedness.

Use of Non-GAAP Financial Measures

This press release contains information about Allison's financial results and forward-looking estimates of financial results which are not presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Such non-GAAP financial measures are reconciled to their closest GAAP financial measures at the end of this press release. Non-GAAP financial measures should not be considered in isolation or as a substitute for our reported results prepared in accordance with GAAP and, as calculated, may not be comparable to other similarly titled measures of other companies.

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.

Attachments

- Condensed Consolidated Statements of Operations
- Condensed Consolidated Balance Sheets
- Condensed Consolidated Statements of Cash Flows
- Reconciliation of GAAP to Non-GAAP Financial Measures
- Reconciliation of GAAP to Non-GAAP Financial Measures for Full Year Guidance

Contacts

Jackie Bolles
Executive Director, Treasury and Investor Relations
jacalyn.bolles@allisontransmission.com
(317) 242-7073

Claire Gregory
Director, Global External Communications
claire.gregory@allisontransmission.com
(317) 694-2065

Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, dollars in millions, except per share data)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net sales	$ 783	$ 664	$ 1,524	$ 1,341
Cost of sales	402	353	782	710
Gross profit	381	311	742	631
Selling, general and administrative	92	78	179	153
Engineering - research and development	47	46	91	89
Operating income	242	187	472	389
Interest expense, net	(28)	(30)	(56)	(59)
Other income (expense), net	2	(3)	12	(13)
Income before income taxes	216	154	428	317
Income tax expense	(41)	(32)	(83)	(66)
Net income	$ 175	$ 122	$ 345	$ 251
Basic earnings per share attributable to common stockholders	$ 1.94	$ 1.26	$ 3.79	$ 2.59
Diluted earnings per share attributable to common stockholders	$ 1.92	$ 1.26	$ 3.75	$ 2.56

Allison Transmission Holdings, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, dollars in millions)

	June 30, 2023	December 31, 2022
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 351	$ 232
Accounts receivable, net	381	363
Inventories	278	224
Other current assets	59	47
Total Current Assets	1,069	866
Property, plant and equipment, net	761	763
Intangible assets, net	855	878
Goodwill	2,076	2,075
Other non-current assets	95	89
TOTAL ASSETS	$4,856	$ 4,671
LIABILITIES		
Current Liabilities		
Accounts payable	$ 238	$ 195
Product warranty liability	25	33
Current portion of long-term debt	6	6
Deferred revenue	46	38
Other current liabilities	182	208
Total Current Liabilities	497	480
Product warranty liability	35	24
Deferred revenue	93	93
Long-term debt	2,499	2,501
Deferred income taxes	517	536
Other non-current liabilities	159	163
TOTAL LIABILITIES	3,800	3,797
TOTAL STOCKHOLDERS’ EQUITY	1,056	874
TOTAL LIABILITIES & STOCKHOLDERS’ EQUITY	$4,856	$ 4,671

Allison Transmission Holdings, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, dollars in millions)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net cash provided by operating activities	$ 141	$ 64	$ 334	$ 226
Net cash used for investing activities (a) (b)	(19)	(30)	(41)	(68)
Net cash used for financing activities	(115)	(56)	(174)	(162)
Effect of exchange rate changes on cash	—	(1)	—	(1)
Net increase (decrease) in cash and cash equivalents	7	(23)	119	(5)
Cash and cash equivalents at beginning of period	344	145	232	127
Cash and cash equivalents at end of period	$ 351	$ 122	$ 351	$ 122
Supplemental disclosures:				
Income taxes paid	$ 119	$ 58	$ 121	$ 59
Interest paid	$ 35	$ 31	$ 64	$ 57
(a) Additions of long-lived assets	$ (19)	$ (30)	$ (43)	$ (50)
(b) Business acquisitions	$ —	$ —	$ —	$ (23)

Allison Transmission Holdings, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
(Unaudited, dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Net income (GAAP)	$ 175	$ 122	$ 345	$ 251
plus:				
Income tax expense	41	32	83	66
Interest expense, net	28	30	56	59
Depreciation of property, plant and equipment	27	26	53	53
Amortization of intangible assets	11	12	22	23
Stock-based compensation expense (a)	6	6	11	9
Unrealized (gain) loss on marketable securities (b)	—	(4)	(3)	11
Technology-related investments gain (c)	—	—	(3)	(6)
Unrealized loss on foreign exchange (d)	—	2	—	3
Acquisition-related earnouts (e)	—	1	—	2
Adjusted EBITDA (Non-GAAP)	$ 288	$ 227	$ 564	$ 471
Net sales (GAAP)	$ 783	$ 664	$1,524	$1,341
Net income as a percent of net sales (GAAP)	22.3%	18.4%	22.6%	18.7%
Adjusted EBITDA as a percent of net sales (Non-GAAP)	36.8%	34.2%	37.0%	35.1%
Net cash provided by operating activities (GAAP)	$ 141	$ 64	$ 334	$ 226
Deductions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(19)	(30)	(43)	(50)
Adjusted free cash flow (Non-GAAP)	$ 122	$ 34	$ 291	$ 176

(a) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
(b) Represents (gains) losses (recorded in Other income (expense), net) related to an investment in the common stock of Jing-Jin Electric Technologies Co. Ltd.
(c) Represents gains (recorded in Other income (expense), net) related to investments in co-development agreements to expand our position in propulsion solution technologies.
(d) Represents losses (recorded in Other income (expense), net) on intercompany financing transactions for our India facility.
(e) Represents expenses (recorded in Selling, general and administrative, Engineering— research and development) for earnouts related to our acquisition of Vantage Power Limited.

Allison Transmission Holdings, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures for Full Year Guidance
(Unaudited, dollars in millions)

	Guidance Year Ending December 31, 2023	
	Low	High
Net Income (GAAP)	$ 575	$ 625
plus:		
Depreciation and amortization	170	170
Income tax expense	171	181
Interest expense, net	118	118
Stock-based compensation expense (a)	22	22
Unrealized gain on marketable securities (b)	(3)	(3)
Technology-related investments gain (c)	(3)	(3)
Adjusted EBITDA (Non-GAAP)	$ 1,050	$ 1,110
Net Cash Provided by Operating Activities (GAAP)	$ 675	$ 725
(Deductions) to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	$ (125)	$ (135)
Adjusted Free Cash Flow (Non-GAAP)	$ 550	$ 590

(a) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).

(b) Represents a gain (recorded in Other income (expense), net) related to an investment in the common stock of Jing-Jin Electric Technologies Co. Ltd.

(c) Represents a gain (recorded in Other income (expense), net) related to investments in co-development agreements to expand our position in propulsion solution technologies.

Q2 2023 Earnings Release

July 27, 2023

Dave Graziosi, Chairman & CEO
Fred Bohley, Senior Vice President, CFO & Treasurer

Safe Harbor Statement

The following information contains, or may be deemed to contain, "forward-looking statements" (as defined in the U.S. Private Securities Litigation Reform Act of 1995). The words "believe," "expect," "anticipate," "intend," "estimate" and other expressions that are predictions of orindicate future events and trends and that do not relate to historical matters identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although forward-looking statements reflect management's good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements speak only as of the date the statements are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to: our participation in markets that are competitive; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs, including with respect to electric hybrid and fully electric commercial vehicles; increases in cost, disruption of supply or shortage of labor, freight, raw materials, energy or components used to manufacture or transport our products or those of our customers or suppliers, including as a result of geopolitical risks, wars and pandemics; global economic volatility; general economic and industry conditions, including the risk of recession; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers or suppliers; the duration and spread of the COVID-19 pandemic, including new variants of the virus and the pace and availability of vaccines and boosters, mitigating efforts deployed by government agencies and the public at large, and the overall impact from such outbreak on economic conditions, financial market volatility and our business, including but not limited to the operations of our manufacturing and other facilities, the availability of labor, our supply chain, our distribution processes and demand for our products and the corresponding impacts to our net sales and cash flow; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; the concentration of our net sales in our top five customers and the loss of any one of these; the failure of markets outside North America to increase adoption of fully automatic transmissions; the success of our research and development efforts, the outcome of which is uncertain; U.S. and foreign defense spending and the timing of defense programs; risks associated with our international operations, including acts of war and increased trade protectionism; the discovery of defects in our products, resulting in delays in new model launches, recall campaigns and/or increased warranty costs and reduction in future sales or damage to our brand and reputation; our ability to identify, consummate and effectively integrate acquisitions and collaborations; risks related to our indebtedness.

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, 2022.

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

- Q2 2023 Performance
- 2023 Guidance Update

Q2 2023 Performance Summary

($ in millions, except per share data; variance % from Q2 2022)

Net Sales	Gross Profit	Net Income	Adjusted EBITDA*	Diluted Earnings Per Share
$783	**$381**	**$175**	**$288**	**$1.92**
+18%	**+23%**	**+43%**	**+27%**	**+52%**
Increase principally driven by: — $57 million increase in net sales in the North America On-Highway end market. — $43 million increase in net sales in the Service Parts, Support Equipment and Other end market. — $18 million increase in net sales in the Outside North America On-Highway end market.	Increase was principally driven by price increases on certain products and increased net sales, partially offset by higher manufacturing expense.	Increase was principally driven by higher gross profit partially offset by increased selling, general and administrative expense.	Increase was principally driven by higher gross profit partially offset by increased selling, general and administrative expense.	Increase was principally driven by higher net income and lower total shares outstanding.

*See Appendix for the reconciliation from Net Income

Q2 2023 Net Sales Performance

($ in millions, variance % from Q2 2022)

	End Markets	Q2 2023	Variance	Commentary
	North America On-Hwy	$397	17%	Principally driven by strength in customer demand for medium-duty and Class 8 vocational trucks and price increases on certain products
	North America Off-Hwy	$25	25%	Principally driven by higher demand for hydraulic fracturing applications in the energy sector
	Defense	$33	14%	Principally driven by increased demand for wheeled vehicle applications
	Outside North America On-Hwy	$123	17%	Principally driven by strength in customer demand in Europe and Asia, the continued execution of our growth initiatives and price increases on certain products
	Outside North America Off-Hwy	$24	(25%)	Principally driven by lower demand in the energy sector partially offset by higher demand in the mining and construction sectors
	Service Parts, Support Equipment & Other	$181	31%	Principally driven by higher demand for global service parts and support equipment and price increases on certain products

Allison Transmission

Q2 2023 Financial Performance

($ in millions, except per share data)	Q2 2023	$ Variance*	% Variance*	Commentary
Net Sales	$783	$119	18%	Increase was principally driven by higher demand in the North America On Highway, Service Parts, Support Equipment & Other and Outside North America On-Highway End Markets and price increases on certain products
Cost of Sales	$402	($49)	(14%)	Increase was principally driven by increased direct material and manufacturing expense commensurate with increased net sales
Gross Profit	$381	$70	23%	Increase was principally driven by price increases on certain products and increased net sales, partially offset by higher manufacturing expense
Operating Expenses				
Selling, General and Administrative	$92	($14)	(18%)	Increase was principally driven by increased commercial activities spending, incentive compensation and product warranty expense
Engineering - Research and Development	$47	($1)	(2%)	
Total Operating Expenses	$139	($15)	(12%)	
Operating Income	$242	$55	29%	
Interest Expense, net	($28)	$2	7%	Decrease was principally driven by higher interest income on cash and cash equivalents
Other Income, net	$2	$5	167%	Increase was principally driven by favorable foreign exchange
Income Before Income Taxes	$216	$62	40%	
Income Tax Expense	($41)	($9)	(28%)	Increase in income tax expense was principally driven by increased taxable income
Net Income	$175	$53	43%	Increase was principally driven by higher gross profit partially offset by increased selling, general and administrative expense
Diluted Earnings Per Share	$1.92	$0.66	52%	Increase was principally driven by higher net income and lower total shares outstanding (Q2 2023: 90m shares, Q2 2022: 97m shares)
Adjusted EBITDA**	$288	$61	27%	

*Variance from Q2 2022
**See Appendix for the reconciliation from Net Income

Allison Transmission

Q2 2023 Cash Flow Performance

($ in millions, variance from Q2 2022)	Q2 2023	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	**$141**	$77	120.3%	Principally driven by higher gross profit and lower operating working capital requirements partially offset by higher cash income taxes and increased commercial activities spending
CapEx	**$19**	($11)	(36.7%)	Principally driven by intra-year timing
Adjusted Free Cash Flow*	**$122**	$88	258.8%	Driven by higher net cash provided by operating activities and lower capital expenditures
Operating Working Capital Percentage of LTM Sales**	**14.9%**	N/A	(100 bps)	Principally driven by increased net sales partially offset by increased operating working capital
Cash Paid for Interest	**$35**	$4	12.9%	Principally driven by increased interest rates
Cash Paid for Income Taxes	**$119**	$61	105.2%	Principally driven by increased taxable income

*See Appendix for a reconciliation from Net Cash Provided by Operating Activities
** Operating Working Capital = A/R + Inventory - A/P

Allison Transmission

2023 Guidance (provided on July 27, 2023)

($ in millions)

Increased full year 2023 Net Sales, Net Income, Adjusted EBITDA, Net Cash Provided by Operating Activities and Adjusted Free Cash Flow guidance ranges

$2,960 - $3,040	$575 - $625	$1,050 - $1,110	$675 - $725	$125 - $135	$550 - $590
Net Sales	Net Income	Adjusted EBITDA*	Net Cash Provided by Operating Activities	Capital Expenditures	Adjusted Free Cash Flow*

Net sales guidance reflects higher customer demand in the Global On-Highway and Service Parts, Support Equipment & Other end markets, price increases on certain products 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 June 30,		Last twelve months ended June 30,
	2018	2019	2020	2021	2022	2022	2023	2023
Net Income (GAAP)	**$639**	**$604**	**$299**	**$442**	**$531**	**$122**	**$175**	**$625**
plus:								
Interest expense, net	121	134	137	116	118	30	28	115
Income tax expense	166	164	94	130	114	32	41	131
Loss associated with impairment of long-lived assets	4	2	—	—	—	—	—	—
Technology-related investments expense loss (gain)	3	—	—	(3)	(6)	—	—	(3)
Environmental remediation benefit	—	(8)	—	—	—	—	—	—
Amortization of intangible assets	87	86	52	46	46	12	11	45
Depreciation of property, plant and equipment	77	81	96	104	109	26	27	109
Restructuring charges	—	—	14	—	—	—	—	—
UAW Local 933 retirement incentive	15	5	7	(2)	—	—	—	—
Unrealized loss on foreign exchange	3	—	2	—	6	2	—	3
Expenses related to long-term debt refinancing	—	1	13	—	—	—	—	—
Acquisition-related earnouts	—	1	1	1	2	1	—	—
Pension curtailment	—	—	—	—	1	—	—	1
Unrealized (gain) loss on marketable securities	—	—	—	(4)	22	(4)	—	8
Stock-based compensation expense	13	13	17	14	18	6	6	20
Adjusted EBITDA (Non-GAAP)	**$1,128**	**$1,083**	**$732**	**$844**	**$961**	**$227**	**$288**	**$1,054**
Net Sales (GAAP)	**$2,713**	**$2,698**	**$2,081**	**$2,402**	**$2,769**	**$664**	**$783**	**$2,952**
Net income as a percent of net sales	**23.6%**	**22.4%**	**14.4%**	**18.4%**	**19.2%**	**18.4%**	**22.3%**	**21.2%**
Adjusted EBITDA as a percent of net sales	**41.6%**	**40.1%**	**35.2%**	**35.1%**	**34.7%**	**34.2%**	**36.8%**	**35.7%**

Non-GAAP Reconciliations (2 of 3)

Adjusted Free Cash Flow Reconciliation

$ in millions, Unaudited	For the year ended December 31,					Three months ended June 30,		Last twelve months ended June 30,
	2018	2019	2020	2021	2022	2022	2023	2023
Net Cash Provided by Operating Activities (GAAP)	**$837**	**$847**	**$561**	**$635**	**$657**	**$64**	**$141**	**$765**
(Deductions) or Additions:								
Long-lived assets	(100)	(172)	(115)	(175)	(167)	(30)	(19)	(160)
Restructuring charges	—	—	12	—	—	—	—	—
Adjusted Free Cash Flow (non-GAAP)	**$737**	**$675**	**$458**	**$460**	**$490**	**$34**	**$122**	**$605**

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

$ in millions	Guidance Year Ending December 31, 2023			
	Low		High	
Net Income (GAAP)	**$**	**575**	**$**	**625**
plus:				
Depreciation and amortization		170		170
Income tax expense		171		181
Interest expense, net		118		118
Stock-based compensation expense		22		22
Unrealized gain on marketable securities		(3)		(3)
Technology-related investments gain		(3)		(3)
Adjusted EBITDA (Non-GAAP)	**$**	**1,050**	**$**	**1,110**
Net Cash Provided by Operating Activities (GAAP)	**$**	**675**	**$**	**725**
(Deductions) to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	$	(125)	$	(135)
Adjusted Free Cash Flow (Non-GAAP)	**$**	**550**	**$**	**590**