

Q4 2019 Earnings Release

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Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2018.

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 U.S. generally accepted accounting principles ("GAAP") measure to Adjusted EBITDA and Adjusted EBITDA as a percent of net sales is Net income and Net income as a percent of net sales, respectively. Adjusted EBITDA is calculated as the earnings before interest expense, 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 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

- **Q4 2019 Performance**
- **2020 Guidance**

Q4 2019 Performance Summary

(\$ in millions)	Q4 2019	Q4 2018	% Variance
Net Sales	\$617	\$647	(4.6%)
Gross Margin %	48.3%	52.2%	(390) bps
Net Income	\$107	\$147	(27.2%)
Adjusted EBITDA ⁽¹⁾	\$216	\$261	(17.2%)

Commentary

Net Sales: decrease was principally driven by lower demand in the Global Off-Highway and Service Parts, Support Equipment & Other end markets partially offset by higher demand in the North America On-Highway end market.

Gross Margin: decrease was principally driven by lower net sales and unfavorable mix, partially offset by price increases on certain products and favorable material costs.

Net Income: decrease was principally driven by lower gross profit and increased product initiatives spending partially offset by an environmental remediation benefit.

Adjusted EBITDA: decrease was principally driven by lower gross profit and increased product initiatives spending.

(1) See Appendix for a reconciliation of Adjusted EBITDA.

Q4 2019 Sales Performance

(\$ in millions)

End Markets	Q4 2019	Q4 2018	% Variance	Commentary
North America On-Hwy	\$330	\$303	8.9%	Principally driven by higher demand for Rugged Duty Series, Highway Series and Electric-Hybrid Propulsion models, led by the continued execution of our growth initiatives and associated market share gains
North America Off-Hwy	\$1	\$17	(94.1%)	Principally driven by lower demand from hydraulic fracturing applications
Defense	\$42	\$36	16.7%	Principally driven by higher Tracked vehicle demand
Outside North America On-Hwy	\$91	\$95	(4.2%)	Principally driven by lower demand in Europe and Asia partially offset by higher demand in South America
Outside North America Off-Hwy	\$18	\$47	(61.7%)	Principally driven by lower demand in the energy, mining and construction sectors
Service Parts, Support Equipment & Other	\$135	\$149	(9.4%)	Principally driven by lower demand for North America Off-Highway service parts
Total	\$617	\$647	(4.6%)	

Q4 2019 Financial Performance

(\$ in millions, except per share data)	Q4 2019	Q4 2018	\$ Var	% Var	Commentary
Net Sales	\$617	\$647	(\$30)	(4.6%)	Decrease was principally driven by lower demand in the Global Off-Highway and Service Parts, Support Equipment & Other end markets partially offset by higher demand in the North America On-Highway end market
Cost of Sales	\$319	\$309	(\$10)	(3.2%)	
Gross Profit	\$298	\$338	(\$40)	(11.8%)	Decrease was principally driven by lower net sales and unfavorable mix, partially offset by price increases on certain products and favorable material costs
Operating Expenses					
Selling, General and Administrative	\$92	\$90	(\$2)	(2.2%)	Increase was principally driven by increased commercial activities spending partially offset by lower 2019 product warranty expense
Engineering – Research and Development	\$47	\$37	(\$10)	(27.1%)	Increase was principally driven by increased product initiatives spending
Loss associated with Impairment of Long-Lived Assets	\$2	\$4	\$2	50.0%	
Total Operating Expenses	\$141	\$131	(\$10)	(7.6%)	
Environmental Remediation	(\$8)	\$0	\$8	N/A	Benefit related to a reduction of the liability for ongoing environmental remediation activities at our Indianapolis, Indiana manufacturing facilities
Operating Income	\$165	\$207	(\$42)	(20.3%)	
Interest Expense, net	(\$33)	(\$31)	(\$2)	(6.5%)	Increase was principally driven by higher interest rates related to long-term debt refinancing that extended maturities at fixed interest rates
Other Income (Expense), net	\$2	(\$2)	\$4	200%	
Income Before Income Taxes	\$134	\$174	(\$40)	(23.0%)	
Income Tax Expense	(\$27)	(\$27)	\$0	0.0%	
Net Income	\$107	\$147	(\$40)	(27.2%)	
Diluted Earnings Per Share	\$0.90	\$1.14	(\$0.24)	(21.1%)	Q4 2019: 119M shares; Q4 2018: 129M shares
Adjusted EBITDA⁽¹⁾	\$216	\$261	(\$45)	(17.2%)	

(1) See Appendix for the reconciliation from Net Income.

Q4 2019 Cash Flow Performance

(\$ in millions)	Q4 2019	Q4 2018	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$202	\$232	(\$30)	(12.9%)	Principally driven by lower gross profit, increased cash interest expense and increased product initiatives spending partially offset by lower operating working capital requirements and decreased cash income taxes
CapEx	\$81	\$48	\$33	68.8%	Principally driven by increased spending related to investments in productivity and replacement programs, and engineering and testing capabilities
Adjusted Free Cash Flow ⁽¹⁾	\$121	\$184	(\$63)	(34.2%)	Principally driven by increased capital expenditures and lower net cash provided by operating activities
(\$ in millions)	Q4 2019	Q4 2018	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	11.4%	10.3%	N/A	110 Bps	Principally driven by increased operating working capital associated with the Walker Die Casting acquisition
Cash Paid for Interest	\$62	\$47	(\$15)	(31.9%)	Principally driven by intra-year timing of payments
Cash Paid for Income Taxes	\$5	\$21	\$16	76.2%	Principally driven by intra-year timing of payments and decreased income before income taxes

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

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

2020 Guidance – End Markets Net Sales Commentary

(\$ in millions)

End Market	2019 Net Sales	2020 Midpoint	Commentary
North America On-Hwy	\$1,474	(16%)	Principally driven by lower class 8 straight truck and class 5 through 7 truck production
North America Off-Hwy	\$30	(50%)	Principally driven by lower demand for hydraulic fracturing applications
Defense	\$151	13%	Principally driven by higher Tracked vehicle demand partially offset by lower Wheeled vehicle demand
Outside North America On-Hwy	\$390	(9%)	Principally driven by lower demand in Europe and Asia
Outside North America Off-Hwy	\$109	(24%)	Principally driven by lower demand in the energy sector
Service Parts, Support Equipment & Other	\$544	4%	Principally driven by aluminum die casting component volume associated with the Walker Die Casting acquisition partially offset by decreased demand for North America Off-Highway service parts

Allison expects first quarter net sales to be down from the same period in 2019 principally driven by lower demand in the Global On-Highway end markets and up sequentially driven by higher demand in the North America On-Highway end market

2020 Guidance

(\$ in millions)	Guidance	Commentary
Net Sales	\$2,375 to \$2,475	Reflects lower demand in the Global On-Highway and Global Off-Highway end markets partially offset by increased demand in the Service Parts, Support Equipment & Other and Defense end markets and price increases on certain products
Net Income	\$425 to \$475	
Adjusted EBITDA	\$855 to \$915	
Net Cash provided by Operating Activities	\$600 to \$640	
Adjusted Free Cash Flow	\$430 to \$480	Net Cash Provided by Operating Activities less CapEx
Cash Income Taxes	\$60 to \$70	

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 December 31,	
	2015	2016	2017	2018	2019	2018	2019
Net income (GAAP)	\$182	\$215	\$504	\$639	\$604	\$147	\$107
plus:							
Interest expense, net	114	101	103	121	134	31	33
Income tax expense	107	126	23	166	164	27	27
Technology-related investment expenses	—	1	16	3	—	3	—
Impairments	81	—	32	4	2	4	2
Environmental remediation	14	—	—	—	(8)	—	(8)
Amortization of intangible assets	97	92	90	87	86	21	21
Depreciation of property, plant and equipment	88	84	80	77	81	19	24
Loss on redemptions and repayments of long-term debt	1	—	—	—	—	—	—
Stockholder activism expenses	—	4	—	—	—	—	—
Dual power inverter module extended coverage	(2)	1	(2)	—	—	—	—
UAW Local 933 signing bonus	—	—	10	—	—	—	—
UAW Local 933 retirement incentive	—	—	—	15	5	8	6
Unrealized loss (gain) on commodity hedge contracts	1	(2)	—	—	—	—	—
Unrealized loss (gain) on foreign exchange	1	1	—	3	—	(3)	—
Expenses related to long-term debt refinancing	25	12	—	—	1	—	—
Acquisition-Related Earnouts	—	—	—	—	1	—	1
Stock-based compensation expense	11	9	12	13	13	4	3
Adjusted EBITDA (Non-GAAP)	\$720	\$644	\$868	\$1,128	\$1,083	\$261	\$216
Net Sales (GAAP)	\$1,986	\$1,840	\$2,262	\$2,713	\$2,698	\$647	\$617
Net income as a percent of net sales	9.2%	11.7%	22.3%	23.6%	22.4%	22.7%	17.3%
Adjusted EBITDA as a percent of net sales	36.2%	35.0%	38.4%	41.6%	40.1%	40.3%	35.0%

Non-GAAP Reconciliations (2 of 3)

Adjusted Free Cash Flow reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended December 31,	
	2015	2016	2017	2018	2019	2018	2019
Net Cash Provided by Operating Activities (GAAP)	\$580	\$591	\$658	\$837	\$847	\$232	\$202
(Deductions) or Additions:							
Long-lived assets	(58)	(71)	(91)	(100)	(172)	(48)	(81)
Stockholder activism expenses	—	4	—	—	—	—	—
Excess tax benefit from stock-based compensation	8	6	—	—	—	—	—
Adjusted Free Cash Flow (Non-GAAP)	\$530	\$530	\$567	\$737	\$675	\$184	\$121

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

\$ in millions

	Guidance	
	Year Ending December 31, 2020	
	Low	High
Net Income (GAAP)	\$ 425	\$ 475
plus:		
Income tax expense	124	134
Interest expense, net	133	133
Depreciation and amortization	149	149
Stock-based compensation expense	15	15
UAW Local 933 retirement incentive	9	9
Adjusted EBITDA (Non-GAAP)	<u>\$ 855</u>	<u>\$ 915</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 600	\$ 640
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	(170)	(160)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 430</u>	<u>\$ 480</u>