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Allison Transmission Holdings, Inc. (ALSN)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for standing by. Welcome to the Allison's First Quarter 2026 Earnings Conference Call. My name is Shomali, and I will be your conference call operator today. At this time, all participants are in a listen-only mode. After prepared remarks, Allison executives 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. [Operator Instructions]

I would 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 & Investor Relations, Allison Transmission Holdings, Inc.

Thank you, Shomali. Good afternoon and thank you for joining us for our first quarter 2026 earnings conference call. With me this afternoon are Dave Graziosi, our Chair, President and Chief Executive Officer; Scott Mell, our Chief Financial Officer and Treasurer; Fred Bohley, Allison's Chief Operating Officer and Allison Transmission Business Unit Leader; and Craig Price, Allison Off-Highway Business Unit Leader.

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 May 18.

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 Annual Report on Form 10-K for the year ended December 31, 2025. 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 first quarter 2026 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 provide a business update and briefly review the company's performance. Scott Mell will then discuss Allison's segment reporting structure and further review Allison's first quarter 2026 financial performance and Allison's full year guidance update, prior to commencing the Q&A.

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

David S. Graziosi

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

Thank you, Jackie. Good afternoon and thank you for joining us. Please turn to slide 5 of the presentation for our first quarter business update. First, I want to recognize and thank our global employee base for all the work done

so far this year. Our teams have been working diligently on integration and value capture within both Allison business units.

Our execution has tracked closely with our planning, and the integration process is proceeding in a disciplined and structured manner. Having said that, it has not been without a tremendous amount of effort by the Allison teams to arrive at where we are today. As our teams more closely coordinate efforts, we are beginning to see the initial phases of synergy realization take shape across several key areas and expect to begin to see financial benefits later in 2026.

It's been encouraging to see the groundwork laid prior to the transaction translate into real momentum and reaffirmed guidance in achieving our target of \$120 million of annual run-rate synergies. We remain confident in our acquisition thesis, accelerating sales growth through the strategic combination of the two business units, strengthening our localized production footprint, and generating sustainable cost reductions that enhance long-term shareholder value.

Allison's reach is now greatly expanded with our global operations allowing for more localized production and opportunities for cost reductions. By leveraging increased purchasing scale and utilizing manufacturing in best-cost countries, we expect to drive value creation and margin improvement across our business. I want to give another welcome to our new colleagues around the world and thank you for all that you do. It's been a productive first quarter and exciting times for Allison as we enter this new chapter.

Moving now to a brief update on first quarter sales performance and end market outlooks for both of our business units. Please turn to slide 6. Starting with our legacy Allison Transmission business, first quarter net sales were \$733 million, a year-over-year decline of 4% when compared against a robust first quarter of 2025.

For the North America On-Highway end market, we continue to view the truck market with cautious optimism. Although order trends have shown strength and imply a slight ramp throughout the year, we believe there is still uncertainty surrounding geopolitical impacts, including tariffs and final rulings on emissions regulations that are hindering end users' new vehicle purchasing decisions.

Continuing with the Allison Transmission business unit, the Defense end market had an extremely strong first quarter, with revenue up 64% year-over-year. We continue to see strength from international customers, primarily in tracked programs, with both legacy and new products, including our 3040 MX cross-drive transmission. We hold a favorable outlook for the Defense end market, as national security becomes even more relevant to nations around the world, leading to increased budgets and new programs being funded.

Please turn to slide 7. The Allison Off-Highway business unit generated \$673 million of sales in the first quarter with continued growth in the Mining end market, driven by elevated commodity prices, including gold, copper and rare earth minerals. The Construction & Material Handling end market also performed in the first quarter, as global construction markets are seeing steadier investments and positive developments, particularly in Europe.

In the Agriculture end market, while commodity prices remained a driving factor, there are early positive indicators in certain sub-segments and regions. For example, the low-horsepower market in India, but overall a fairly muted environment even prior to the start of the conflict in the Middle East.

On that topic, the conflict in the Middle East currently has undetermined impact and implications, both favorable and unfavorable, for multiple end markets across Allison business units. While the duration of the conflict remains uncertain, we have not seen any material disruption to our business at this time. We recognize the potential for

indirect impacts across our supply chains, energy markets and broader macroeconomic conditions, and our teams are actively monitoring and maintaining close coordination.

In summary, integration is progressing as expected and value capture is materializing. End markets, although impacted by uncertainty in some aspects, are steady, if not showing signs of recovery. To everyone across our organization, thank you for the extraordinary commitment, resilience and teamwork you've shown. Your efforts have laid a strong foundation for Allison's futures. To our investors, we are confidently positioned to unlock meaningful synergies, accelerate growth and create lasting value.

Now, I'll pass the call over to Scott for a review of Allison's segment reporting structure, first quarter 2026 financial performance and full year guidance update. Scott?

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

Thank you, Dave, and thanks to those of you joining us on the call. Please turn to slide 8 of the presentation. Before we begin with segment and consolidated results, I want to quickly go over some housekeeping items and outline our new reporting structure. First quarter results now include segment reporting for Allison Transmission, Allison Off-Highway and Allison Central Group.

The Allison Transmission business unit is the company's legacy business, excluding certain costs now accounted for within the Allison Central Group, while the Allison Off-Highway business unit reflects the business acquired from Dana at the beginning of the year. Allison Central Group is a centralized cost center which includes certain functional costs that support the company's global operations.

Now, on the left-hand side of slide 8, we provide sales, operating profit and adjusted EBITDA by segment. Segment operating income flows over to the consolidated table on the right, with further detail down to net income and non-GAAP financial measures of adjusted diluted EPS and consolidated adjusted EBITDA. Please note that first quarter gross profit in the Allison Off-Highway segment was negatively impacted by approximately \$76 million of one-time acquisition-related purchase price accounting items.

On the consolidated basis, first quarter net income decreased year-over-year to \$112 million, driven by the addition of costs from the Allison Off-Highway business unit, including approximately \$76 million of expenses related to the stepped-up basis in inventory and incremental depreciation expense related to the stepped-up basis in fixed assets, and an additional \$22 million of intangible asset amortization expense. The year-over-year decrease in net income was also driven by higher interest expense, net, along with approximately \$17 million of one-time acquisition-related integration expenses.

Moving down to per share earnings. First quarter diluted EPS was \$1.33. When excluding the effect of non-cash, non-recurring, infrequent or unusual items, including the costs associated with the acquisition of the Allison Off-Highway business unit, adjusted net income and adjusted diluted EPS were \$216 million and \$2.57 per share, respectively. As a reminder, reconciliations for non-GAAP financial measures can be found in the appendix of the first quarter earnings presentation and earnings press release. There will also be more detail provided in our 10-Q to be published later this week.

Please turn to slide 9 of the presentation. First quarter adjusted diluted EPS of \$2.57 increased 6% year-over-year, and we expect the acquisition of the Allison Off-Highway business unit to be accretive to earnings on a full year basis. Adjusted EBITDA for the first quarter was \$362 million, increasing 22% year-over-year, with adjusted

EBITDA margin at 26%, reflecting disciplined execution across our business units despite the less-than-ideal operating environment.

As we have discussed previously, we believe that improving end market conditions in both business units will have a favorable impact on margins. Our value capture and synergy realization will also provide an uplift to our margins, with our target for adjusted EBITDA margin in the 27% to 29% range. Cash generation continues to be a key attribute of Allison, with the ability to generate substantial cash flow, while successfully integrating the Allison Off-Highway business unit and navigating uncertain end market environments, including geopolitical policies and conflicts.

Now, I will briefly highlight our capital allocation priorities. We continue to invest for long-term and sustainable growth across our business units, with new products and initiatives targeting identified growth opportunities. We're also focused on debt reduction to achieve our near-term leverage targets, while simultaneously returning capital to shareholders through share repurchases and our quarterly dividend.

At the bottom of the slide, you can see how we allocated capital in the first quarter. During the quarter, we repaid \$150 million of the \$300 million of outstanding borrowings under our revolving credit facility, which were used as part of the funding for the Allison Off-Highway acquisition. During the quarter, we also increased our quarterly dividend for the seventh consecutive year. Currently at \$0.29 per share, our quarterly dividend has nearly doubled over the last seven years.

And finally, we maintained our commitment to share repurchases with \$20 million of our common stock bought back in the first quarter. We ended the first quarter with approximately \$1.2 billion of share repurchase authorization remaining. Even with the recent appreciation in our share price, we continue to view our stock as undervalued relative to the underlying strength of our business units and long-term earnings potential, and believe share repurchases remain an attractive use of capital at this time.

On the right side of slide 9, you can see Allison's liquidity and leverage metrics at the end of the first quarter. We ended the first quarter with \$311 million of cash on hand and approximately \$845 million of available revolving credit facility commitments. Our net debt is just under \$4 billion, resulting in a pro-forma net leverage ratio of below 3 times when giving consideration to a full year of earnings from the Allison Off-Highway acquisition.

In the near-term, we plan to reduce our net leverage to a target of 2 times. Through a recovery in our end markets, along with margin improvement through value capture and synergy realization, we will reduce our leverage ratio through both increased earnings and a concerted effort towards debt reduction.

Before moving on to the 2026 guidance update, building on Dave's comments, I want to summarize our financial performance for the quarter. In summary, our businesses are performing well. Macroeconomic clarity across our end markets would be well-received and likely drive increased volumes with favorable drop-throughs to margin performance and per share earnings. Importantly, we continue to generate substantial cash flow and invest for long-term growth, while also reducing debt and returning capital to shareholders.

Please turn now to slide 10 for a review of our full year 2026 guidance. Given first quarter results and taking into consideration current macroeconomic and geopolitical uncertainty, we are reaffirming our full year 2026 guidance provided to the market on February 23. For 2026 revenue, we expect consolidated net sales in the range of \$5,575 million to \$5,925 million. This includes net sales for the Allison Transmission business unit in the range of \$3,025 million to \$3,175 million and net sales for the Allison Off-Highway business unit in the range of \$2,550 million to \$2,750 million.

For earnings, we expect consolidated net income in the range of \$600 million to \$750 million, subject to the completion of purchase price accounting associated with the acquisition of the Allison Off-Highway business unit. Our net income guidance for 2026 includes more than \$100 million of one-time, pre-tax expenses associated with the separation, integration and restructuring of the Allison Off-Highway business unit.

Despite these one-time costs, we expect the Allison Off-Highway acquisition to be accretive to net income and earnings per share in 2026. Further, we expect consolidated adjusted EBITDA in the range of \$1,365 million to \$1,515 million. At the midpoint, this implies a 25% adjusted EBITDA margin.

For our 2026 cash flow guidance, we anticipate consolidated net cash provided by operating activities in the range of \$970 million to \$1,100 million; consolidated capital expenditures in the range of \$295 million to \$315 million, including one-time separation and integration capital of approximately \$45 million; and consolidated adjusted free cash flow in the range of \$655 million to \$805 million.

Please note that our consolidated net cash provided by operating activities guidance includes approximately \$55 million of one-time cash outlays associated with our acquisition of the Off-Highway business unit.

This concludes our prepared remarks. Shomali, 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

Yes. Hi. Thank you. Good evening. There's been a lot that's changed in the world since you announced the deal and even since you closed. I wonder if you could kind of talk about what versus your deal model has changed most to the positive and most to the negative, if you would.

David S. Graziosi

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

A

Hey, Rob. It's Dave. Thank you for the question. So, to your point – and I think we made this comment on the last call when we were asked about tariffs. And so, we just got on the call. We haven't checked the news in a minute or two to see what happened. That continues, right. The rate of change and volatility in the overall market every day is truly an adventure.

Having said that, we're very pleased with the acquisition, frankly. I think we would assess it currently as exceeding expectations in terms of the additional capabilities, and frankly, I think the attributes that are required to really excel in this type of market with the level of volatility that we're seeing, the operational footprint flexibility that we now have, the additional talent in multiple regions to really address and try to mitigate.

At the same time, I think as you know, with the trade developments being what they are and some of the regional realignment that's going on, a broader footprint is really much more to our benefit than frankly we had anticipated when we originally put the deal thesis together. Having said all of that, currently, the team is very engaged,

dealing with those developments, but also as I mentioned in the prepared remarks, working on value capture as well.

One thing that's become clear as we're dealing with various issues is other opportunities as well that are arising out of that, that again, if we go back to pre-acquisition, the ability to deal with from an Allison perspective would have been, I think, a bit more challenged frankly, just given the rather limited footprint we had at that stage. So, I'd say in summary, very pleased from – with what we've seen and what we continue to work on, but also our ability to deal with the volatility in the broader markets.

Rob Wertheimer

Analyst, Melius Research LLC



Okay. That's helpful. So, the more internal capability and flexibility, that's more beneficial in this changed world. And then, on end markets, I mean, you inherited some troughy-ish end markets. Any change overall in where you see those either standing or going? And I'll stop there. Thank you.

David S. Graziosi

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



No, it's good. In terms of an update there and between the prepared remarks and what we had listed out in the press release as well as the IR package, I would say overall, our view on that in terms of end market conditions haven't really changed. I think to use your word troughy, that still really is our view, nothing else. I think it's really pointing out, again, some further opportunities, as I think we hopefully get some clarity, all of us, in terms of these geopolitical developments, what the future holds. But it's very clear, equipment in our end markets continues to be utilized, and that will always lead to demand. It's just a question of when exactly that will happen. But we feel very good about overall the point that we entered the markets.

Rob Wertheimer

Analyst, Melius Research LLC



Thank you.

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

Tim W. Thein

Analyst, Raymond James & Associates, Inc.



Thank you. Good afternoon. The question is on the target for adjusted EBITDA margins of 27% to 29%. Dave, just curious what – in terms of your internal model and when you see that as a potential realization, and to the extent, has that moved up or down in terms of – as you closed the acquisition – essentially the timeline to hit that, has it changed and how you're thinking in terms of realization of that target? Thank you.

David S. Graziosi

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



Tim, it's Dave. I appreciate the question. So, I would say overall, very comfortable with the target range that you mentioned from a timing perspective, given a few of the near-term issues that have arisen that I just mentioned really having no, I think, longer term impact in terms of our timing. So, I think as we said at the time of the acquisition announcement and close, we still feel that's very attainable within a few years. So, one thing I would certainly repeat is the work that the team has been doing on value capture and synergies with some of these

market condition changes have really pointed out, again, a number of other areas that the team is diving into as well. So, again, feel very good about the range, and I would say both the target range as well as timing being realized over the next handful of years.

Tim W. Thein

Analyst, Raymond James & Associates, Inc.

Thank you, Dave.

Q

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

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Hi. Great. Thank you very much. Just wanted to ask on the medium-duty side. When do we think that starts bottoming out and improving in a larger way? And then, when we think about just the business in general, what could potentially offset that as far as like vocational, any color you could give us there? Thanks.

Q

G. Frederick Bohley

Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

Sure, Ian. This is Fred.

A

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Hey, Fred.

Q

G. Frederick Bohley

Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

Relative to medium-duty, the first quarter was still extremely soft. I will say we're starting to see some signs that would give you some optimism there relative to sort of the lease/rental guys, some of them leaning into the market a little bit. I think kind of the unknown for the second half of 2026 is really where do we end up on medium-duty engines, which I think we need some direction from the EPA and how that's going to impact the cost of engines going into 2027. As we've had the year modeled, we have had and continue to have the second half stepping up somewhat from the first half. Relative to Class 8 straight truck, I would say it was a little stronger in Q1 than our initial expectations and continues to remain, steady demand.

A

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Okay. Thanks. And then, just as a follow-up, on use of capital or use of cash flow, I know you talked about buybacks and deleveraging. How are you kind of prioritizing one versus the other, because I know the stock is cheap, but at the same time you want to delever? And then, are we kind of done on the M&A side for the foreseeable future, just given you're in the midst of integrating a very large one? And yeah, just any color there. Thanks.

Q

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah. It's Scott. On the capital allocation, I think as I mentioned on the call, I mean, fortunately, we haven't had to make overly challenging decisions on the allocation of capital. We feel very comfortable with the cash-generating abilities of both the business units and the enterprise overall. So, we've talked about this year targeting getting down to a 2 times net leverage multiple here in the very near future, next couple of years. We paid \$150 million off in the first quarter. I think we should anticipate to see that rate somewhat continue as we go throughout the course of the year.

And obviously, we're still in the market repurchasing shares. Obviously, at share prices where they are today, it's not as dilutive to shares outstanding, but still demonstrative of our ability to continue to buy back shares. So, that's not going to change. So, I think what you saw in the first quarter is a good precursor to what we expect to see over the course of the rest of the year. And the second question, do you want to...?

David S. Graziosi

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

A

Yeah. And Ian, on your – the second question there in terms of future inorganic opportunities or otherwise, we continue to be active assessing different opportunities. So, our capital allocation model that Scott went through, overall leverage targets, et cetera, the ability of the business – the new business, so to speak, to generate cash, we're continuing to be active looking at different opportunities.

So, that being said, as you know, and your comments there, the team is very engaged working on [integration of the sizable Off-Highway] acquisition with our new team members. So, in the meantime, we're also assessing, as part of the combined business, what other opportunities could present themselves from an inorganic perspective. So, we, as I said in summary, remain engaged in that process, and we'll certainly provide an update should one be necessary.

Ian Zaffino

Analyst, Oppenheimer & Co., Inc.

Q

All right. Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of Jerry Revich with Wells Fargo Securities. Please proceed with your question.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Yes. Hi. Good afternoon, everyone. I'm wondering if you could just talk about your expectations for sequential performance in the business. I think normally, for both the Allison and the Dana Off-Highway business, we have production ramping up sequentially 2Q versus 1Q and margins up sequentially. Is that how we should be thinking about this year? And then separately, can you just comment on your expectations of synergy capture as we go through the year? Do you expect any cost benefits 2Q versus 1Q?

G. Frederick Bohley

Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

From a sequential standpoint, Jerry – this is Fred – we do expect things to – on the Transmission side to step up sequentially. And as we have it modeled, we have Q2 up off of Q1 and then Q4 which is, based on the number of days, stepping down a little. I think the driver there will really be whether there's a meaningful pre-buy in Q4. And Craig, maybe you want to talk a little bit about what you're seeing sequentially?

Craig Price

President & Business Unit Leader-Allison Off-Highway Drive & Motion Systems, Allison Transmission Holdings, Inc.

A

Yeah, sure. So, from the Off-Highway side, yeah, there is a step-up in Q2. And then, obviously, a greater portion of our business is in the European segment, where in Q3, you get into the European holiday mode. So, Q3 and Q4 kind of tend to go down for us, but that's the picture from the Off-Highway side.

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah. And then, I think on – go ahead.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

No. Perfect. You read my mind. I was going to ask the synergy capture part of the question. Thank you.

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah. It's Scott, Jerry. As Dave and I mentioned, look, we're getting – we're starting to get much clearer line of sight relative to the specific opportunities, size, timing, everything that you need to start to see that impact through the financials. What I will tell you is our expectations on the amount of opportunity and the timing of the opportunity has not changed whatsoever. And as we go throughout the course of the year, I think you should expect to see and hear from us relative to providing more detail on impact and updates on kind of when we think we'll get to full run-rate of those impacts.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Super. Thank you. And Fred, can I just ask a clarification? You mentioned we'll see what the EPA wants to do. What's the range of outcomes? Is there a scenario under which EPA27 is delayed, or considering the timing of engine rollout, is there a potential for higher pre-buy in medium-duty? What's the range of outcomes that you alluded to that you think is reasonable?

G. Frederick Bohley

Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

We're not expecting a delay. I think most are expecting some sort of modification to the warranties. And then, that specific comment was really relative to medium-duty and the ability of everybody to meet the requirements at the beginning of 2027, and if not, what could be some associated fees for being noncompliant and then how that might impact a pre-buy or not in the second half of 2026.

Jerry Revich

Analyst, Wells Fargo Securities LLC

Q

Thank you.

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. So, the \$673 million of Off-Highway revenue this quarter, could you tell us how that compares to last year? And really just related to that, price realization, could you comment on price realization by segment On-Highway and Off-Highway, please?

G. Frederick Bohley*Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.*

A

I'll take the price one first and then let Craig – this is Fred – let Craig roll through what he's seeing kind of in generalities on a year-over-year basis. But from a price standpoint with Allison Transmission, in the quarter, we generated about 325 basis points of price. We expect to be in that range for the full year. And then, as we talked about on the last earnings call, anticipating price for Allison Off-Highway to be neutral year-over-year.

Craig Price*President & Business Unit Leader-Allison Off-Highway Drive & Motion Systems, Allison Transmission Holdings, Inc.*

A

And then, from the Off-Highway end market year-over-year comparison, so I would say that we were up probably about 10% year-over-year – just over 10%. And it was a combination of currency factor, given the footprint or sales in Europe. Obviously, we went from a euro conversion of \$1.07, \$1.08, to \$1.17. But we also saw a significantly strong demand across a number of our segments.

As Dave alluded to in his prepared remarks, we saw the Construction market that was positive for us in Europe, but was slightly negative in North America. Agriculture was a positive trend as well for us. The different sub-segments of high-horsepower business in Europe were strong. Also, the low-horsepower business out of India came in strong. And then, obviously, the Mining segment was up significantly as well, obviously, driven by the higher commodity prices that are seen at this time.

Tami Zakaria*Analyst, JPMorgan Securities LLC*

Q

Understood. Thank you.

Operator: Thank you. Our next question comes from the line of Angel Castillo with Morgan Stanley. Please proceed with your question.

Angel O. Castillo*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good evening. Thanks for taking my question. Just was hoping to go back to the end market discussion. I think, Dave, you mentioned that end market views haven't really changed. But it sounds like on, at least the North America On-Highway, there's some pockets that maybe are coming in a little bit better than expected. And I fully understand, I guess there's still a lot of uncertainty in the second half.

But as you think about the unchanged full year guide, could you just go through the other Transmission end markets, any others where you're seeing particular kind of pockets of maybe a better performance? I don't know if – Defense looked like it was a pretty good quarter here. Any others that maybe are offsetting that and where you're seeing a little bit more weakness? In particular, would love any kind of commentary you have in terms of order books or customer commentary.

G. Frederick Bohley*Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.*

A

Angel, this is Fred. So, I think we've sort of already covered North America On-Highway, the largest end market. But you mentioned Defense. I mean, it was an amazing quarter, revenue up 64%. And we do anticipate the balance of the year looking a lot like Q1. I'd say relative to the quarter, things were a little softer Outside North America On-Highway than what we had initially modeled. We do have that stepping up sequentially into Q2. Expect the service parts business to be fairly steady. Craig mentioned what he's seeing from a Mining standpoint in his BU. I think we do have some upsides in our Global Off-Highway relative to Mining as well as hydraulic fracking.

Angel O. Castillo*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. That's helpful. And maybe just some housekeeping questions, just as we try to kind of model the pro-forma business. I guess the \$12 million of corporate, I think, is that – that was on the first quarter. Is that a good run-rate for how we should think about that part of the business, the Central Group on an EBITDA basis? And then, will you be giving the end markets that you gave for Off-Highway historicals for 2025?

Scott A. Mell*Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.*

A

Yeah. It's Scott. I'll answer the second question first. No, we do not intend to provide that level of detail for the business since we did not own it. Relative to the Central Group function EBITDA number of \$12 million, when you carve out the non-recurring and the non-cash stock comp, I think that's a reasonable number to apply on an annualized basis. So, yes.

Angel O. Castillo*Analyst, Morgan Stanley & Co. LLC*

Q

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Luke Junk with Baird. Please proceed with your question.

Luke L. Junk*Analyst, Robert W. Baird & Co., Inc.*

Q

Thanks for taking my question. Maybe just continuing on the Defense thread, Fred, I'm wondering how you think about the interplay between Defense and North America On-Highway as the latter comes back later this year? I guess if we look historically, there's been a level of interrelationship there from a supply chain standpoint, at least to some extent in the past. But maybe looking forward, that relationship's not as strong or as relevant in the current geopolitical environment. Can you just talk about that interplay a little bit? Thank you.

G. Frederick Bohley*Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.*

A

Yeah. I would say at this point, with a lot of the growth in Defense being driven by non-US government outside the North America volume, we talked about the successes we're having with Hanwha in Korea with their K9 Howitzer; our 3040 MX and our 4040 MX, new products for us with Borsuk out of Poland; the Korkut out of Turkey; the BAE Hägglunds. So, there's a lot of – as we just sit here, I mean, there's a really good backdrop for Defense. We've invested in these products beginning even pre-pandemic. They're coming to market. We're extremely excited

about them and expect to have a great year in Defense. So, I would not though, just based on the fact that, again, it's primarily driven by outside North America, see much connectivity back into the North America On-Highway end market.

Luke L. Junk

Analyst, Robert W. Baird & Co., Inc.

Q

And maybe just related to that, is any of this flowing through the Outside North America On-Highway segment? I know you can – tend to pick up some commercial terms that are better there. Are we seeing any of that in that part of the business?

G. Frederick Bohley

Chief Operating Officer & President and Business Unit Leader-Allison Transmission, Allison Transmission Holdings, Inc.

A

We do flow the wheel portion of the Defense through the Outside North America On-Highway, primarily because we're selling a lot of times to the same OEMs. And we are seeing strength primarily in Europe relative to wheel volume. We're also seeing some strength in Europe from a vocational standpoint as well.

Luke L. Junk

Analyst, Robert W. Baird & Co., Inc.

Q

Very helpful. I'll leave it there. Thank you.

Operator: Thank you. Our next question comes from the line of Kyle Menges with Citigroup. Please proceed with your question.

Kyle Menges

Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you guys for taking the question. I just wanted to go back to some of the pricing comments and how to think about price versus cost for the two business units for the year, the 350-or-so basis points for the Allison Transmission piece of the business. At that level, are we price/cost positive for the year? Are we confident in that? And then, I guess it sounds like for the Off-Highway business, if price is flat, assuming cost inflation is greater, so, then the price/cost would be negative in that business for the year?

Scott A. Mell

Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.

A

Yeah. So, it's Scott. Let me – I'll try to answer, and then I'll let Craig and Fred lean in if they'd like. But on the Allison Transmission business, I mean, yes, we do anticipate our year-over-year price to cover our inflationary cost factors with obviously the delta in the first quarter being the volume and mix impact there. On the Off-Highway side, while they obviously have less pricing leverage, they certainly have shown the ability to take cost down on a year-over-year basis relative to either operations or purchasing. But I think that may be something, Craig, you can expand on a bit.

Craig Price

President & Business Unit Leader-Allison Off-Highway Drive & Motion Systems, Allison Transmission Holdings, Inc.

A

Yeah, sure. I would classify it as pretty neutral. I think to Scott's point, there's some, let's say, minor price give-backs, but we're able to offset those within our operational structure.

Kyle Menges*Analyst, Citigroup Global Markets, Inc.*

Helpful. Thank you.

Q

Operator: Thank you. Our next question comes from the line of Sherif El-Sabbahy with Bank of America. Please proceed with your question.

Sherif El-Sabbahy*Analyst, BofA Securities, Inc.*

Hi. Good afternoon. Just looking at the first quarter, adjusted EPS was up about 6% year-over-year and adjusted free cash flow is down about 34%. I understand reaffirmed guide calls for both to grow on a year-over-year basis for 2026. But can you give us some color on the seasonality of working capital for the new business and what Allison's free cash flow profile looks like now through the year?

Q

Scott A. Mell*Chief Financial Officer & Treasurer, Allison Transmission Holdings, Inc.*

Yeah. So, couple of questions in there. I think the cash flow profile is going to be very similar to what you experienced with – prior to the acquisition. With it being said that, the first quarter for the Off-Highway business segment or business unit is obviously a substantially meaningful user of cash during the quarter, just given some of the seasonality and the fact that it's a European-centric organization. But I think as you think about your modeling on a go-forward basis, you should expect to see the quarterly and quarter-over-quarter trends that you've seen in the past in terms of Q1 being a user of cash, Q2 turning the other way, Q3 kind of turning back, and then Q4, as we get to the end of the year, generating cash as we get to the end of the year.

A

Sherif El-Sabbahy*Analyst, BofA Securities, Inc.*

Thank you.

Q

Operator: Thank you. And we have reached the end of the question-and-answer session. I would like to turn the floor back to David Graziosi for closing remarks.

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

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

Operator: Thank you. This concludes today's conference, and you may disconnect your lines at this time. We thank you for your participation.

Editor's Note: Text in [] was added after the conclusion of the event, to provide more clarity for the readers.

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