Q1 2022 Earnings Release

April 27th, 2022

Dave Graziosi, Chairman & Chief Executive Officer
Fred Bohley, Senior Vice President & Chief Financial Officer

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 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: 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; increases in cost, disruption of supply or shortage of labor, freight, raw materials 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; 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; risks associated with our international operations, including acts of war and increased trade protectionism; general economic and industry conditions; 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; and 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, 2021.

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, 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 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, excluding non-recurring restructuring charges, after additions of long-lived assets.

Call Agenda

- Q1 2022 Performance
- 2022 Guidance

Q1 2022 Performance Summary

($ in millions)	Q1 2022	Q1 2021	% Variance
Net Sales	$677	$588	15.1%
Gross Profit	$320	$291	10.0%
Net Income	$129	$120	7.5%
Adjusted EBITDA(1)	$244	$222	9.9%
Diluted Earnings Per Share	$1.30	$1.07	21.5%

- Net Sales: increase principally driven by:
  - 8 percent increase in net sales in the North America On-Highway end market
  - Record quarterly net sales in the Outside North America On-Highway end market, as a result of a 30 percent increase in net sales
  - 14 percent increase in net sales in the Service Parts, Support Equipment & Other end market
  - $30 million increase in net sales in the Global Off-Highway end markets
- Gross Profit: increase was principally driven by higher net sales and price increases on certain products partially offset by unfavorable material costs and higher manufacturing expense commensurate with increased net sales
- Net Income: increase was principally driven by higher gross profit partially offset by a $15 million unrealized loss on marketable securities
- Adjusted EBITDA: increase was principally driven by higher gross profit partially offset by increased product initiatives spending
- Diluted Earnings Per Share: increase was principally driven by higher net income and lower total shares outstanding

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

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Q1 2022 Net Sales Performance

($ in millions)

End Markets	Q1 2022	Q1 2021	% Variance	Commentary
North America On-Hwy	$346	$319	8%	Principally driven by continued strength in customer demand for last mile delivery, regional haul and vocational trucks
North America Off-Hwy	$18	$2	800%	Principally driven by higher demand for hydraulic fracturing applications
Defense	$35	$45	-22%	Principally driven by lower demand for Tracked vehicle applications
Outside North America On-Hwy	$109	$84	30%	Record quarterly net sales, principally driven by improving demand across all regions and the continued execution of growth initiatives
Outside North America Off-Hwy	$30	$16	88%	Principally driven by higher demand in the mining, construction and energy sectors
Service Parts, Support Equipment & Other	$139	$122	14%	Principally driven by increased demand for North America service parts and global support equipment
Total	**$677**	**$588**	**15%**	

Q1 2022 Financial Performance

($ in millions, except per share data)	Q1 2022	Q1 2021	$ Var	% Var	Commentary
Net Sales	$677	$588	$89	15%	Increase was principally driven by higher demand in the NA On-Highway, ONA On-Highway, Service Parts, Support Equipment & Other and Global Off-Highway end markets
Cost of Sales	$357	$297	($60)	-20%	Increase was principally driven by unfavorable material costs and increased direct material and manufacturing expense commensurate with increased net sales.
Gross Profit	$320	$291	$29	10%	Increase was principally driven by higher net sales and price increases on certain products partially offset by unfavorable material costs and higher manufacturing expense commensurate with increased net sales.
Operating Expenses					
Selling, General and Administrative	$75	$73	($2)	-3%	
Engineering – Research and Development	$43	$38	($5)	-13%	Increase was principally driven by increased product initiatives spending.
Total Operating Expenses	$118	$111	($7)	-6%	
Operating Income	$202	$180	$22	12%	
Interest Expense, net	($29)	($29)	$0	0%	
Other (Expense) Income, net	($10)	$3	($13)	-433%	Increase was principally driven by a $15 million unrealized loss on marketable securities.
Income Before Income Taxes	$163	$154	$9	6%	
Income Tax Expense	($34)	($34)	$0	0%	
Net Income	$129	$120	$9	8%	Increase was principally driven by higher gross profit partially offset by a $15 million unrealized loss on marketable securities.
Diluted Earnings Per Share	$1.30	$1.07	$0.27	21%	Increase was principally driven by higher net income and lower total shares outstanding. (Q1 2022: 97m shares, Q1 2021: 110m shares)
Adjusted EBITDA(1)	$244	$222	$22	10%	

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

Q1 2022 Cash Flow Performance

($ in millions)	Q1 2022	Q1 2021	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$163	$131	$32	24.4%	Principally driven by lower operating working capital funding requirements and higher gross profit partially offset by higher cash incentive compensation expense and higher cash interest expense
CapEx	$20	$24	($4)	(16.7%)	Principally driven by intra-year timing
Adjusted Free Cash Flow(1)	$143	$107	$36	33.6%	Principally driven by higher net cash provided by operating activities and lower capital expenditures
($ in millions)	**Q1 2022**	**Q1 2021**	**$ Variance**	**% Variance**	**Commentary**
Operating Working Capital(2) Percentage of LTM Sales	13.7%	16.7%	N/A	(300 bps)	Principally driven by increased net sales partially offset by an increase in operating working capital
Cash Paid for Interest	$26	$7	$19	271.4%	Principally driven by intra-year timing of payments
Cash Paid for Income Taxes	$1	$1	$0	0.0%	In line with prior year

(1) See Appendix for a reconciliation from Net Cash Provided by Operating Activities.
(2) Operating Working Capital = A/R + Inventory – A/P.

2022 Guidance

Affirming the full year 2022 guidance ranges provided to the market on February 16, 2022

($ in millions)	Guidance
Net Sales	$2,625 to $2,775
Net Income	$430 to $520
Adjusted EBITDA[1]	$865 to $975
Net Cash Provided by Operating Activities	$570 to $680
Capital Expenditures	$170 to $180
Adjusted Free Cash Flow[1]	$400 to $500

- Guidance reflects higher demand in the Global On-Highway, Global Off-Highway and Service Parts, Support Equipment & Other end markets as a result of the ongoing global economic recovery, continued strength in customer demand and price increases on certain products.

(1) 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 March 31,		Last twelve months ended March 31,
	2017	2018	2019	2020	2021	2021	2022	2022
Net Income (GAAP)	**$504**	**$639**	**$604**	**$299**	**$442**	**$120**	**$129**	**$451**
plus:								
Interest expense, net	103	121	134	137	116	29	29	116
Income tax expense	23	166	164	94	130	34	34	130
Loss associated with impairment of long-lived assets	—	—	2	—	—	—	—	—
Technology-related investments expense/(gain)	16	3	—	—	(3)	—	(6)	(9)
Impairments	32	4	—	—	—	—	—	—
Environmental remediation benefit	—	—	(8)	—	—	—	—	—
Amortization of intangible assets	90	87	86	52	46	12	11	45
Depreciation of property, plant and equipment	80	77	81	96	104	25	27	106
Dual power inverter module extended coverage	(2)	—	—	—	—	—	—	—
Restructuring charges	—	—	—	14	—	—	—	—
UAW Local 933 signing bonus	10	—	—	—	—	—	—	—
UAW Local 933 retirement incentive	—	15	5	7	(2)	—	—	(2)
Unrealized loss/(gain) on foreign exchange	—	3	—	2	—	(1)	1	2
Expenses related to long-term debt refinancing	—	—	1	13	—	—	—	—
Acquisition-Related Earnouts	—	—	1	1	1	—	1	2
Unrealized (gain)/loss on marketable securities	—	—	—	—	(4)	—	15	11
Stock-based compensation expense	12	13	13	17	14	3	3	14
Adjusted EBITDA (Non-GAAP)	**$868**	**$1,128**	**$1,083**	**$732**	**$844**	**$222**	**$244**	**$866**
Net Sales (GAAP)	**$2,262**	**$2,713**	**$2,698**	**$2,081**	**$2,402**	**$588**	**$677**	**$2,491**
Net income as a percent of net sales	**22.3%**	**23.6%**	**22.4%**	**14.4%**	**19.8%**	**20.4%**	**19.1%**	**18.1%**
Adjusted EBITDA as a percent of net sales	**38.4%**	**41.6%**	**40.1%**	**35.2%**	**35.1%**	**37.8%**	**36.0%**	**34.8%**

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Non-GAAP Reconciliations (2 of 3)

Adjusted Free Cash Flow Reconciliation

$ in millions, Unaudited	For the year ended December 31,					Three months ended March 31,		Last twelve months ended March 31,
	2017	2018	2019	2020	2021	2021	2022	2022
Net Cash Provided by Operating Activities (GAAP)	**$658**	**$837**	**$847**	**$561**	**$635**	**$131**	**$163**	**$667**
(Deductions) or Additions:								
Long-lived assets	(91)	(100)	(172)	(115)	(175)	(24)	(20)	(171)
Restructuring charges	—	—	—	12	—	—	—	—
Adjusted Free Cash Flow (non-GAAP)	**$567**	**$737**	**$675**	**$458**	**$460**	**$107**	**$143**	**$496**

Non-GAAP Reconciliations (3 of 3)

Guidance Reconciliation

$ in millions	Guidance Year Ending December 31, 2022	
	Low	High
Net Income (GAAP)	$ 430	$ 520
plus:		
Depreciation and amortization	160	160
Income tax expense	127	147
Interest expense, net	118	118
Stock-based compensation expense	18	18
Unrealized loss on marketable securities	15	15
Acquisition-related earnouts	2	2
Unrealized loss on foreign exchange	1	1
Technology-related investments gain	(6)	(6)
Adjusted EBITDA (Non-GAAP)	$ 865	$ 975
Net Cash Provided by Operating Activities (GAAP)	$ 570	$ 680
(Deductions) to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	$ (170)	$ (180)
Adjusted Free Cash Flow (Non-GAAP)	$ 400	$ 500