

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 31, 2019**

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

**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-35456**  
(Commission File Number)

**26-0414014**  
(IRS Employer  
Identification No.)

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

**46222**  
(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 Instruction A.2. below):

- Written communication 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:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on which Registered</u>
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 31, 2019, Allison Transmission Holdings, Inc. (“Allison”) published an earnings release reporting its financial results for the three months ended June 30, 2019. 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 August 1, 2019 at 8:00 a.m. ET on which its financial results for the three months ended June 30, 2019 will be discussed. The investor presentation materials that will be used for the call are attached as Exhibit 99.2 hereto.

On July 31, 2019, Allison posted the materials attached as Exhibits 99.1 and 99.2 on its web site ([www.allisontransmission.com](http://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.

**Item 9.01 Financial Statements and Exhibits.**

*(d) Exhibits.*

<b>Exhibit Number</b>	<b>Description</b>
99.1	<a href="#">Earnings release dated July 31, 2019.</a>
99.2	<a href="#">Investor presentation materials dated July 31, 2019.</a>

**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 31, 2019

By: /s/ Eric C. Scroggins

Name: Eric C. Scroggins

Title: Vice President, General Counsel and Secretary



## Allison Transmission Announces Second Quarter 2019 Results

- Record Net Sales of \$737 million, up 4 percent year-over-year
- Net Income of \$181 million, 25% of Net Sales
- Adjusted EBITDA of \$308 million, 42% of Net Sales
- Diluted EPS of \$1.46, up 13 percent year-over-year

INDIANAPOLIS, July 31, 2019 – Allison Transmission Holdings Inc. (NYSE: ALSN), the largest global provider of commercial duty fully-automatic transmissions, today reported net sales for the second quarter of \$737 million, a 4 percent increase from the same period in 2018. The increase in net sales was principally driven by higher demand in the North America On-Highway and Outside North America Off-Highway end markets partially offset by lower demand in the North America Off-Highway and Service Parts, Support Equipment & Other end markets.

Net Income for the quarter was \$181 million compared to \$174 million for the same period in 2018. Adjusted EBITDA, a non-GAAP financial measure, for the quarter was \$308 million compared to \$297 million for the same period in 2018. Net Cash Provided by Operating Activities for the quarter was \$239 million compared to \$213 million for the same period in 2018. Adjusted Free Cash Flow, a non-GAAP financial measure, for the quarter was \$214 million compared to \$194 million for the same period in 2018.

David S. Graziosi, President and Chief Executive Officer of Allison Transmission commented:

“We are pleased to report that Allison’s second quarter 2019 results exceeded our expectations and the guidance ranges provided to the market on April 23, led by year-over year net sales growth of 4 percent, to a record \$737 million. Furthermore, Allison continues its well-defined approach to capital structure and allocation, settling \$235 million of share repurchases and paying a dividend of \$0.15 per share during the second quarter. In May, the Board of Directors approved a \$1 billion increase to the existing stock repurchase authorization, resulting in \$1.16 billion of remaining authorized share repurchase capacity as of the end of the quarter. Finally, given second quarter 2019 results and current end markets conditions, we are raising our full year 2019 guidance for Net Sales, Net Income, Adjusted EBITDA, Net Cash Provided by Operating Activities and Adjusted Free Cash Flow.”

## Second Quarter Net Sales by End Market

End Market	Q2 2019 Net Sales (\$M)	Q2 2018 Net Sales (\$M)	% Variance
North America On-Highway	\$ 398	\$ 343	16%
North America Off-Highway	\$ 9	\$ 31	(71%)
Defense	\$ 37	\$ 43	(14%)
Outside North America On-Highway	\$ 106	\$ 101	5%
Outside North America Off-Highway	\$ 40	\$ 24	67%
Service Parts, Support Equipment & Other	\$ 147	\$ 169	(13%)
<b>Total Net Sales</b>	<b>\$ 737</b>	<b>\$ 711</b>	<b>4%</b>

## Second Quarter Highlights

North America On-Highway end market net sales were up 16 percent from the same period in 2018 principally driven by higher demand led by the continued execution of our growth initiatives and market share gains in Class 4/5 truck and up 5 percent on a sequential basis principally driven by higher demand for Rugged Duty Series and Highway Series models.

North America Off-Highway end market net sales were down \$22 million from the same period in 2018 and down \$5 million sequentially, in both cases principally driven by lower demand from hydraulic fracturing applications.

Defense end market net sales were down 14 percent from the same period in 2018 and up 16 percent on a sequential basis, in both cases principally driven by intra-year movement in the timing of Tracked vehicle demand.

Outside North America On-Highway end market net sales were up 5 percent from the same period in 2018 principally driven by higher demand in Europe and South America partially offset by lower demand in Asia and up 13 percent sequentially principally driven by higher demand in South America, Asia and Europe.

Outside North America Off-Highway end market net sales were up \$16 million from the same period in 2018 and up \$13 million on a sequential basis principally driven by higher demand in the energy sector.

Service Parts, Support Equipment & Other end market net sales were down 13 percent from the same period in 2018 principally driven by lower demand for North America service parts and up 12 percent sequentially principally driven by higher demand for Global support equipment and Outside North America service parts.

Gross profit for the quarter was \$389 million, an increase of 4 percent from \$374 million for the same period in 2018. Gross margin for the quarter was 52.8 percent, an increase of 20 basis points from a gross margin of 52.6 percent for the same period in 2018. The increase in gross profit from the same period in 2018 was principally driven by increased net sales and price increases on certain products.

Selling, general and administrative expenses for the quarter were \$93 million, flat from the same period in 2018 principally driven by lower 2019 product warranty expense and favorable 2019 product warranty adjustments offset by increased commercial activities spending.

Engineering – research and development expenses for the quarter were \$37 million, an increase of \$4 million from \$33 million for the same period in 2018. The increase was principally driven by increased product initiatives spending.

Interest expense for the quarter was \$33 million, an increase of \$3 million from \$30 million for the same period in 2018. The increase was principally driven by higher interest rates related to long-term debt refinancing that extended maturities at fixed interest rates.

Net income for the quarter was \$181 million, an increase of \$7 million from \$174 million for the same period in 2018. The increase was principally driven by increased gross profit partially offset by increased product initiatives spending and increased interest expense.

Net cash provided by operating activities was \$239 million, an increase of \$26 million from \$213 million for the same period in 2018. The increase was principally driven by increased gross profit, lower operating working capital requirements and decreased cash interest expense partially offset by increased cash income taxes.

## Second Quarter Non-GAAP Financial Measures

Adjusted EBITDA for the quarter was \$308 million, an increase of \$11 million from \$297 million for the same period in 2018. The increase in Adjusted EBITDA was principally driven by increased gross profit partially offset by increased product initiatives spending.

Adjusted Free Cash Flow for the quarter was \$214 million, an increase of \$20 million from \$194 million for the same period in 2018. The increase was principally driven by increased cash provided by operating activities partially offset by increased capital expenditures.

## Full Year 2019 Guidance Update

Given second quarter 2019 results and current end markets conditions, we are raising the full year 2019 guidance ranges released to the market on April 23. Our updated full year 2019 guidance includes Net Sales in the range of \$2,635 to \$2,715 million, Net Income in the range of \$545 to \$585 million, Adjusted EBITDA in the range of \$1,025 to \$1,075 million, Net Cash Provided by Operating Activities in the range of \$735 to \$765 million, Adjusted Free Cash Flow in the range of \$570 to \$610 million and Cash Income Taxes in the range of \$105 to \$115 million.

Our 2019 net sales guidance reflects lower demand in the Service Parts, Support Equipment & Other and North America Off-Highway end markets principally driven by lower demand from hydraulic fracturing applications partially offset by increased demand in the North America On-Highway end market, price increases on certain products and continued execution of our growth initiatives.

### Conference Call and Webcast

The company will host a conference call at 8:00 a.m. ET on Thursday, August 1 to discuss its second quarter 2019 results. The dial-in 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 on the conference call, a replay will be available from 11:00 a.m. ET on August 1 until 11:59 p.m. ET on August 8. The replay dial-in number is 1-844-512-2921 and the international replay dial-in number is 1-412-317-6671. The replay passcode is 13692254.

### About Allison Transmission

Allison Transmission (NYSE: ALSN) is the world's largest manufacturer of fully automatic transmissions for medium- and heavy-duty commercial vehicles. Allison transmissions are used in a variety of applications including refuse, construction, fire, distribution, bus, motorhomes, defense and energy. Founded in 1915, the company is headquartered in Indianapolis, Indiana, USA and employs approximately 2,900 people worldwide. With a market presence in more than 80 countries, Allison has regional headquarters in the Netherlands, China and Brazil with manufacturing facilities in the U.S., Hungary and India. Allison also has approximately 1,400 independent distributor and dealer locations worldwide. For more information, visit [allisontransmission.com](http://allisontransmission.com).

### Forward-Looking Statements

This press release contains forward-looking statements. All statements other than statements of historical fact contained in this press release are forward-looking statements, including all statements regarding future financial results. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plans," "project," "anticipate," "believe," "estimate," "predict," "intend," "forecast," "could," "potential," "continue" or the negative of these terms or other similar terms or phrases. Forward-looking statements are not guarantees of future performance and involve known and unknown risks. Factors which may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made include, but are not limited to: our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs; 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; our failure to identify, consummate or effectively integrate acquisitions; U.S. and foreign defense spending; general economic and industry conditions; increases in cost, disruption of supply or shortage of raw materials or components used in our products; 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; risks associated with our international operations, including increased trade protectionism; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; risks related to our substantial indebtedness; our intention to pay dividends and repurchase shares of our common stock and other risks and uncertainties associated with our business described in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. 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.

## 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, 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.

## Attachment

- 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

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net sales	\$ 737	\$ 711	\$ 1,412	\$ 1,374
Cost of sales	348	337	664	658
Gross profit	389	374	748	716
Selling, general and administrative	93	93	177	185
Engineering - research and development	37	33	68	61
Operating income	259	248	503	470
Interest expense, net	(33)	(30)	(69)	(60)
Other income, net	3	4	6	3
Income before income taxes	229	222	440	413
Income tax expense	(48)	(48)	(92)	(88)
Net income	<u>\$ 181</u>	<u>\$ 174</u>	<u>\$ 348</u>	<u>\$ 325</u>
Basic earnings per share attributable to common stockholders	<u>\$ 1.47</u>	<u>\$ 1.30</u>	<u>\$ 2.81</u>	<u>\$ 2.37</u>
Diluted earnings per share attributable to common stockholders	<u>\$ 1.46</u>	<u>\$ 1.29</u>	<u>\$ 2.78</u>	<u>\$ 2.37</u>



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

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 153	\$ 231
Accounts receivable, net	322	279
Inventories	188	170
Other current assets	42	45
Total Current Assets	705	725
Property, plant and equipment, net	490	466
Intangible assets, net	1,079	1,066
Goodwill	2,019	1,941
Other non-current assets	62	39
<b>TOTAL ASSETS</b>	<b><u>\$4,355</u></b>	<b><u>\$ 4,237</u></b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	\$ 208	\$ 169
Product warranty liability	27	26
Current portion of long-term debt	6	—
Deferred revenue	34	34
Other current liabilities	193	197
Total Current Liabilities	468	426
Product warranty liability	32	40
Deferred revenue	99	88
Long-term debt	2,514	2,523
Deferred income taxes	355	329
Other non-current liabilities	219	172
<b>TOTAL LIABILITIES</b>	<b>3,687</b>	<b>3,578</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>668</u></b>	<b><u>659</u></b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b><u>\$4,355</u></b>	<b><u>\$ 4,237</u></b>

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net cash provided by operating activities	\$ 239	\$ 213	\$ 433	\$ 366
Net cash used for investing activities (a) (b)	(158)	(19)	(177)	(29)
Net cash used for financing activities	(251)	(290)	(334)	(439)
Effect of exchange rate changes on cash	(1)	(3)	—	(1)
Net decrease in cash and cash equivalents	(171)	(99)	(78)	(103)
Cash and cash equivalents at beginning of period	324	195	231	199
Cash and cash equivalents at end of period	<u>\$ 153</u>	<u>\$ 96</u>	<u>\$ 153</u>	<u>\$ 96</u>
Supplemental disclosures:				
Interest paid	\$ 39	\$ 47	\$ 53	\$ 57
Income taxes paid	\$ 49	\$ 45	\$ 55	\$ 46
(a) Additions of long-lived assets	\$ (25)	\$ (19)	\$ (44)	\$ (29)
(b) Business acquisitions	\$ (133)	\$ —	\$ (133)	\$ —

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

	Three months ended		Six months ended	
	2019	2018	2019	2018
Net income (GAAP)	\$ 181	\$ 174	\$ 348	\$ 325
plus:				
Income tax expense	48	48	92	88
Interest expense, net	33	30	69	60
Amortization of intangible assets	21	22	43	44
Depreciation of property, plant and equipment	19	19	37	39
Stock-based compensation expense (a)	5	3	8	6
Expenses related to long-term debt refinancing (b)	—	—	1	—
Unrealized loss on foreign exchange (c)	1	1	—	3
UAW Local 933 retirement incentive (d)	—	—	—	7
Adjusted EBITDA (Non-GAAP)	<u>\$ 308</u>	<u>\$ 297</u>	<u>\$ 598</u>	<u>\$ 572</u>
Net sales (GAAP)	<u>\$ 737</u>	<u>\$ 711</u>	<u>\$ 1,412</u>	<u>\$ 1,374</u>
Net income as a percent of net sales (GAAP)	24.6%	24.5%	24.6%	23.7%
Adjusted EBITDA as a percent of net sales (Non-GAAP)	41.8%	41.8%	42.4%	41.6%
Net cash provided by operating activities (GAAP)	\$ 239	\$ 213	\$ 433	\$ 366
Deductions to Reconcile to Adjusted Free Cash Flow:				
Additions of long-lived assets	(25)	(19)	(44)	(29)
Adjusted free cash flow (Non-GAAP)	<u>\$ 214</u>	<u>\$ 194</u>	<u>\$ 389</u>	<u>\$ 337</u>

- (a) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
- (b) Represents expenses (recorded in Other income, net) related to the refinancing of the prior term loan due 2022 and prior revolving credit facility due 2021 (together, the “Prior Senior Secured Credit Facility”) in the first quarter of 2019.
- (c) Represents losses (recorded in Other income, net) on intercompany financing transactions related to investments in plant assets for our India facility.
- (d) Represents a charge (recorded in Cost of sales) related to a retirement incentive program for certain employees represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (“UAW”) pursuant to the UAW Local 933 collective bargaining agreement effective through November 2023.

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, 2019	High
	Low	High
Net Income (GAAP)	\$ 545	\$ 585
plus:		
Income tax expense	157	167
Interest expense, net	136	136
Depreciation and amortization	162	162
Stock-based compensation expense (a)	15	15
Expenses related to long-term debt refinancing (b)	1	1
UAW Local 933 retirement incentive (c)	9	9
Adjusted EBITDA (Non-GAAP)	<u>\$ 1,025</u>	<u>\$ 1,075</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 735	\$ 765
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	(165)	(155)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 570</u>	<u>\$ 610</u>

- (a) Represents stock-based compensation expense (recorded in Cost of sales, Selling, general and administrative, and Engineering – research and development).
- (b) Represents expenses (recorded in Other income, net) related to the refinancing of the Prior Senior Secured Credit Facility.
- (c) Represents a charge (recorded in Cost of sales) related to a retirement incentive program for certain employees represented by the UAW pursuant to the UAW Local 933 collective bargaining agreement effective through November 2023.

# Q2 2019 Earnings Release

Published July 31, 2019 (Earnings Conference Call August 1, 2019)

David Graziosi, President & 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: our participation in markets that are competitive; the highly cyclical industries in which certain of our end users operate; uncertainty in the global regulatory and business environments in which we operate; our ability to prepare for, respond to and successfully achieve our objectives relating to technological and market developments, competitive threats and changing customer needs; 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; our failure to identify, consummate or effectively integrate acquisitions; U.S. and foreign defense spending; general economic and industry conditions; increases in cost, disruption of supply or shortage of raw materials or components used in our products; 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; risks associated with our international operations, including increased trade protectionism; labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers; risks related to our substantial indebtedness; and our intention to pay dividends and repurchase shares of our common stock.

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, long-term financial goals or the value we currently ascribe to certain tax attributes 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, 2018.

## Non-GAAP Financial Information

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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

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- **Q2 2019 Performance**
- **2019 Guidance Update**



## Q2 2019 Performance Summary

(\$ in millions)	Q2 2019	Q2 2018	% Variance
Net Sales	\$737	\$711	3.7%
Gross Margin %	52.8%	52.6%	20 bps
Net Income	\$181	\$174	4.0%
Adjusted EBITDA <sup>(1)</sup>	\$308	\$297	3.7%

### Commentary

**Net Sales:** increase was principally driven by higher demand in the North America On-Highway end market, led by the continued execution of our growth initiatives and market share gains in class 4/5 truck. The increase in net sales is also attributed to higher demand in the Outside North America Off-Highway end market partially offset by lower demand in the North America Off-Highway and Service Parts, Support Equipment & Other end markets.

**Gross Margin:** increase was principally driven by increased net sales and price increases on certain products.

**Net Income:** increase was principally driven by increased gross profit partially offset by increased product initiatives spending and increased interest expense.

**Adjusted EBITDA:** increase was principally driven by increased gross profit partially offset by increased product initiatives spending.

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

## Q2 2019 Sales Performance

(\$ in millions)

End Markets	Q2 2019	Q2 2018	% Variance	Commentary
North America On-Hwy	\$398	\$343	16.0%	Principally driven by higher demand led by the continued execution of our growth initiatives and market share gains in Class 4/5 truck
North America Off-Hwy	\$9	\$31	(71.0%)	Principally driven by lower demand from hydraulic fracturing applications
Defense	\$37	\$43	(14.0%)	Principally driven by intra-year movement in the timing of Tracked vehicle demand
Outside North America On-Hwy	\$106	\$101	(5.0%)	Principally driven by higher demand in Europe and South America partially offset by lower demand in Asia
Outside North America Off-Hwy	\$40	\$24	66.7%	Principally driven by higher demand in the energy sector
Service Parts, Support Equipment & Other	\$147	\$169	(13.0%)	Principally driven by lower demand for North America service parts
<b>Total</b>	<b>\$737</b>	<b>\$711</b>	<b>3.7%</b>	

## Q2 2019 Financial Performance

(\$ in millions, except per share data)	Q2 2019	Q2 2018	\$ Var	% Var	Commentary
Net Sales	\$737	\$711	\$26	3.7%	Increase was principally driven by higher demand in the North America On-Highway end market, led by the continued execution of our growth initiatives and market share gains in class 4/5 truck. The increase in net sales is also attributed to higher demand in the Outside North America Off-Highway end market partially offset by lower demand in the North America Off-Highway and Service Parts, Support Equipment & Other end markets
Cost of Sales	\$348	\$337	(\$11)	(3.3%)	
Gross Profit	\$389	\$374	\$15	4.0%	Increase was principally driven by increased net sales and price increases on certain products
Operating Expenses					
Selling, General and Administrative	\$93	\$93	\$0	0%	Principally driven by lower 2019 product warranty expense and favorable 2019 product warranty adjustments offset by increased commercial activities spending
Engineering – Research and Development	\$37	\$33	(\$4)	(12.1%)	Increase was principally driven by increased product initiatives spending
Total Operating Expenses	\$130	\$126	(\$4)	(3.2%)	
Operating Income	\$259	\$248	\$11	4.4%	
Interest Expense, net	(\$33)	(\$30)	(\$3)	(10.0%)	Increase was principally driven by higher interest rates related to long-term debt refinancing that extended maturities at fixed interest rates
Other Income, net	\$3	\$4	(\$1)	(25.0%)	
Income Before Income Taxes	\$229	\$222	\$7	3.2%	
Income Tax Expense	(\$48)	(\$48)	\$0	0%	Principally driven by increased taxable income offset by discrete activity related to stock-based compensation
Net Income	\$181	\$174	\$7	4.0%	
Diluted Earnings Per Share	\$1.46	\$1.29	\$0.17	13.2%	Q2 2019: 124M shares; Q2 2018: 135M shares
Adjusted EBITDA <sup>(1)</sup>	\$308	\$297	\$11	3.7%	

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

## Q2 2019 Cash Flow Performance

(\$ in millions)	Q2 2019	Q2 2018	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$239	\$213	\$26	12.2%	Principally driven by increased gross profit, lower operating working capital requirements and decreased cash interest expense partially offset by increased cash income taxes
CapEx	\$25	\$19	\$6	31.6%	Principally driven by increased spending related to investments in productivity and replacement programs and engineering and testing capabilities
Adjusted Free Cash Flow <sup>(1)</sup>	\$214	\$194	\$20	10.3%	Principally driven by increased net cash provided by operating activities partially offset by increased capital expenditures
(\$ in millions)	Q2 2019	Q2 2018	\$ Variance	% Variance	Commentary
Operating Working Capital <sup>(2)</sup> Percentage of LTM Sales	10.9%	11.2%	N/A	30 Bps	Principally driven by higher LTM net sales partially offset by increased operating working capital commensurate with increased net sales
Cash Paid for Interest	\$39	\$47	(\$8)	(17.0%)	Principally driven by intra-year timing of payments
Cash Paid for Income Taxes	\$49	\$45	\$4	8.9%	Principally driven by increased income before income taxes

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

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

## 2019 Guidance Update

(\$ in millions)	Guidance	Commentary
Net Sales Change	\$2,635 to \$2,715	Guidance reflects lower demand in the Service Parts, Support Equipment & Other and North America Off-Highway end markets principally driven by lower demand from hydraulic fracturing applications partially offset by increased demand in the North America On-Highway end market, price increases on certain products and continued execution of our growth initiatives
Net Income	\$545 to \$585	
Adjusted EBITDA	\$1,025 to \$1,075	
Net Cash provided by Operating Activities	\$735 to \$765	
Adjusted Free Cash Flow	\$570 to \$610	Net Cash Provided by Operating Activities less CapEx
Cash Income Taxes	\$105 to \$115	

# 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		Last twelve
	2014	2015	2016	2017	2018	June 30,		months ended
	2014	2015	2016	2017	2018	2018	2019	2019
<b>Net income (GAAP)</b>	<b>\$229</b>	<b>\$182</b>	<b>\$215</b>	<b>\$504</b>	<b>\$639</b>	<b>\$174</b>	<b>\$181</b>	<b>\$662</b>
plus:								
Interest expense, net	138	114	101	103	121	30	33	130
Income tax expense	139	107	126	23	166	48	48	170
Technology-related investment expenses	2	—	1	16	3	—	—	3
Public offering expenses	1	—	—	—	—	—	—	—
Impairments	15	81	—	32	4	—	—	4
Environmental remediation	—	14	—	—	—	—	—	—
Amortization of intangible assets	99	97	92	90	87	22	21	86
Depreciation of property, plant and equipment	94	88	84	80	77	19	19	75
Loss on redemptions and repayments of long-term debt	1	1	—	—	—	—	—	—
Stockholder activism expenses	—	—	4	—	—	—	—	—
Dual power inverter module extended coverage	1	(2)	1	(2)	—	—	—	—
UAW Local 933 signing bonus	—	—	—	10	—	—	—	—
UAW Local 933 retirement incentive	—	—	—	—	15	—	—	8
Unrealized (gain) loss on commodity hedge contracts	(1)	1	(2)	—	—	—	—	—
Unrealized loss on foreign exchange	5	1	1	—	3	1	1	—
Expenses related to long-term debt refinancing	—	25	12	—	—	—	—	1
Restructuring charges	1	—	—	—	—	—	—	—
Stock-based compensation expense	15	11	9	12	13	3	5	15
<b>Adjusted EBITDA (Non-GAAP)</b>	<b>\$739</b>	<b>\$720</b>	<b>\$644</b>	<b>\$868</b>	<b>\$1,128</b>	<b>\$297</b>	<b>\$308</b>	<b>\$1,154</b>
<b>Net Sales (GAAP)</b>	<b>\$2,127</b>	<b>\$1,986</b>	<b>\$1,840</b>	<b>\$2,262</b>	<b>\$2,713</b>	<b>\$711</b>	<b>\$737</b>	<b>\$2,751</b>
<b>Net income as a percent of net sales</b>	<b>10.8%</b>	<b>9.2%</b>	<b>11.7%</b>	<b>22.3%</b>	<b>23.6%</b>	<b>24.5%</b>	<b>24.6%</b>	<b>24.1%</b>
<b>Adjusted EBITDA as a percent of net sales</b>	<b>34.7%</b>	<b>36.2%</b>	<b>35.0%</b>	<b>38.4%</b>	<b>41.6%</b>	<b>41.8%</b>	<b>41.8%</b>	<b>41.9%</b>

# 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,
	2014	2015	2016	2017	2018	2018	2019	2019
<b>Net Cash Provided by Operating Activities (GAAP)</b>	\$573	\$580	\$591	\$658	\$837	\$213	\$239	\$904
(Deductions) or Additions:								
Long-lived assets	(64)	(58)	(71)	(91)	(100)	(19)	(25)	(115)
Technology-related license expenses	6	—	—	—	—	—	—	—
Stockholder activism expenses	—	—	4	—	—	—	—	—
Excess tax benefit from stock-based compensation	25	8	6	—	—	—	—	—
<b>Adjusted Free Cash Flow (Non-GAAP)</b>	<b>\$540</b>	<b>\$530</b>	<b>\$530</b>	<b>\$567</b>	<b>\$737</b>	<b>\$194</b>	<b>\$214</b>	<b>\$789</b>



## Non-GAAP Reconciliations (3 of 3)

### Guidance reconciliation

\$ in millions	Guidance	
	Year Ending December 31, 2019	
	Low	High
Net Income (GAAP)	\$ 545	\$ 585
plus:		
Income tax expense	157	167
Interest expense, net	136	136
Depreciation and amortization	162	162
Stock-based compensation expense	15	15
Expenses related to long-term debt refinancing	1	1
UAW Local 933 retirement incentive	9	9
Adjusted EBITDA (Non-GAAP)	<u>\$ 1,025</u>	<u>\$ 1,075</u>
Net Cash Provided by Operating Activities (GAAP)	\$ 735	\$ 765
Deductions to Reconcile to Adjusted Free Cash Flow:		
Additions of long-lived assets	(165)	(155)
Adjusted Free Cash Flow (Non-GAAP)	<u>\$ 570</u>	<u>\$ 610</u>