

Q1 2014 Earnings Release

Published April 16, 2014 (Earnings Conference Call April 17, 2014)

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Allison Transmission’s business is subject to numerous risks and uncertainties, which may cause future results of operations to vary significantly from those presented herein. Important factors that could cause actual results to differ materially are discussed in Allison Transmission’s Annual Report on Form 10-K for the year ended December 31, 2013.



Non-GAAP Financial Information

We use Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow to evaluate our performance relative to that of our peers. In addition, the Senior Secured Credit Facility has certain covenants that incorporate Adjusted EBITDA. However, Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow are not measurements of financial performance under GAAP, and these metrics may not be comparable to similarly titled measures of other companies. Adjusted net income is calculated as the sum of net income (loss), interest expense, net, income tax expense (benefit), trade name impairment and amortization of intangible assets, less cash interest, net and cash income taxes, and adjusted for certain non-recurring items. Adjusted EBITDA is calculated as the sum of Adjusted net income, cash interest, net, cash income taxes, depreciation of property, plant and equipment and other adjustments as defined by the Senior Secured Credit Facility and as further described below. Adjusted EBITDA excluding technology-related license expenses is calculated as Adjusted EBITDA less technology-related license expenses. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by net sales. Adjusted EBITDA margin excluding technology-related license expenses is calculated as Adjusted EBITDA excluding technology-related license expenses divided by net sales. Free cash flow is calculated as net cash provided by operating activities less capital expenditures. Adjusted free cash flow is free cash flow adjusted for non-recurring items.

We use Adjusted net income to measure our overall profitability because it better reflects our cash flow generation by capturing the actual cash interest paid and cash taxes paid rather than our interest expense and tax expense as calculated under GAAP and excludes the impact of the non-cash annual amortization of certain intangible assets that were created at the time of the Acquisition Transaction. We use Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin and Adjusted EBITDA margin excluding technology-related license expenses to evaluate and control our cash operating costs and to measure our operating profitability. We use adjusted free cash flow and free cash flow to evaluate the amount of cash generated by the business that, after the capital investment needed to maintain and grow our business, can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. We believe the presentation of Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses and adjusted free cash flow enhances our investors' overall understanding of the financial performance and cash flow of our business.

You should not consider Adjusted net income, Adjusted EBITDA, Adjusted EBITDA excluding technology-related license expenses, Adjusted EBITDA margin, Adjusted EBITDA margin excluding technology-related license expenses, adjusted free cash flow and free cash flow as an alternative to net income (loss), determined in accordance with GAAP, as an indicator of operating performance, or as an alternative to net cash provided by operating activities, determined in accordance with GAAP, as an indicator of Allison's cash flow.



Call Agenda

- **Q1 2014 Performance**
- **Full Year 2014 Guidance Update**



Q1 2014 Performance Summary

(\$ in millions)	Q1 2014	Q1 2013	% Variance
Net Sales	\$494	\$457	7.9%
Gross Margin %	45.1%	43.4%	+170 bps
Adjusted Net Income ⁽¹⁾	\$108	\$80	35.7%
Adjusted Free Cash Flow ⁽¹⁾	\$91	\$48	88.8%

Commentary

Net Sales: the increase was principally driven by the continued recovery in the North America On-Highway end market, our largest, and higher demand in the Service Parts, Support Equipment and Other end market partially offset by previously contemplated reductions in U.S. defense spending.

Gross Margin: the increase was principally driven by increased net sales.

Adjusted Net Income: the increase was principally driven by increased net sales and a \$3 million reduction in technology-related license expenses.

Adjusted Free Cash Flow: the increase was principally driven by increased net cash provided by operating activities, decreased capital expenditures and a \$3 million reduction in technology-related license expenses.

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



Q1 2014 Sales Performance

(\$ in millions)

End Markets	Q1 2014	Q1 2013	% Variance	Commentary
North America On-Hwy	\$233	\$188	24%	Increased demand for Rugged Duty, Highway and Pupil Transport/Shuttle Series models
North America Hybrid-Propulsion Systems for Transit Bus	\$24	\$31	(23%)	Lower demand due to engine emissions improvements and non-hybrid alternatives that generally require a fully-automatic transmission (e.g. xNG)
North America Off-Hwy	\$12	\$8	50%	Increased demand driven by hydraulic fracturing applications
Defense	\$34	\$57	(40%)	Continued reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	\$64	\$62	3%	Strength in China bus partially offset by weakness in Europe truck due to fourth quarter 2013 Euro VI emissions pre-buy activities
Outside North America Off-Hwy	\$21	\$21	0%	Flat with same period in 2013 principally driven by modestly improved demand conditions in the mining sector offsetting lower demand from the energy sector
Service Parts, Support Equipment & Other	\$106	\$90	18%	Increased demand for global service parts and global On-Highway support equipment
Total	\$494	\$457	8%	



Q1 2014 Financial Performance

(\$ in millions, except share data)	Q1 2014	Q1 2013	\$ Var	% Var	Commentary
Net Sales	\$493.6	\$457.4	\$36.2	7.9%	Increase was principally driven by the continued recovery in the North America On-Highway end market and higher demand in the Service Parts, Support Equipment and Other end market partially offset by previously contemplated reductions in U.S. defense spending
Cost of Sales	\$271.1	\$259.1	(\$12.0)	(4.6%)	
Gross Profit	\$222.5	\$198.3	\$24.2	12.2%	Increase principally driven by increased net sales
Operating Expenses					
Selling, general and administrative expenses	\$83.2	\$87.9	\$4.7	5.3%	Decrease principally driven by a \$5 million reduction in intangible asset amortization
Engineering – research and development	\$24.5	\$29.0	\$4.5	15.5%	Decrease principally driven by a \$3 million reduction in technology-related license expenses
Total operating expenses	\$107.7	\$116.9	\$9.2	7.9%	
Operating Income	\$114.8	\$81.4	\$33.4	41.0%	
Interest Expense, net	(\$35.1)	(\$33.9)	(\$1.2)	(3.5%)	Increase principally driven by less favorable mark-to-market adjustments for interest rate derivatives partially offset debt repayments and lower rates
Other Expense, net	(\$0.4)	(\$3.1)	\$2.7	87.1%	Decrease principally driven by the 2013 loss on investments in technology-related initiatives
Income Before Income Taxes	\$79.3	\$44.4	\$34.9	78.6%	
Income Tax Expense	(\$27.2)	(\$16.9)	(\$10.3)	(60.9%)	Change in effective tax rate principally driven by a 2013 discrete expense item and a prior period statutory change in a state apportionment rate recorded in the first quarter 2014
Net Income	\$52.1	\$27.5	\$24.6	89.5%	
Diluted Earnings Per Share	\$0.28	\$0.15	\$0.13	86.7%	Q1 2014: 185.9M shares; Q1 2013: 187.8M shares
Adjusted EBITDA⁽¹⁾	\$165.8	\$140.7	\$25.1	17.8%	
Adjusted EBITDA excluding technology-related license expenses⁽¹⁾	\$169.1	\$146.7	\$22.4	15.3%	
Adjusted Net Income⁽¹⁾	\$107.9	\$79.5	\$28.4	35.7%	



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

Q1 2014 Cash Flow Performance

(\$ in millions)	Q1 2014	Q1 2013	\$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	\$99	\$55	\$44	80.3%	Principally driven by increased net income and deferred revenue
CapEx	\$11	\$13	(\$2)	(11.9%)	Lower product initiatives spending partially offset by increased investments in productivity and replacement programs
Adjusted Free Cash Flow ⁽¹⁾	\$91	\$48	\$43	88.8%	Increased cash provided by operating activities, decreased capital expenditures and a \$3 million reduction in technology-related license expenses
(\$ in millions)	Q1 2014	Q1 2013	\$ Variance	% Variance	Commentary
Operating Working Capital ⁽²⁾ Percentage of LTM Sales	11.7%	10.5%	N/A	120 bps	Principally driven by higher Q1 2014 Net Sales and the deferral of certain tracked transmission shipments at the request of the U.S. government
Cash Paid for Interest	\$29	\$30	(\$1)	(2.3%)	Principally driven by debt repayments and refinancing
Cash Paid for Income Taxes	\$2	\$1	\$1	75.0%	Foreign payments timing

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

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



Full Year 2014 Guidance Update

	Guidance	Commentary
Net Sales Growth from 2013	3 to 6 percent	Consistent with our previous guidance we expect a continued recovery in the North America On-Highway end market, lower demand in the North America Hybrid-Propulsion Systems for Transit Bus end market due to engine emissions improvements and non-hybrid alternative technologies that generally require a fully-automatic transmission (e.g. xNG), a slowly emerging improvement in demand from the North America energy sector's hydraulic fracturing market, previously considered reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts, growth in the Outside North America On-Highway end market, moderately improved second half demand conditions in the Outside North America Off-Highway end market and higher demand in the Service Parts, Support Equipment & Other end market.
Adjusted EBITDA Margin <small>excluding technology-related license expenses</small>	32 to 34 percent	Principally driven by sales mix and volume timing
Adjusted Free Cash Flow <small>(\$ in millions)</small>	\$375 to \$425	\$2.00 to \$2.25 per diluted share
CapEx <small>(\$ in millions)</small> Maintenance New Product Programs	\$55 to \$60 \$5 to \$10	Subject to timely completion of development and sourcing milestones
Cash Income Taxes <small>(\$ in millions)</small>	\$10 to \$15	U.S. income tax shield and net operating loss utilization



APPENDIX

Non-GAAP Financial Information

Non-GAAP Reconciliations (1 of 2)

Adjusted Net Income and Adjusted EBITDA reconciliation

\$ in millions, Unaudited	For the year ended December 31,					Three months ended March 31,		Last twelve months ended March 31,
	2009	2010	2011	2012	2013	2013	2014	2014
Net (loss) income	(\$323.9)	\$29.6	\$103.0	\$514.2	\$165.4	\$27.5	\$52.1	\$190.0
plus:								
Interest expense, net	234.2	277.5	217.3	151.2	132.9	33.9	35.1	134.1
Cash interest expense	(242.5)	(239.1)	(208.6)	(167.3)	(159.2)	(30.0)	(29.4)	(158.6)
Income tax expense (benefit)	41.4	53.7	47.6	(298.0)	100.7	16.9	27.2	111.0
Cash income taxes	(5.5)	(2.2)	(5.8)	(10.7)	(3.8)	(1.2)	(2.1)	(4.7)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—	—
Technology-related investment expenses	—	—	—	14.4	5.0	2.5	—	2.5
Public offering expenses	—	—	—	6.1	1.6	—	0.3	1.9
Trade name impairment	190.0	—	—	—	—	—	—	—
Amortization of intangible assets	155.9	154.2	151.9	150.0	105.3	29.9	24.7	100.1
Adjusted net income	\$49.6	\$273.7	\$305.4	\$375.9	\$347.9	\$79.5	\$107.9	\$376.3
Cash interest expense	242.5	239.1	208.6	167.3	159.2	30.0	29.4	158.6
Cash income taxes	5.5	2.2	5.8	10.7	3.8	1.2	2.1	4.7
Depreciation of property, plant and equipment	105.9	99.6	103.8	102.5	98.7	24.7	23.3	97.3
(Gain)/loss on redemptions and repayments of long-term debt	(8.9)	(3.3)	16.0	22.1	0.8	—	—	0.8
Dual power inverter module extended coverage	11.4	(1.9)	—	9.4	(2.4)	—	—	(2.4)
UAW Local 933 signing bonus	—	—	—	8.8	—	—	—	—
Benefit plan re-measurement	—	—	—	2.3	—	—	—	—
Unrealized (gain) loss on commodity hedge contracts	(5.8)	0.3	6.5	(1.0)	1.5	1.3	0.1	0.3
Unrealized (gain) loss on foreign exchange	—	(0.2)	0.3	0.1	2.3	0.6	(0.3)	1.4
Premiums and expenses on tender offer for long-term debt	—	—	56.9	—	—	—	—	—
Restructuring charges	47.9	—	—	—	1.0	—	—	1.0
Reduction of supply contract liability	—	(3.4)	—	—	—	—	—	—
Other, net ⁽¹⁾	53.2	10.9	8.6	7.0	13.8	3.4	3.3	13.7
Adjusted EBITDA	\$501.3	\$617.0	\$711.9	\$705.1	\$626.6	\$140.7	\$165.8	\$651.7
Adjusted EBITDA excluding technology-related license expenses	\$501.3	\$617.0	\$711.9	\$717.1	\$632.6	\$146.7	\$169.1	\$655.0
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$1,926.8	\$457.4	\$493.6	\$1,963.0
Adjusted EBITDA margin	28.4%	32.0%	32.9%	32.9%	32.5%	30.8%	33.6%	33.2%
Adjusted EBITDA margin excl technology-related license expenses	28.4%	32.0%	32.9%	33.5%	32.8%	32.1%	34.3%	33.4%

(1) Includes charges or income related to legacy employee benefits, shared income with General Motors, benefit plan adjustments, transitional costs to establish Allison as a stand-alone entity, pension curtailment adjustments, employee stock compensation expense, service fees paid to Allison's Sponsors and an adjustment for the settlement of litigation which originated with the Predecessor but was assumed by the Company as part of the Acquisition Transaction.



Non-GAAP Reconciliations (2 of 2)

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,
	2009	2010	2011	2012	2013	2013	2014	2014
Net Cash Provided by Operating Activities	\$168.7	\$388.9	\$469.2	\$497.5	\$453.5	\$54.7	\$98.6	\$497.4
(Deductions) or Additions:								
Long-lived assets	(88.2)	(73.8)	(96.9)	(123.9)	(74.4)	(12.6)	(11.1)	(72.9)
Fee to terminate services agreement with Sponsors	—	—	—	16.0	—	—	—	—
Technology-related license expenses	—	—	—	12.0	6.0	6.0	3.3	3.3
2009 Non-Recurring Activity ⁽¹⁾	61.0	—	—	—	—	—	—	—
Adjusted Free Cash Flow	\$141.5	\$315.1	\$372.3	\$401.6	\$385.1	\$48.1	\$90.8	\$427.8
Net Sales	\$1,766.7	\$1,926.3	\$2,162.8	\$2,141.8	\$1,926.8	\$457.4	\$493.6	\$1,963.0
Adjusted Free Cash Flow (% to Net Sales)	8.0%	16.4%	17.2%	18.8%	20.0%	10.5%	18.4%	21.8%

(1) 2009 adjusted for certain non-recurring activity: (a) capitalized accrued interest on Senior Toggle Notes (\$29) million, (b) cash restructuring charge \$51 million, (c) accounts payable early payments \$3 million, (d) delayed accounts receivable receipts \$19 million and (e) Lehman LIBOR swap settlement \$17 million.

