Q3 2015 Earnings Release

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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 the 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; the failure of markets outside North America to increase adoption of fully-automatic transmissions; risks related to our substantial indebtedness; the concentration of our net sales in our top five customers and the loss of any one of these; future reductions or changes in government subsidies and other external factors impacting demand for hybrid vehicles; U.S. defense spending; 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 prepare for, respond to and successfully achieve our objectives relating to technological and market developments and changing customer needs; risks associated with our international operations; and labor strikes, work stoppages or similar labor disputes, which could significantly disrupt our operations or those of our principal customers.

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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, 2014.

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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, 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, 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

- Q3 2015 Performance
- Full Year 2015 Guidance Update

Q3 2015 Performance Summary

($ in millions)	Q3 2015	Q3 2014	% Variance
Net Sales	$493	$553	-10.9%
Gross Margin %	47.9%	46.9%	+100 bps
Adjusted Net Income (1)	$123	$138	-10.6%
Adjusted Free Cash Flow (1)	$142	$164	-13.8%

Commentary

Net Sales: the decrease was principally driven by lower demand in the global Off-Highway end markets partially offset by higher demand in the North America On-Highway end market and price increases on certain products.

Gross Margin: the increase was principally driven by price increases on certain products and favorable material costs.

Adjusted Net Income: the decrease was principally driven by decreased sales volume and unfavorable product warranty adjustments partially offset by price increases on certain products, favorable material costs, lower incentive and stock based compensation expense, reduced global commercial spending activities and decreased cash interest expense.

Adjusted Free Cash Flow: the decrease was principally driven by decreased net cash provided by operating activities and decreased excess tax benefit from stock-based compensation.

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

Q3 2015 Sales Performance

($ in millions)

End Markets	Q3 2015	Q3 2014	% Variance	Commentary
North America On-Hwy	$262	$256	2%	Principally driven by higher demand for Highway Series models
North America Hybrid-Propulsion Systems for Transit Bus	$12	$23	(48%)	Principally driven by 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	$30	(60%)	Principally driven by lower demand from hydraulic fracturing applications
Defense	$34	$35	(3%)	Principally driven by reductions in U.S. defense spending to longer term averages experienced during periods without active conflicts
Outside North America On-Hwy	$67	$73	(8%)	Principally driven by lower demand in China partially offset by higher demand in Europe
Outside North America Off-Hwy	$4	$18	(78%)	Principally driven by lower demand in the energy sector
Service Parts, Support Equipment & Other	$102	$118	(14%)	Principally driven by lower demand for North America service parts
Total	**$493**	**$553**	**(11%)**	

Q3 2015 Financial Performance

($ in millions, except share data)	Q3 2015	Q3 2014	$ Var	% Var	Commentary
Net Sales	$493.0	$553.3	($60.3)	(10.9%)	Decrease principally driven by lower demand in the global Off-Highway end markets partially offset by higher demand in the North America On-Highway end market and price increases on certain products
Cost of Sales	$256.9	$294.0	$37.1	12.6%	
Gross Profit	$236.1	$259.3	($23.2)	(8.9%)	Decrease principally driven by decreased sales volume partially offset by price increases on certain products, favorable material costs and lower incentive compensation expense
Operating Expenses					
Selling, General and Administrative Expenses	$86.6	$87.5	$0.9	1.0%	Decrease principally driven by lower incentive and stock based compensation, and reduced global commercial spending activities partially offset by unfavorable product warranty adjustments
Engineering – Research and Development	$23.6	$24.5	$0.9	3.7%	Decrease principally driven by lower incentive compensation
Environmental Remediation	$14.0	$0.0	($14.0)	N/A	Pursuant to the 2007 asset purchase agreement with General Motors
Total Operating Expenses	$124.2	$112.0	($12.2)	(10.9%)	
Operating Income	$111.9	$147.3	($35.4)	(24.0%)	
Interest Expense, net	($33.7)	($29.3)	($4.4)	(15.0%)	Increase principally driven by unfavorable mark-to-market adjustments for LIBOR swaps partially offset by debt repayments and refinancing and the expiration of certain LIBOR swaps
Other Expense, net	($4.4)	($1.7)	($2.7)	(158.8%)	
Income Before Income Taxes	$73.8	$116.3	($42.5)	(36.5%)	
Income Tax Expense	($27.3)	($47.5)	$20.2	42.5%	Decrease in the effective tax rate is principally driven by the change in discrete activity
Net Income	$46.5	$68.8	($22.3)	(32.4%)	
Diluted Earnings Per Share	$0.27	$0.38	($0.11)	(28.9%)	Q3 2015: 175.0M shares; Q3 2014: 180.9M shares
Adjusted Net Income(1)	$122.9	$137.5	($14.6)	(10.6%)	
Adjusted EBITDA(1)	$174.1	$201.8	($27.7)	(13.7%)	
Adjusted EBITDA excluding technology-related license expenses(1)	$174.3	$201.8	($27.5)	(13.6%)	

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

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Q3 2015 Cash Flow Performance

($ in millions)	Q3 2015	Q3 2014	$ Variance	% Variance	Commentary
Net Cash Provided by Operating Activities	$156	$174	($18)	(10.2%)	Principally driven by decreased sales volume partially offset by price increases on certain products, favorable material costs, reduced global commercial spending activities, decreased cash interest expense and reduced excess tax benefit from stock-based compensation
CapEx	$15	$15	$0	2.0%	In line with prior period
Adjusted Free Cash Flow (1)	$142	$164	($22)	(13.8%)	Principally driven by decreased net cash provided by operating activities and reduced excess tax benefit from stock-based compensation

($ in millions)	Q3 2015	Q3 2014	$ Variance	% Variance	Commentary
Operating Working Capital(2) Percentage of LTM Sales	11.6%	10.5%	N/A	110 bps	Principally driven by reduced Accounts Payable due to payment timing
Cash Paid for Interest	$22	$35	($13)	(37.2%)	Principally driven by expiration of certain LIBOR swaps, and debt repayments and refinancing
Cash Paid for Income Taxes	$1	$0	$1	175%	In line with prior period

(1) See Appendix for a reconciliation of Adjusted Free Cash Flow.
(2) Operating Working Capital = A/R + Inventory – A/P.

Full Year 2015 Guidance Update

	Guidance	Commentary
Net Sales Change from 2014	(6) to (8) percent	Guidance reflects the elevated level of uncertainty and a dearth of near-term visibility in the global Off-Highway and Service Parts, Support Equipment & Other end markets
Adjusted EBITDA Margin	34.75 to 35.75 percent	Principally driven by Net Sales and the execution of several initiatives to align costs and programs across our business with challenging end markets demand conditions
Adjusted Free Cash Flow ($ in millions)	$470 to $500	$2.65 to $2.80 per diluted share
CapEx ($ in millions) Maintenance New Product Programs	 $60 to $65 $0 to $5	Subject to timely completion of development and sourcing milestones
Cash Income Taxes ($ in millions)	$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 September 30,		Last twelve months ended September 30,
	2010	2011	2012	2013	2014	2014	2015	2015
Net income	**$29.6**	**$103.0**	**$514.2**	**$165.4**	**$228.6**	**$68.8**	**$46.5**	**$219.8**
plus:								
Interest expense, net	277.5	217.3	151.2	132.9	138.4	29.3	33.7	131.1
Cash interest expense, net	(239.1)	(208.6)	(167.3)	(159.2)	(140.0)	(34.7)	(21.8)	(112.1)
Income tax expense (benefit)	53.7	47.6	(298.0)	100.7	139.5	47.5	27.3	127.1
Cash income taxes	(2.2)	(5.8)	(10.7)	(3.8)	(5.0)	(0.4)	(1.1)	(6.5)
Fee to terminate services agreement with Sponsors	—	—	16.0	—	—	—	—	—
Technology-related investment expenses	—	—	14.4	5.0	2.0	2.0	—	—
Public offering expenses	—	—	6.1	1.6	1.4	0.3	—	—
Impairments	—	—	—	—	15.4	—	—	16.7
Environmental Remediation	—	—	—	—	—	—	14.0	14.0
Amortization of intangible assets	154.2	151.9	150.0	105.3	98.8	24.7	24.3	97.6
Adjusted net income	**$273.7**	**$305.4**	**$375.9**	**$347.9**	**$479.1**	**$137.5**	**$122.9**	**$487.7**
Cash interest expense	239.1	208.6	167.3	159.2	140.0	34.7	21.8	112.1
Cash income taxes	2.2	5.8	10.7	3.8	5.0	0.4	1.1	6.5
Depreciation of property, plant and equipment	99.6	103.8	102.5	98.7	93.8	23.6	22.4	88.6
(Gain)/loss on redemptions and repayments of long-term debt	(3.3)	16.0	22.1	0.8	0.5	0.3	—	0.4
Dual power inverter module extended coverage	(1.9)	—	9.4	(2.4)	1.0	—	(0.3)	(1.1)
UAW Local 933 signing bonus	—	—	8.8	—	—	—	—	—
Benefit plan re-measurement	—	—	2.3	—	—	—	—	—
Unrealized loss (gain) on commodity hedge contracts	0.3	6.5	(1.0)	1.5	(1.0)	(0.6)	0.7	1.4
Unrealized (gain) loss on foreign exchange	(0.2)	0.3	0.1	2.3	5.2	2.0	2.8	3.4
Premiums and expenses on tender offer and redemption of long-term debt	—	56.9	—	—	—	—	0.2	25.3
Restructuring charges	—	—	—	1.0	0.7	—	—	—
Reduction of supply contract liability	(3.4)	—	—	—	—	—	—	—
Other, net[(1)]	10.9	8.6	7.0	13.8	14.7	3.9	2.5	10.7
Adjusted EBITDA	**$617.0**	**$711.9**	**$705.1**	**$626.6**	**$739.0**	**$201.8**	**$174.1**	**$735.0**
Adjusted EBITDA excluding technology-related license expenses	**$617.0**	**$711.9**	**$717.1**	**$632.6**	**$745.1**	**$201.8**	**$174.3**	**$738.0**
Net Sales	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$1,926.8**	**$2,127.4**	**$553.3**	**$493.0**	**$2,052.0**
Adjusted EBITDA margin	**32.0%**	**32.9%**	**32.9%**	**32.5%**	**34.7%**	**36.5%**	**35.3%**	**35.8%**
Adjusted EBITDA margin excl technology-related license expenses	**32.0%**	**32.9%**	**33.5%**	**32.8%**	**35.0%**	**36.5%**	**35.4%**	**36.0%**

(1) Includes charges or income related to benefit plan 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.

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Non-GAAP Reconciliations (2 of 2)

Adjusted Free Cash Flow reconciliation

$ in millions, Unaudited	For the year ended December 31,					Three months ended September 30,		Last twelve months ended September 30,
	2010	**2011**	**2012**	**2013**	**2014**	**2014**	**2015**	**2015**
Net Cash Provided by Operating Activities	**$388.9**	**$469.2**	**$497.5**	**$453.5**	**$556.9**	**$174.0**	**$156.3**	**$530.9**
(Deductions) or Additions:								
Long-lived assets	(73.8)	(96.9)	(123.9)	(74.4)	(64.1)	(14.9)	(15.2)	(56.6)
Fee to terminate services agreement with Sponsors	—	—	16.0	—	—	—	—	—
Technology-related license expenses	—	—	12.0	6.0	6.1	—	0.2	3.0
Excess tax benefit from stock-based compensation	—	—	5.3	13.7	24.6	5.0	0.2	20.0
Adjusted Free Cash Flow	**$315.1**	**$372.3**	**$406.9**	**$398.8**	**$523.5**	**$164.1**	**$141.5**	**$497.3**
Net Sales	**$1,926.3**	**$2,162.8**	**$2,141.8**	**$1,926.8**	**$2,127.4**	**$553.3**	**$493.0**	**$2,052.0**
Adjusted Free Cash Flow (% to Net Sales)	**16.4%**	**17.2%**	**19.0%**	**20.7%**	**24.6%**	**29.7%**	**28.7%**	**24.2%**