



Allison Transmission Holdings, Inc. (ALSN)

Updated March 9th, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	10.5%	Market Cap:	\$8.4 B
Fair Value Price:	\$116	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	05/16/25
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date¹:	05/30/25
Dividend Yield:	1.1%	5 Year Price Target	\$155	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Allison Transmission Holdings, Inc. (ALSN) is the largest manufacturer of fully automatic transmissions for commercial vehicles, with a 60% global market share in the on-highway segment. Its products power Class 4-8 trucks, buses, motorhomes, and military vehicles, offering superior fuel efficiency and durability over manual alternatives. The company is also developing e-powertrains to support vehicle electrification. Founded in 1915 and headquartered in Indianapolis, Indiana, Allison employs 4,000 people and serves customers in 150+ countries through a global network of manufacturing facilities, engineering centers, and distributors across on-highway, off-highway, and defense markets.

On February 11th, 2025, Allison Transmission Holdings, Inc. announced its fourth-quarter and full-year 2024 financial results for the period ending December 31st, 2024. The company reported net income of \$175 million for Q4 2024, up from \$170 million in Q4 2023, driven by strong demand for Class 8 vocational trucks and pricing adjustments on key products. Diluted earnings per share (EPS) rose to \$2.01, compared to \$1.91 in the prior-year quarter.

Quarterly net sales reached \$796 million, a 2.7% increase year-over-year, led by a 10% increase in the North America On-Highway segment, driven by higher demand for Class 8 vocational vehicles and price increases. Sales in the Service Parts, Support Equipment, and Other segment grew 5%, while the Defense market rose 8%, benefiting from increased demand for tracked vehicle applications. These gains were partially offset by declines in the Off-Highway segment. Adjusted EBITDA totaled \$270 million, down 2.5% from \$277 million a year ago, reflecting higher manufacturing expenses and foreign exchange impacts.

For full-year 2024, Allison generated record revenue of \$3.23 billion, up 6.3% from 2023, while net income grew 8.6% to \$731 million, compared to \$673 million in the prior year. Full-year EPS increased 12.3% to \$8.31, driven by pricing power, strong vocational truck demand, and international growth.

The management expects steady revenue in 2025, with net sales projected between \$3.2 billion and \$3.3 billion, compared to the record \$3.23 billion in 2024. If sales reach the upper end of guidance, 2025 would mark a new all-time high. Net income is forecasted at \$735 million to \$785 million, reflecting a 0.5% to 7.4% increase from \$731 million in 2024. Adjusted EBITDA is expected to grow by up to 5.6%, reaching \$1.17 billion to \$1.23 billion, while net cash from operations could rise 7.4% to \$860 million. CapEx is set to increase by up to 16%, impacting adjusted free cash flow, which may decline slightly. Growth will be driven by price increases and strong vocational truck and defense demand.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.03	\$1.27	\$3.36	\$4.78	\$4.91	\$2.62	\$4.13	\$5.53	\$7.40	\$8.31	\$8.90	\$11.91
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.68	\$0.76	\$0.84	\$0.92	\$1.00	\$1.08	\$1.45
Shares²	177	169	150	134	123	114	107	96	91	88	86	80

¹ Estimated date

² In millions.

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The company has grown earnings by 26.1% per year in the last decade and 27.7% over the past five years. We expect earnings to grow on average by 6% per year for the next five years. The company has been able to increase its dividend for 6 consecutive years. Over the last five years, the average annual dividend growth rate is 9.7%. In February 2025, the company increased its quarterly dividend by 8% from \$0.25 to \$0.27 per share. Allison Transmission repurchased over \$250 million of its shares in 2024, reducing outstanding shares by approximately 3%. With more than \$1.5 billion in remaining authorization, the company is expected to continue returning capital to shareholders through buybacks, supporting EPS growth.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	21.1	34.0	19.1	8.6	9.4	14.4	10.4	8.0	8.3	13.2	11.0	13.0
Avg. Yld.	2.3%	1.8%	1.4%	1.4%	1.2%	1.6%	2.1%	2.0%	1.6%	0.9%	1.1%	0.9%

During the past decade shares of Allison Transmission have traded with an average price-to-earnings ratio of about 14.6 and today, it stands at 11.0. We are using 13 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The yield is currently 1.1% which is below the average yield of 1.6% over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	58%	47%	18%	13%	12%	26%	18%	15%	12%	12%	12%	12%

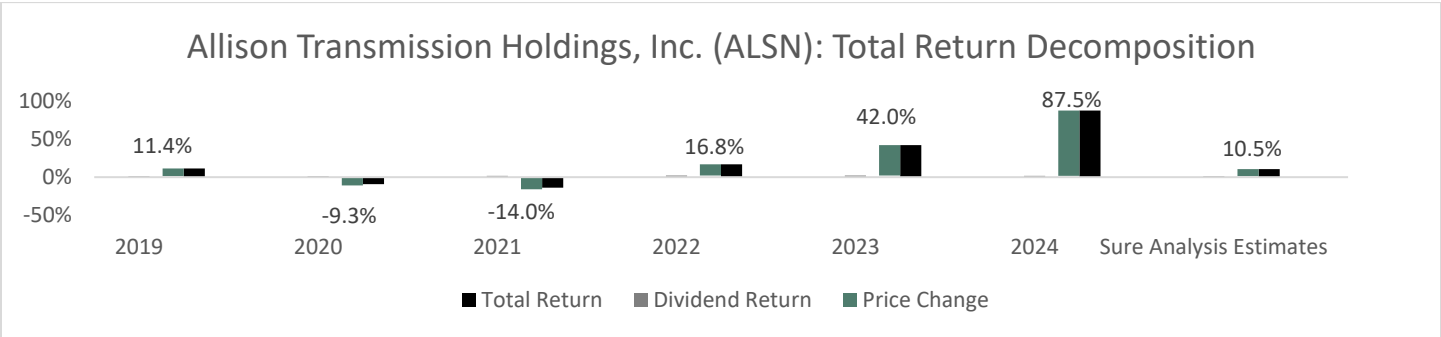
During the past five years, the company’s dividend payout ratio has averaged around 19%. Allison Transmission ‘s dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Allison Transmission benefits from a dominant market position in fully automatic transmissions, particularly in vocational and defense vehicles, where it holds a 60% global market share in on-highway applications. Its premium pricing, strong brand reputation, and expanding electrification portfolio provide competitive advantages. The company’s strong cash flow and disciplined capital allocation support R&D, acquisitions, and shareholder returns. However, profitability is cyclical, influenced by commercial vehicle demand, infrastructure spending, and defense budgets. Rising manufacturing costs, foreign exchange fluctuations, and softening medium-duty truck demand could pressure margins in 2025, though price increases and operational efficiencies may help offset these challenges.

Final Thoughts & Recommendation

Allison Transmission is a market leader in fully automatic transmissions, recognized for its strong brand, pricing power, and disciplined capital allocation. The company’s expanding electrification portfolio and defense segment growth position it well for the future. In 2025, maintaining profitability amid rising costs, foreign exchange headwinds, and cyclical demand shifts will be key priorities. We estimate total return potential of 10.5% per year for the stock over the next five years based on a 6% earnings-per-share growth, the dividend yield of 1.1%, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	1,986	1,840	2,262	2,713	2,698	2,081	2,402	2,769	3,035	3,225
Gross Profit	934	864	1,131	1,422	1,394	998	1,145	1,297	1,470	1,529
Gross Margin	47.0%	47.0%	50.0%	52.4%	51.7%	48.0%	47.7%	46.8%	48.4%	47.4%
SG&A Exp.	317	324	342	368	356	317	305	328	357	337
D&A Exp.	185	176	170	164	167	148	150	155	154	121
Operating Profit	510	452	684	923	892	534	669	784	919	992
Op. Margin	25.7%	24.6%	30.2%	34.0%	33.1%	25.7%	27.9%	28.3%	30.3%	30.8%
Net Profit	182	215	504	639	604	299	442	531	673	731
Net Margin	9.2%	11.7%	22.3%	23.6%	22.4%	14.4%	18.4%	19.2%	22.2%	22.7%
Free Cash Flow	522	520	567	737	675	446	460	490	659	658
Income Tax	107	126	23	166	164	94	130	114	154	166

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4,408	4,219	4,205	4,237	4,450	4,477	4,457	4,671	5,025	5,336
Cash & Equivalents	252	205	199	231	192	310	127	232	555	781
Acc. Receivable	195	197	221	279	253	228	301	363	356	360
Inventories	141	126	154	170	199	181	204	224	276	315
Goodwill & Int.	3,276	3,183	3,094	3,007	3,083	3,027	3,054	3,139	2,909	2,897
Total Liabilities	3,220	3,138	3,516	3,578	3,669	3,721	3,823	3,797	3,792	3,685
Accounts Payable	126	128	159	169	150	157	179	195	210	212
Long-Term Debt	2,377	2,159	2,546	2,523	2,518	2,513	2,510	2,507	2,503	2,400
Total Equity	1,189	1,081	689	659	781	756	634	874	1,233	1,651
D/E Ratio	2.00	2.00	3.70	3.83	3.22	3.32	3.96	2.87	2.03	1.45

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.0%	5.0%	12.0%	15.1%	13.9%	6.7%	9.9%	11.6%	13.9%	14.1%
Return on Equity	14.1%	18.9%	56.9%	94.8%	83.9%	38.9%	63.6%	70.4%	63.9%	50.7%
ROIC	4.9%	6.3%	15.6%	19.9%	18.6%	9.1%	13.8%	16.3%	18.9%	18.8%
Shares Out.	177	169	150	134	123	114	107	96	91	88
Revenue/Share	11.22	10.89	15.08	20.25	21.94	18.25	22.45	28.84	33.35	36.65
FCF/Share	2.95	3.08	3.78	5.50	5.49	3.91	4.30	5.10	7.24	7.48

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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