Allison Transmission Holdings, Inc. (ALSN)

Updated May 18th, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	8.5%	**Market Cap:**	$9.1 B
Fair Value Price:	$114	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	05/19/25
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.5%	**Dividend Payment Date:**	05/30/25
Dividend Yield:	1.0%	**5 Year Price Target**	$153	**Years Of Dividend Growth:**	6
Dividend Risk Score:	B	**Sector:**	Industrials	**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 May 1st, 2025, Allison Transmission Holdings, Inc. announced its first-quarter 2025 financial results for the period ending March 31st, 2025. The company reported net income of $192 million, up 14% year-over-year, driven by price increases on certain products and strength in the North America On-Highway and Defense end markets. Diluted earnings per share (EPS) rose to $2.23 from $1.90, a 17% increase from the prior-year quarter.

Quarterly net sales were $766 million, reflecting a 3% year-over-year decline, primarily due to weakness in the Global Off-Highway (-61%) and Service Parts, Support Equipment & Other (-8%) segments. However, the North America On-Highway segment grew 4%, supported by ongoing demand for Class 8 vocational trucks, while Defense sales increased 10%. The 10% year-over-year growth in the Defense segment was driven by higher demand for tracked vehicles and support for international military programs such as India's FICV initiative. Adjusted EBITDA was $287 million, compared to $289 million a year ago, with margin expanding to 37.5%, a 90 basis point improvement, supported by strong pricing power and cost discipline.

The company reaffirmed its full-year 2025 guidance, projecting net sales of $3.2 billion to $3.3 billion, which could represent a new record. Net income is expected to range from $735 million to $785 million, up from $731 million in 2024, and adjusted EBITDA is projected at $1.17 billion to $1.23 billion. Net cash from operations is guided at $800 million to $860 million, while CapEx is expected to rise to $165 million–$175 million, slightly impacting adjusted free cash flow, projected at $635 million to $685 million. Growth is expected to be driven by continued pricing strength, vocational truck demand, and international defense programs.

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	***$8.80***	***$11.78***
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***
Shares[1]	177	169	150	134	123	114	107	96	91	88	***86***	***80***

The company has grown earnings by 26.1% per year in the last decade and 27.4% 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%, reflecting the company's consistent free cash flow generation. In February 2025, the company increased its quarterly dividend by 8% from $0.25 to $0.27 per share. Allison Transmission repurchased over $150 million of its shares in the first quarter of

[1] In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

2025, reducing outstanding shares by approximately 2%. With nearly $1.4 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	***12.1***	***13.0***
Avg. Yld.	2.3%	1.8%	1.4%	1.4%	1.2%	1.6%	2.1%	2.0%	1.6%	0.9%	***1.0%***	***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 12.1. We are using 13 times earnings as a fair value baseline, implying the potential for a valuation tailwind. The yield is currently 1.0% 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%***

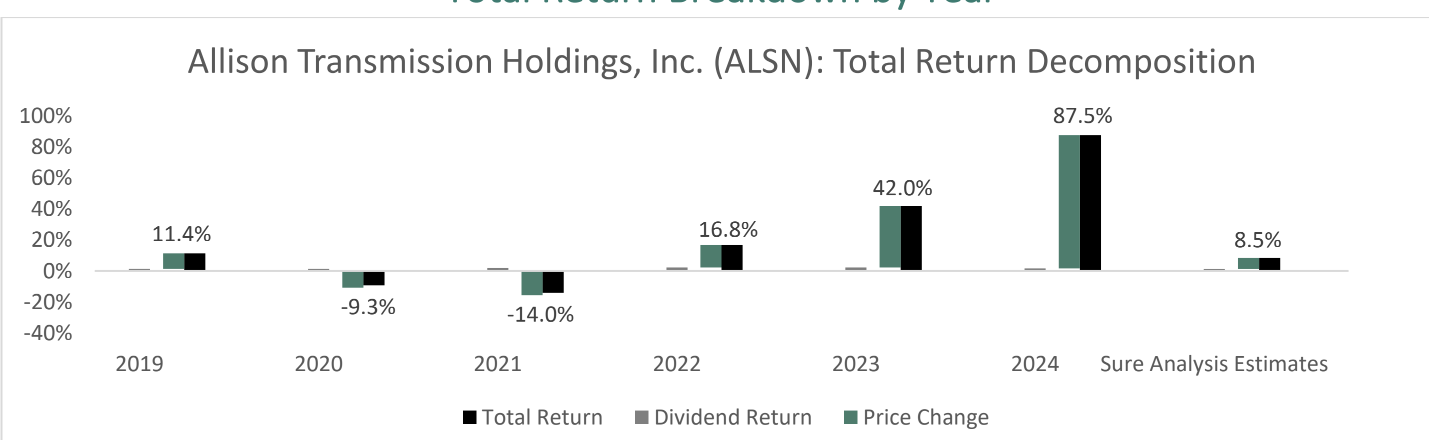
During the past five years, the company's dividend payout ratio has averaged around 19%. Allison Transmission 's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around 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 8.5% per year for the stock over the next five years based on a 6% earnings-per-share growth, the dividend yield of 1.0%, 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.