

AAON, Inc. (AAON)

4Q:16 EPS Of \$0.21 Misses Our Estimate By \$0.04; Trim Near-Term Quarterly Estimates On Weak Backlog; Essentially Maintain 2017-2018 Estimates; Maintain NEUTRAL, \$34 Target

	0045				475		0405
	<u>2015</u>	<u>201</u>			<u>)17E</u>	_	<u>018E</u>
		<u>OLD</u>	<u>NEW</u>	<u>OLD</u>	<u>NEW</u>	<u>OLD</u>	<u>NEW</u>
Mar.	\$0.15	\$0.20A		\$0.22	\$0.21	\$0.27	
June	0.20	0.27A		0.30	0.29	0.36	
Sep.	0.24	0.28A		0.31	0.33	0.37	
Dec.	0.24	0.25	<u>0.21A</u>	0.28	0.29	<u>0.35</u>	
EPS	\$0.84	\$1.01	\$0.96	\$1.11	\$1.12	\$1.35	
P/E					30.7x	25.4x	
EBITDA (mil)	\$83.0	\$95.4	\$92.6	\$106.6	\$107.0	\$126.3	\$125.5
EV / EBITDA					16.8x		14.2x

Note: *FCF includes include stock-based compensation expense. 2015, 2016E, 2017E and 2018E include stock-based compensation expense of \$0.05, \$0.08, \$0.08, \$0.08, and \$0.09, respectively. Sum of quarterly EPS may not equal full-year total due to rounding and/or change in share count. The Russell 2000 Index includes AAON. NC=Not covered by Sidoti & Company, LLC.

Year	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Rev.(Mil.)	\$245.3	\$244.6	\$266.2	\$303.1	\$321.1	\$356.3	\$352.1	\$392.5	\$427.0	\$484.7
GAAP EPS	\$0.49	\$0.38	\$0.25	\$0.49	\$0.68	\$0.80	\$0.84	\$1.00	\$1.12	\$1.35

Description: AAON, Inc. (www.aaon.com) is a leading domestic manufacturer of standard and custom heating, ventilating and air conditioning (HVAC) units, including unitary rooftops, chillers, air-handling units, make-up air units, heat recovery units, condensing units, coils and boilers. Products target the nonresidential market, specifically planned replacement (55%) and new construction (45%). AAON generates almost all of its revenue from the U.S. Headquarters are in Tulsa, OK.

- This morning, AAON reported 4Q:16 revenue and EPS declined year over year by 6% and 11% to \$92 million and \$0.21, respectively. The results missed our respective estimates of \$99 million and \$0.25, and consensus' of \$100 million and \$0.25.
- In the press release, management stated that quarter-end backlog declined year over year 14% to \$49 million, indicating orders received in the quarter were down 16%. However, they also noted that orders have since accelerated in 1Q:17.
- Therefore, while the 4Q:16 results were disappointing, we remain optimistic earnings accelerate throughout 2017.
- We trim our near-term quarterly estimates slightly, but essentially maintain our 2017-2018 outlook. We now estimate EPS of \$1.12 (from \$1.11) in 2017 and continue to estimate \$1.35 in 2018.
- We maintain our NEUTRAL rating and \$34 target. Our target continues to be derived from 25x our 2018 EPS estimate of \$1.35, which equates to 14.2x our 2018 EBITDA estimate of \$126 million.
- Management will hold a conference call at 3:30 p.m., accessible at (888) 241-0551 (code: 72961943).

NEUTRAL

Price Target: \$34 Price: \$34.40

Joseph Mondillo
(212) 894-3339
(jmondillo@sidoti.com)

Key Statistics	
Analysts Covering	3
Market Cap (Mil)	\$1,810
Enterprise Value	\$1,795
52-Week Range (NASDAQ)	35-21
E Veer EDC CACD	200/

5-Year EPS CAGR	20%
Avg. Daily Trading Volume	137,000
Shares Out (Mil)	52.755
Float Shares (Mil)	40.764
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.26
Dividend Yield	0.8%
FCF Per Share (2018E)	\$0.92
FCF Yield (2018E)	2.7%
Net Cash Per Share (2018E)	\$1.25



Russell 2000
Russell 2000 - Last 12 Months
AAON - Last 12 Months

Short Interest Days To Cover



Phone: 212-297-0001

13.0

1,404

35.6% 59.8%

AAON, INC.

Key Risks	Construction does not improve	Steel and copper prices rise	U.S. recession

Exhibit 1: AAON, Inc. 4	4Q:16 Variance Ana	lysis				
	4Q:16 Actual	4Q:16 Estimate	Variance	% Variance	4Q:15 Actual	YoY Change
Revenue (thou.)	\$91,668	\$99,174	(\$7,506)	-7.6%	\$97,229	-5.7%
Gross profit	26,510	30,645	(4,135)	-13.5%	29,581	-10.4%
Profit margin	28.9%	30.9%			30.4%	
Operating income	17,878	20,727	(2,849)	-13.7%	19,722	-9.3%
Profit margin	19.5%	20.9%			20.3%	
Adjusted net income	\$11,420	\$13,087	(1,667)	-12.7%	\$12,948	-11.8%
Profit margin	12.5%	13.2%			13.3%	
Adjusted EPS	\$0.21	\$0.25	(\$0.03)	-12.9%	\$0.24	-10.8%

Source: Sidoti & Co., and Company reports

Table 1. AAON, Inc. Income Statement

(in thousands, except where noted)

	MarA	JunA	SepA	DecA	2015	MarA	JunA	SepA	DecE	2016E	MarE	JunE	SepE	DecE	2017E	MarE	JunE	SepE	DecE	2018E
Sales, net	\$76,768	\$90,275	\$94,360	\$97,229	\$358,632	\$85,422	\$102,319	\$104,568	\$91,668	\$383,977	\$89,985	\$111,389	\$117,251	\$108,418	\$427,042	\$103,523	\$125,820		\$125,912	\$484,705
Cost of sales	54,970	63,158	64,175	67,648	249,951	59,691	69,572	71,476	65,158	265,897	63,289	76,164	78,813	73,894	292,161	71,611	84,432	86,857	85,872	328,772
Gross profit	21,798	27,117	30,185	29,581	108,681	25,731	32,747	33,092	26,510	118,080	26,695	35,224	38,438	34,524	134,881	31,912	41,388	42,594	40,040	155,934
SG&A	8,317	9,200	10,062	9,859	37,438	8,913	10,561	10,400	8,632	38,506	9,174	11,230	11,253	10,387	42,044	10,002	11,874	11,935	11,152	44,964
Other	5	(30)	(34)		(59)	(8)	(12)			(20)					0					0
Operating income	13,476	17,947	20,157	19,722	71,302	16,826	22,198	22,692	17,878	79,594	17,521	23,995	27,185	24,137	92,838	21,910	29,514	30,658	28,888	110,970
Operating income (ex. one-time items)	13,476	17,947	20,157	19,722	71,302	16,826	22,198	22,692	17,878	79,594	17,521	23,995	27,185	24,137	92,838	21,910	29,514	30,658	28,888	110,970
Interest expense	(44)	(29)	(14)	(74)	(161)	(74)	(67)	(82)	(69)	(292)	(45)	(48)	(21)	(50)	(164)	(45)	(48)	(21)	(50)	(164)
Other (income) expense	75	(27)	58	18	124	(117)	(10)	12	10	(105)	10	10	10	10	40	10	10	10	10	40
Income before income taxes	13,445	18,003	20,113	19,778	71,339	17,017	22,275	22,762	17,937	79,991	17,556	24,033	27,196	24,177	92,962	21,945	29,552	30,669	28,928	111,094
Income tax provision	5,046	6,873	6,862	6,830	25,611	6,211	7,934	8,180	6,517	28,842	6,309	8,637	9,774	8,688	33,408	7,886	10,620	11,022	10,396	39,924
Net Income	\$8,399	\$11,130	\$13,251	\$12,948	\$45,728	\$10,806	\$14,341	\$14,582	\$11,420	\$51,149	\$11,247	\$15,396	\$17,423	\$15,488	\$59,554	\$14,059	\$18,932	\$19,648	\$18,532	\$71,170
Net Income (ex. one-time items)	\$8.399	\$11.130	\$13,251	\$12,948	\$45.728	\$10.806	\$14.341	\$14.082	\$11,420	\$51,149	\$11.247	\$15.396	\$17.423	\$15.488	\$59.554	\$14.059	\$18.932	\$19.648	\$18.532	\$71,170
,		,	. ,	. ,	. ,	, ,	. ,				,			. ,	. ,	. ,		. ,	. ,	. ,
GAAP Diluted EPS	\$0.15	\$0.20	\$0.24	\$0.24	\$0.84	\$0.20	\$0.27	\$0.27	\$0.21	\$0.96	\$0.21	\$0.29	\$0.33	\$0.29	\$1.12	\$0.27	\$0.36	\$0.37	\$0.35	\$1.35
Diluted EPS	\$0.15	\$0.20	\$0.24	\$0.24	\$0.84	\$0.20	\$0.27	**	\$0.21	\$0.96	\$0.21	\$0.29	\$0.33	\$0.29	\$1.12	\$0.27	\$0.36	\$0.37	\$0.35	\$1.35
Diluted shares outstanding	54,640	54,670	54,580	54,036	54,481	53,430	53,401	53,394	53,420	53,411	53,300	53,180	53,060	52,940	53,120	52,820	52,700	52,580	52,460	52,640
YOY Growth:																				
Revenue	0.5%	-2.2%	-8.3%	14.8%	0.6%	11.3%	13.3%	10.8%	-5.7%	7.1%	5.3%	8.9%	12.1%	18.3%	11.2%	15.0%	13.0%	10.4%	16.1%	13.5%
Cost of sales	0.8%	-2.0%	-7.8%	13.6%	0.8%	8.6%	10.2%	11.4%	-3.7%	6.4%	6.0%	9.5%	10.3%	13.4%	9.9%	13.1%	10.9%	10.2%	16.2%	12.5%
SG&A	9.0%	-13.1%	-27.2%	15.7%	-7.7%	7.2%	14.8%	3.4%	-12.4%	2.9%	2.9%	6.3%	8.2%	20.3%	9.2%	9.0%	5.7%	6.1%	7.4%	6.9%
Gross profit	-0.2%	-2.7%	-9.5%	17.4%	0.4%	18.0%	20.8%	9.6%	-10.4%	8.6%	3.7%	7.6%	16.2%	30.2%	14.2%	19.5%	17.5%	10.8%	16.0%	15.6%
Operating income	-5.4%	3.8%	3.3%	16.3%	4.8%	24.9%	23.7%	12.6%	-9.3%	11.6%	4.1%	8.1%	19.8%	35.0%	16.6%	25.0%	23.0%	12.8%	19.7%	19.5%
Netincome	-14.5%	-2.1%	6.5%	22.9%	-0.3%	28.7%	28.8%	10.0%	-11.8%	11.9%	4.1%	7.4%	19.5%	35.6%	16.4%	25.0%	23.0%	12.8%	19.7%	19.5%
Diluted EPS	-6.5%	-5.9%	-6.2%	24.7%	0.9%	31.6%	31.9%	8.6%	-10.8%	14.1%	4.3%	7.8%	24.5%	36.9%	17.1%	26.1%	24.1%	13.8%	20.7%	20.6%
Margin Analysis:																				
COGS/sales	71.6%	70.0%	68.0%	69.6%	69.7%	69.9%	68.0%	68.4%	71.1%	69.2%	70.3%	68.4%	67.2%	68.2%	68.4%	69.2%	67.1%	67.1%	68.2%	67.8%
SG&A/sales	10.8%	10.2%	10.7%	10.1%	10.4%	10.4%	10.3%	10.4%	10.4%	10.0%	10.4%	10.4%	10.4%	10.4%	9.8%	10.4%	10.4%	10.4%	10.4%	9.3%
Gross profit margin	28.4%	30.0%	32.0%	30.4%	30.3%	30.1%	32.0%	32.6%	32.6%	30.8%	32.6%	32.6%	32.6%	32.6%	31.6%	32.6%	32.6%	32.6%	32.6%	32.2%
Operating margin (ex. one-time items)	17.6%	19.9%	21.4%	20.3%	19.9%	19.7%	21.7%	21.7%	19.5%	20.7%	19.5%	21.5%	23.2%	22.3%	21.7%	21.2%	23.5%	23.7%	22.9%	22.9%
Pretax margin	17.5%	19.9%	21.3%	20.3%	19.9%	19.9%	21.8%	21.8%	19.6%	20.8%	19.5%	21.6%	23.2%	22.3%	21.8%	21.2%	23.5%	23.7%	23.0%	22.9%
Net margin	10.9%	12.3%	14.0%	13.3%	12.8%	12.7%	14.0%	13.9%	12.5%	13.3%	12.5%	13.8%	14.9%	14.3%	13.9%	13.6%	15.0%	15.2%	14.7%	14.7%
Taxrate	37.5%	38.2%	34.1%	34.5%	35.9%	36.5%	35.6%	35.9%	36.3%	36.1%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%	35.9%

Source: Sidoti & Company, LLC and company reports

Appendix Required Disclosures

Required Disclosures

AAON, Inc. (AAON-\$34.40) NEUTRAL Price Target: \$34 February 23, 2017

Rating and Price Target History Table

Action	Date	Px	Rating	PT
Rating	4/24/14	18.5	Buy	23
PT	4/24/14	18.5		23
PT	5/5/14	19.3		25
Rating	2/6/15	23.7	Neutral	25
PT	8/6/15	21.6		22
PT	10/19/15	21		20
PT	12/17/15	23.4		23
PT	2/25/16	22.4		25
PT	9/16/16	27.6		28
PT	12/16/16	32.6		34



Key Risks	Construction does not improve	Steel and copper prices rise	U.S. recession

Valuation:

• We maintain our NEUTRAL rating and \$34 target. Our target continues to be derived from 25x our 2018 EPS estimate of \$1.35, which equates to 14.2x our 2018 EBITDA estimate of \$126 million.

Required Disclosures

The Sidoti & Company, LLC (Sidoti) Equity Research rating system consists of BUY and NEUTRAL recommendations. BUY suggests capital appreciation of at least 25% from initiation of coverage over the next 12 months, while NEUTRAL denotes that a stock is not likely to provide similar gains over a 12-month period. As of 02/23/17, Sidoti provides research on 248 companies, of which 158 (63%) are rated BUY and 88 (37%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 2 companies (1.27%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (1.14%). Of the NEUTRALS, 45 trade above our price targets. A risk to our price target is that the analyst's estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in the "Risk Factors" section in the SEC filings available in electronic format through SEC Edgar filings at www.sec.gov. The research analyst certifies that this report accurately reflects his/her personal views about the subject securities and issuers and that none of the research analyst's compensation was, is or will be directly or indirectly related to the analyst's specific recommendations or views contained in this research report. Sidoti research analysts seek to have management of their covered companies meet with investors during non-deal road shows. Analysts' compensation may be related to their success in scheduling non-deal road shows. Sidoti research analysts generally do not cover (or continue to cover) those companies that limit access to their senior executives by not participating in Sidoti-sponsored conferences and non-deal roadshows. A possible effect of this view may be that continued coverage decisions are made, in part, based on the willingness of management of covered companies to participate in such meetings. This approach could be viewed as presenting potential conflicts of interest. Sidoti does NOT own securities of the issues described herein. Sidoti policy does not allow an analyst or a member of their household to own shares in any company that he/she covers. Sidoti policy does not allow employees or household members to serve as an officer or director of a covered company. Sidoti does not make a market in any securities. Sidoti has non-research employees that will seek compensation for investment banking services from this company and trading revenue in connection with trading the securities of this company. Investment banking services, as defined under FINRA Rule 2241, includes, among other things, acting as an underwriter in or as a member of the selling group in a securities underwriting. Sidoti's role in any investment banking transaction can be viewed on this company's filings at www.sec.gov. Sidoti employees, including research analysts, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by Sidoti's investment banking and brokerage activities, but compensation is not directly related to investment banking or brokerage

APPENDIX CONTINUED

revenues. Sidoti also provides an additional research product called Company Sponsored Research. The analysts providing Company Sponsored Research will be the same Sidoti analysts covering the relevant sector and some or all analysts will work on both products. Sidoti acted as an agent and received non-investment banking securities-related income from AAON.

Other Disclosures

This report is for information purposes only and is not intended as an offer to sell or a solicitation to buy securities. Sidoti does not maintain a predetermined schedule for publication of research and will not necessarily update this report. The stock rating on this report reflects the analyst's recommendation based on a 12 month period. Information contained herein is based on sources we believe to be reliable but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments as of this date and are subject to change without notice. It should be presumed that the analyst who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication. This report was prepared for market professionals and institutional investor customers. Market professionals and institutional investors should consider this report as only a single factor in making their investment decisions. This research report is not a substitute for the exercise of your independent judgment. At times, Sidoti may be in possession of material non-public information, none of which is used in the preparation of our research. Sidoti maintains and enforces written policies and procedures reasonably designed to prevent any controlling persons, officers (or persons performing similar functions), or employees of Sidoti from influencing the activities of research analysts and the content of research reports prepared by the research analyst. Reprints of Sidoti & Company, LLC reports are prohibited without permission. Additional information is available upon request.

Source

Key Statistics data is sourced from FactSet Research Systems