



AAON, Inc. (AAON)

Despite Weaker-Than-Expected 1Q:17 Revenue And EPS, Raise Target To \$37 (From \$34) On Strong Quarter-End Backlog; Maintain NEUTRAL Primarily Based On Valuation

	2015		2016		2017E		2018E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.15	\$0.20		\$0.21	\$0.19A	\$0.27		
June	0.20	0.27		0.29	0.31	0.36	0.38	
Sep.	0.24	0.28		0.33		0.37	0.40	
Dec.	0.24	0.21		0.29		0.35	0.39	
EPS	\$0.84	\$0.96		\$1.12		\$1.35	\$1.44	
P/E				33.2x			25.8x	
EBITDA (mil)	\$83.0	\$92.6		\$107.0	\$106.3	\$125.5	\$133.4	
EV / EBITDA				18.2x			14.5x	

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, 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	2016	2017E	2018E
Rev.(Mil.)	\$245.3	\$244.6	\$266.2	\$303.1	\$321.1	\$356.3	\$352.1	\$384.0	\$431.3	\$505.7
GAAP EPS	\$0.49	\$0.38	\$0.25	\$0.49	\$0.68	\$0.80	\$0.84	\$0.96	\$1.12	\$1.44

Description: AAON, Inc. (www.aeon.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 1Q:17 EPS fell 5% year over year to \$0.19, missing our forecast and the consensus estimate of \$0.21. Revenue grew 1% to \$86 million, missing our \$88 million estimate and consensus of \$87 million.**
- **The weaker-than-expected EPS was primarily due to softer-than-anticipated gross margin (29.0%, versus 30.1% in 1Q:16 and our estimate of 30.0%), which was primarily due to higher material costs. SG&A costs were also higher than anticipated, but are expected to return to normal later this year.**
- **Backlog finished the quarter strong at \$69 million, up 14% year over year. Management stated the backlog was driven by solid order trends in the second half of the quarter, which have since continued into 2Q:17.**
- **We maintain our 2017 EPS estimate of \$1.12, but increase our estimate for 2018 to \$1.44 (from \$1.35).**
- **Overall, we think AAON is positioned well to realize strong growth in 2017 and 2018. We estimate revenue growth of 12% and 17%, respectively, translating into respective EPS growth of 17% and 28%.**
- **We raise our price target to \$37 (from \$34), which is now based on about 25x our revised 2018 EPS estimate \$1.44. (Our previous \$34 target was based on 25x our prior 2018 EPS estimate of \$1.35.) Our new target equates to 14.4x our 2018 EBITDA estimate.**
- **We maintain our NEUTRAL rating. Trading at forward P/E and EV/EBITDA multiples of 30x and 17x, respectively, AAON shares are fully valued, in our view.**
- **Management will hold a conference call at 4:15 p.m. E.T. that can be accessed at (888) 241-0551.**

NEUTRAL

Price Target: \$37

Price: \$37.20

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Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$1,960
Enterprise Value	\$1,945
52-Week Range (NASDAQ)	38-25
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	161,000
Shares Out (Mil)	52.630
Float Shares (Mil)	40.962
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.26
Dividend Yield	0.7%
FCF Per Share (2018E) *	\$X.XX
FCF Yield (2018E)	XX.X%
Net Cash Per Share (2018E)	\$X.XX
Price to Book Value	9.5x
Return on Equity (2018E)	17.3%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	5.3%
Short Interest Days To Cover	17.1
Russell 2000	1,391
Russell 2000 – Last 12 Months	23.0%
AAON – Last 12 Months	40.3%



Source: FactSet Prices

Key Risks

Construction does not improve

Steel and copper prices rise

U.S. recession

Exhibit 1: AAON, Inc. 1Q:17 Variance Analysis

	<u>1Q:17 Actual</u>	<u>1Q:17 Estimate</u>	<u>Variance</u>	<u>% Variance</u>	<u>1Q:16 Actual</u>	<u>YoY Change</u>
Revenue (thou.)	\$86,078	\$87,985	(\$1,907)	-2.2%	\$85,422	0.8%
Gross profit	24,986	26,395	(1,409)	-5.3%	25,731	-2.9%
<i>Profit margin</i>	<i>29.0%</i>	<i>30.0%</i>			<i>30.1%</i>	
Operating income	14,457	17,421	(2,964)	-17.0%	16,826	-14.1%
<i>Profit margin</i>	<i>16.8%</i>	<i>19.8%</i>			<i>19.7%</i>	
Adjusted net income	\$10,217	\$11,172	(955)	-8.5%	\$10,806	-5.5%
<i>Profit margin</i>	<i>11.9%</i>	<i>12.7%</i>			<i>12.7%</i>	
Adjusted EPS	\$0.19	\$0.21	(\$0.02)	-8.4%	\$0.20	-5.0%

Source: Sidoti & Co., and Company reports

AAON, INC.

Table 1. AAON, Inc. Income Statement

(in thousands, except where noted)

	2015	MarA	JunA	SepA	DecE	2016E	MarA	JunE	SepE	DecE	2017E	MarE	JunE	SepE	DecE	2018E
Sales, net	\$358,632	\$85,422	\$102,319	\$104,568	\$91,668	\$383,977	\$86,078	\$118,551	\$118,296	\$108,418	\$431,343	\$104,686	\$133,429	\$136,678	\$130,912	\$505,705
Cost of sales	249,951	59,691	69,572	71,476	65,158	265,897	61,092	80,584	79,514	74,894	296,083	72,428	89,547	91,266	88,682	341,922
Gross profit	108,681	25,731	32,747	33,092	26,510	118,080	24,986	37,966	38,783	33,525	135,260	32,258	43,883	45,412	42,230	163,783
SG&A	37,438	8,913	10,561	10,400	8,632	38,506	10,530	12,185	11,465	9,787	43,968	9,979	12,823	12,424	10,754	45,980
Other	(59)	(8)	(12)			(20)	(1)				(1)					0
Operating income	71,302	16,826	22,198	22,692	17,878	79,594	14,457	25,781	27,318	23,737	91,293	22,279	31,060	32,988	31,475	117,802
Operating income (ex. one-time items)	71,302	16,826	22,198	22,692	17,878	79,594	14,457	25,781	27,318	23,737	91,293	22,279	31,060	32,988	31,475	117,802
Interest expense	(161)	(74)	(67)	(82)	(69)	(292)	(60)	(48)	(21)	(50)	(179)	(45)	(48)	(21)	(50)	(164)
Other (income) expense	124	(117)	(10)	12	10	(105)	(11)	10	10	10	19	10	10	10	10	40
Income before income taxes	71,339	17,017	22,275	22,762	17,937	79,991	14,528	25,819	27,329	23,777	91,453	22,314	31,098	32,999	31,515	117,926
Income tax provision	25,611	6,211	7,934	8,180	6,517	28,842	4,311	9,295	9,838	8,560	32,004	8,033	11,195	11,880	11,346	42,453
Net Income	\$45,728	\$10,806	\$14,341	\$14,582	\$11,420	\$51,149	\$10,217	\$16,524	\$17,491	\$15,217	\$59,449	\$14,281	\$19,902	\$21,120	\$20,170	\$75,473
Net Income (ex. one-time items)	\$45,728	\$10,806	\$14,341	\$14,082	\$11,420	\$51,149	\$10,217	\$16,524	\$17,491	\$15,217	\$59,449	\$14,281	\$19,902	\$21,120	\$20,170	\$75,473
GAAP Diluted EPS	\$0.84	\$0.20	\$0.27	\$0.27	\$0.21	\$0.96	\$0.19	\$0.31	\$0.33	\$0.29	\$1.12	\$0.27	\$0.38	\$0.40	\$0.39	\$1.44
Diluted EPS	\$0.84	\$0.20	\$0.27	\$0.26	\$0.21	\$0.96	\$0.19	\$0.31	\$0.33	\$0.29	\$1.12	\$0.27	\$0.38	\$0.40	\$0.39	\$1.44
Diluted shares outstanding	54,481	53,430	53,401	53,394	53,420	53,411	53,190	53,070	52,950	52,830	53,010	52,710	52,590	52,470	52,350	52,530

YOY Growth:

Revenue	0.6%	11.3%	13.3%	10.8%	-5.7%	7.1%	0.8%	15.9%	13.1%	18.3%	12.3%	21.6%	12.6%	15.5%	20.7%	17.2%
Cost of sales	0.8%	8.6%	10.2%	11.4%	-3.7%	6.4%	2.3%	15.8%	11.2%	14.9%	11.4%	18.6%	11.1%	14.8%	18.4%	15.5%
SG&A	-7.7%	7.2%	14.8%	3.4%	-12.4%	2.9%	18.1%	15.4%	10.2%	13.4%	14.2%	-5.2%	5.2%	8.4%	9.9%	4.6%
Gross profit	0.4%	18.0%	20.8%	9.6%	-10.4%	8.6%	-2.9%	15.9%	17.2%	26.5%	14.5%	29.1%	15.6%	17.1%	26.0%	21.1%
Operating income	4.8%	24.9%	23.7%	12.6%	-9.3%	11.6%	-14.1%	16.1%	20.4%	32.8%	14.7%	54.1%	20.5%	20.8%	32.6%	29.0%
Net income	-0.3%	28.7%	28.8%	10.0%	-11.8%	11.9%	-5.5%	15.2%	19.9%	33.3%	16.2%	39.8%	20.4%	20.7%	32.5%	27.0%
Diluted EPS	0.9%	31.6%	31.9%	8.6%	-10.8%	14.1%	-5.0%	15.9%	25.2%	34.7%	17.1%	41.0%	21.5%	21.9%	33.8%	28.1%

Margin Analysis:

COGS/sales	69.7%	69.9%	68.0%	68.4%	71.1%	69.2%	71.0%	68.0%	67.2%	69.1%	68.6%	69.2%	67.1%	66.8%	67.7%	67.6%
SG&A/sales	10.4%	10.4%	10.3%	9.9%	9.4%	10.0%	12.2%	10.3%	9.7%	9.0%	10.2%	9.5%	9.6%	9.1%	8.2%	9.1%
Gross profit margin	30.3%	30.1%	32.0%	31.6%	28.9%	30.8%	29.0%	32.0%	32.8%	30.9%	31.4%	30.8%	32.9%	33.2%	32.3%	32.4%
Operating margin (ex. one-time items)	19.9%	19.7%	21.7%	21.7%	19.5%	20.7%	16.8%	21.7%	23.1%	21.9%	21.2%	21.3%	23.3%	24.1%	24.0%	23.3%
Pretax margin	19.9%	19.9%	21.8%	21.8%	19.6%	20.8%	16.9%	21.8%	23.1%	21.9%	21.2%	21.3%	23.3%	24.1%	24.1%	23.3%
Net margin	12.8%	12.7%	14.0%	13.9%	12.5%	13.3%	11.9%	13.9%	14.8%	14.0%	13.8%	13.6%	14.9%	15.5%	15.4%	14.9%
Tax rate	35.9%	36.5%	35.6%	35.9%	36.3%	36.1%	29.7%	36.0%	36.0%	36.0%	35.0%	36.0%	36.0%	36.0%	36.0%	36.0%

Source: Sidoti & Company, LLC and company reports

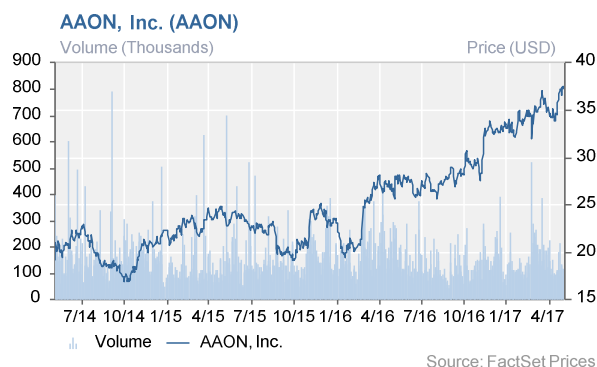
Appendix Required Disclosures

Required Disclosures

AAON, Inc. (AAON-\$37.20) NEUTRAL Price Target: \$37 May 4, 2017

Rating and Price Target History Table

Action	Date	Px	Rating	PT
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

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U.S. recession

Valuation:

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APPENDIX CONTINUED

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