



AAON, Inc. (AAON)

In Our View, AAON's Outlook For 2019 Is Positive Based On Backlog, Order Trend And Price/Cost; However, We Are Cautious Growth Will Slow Into 2020; Maintain NEUTRAL, \$33 Target

	2017	2018E		2019E		2020E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	\$0.19	\$0.11A		\$0.33			\$0.35
June	0.26	0.23A		0.39	0.38		0.41
Sep.	0.28	0.27A		0.43			0.44
Dec.	<u>0.23</u>	<u>0.29</u>		<u>0.36</u>			<u>0.36</u>
EPS	\$0.96	\$0.89		\$1.51	\$1.50		\$1.56
P/E		40.4x			24.0x		23.0x
EBITDA (mil)	\$89.9	\$77.0		\$123.7			\$128.0
EV / EBITDA		24.1x		15.0x			14.5x

Note: 2017-2020E include stock-based compensation expense of \$0.12, \$0.14, \$0.15, and \$0.15, 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	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Rev.(Mil.)	\$266.2	\$303.1	\$321.1	\$356.3	\$358.6	\$384.0	\$405.2	\$430.9	\$496.2	\$508.5
GAAP EPS	\$0.25	\$0.49	\$0.68	\$0.80	\$0.84	\$0.98	\$1.03	\$0.86	\$1.37	\$1.56

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 revenue from the U.S. Headquarters are in Tulsa, OK.

- **As we approach the end of 2018, we continue to think AAON's outlook for 2019 is positive, particularly for 1H:19, due to the strong backlog we anticipate the company will have entering the year.**
- **We also think orders continue to trend positively, also supporting our positive outlook for next year.**
- **Finally, we anticipate 2018 headwinds like productivity and price/cost will become tailwinds in 2019.**
- **We forecast revenue growth in 2019 accelerates to 15% (from an estimated 6% in 2018); and EPS expands 67% to \$1.50.**
- **This all said, however, with the Architectural Billings Index (a leading indicator to nonresidential construction) suggesting a slowdown, we are cautious that growth slows throughout 2019 and into 2020.**
- **We introduce a 2020 EPS estimate of \$1.56, which implies annual growth of 4%; this estimate reflects revenue growth slowing to 2% (from the 15% we forecast in 2019).**
- **Currently, shares of AAON trade at a next-12-month forward EV/EBITDA multiple of 16x. Given the lofty valuation on peak-like estimates, we caution investors that there is more downside than upside potential.**
- **We maintain a NEUTRAL rating and \$33 price target. Our target is now derived from 21x our 2020 EPS estimate of \$1.56, which equates to about 13x our 2020 EBITDA estimate. Previously, we applied a 22x multiple to our prior 2019 EPS estimate of \$1.51, which equated to 14x our 2019 EBITDA estimate.**

We continue to think the outlook for 2019 looks positive. We are particularly positive on 1H:19, largely due to the backlog we anticipate AAON will finish the current year with. At the end of 3Q:18, the company had a backlog of \$127 million, which was up 72% from a year ago. Furthermore, according to management, orders were up 20% in October; and we think they should be trending positively in November and thus far in December. By our estimate, we think the company could finish 2018 with a backlog up year over year by as much as 80%.

NEUTRAL

Price Target: \$33

Price: \$35.93

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Key Statistics

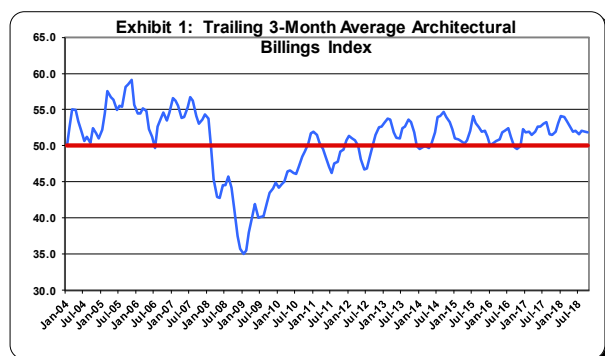
Analysts Covering	3
Market Cap (Mil)	\$1,870
Enterprise Value	\$1,854
52-Week Range (NASDAQ)	45-29
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	216,000
Shares Out (Mil)	52.095
Float Shares (Mil)	40.497
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.32
Dividend Yield	0.9%
FCF Per Share (2020E)	\$1.31
FCF Yield (2020E)	3.6%
Net Cash Per Share (2020E)	\$0.39
Price to Book Value	7.4x
Return on Equity (2020E)	20.1%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	11.7%
Short Interest Days To Cover	19.5
Russell 2000	1,459
Russell 2000 – Last 12 Months	-6.7%
AAON – Last 12 Months	-2.8%



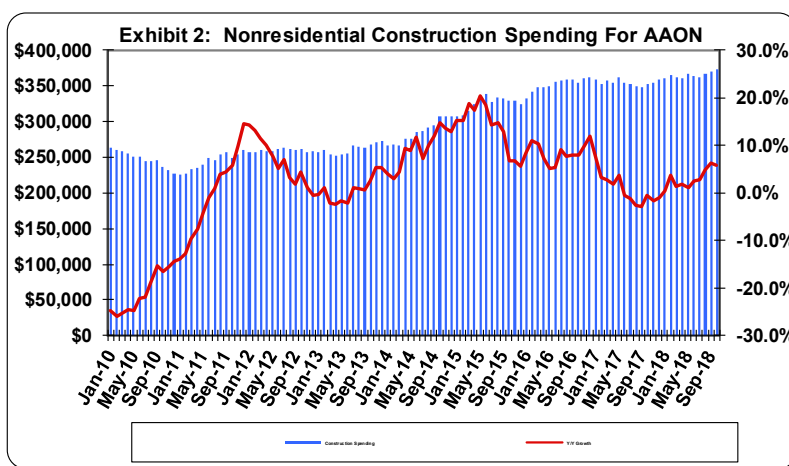
Source: FactSet Prices

In addition, to a strong backlog, we think two headwinds that weighed greatly on performance in 2018, namely productivity and price/cost, will turn into tailwinds in 2019. Productivity was largely challenged by issues with its labor and manufacturing. However, according to management on the November 1st conference call, this had already begun to improve in 3Q:18 and was showing signs of incremental improvement in 4Q:18. From talking with management, we think operational personnel and overall operations are trending positively entering 2019, compared to the negative trend the company saw entering 2018. Price/cost weightings should also be a positive contribution to growth in 2019. In 2018, like many industrials, AAON was caught by surprise by rising material and component costs. However, management adopted a much more aggressive approach with pricing in 2018. In June, the company initiated a 5% price increase; and in December, AAON initiated another 4%. In the meantime, steel (its largest component of COGS at about 8%-10%), copper and aluminum have recently been pulling back since hitting recent highs earlier this year. As such, with productivity and pricing already starting to work as a positive contribution on a month-to-month basis, we expect gross margin to improve sequentially through the next several quarters and be up an estimated 620 basis points to 31.8% in 2019. We forecast 15% revenue growth, along with the gross margin improvement, will help drive EPS to expand 67% to \$1.50 in 2019.

That said, we are cautious growth will slow in 2H:19. In our view, higher interest rates and rising costs (i.e. wages and materials) have already begun to weigh on nonresidential construction project planning. The ABI, a 9-12 month leading indicator of nonresidential construction spending, fell to 50.4 in October, the lowest level since September 2017 (see Exhibit 1); this also indicates growth in architectural billings for nonresidential construction has slowed to flattish levels (above a 50.0 reading suggests growth, below suggests a decline). Therefore, although spending on AAON’s nonresidential construction sectors continued to grow through October (see Exhibit 2), in line with the trends AAON has seen in its backlog, we are cautious that spending will slow in upcoming months. Our 2019 estimates reflect our expectation AAON’s core business’ revenue will slow to 4% in 2H:19 (the incremental growth on top of that comes from AAON’s new water source heat pump business and the market share gains we anticipate there). We introduce a 2020 EPS estimate of \$1.56. Our 2020 estimate reflects total revenue growth of 2% and incremental margin of 35%.



Source: The American Institute of Architects



Source: www.census.gov

We maintain a NEUTRAL rating and \$33 price target. Although we project solid revenue and EPS advances in 2019, and think the company is positioned well for steady growth in a three- to five-year period, we think valuation is rich, with the stock trading at 25.2x our forward 12-month EPS estimate and 15.8x our forward 12-month EBITDA estimate; this compares to 10-year average multiples of 22.2x and 12.4x. In our view, AAON share’s current valuation reflects a peak multiple applied on peak-like profits. We think this dynamic poses the risk of more downside than upside potential. Our \$33 target is now derived at 21x our 2020 EPS estimate of \$1.56, which equates to about 13x our 2020 EBITDA estimate. Previously, we applied a 22x multiple to our prior 2019 EPS estimate of \$1.51, which equated to 14x our 2019 EBITDA estimate.

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

Table 1. AAON, Inc. Income Statement
(in thousands, except where noted)

	MarA	JunA	SepA	DecA	2017	MarA	JunA	SepA	DecE	2018E	MarE	JunE	SepE	DecE	2019E	MarE	JunE	SepE	DecE	2020E
Sales, net	\$86,078	\$101,326	\$113,668	\$104,160	\$405,232	\$99,082	\$109,588	\$112,937	\$109,335	\$430,942	\$112,005	\$126,914	\$135,607	\$121,716	\$496,242	\$116,486	\$130,721	\$138,319	\$122,933	\$508,459
Cost of sales	61,092	69,648	78,010	73,085	281,835	83,692	82,003	80,174	76,283	322,152	77,035	85,977	91,480	84,024	338,516	79,793	88,237	93,365	85,070	346,465
Gross profit	24,986	31,678	35,658	31,075	123,397	15,390	27,585	32,763	33,052	108,790	34,971	40,937	44,127	37,692	157,727	36,693	42,484	44,954	37,863	161,995
SG&A	10,530	11,971	13,034	13,714	49,249	10,219	13,086	13,190	12,663	49,158	11,925	13,855	14,190	12,455	52,425	11,998	13,948	14,178	12,293	52,417
Other	(1)	48	(1)	(1)	45	(7)	(4)	2	0	(9)	0	0	0	0	0	0	0	0	0	0
Operating income	14,457	19,659	22,625	17,362	74,103	5,178	14,503	19,571	20,390	59,642	23,046	27,082	29,937	25,237	105,302	24,695	28,536	30,776	25,570	109,578
Operating income (ex. one-time items)	14,457	19,659	22,625	18,362	74,103	7,078	15,003	19,571	20,390	59,642	23,046	27,082	29,937	25,237	105,302	24,695	28,536	30,776	25,570	109,578
Interest expense	(60)	(71)	(84)	(83)	(298)	(68)	(67)	(36)		(171)	(35)	(50)	(70)	(70)	(225)	(70)	(70)	(70)	(70)	(280)
Other (income) expense	(11)	(34)	(41)	(5)	(91)	6	(12)	(5)	10	(1)	10	10	10	10	40	10	10	10	10	40
Income before income taxes	14,528	19,764	22,750	17,450	74,492	5,240	14,582	19,612	20,380	59,814	23,071	27,122	29,997	25,297	105,487	24,755	28,596	30,836	25,630	109,818
Income tax provision	4,311	5,970	8,033	1,680	19,994	980	2,891	5,527	5,299	14,697	5,998	7,052	7,799	6,577	27,427	6,436	7,435	8,017	6,664	28,553
Net Income	\$10,217	\$13,794	\$14,717	\$15,770	\$54,498	\$4,260	\$11,691	\$14,085	\$15,081	\$45,117	\$17,073	\$20,070	\$22,198	\$18,719	\$78,060	\$18,319	\$21,161	\$22,819	\$18,966	\$81,265
Net Income (ex. one-time items)	\$10,217	\$13,794	\$14,717	\$12,020	\$50,748	\$5,723	\$12,092	\$14,085	\$15,081	\$46,981	\$17,073	\$20,070	\$22,198	\$18,719	\$78,060	\$18,319	\$21,161	\$22,819	\$18,966	\$81,265
GAAP Diluted EPS	\$0.19	\$0.26	\$0.28	\$0.30	\$1.03	\$0.08	\$0.22	\$0.27	\$0.29	\$0.86	\$0.33	\$0.38	\$0.43	\$0.36	\$1.50	\$0.35	\$0.41	\$0.44	\$0.36	\$1.56
Diluted EPS	\$0.19	\$0.26	\$0.28	\$0.23	\$0.96	\$0.11	\$0.23	\$0.27	\$0.29	\$0.89	\$0.33	\$0.38	\$0.43	\$0.36	\$1.50	\$0.35	\$0.41	\$0.44	\$0.36	\$1.56
Diluted shares outstanding	53,190	53,151	53,014	52,932	53,072	52,910	52,718	52,628	52,161	52,604	52,041	52,484	51,921	52,364	52,203	52,244	52,083	52,124	51,963	52,103

YOY Growth:

Revenue	0.8%	-1.0%	8.7%	13.6%	5.5%	15.1%	8.2%	-0.6%	5.0%	6.3%	13.0%	15.8%	20.1%	11.3%	15.2%	4.0%	3.0%	2.0%	1.0%	2.5%
Cost of sales	2.3%	0.1%	9.1%	12.2%	6.0%	37.0%	17.7%	2.8%	4.4%	14.3%	-8.0%	4.8%	17.1%	10.1%	5.1%	3.8%	2.6%	2.1%	1.2%	2.3%
SG&A	18.1%	13.4%	25.3%	58.9%	27.9%	-3.0%	9.3%	1.2%	-7.7%	-0.2%	16.7%	5.9%	7.6%	-1.6%	6.6%	0.6%	0.7%	-0.1%	-1.3%	0.0%
Gross profit	-2.9%	-3.3%	7.8%	17.2%	4.5%	-38.4%	-12.9%	-8.1%	6.4%	-11.8%	127.2%	48.4%	34.7%	14.0%	45.0%	4.9%	3.8%	1.9%	0.5%	2.7%
Operating income	-14.1%	-11.4%	-0.3%	-2.9%	-6.9%	-64.2%	-26.2%	-13.5%	17.4%	-19.5%	345.1%	86.7%	53.0%	23.8%	76.6%	7.2%	5.4%	2.8%	1.3%	4.1%
Net income	-5.5%	-3.8%	-6.2%	38.1%	4.3%	-58.3%	-15.2%	-4.3%	-4.4%	-11.1%	300.8%	71.7%	57.6%	24.1%	66.2%	7.3%	5.4%	2.8%	1.3%	4.1%
Diluted EPS	-5.0%	-3.4%	-2.4%	6.2%	-2.2%	-43.7%	-11.6%	-3.6%	27.3%	-6.5%	203.3%	66.7%	59.7%	23.6%	67.2%	6.9%	6.2%	2.4%	2.1%	4.3%

Margin Analysis:

COGS/sales	71.0%	68.7%	68.6%	70.2%	69.5%	84.5%	74.8%	71.0%	69.8%	74.8%	68.8%	67.7%	67.5%	69.0%	68.2%	68.5%	67.5%	67.5%	69.2%	68.1%
SG&A/sales	12.2%	11.8%	11.5%	13.2%	12.2%	10.3%	11.9%	11.7%	11.6%	11.4%	10.6%	10.9%	10.5%	10.2%	10.6%	10.3%	10.7%	10.3%	10.0%	10.3%
Gross profit margin	29.0%	31.3%	31.4%	29.8%	30.5%	15.5%	25.2%	29.0%	30.2%	25.2%	31.2%	32.3%	32.5%	31.0%	31.8%	31.5%	32.5%	32.5%	30.8%	31.9%
Operating margin (ex. one-time items)	16.8%	19.4%	19.9%	16.7%	18.3%	5.2%	13.2%	17.3%	18.6%	13.8%	20.6%	21.3%	22.1%	20.7%	21.2%	21.2%	21.8%	22.3%	20.8%	21.6%
Pretax margin	16.9%	19.5%	20.0%	16.8%	18.4%	5.3%	13.3%	17.4%	18.6%	13.9%	20.6%	21.4%	22.1%	20.8%	21.3%	21.3%	21.9%	22.3%	20.8%	21.6%
Net margin	11.9%	13.6%	12.9%	15.1%	13.4%	4.3%	10.7%	12.5%	13.8%	10.5%	15.2%	15.8%	16.4%	15.4%	15.7%	15.7%	16.2%	16.5%	15.4%	16.0%
Tax rate	29.7%	30.2%	35.3%	9.6%	26.8%	18.7%	19.8%	28.2%	26.0%	24.6%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%

Sources: Company reports and Sidoti & Company, LLC estimates

AAON, INC.

Table 2. AAON, Inc. Cash Flow Statement

(in thousands, except where noted)

	MarA	JunA	SepA	DecA	2017	MarA	JunA	SepA	DecE	2018E	2019E	2020E
Cash flows from operating activities												
Net income	\$10,217	\$13,794	\$14,717	\$15,770	\$54,498	\$4,260	\$11,691	\$14,085	\$14,329	\$44,365	\$78,060	\$81,265
Depreciation	3,638	3,643	3,744	3,982	15,007	4,129	4,309	4,427	4,500	17,365	18,400	18,400
Amortization of bond premiums	16	13	10	8	47	5	3	3	-	11	-	-
Provision for losses on account receivable	184	(43)	39	(1)	179	(11)	100	(22)	-	67	-	-
Provision for excess and obsolete inventories	60	200	(206)	210	264	101	198	(244)	-	55	-	-
(Gain)/loss on disposition of assets	(1)	48	(1)	(1)	45	(7)	(4)	2	-	(9)	-	-
Share-based compensation	1,645	1,884	1,431	1,498	6,458	1,724	1,975	1,915	1,700	7,314	7,600	7,600
Excess tax benefits from stock options exercised	-	-	-	0	-	-	-	-	-	-	-	-
Deferred income taxes	720	(356)	783	(2,701)	(1,554)	420	18	426	-	864	-	-
Other	(74)	66	(36)	7	(37)	17	20	(19)	-	18	-	-
Change in assets and liabilities	(6,223)	4,358	(12,366)	(2,635)	(16,866)	111	7,195	(12,624)	2,985	(2,333)	(22,900)	1,214
Net cash provided by operating activities	10,166	23,594	8,105	16,122	57,994	10,744	25,502	7,946	23,514	67,706	81,161	108,479
Cash flows from investing activities												
Other	7	7	-	56	70	(5,994)	139	16	-	(5,839)	-	-
Investment in certificates of deposit and other	9,340	(7,993)	1,883	7,361	10,591	(5,976)	5,955	5,060	-	5,039	-	-
Capital expenditures	(6,071)	(10,776)	(9,589)	(15,277)	(41,713)	(8,451)	(17,474)	(8,403)	(6,000)	(40,328)	(44,000)	(40,000)
Net cash provided by investing activities	3,276	(18,762)	(7,706)	(7,916)	(31,052)	(20,421)	(11,380)	(3,327)	(6,000)	(41,128)	(44,000)	(40,000)
Cash flows from financing activities												
Exercise of stock options	898	675	142	544	2,259	1,340	959	1,205	-	3,504	-	-
Other	(560)	(506)	(127)	(421)	(1,614)	(568)	(240)	(52)	10,000	9,140	(18,000)	-
Repurchase of common stock	(6,303)	(3,065)	(3,623)	(3,629)	(16,620)	(4,379)	(7,160)	(5,961)	-	(17,500)	(12,000)	(12,000)
Cash dividends paid to stockholders	-	-	(6,828)	(6,835)	(13,663)	-	-	(8,400)	(7,824)	(16,224)	(15,522)	0
Net cash provided by (used in) financing activities	(5,965)	(2,896)	(10,436)	(10,341)	(29,638)	(3,607)	(6,441)	(13,208)	2,176	(21,080)	(45,522)	(12,000)
Net change in cash	7,477	1,936	(10,037)	(2,135)	(2,696)	(13,284)	7,681	(8,589)	19,690	5,498	(8,362)	56,479
Cash, beginning of period	24,153	31,630	33,566	23,529	24,153	21,457	8,173	15,854	96	21,457	26,955	18,593
Cash, ending of period	\$31,630	\$33,566	\$23,529	\$21,394	\$21,457	\$8,173	\$15,854	\$96	\$972	\$26,955	\$18,593	\$75,072
Free cash flow	\$4,095	\$12,818	(\$1,484)	\$845	16,281	\$2,293	\$8,028	(\$457)	\$17,514	27,378	37,161	68,479
FCF per share	\$0.08	\$0.24	(\$0.03)	\$0.02	\$0.31	\$0.04	\$0.15	(\$0.01)	\$0.34	\$0.52	\$0.71	\$1.31

Sources: Company reports and Sidoti & Company, LLC estimates

Table 3. AAON, Inc. Balance Sheet

(in thousands, except where noted)

	MarA	JunA	SepA	2017	MarA	JunA	SepA	2018E	2019E	2020E
Assets										
Current assets:										
Cash	31,630	33,566	23,529	21,457	8,173	15,854	7,265	96	16,524	16,321
Short-term securities	10,259	18,252	16,382	8,957	14,942	8,475	3,412	3,412	3,412	3,412
Accounts receivable	44,377	43,114	57,342	50,338	54,319	53,418	51,207	52,267	65,727	66,384
Income tax receivable	3,009	809	0	1,643	7,316	4,971	2,292	2,292	2,292	2,292
Note receivable	25	26	28	28	27	27	28	28	28	28
Inventories	55,988	63,075	66,117	70,786	68,680	70,467	79,182	72,443	90,837	91,967
Prepaid expenses and other	929	888	757	518	1,230	1,453	1,310	418	487	492
Total current assets	146,217	159,730	164,155	153,727	154,687	154,665	144,696	163,425	179,307	180,896
Property, plant and equipment, net	118,417	124,628	138,308	142,375	147,928	161,121	164,896	166,396	191,996	233,796
Goodwill					3,677	3,851	3,793	3,793	3,793	3,793
Long-term securities	656	667	689	678	653	634	639	639	639	639
Total assets	265,290	285,025	303,152	296,780	306,945	320,271	314,024	347,831	375,735	419,124
Liabilities and stockholders' equity										
Current liabilities:										
Accounts payable	9,936	14,108	18,933	10,967	22,214	25,127	16,224	11,301	14,116	14,292
Dividend payable	0	6,849		0		8,400	0	0	0	0
Accrued liabilities	31,186	34,293	41,682	39,098	35,078	38,146	37,492	38,829	45,037	45,597
Total current liabilities	41,122	55,250	60,615	50,065	57,292	71,673	53,716	50,130	59,153	59,889
Deferred tax liabilities	10,251	9,895	10,678	7,977	8,397	8,415	8,841	8,841	8,841	8,841
Other long-term liabilities	2,115	2,119	1,547	1,512	1,645	1,746	1,838	1,838	1,838	1,838
Total stockholders' equity	211,802	217,761	230,312	237,226	239,611	238,437	249,629	261,131	305,902	348,556
Total liabilities and stockholders' equity	265,290	285,025	303,152	296,780	306,945	320,271	314,024	347,831	375,735	419,124
Key Financial Ratios:										
Long-term debt/total capital	1.0%	1.0%	0.7%	0.6%	0.7%	0.7%	0.7%	7.0%	0.6%	0.5%
Book value/share	\$3.92	\$4.00	\$4.31	\$4.44	\$4.49	\$4.46	\$4.67	\$4.91	\$5.77	\$6.68
Profit Margin	14.0%	13.9%	12.5%	13.3%	11.9%	13.6%	13.3%	10.8%	10.6%	15.9%
Asset Turnover	1.3	1.4	1.4	1.4	5.2	1.2	1.4	1.5	1.3	0.0
Leverage	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2
Net cash	\$41,914	\$51,844	\$39,939	\$30,442	\$23,142	\$24,356	\$10,705	\$8,598	\$19,964	\$19,761
Net cash per share	\$0.80	\$0.98	\$0.76	\$0.58	\$0.45	\$0.47	\$0.21	\$0.17	\$0.39	\$0.39
Inventory turnover	5.0	5.4	5.4	5.0	5.2	4.9	4.9	4.0	3.7	3.7
Return on equity (ROE)	22.8%	26.0%	23.8%	23.1%	79.3%	21.6%	22.9%	21.3%	16.5%	0.0%
Return on assets (ROA)	16.3%	20.3%	20.8%	16.1%	69.5%	3.9%	13.1%	17.2%	19.7%	0.0%
Return on total capital (ROTC)	23.8%	33.0%	30.4%	21.5%	91.5%	5.5%	16.8%	20.4%	26.5%	0.0%

Sources: Company reports and Sidoti & Company, LLC estimates

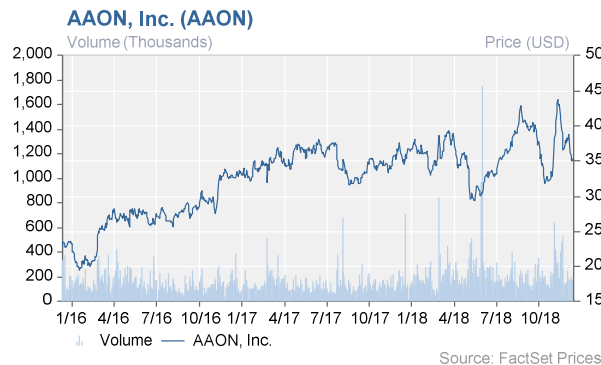
Appendix Required Disclosures

Required Disclosures

AAON, Inc. (AAON-\$35.93) NEUTRAL Price Target: \$33 December 13, 2018

Rating and Price Target History Table

Action Date	Px	Rating	PT
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
PT 5/4/17	37.2		37
PT 8/3/17	33.8		35
PT 4/3/18	37.2		33



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

Valuation:

We maintain a NEUTRAL rating and \$33 price target. Although we project solid revenue and EPS advances in 2019, and think the company is positioned well for steady growth in a three- to five-year period, we think valuation is rich, with the stock trading at 25.2x our forward 12-month EPS estimate and 15.8x our forward 12-month EBITDA estimate; this compares to 10-year average multiples of 22.2x and 12.4x. In our view, AAON share’s current valuation reflects a peak multiple applied on peak-like profits. We think this dynamic poses the risk of more downside than upside potential. Our \$33 target is now derived at 21x our 2020 EPS estimate of \$1.56, which equates to about 13x our 2020 EBITDA estimate. Previously, we applied a 22x multiple to our prior 2019 EPS estimate of \$1.51, which equated to 14x our 2019 EBITDA estimate.

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 12/13/18, Sidoti provides research on 193 companies, of which 130 (67%) are rated BUY and 48 (33%) are rated NEUTRAL. Of the BUYS, Sidoti has received investment banking income from 4 companies (3.08%). Of the NEUTRALS, Sidoti has received investment banking income from 1 company (2.08%). Of the NEUTRALS, 11 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. At any point in time a Sidoti covered Company may make a commitment to pay for corporate access, including attendance at a Sidoti conference or for the provision of Non-Deal Roadshows days with institutional or other investors. 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

APPENDIX CONTINUED

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