



## AAON, Inc. (AAON)

**4Q:18 Revenue Beats, But EPS Misses On Soft Gross Margin; Although Backlog Supports Growth, Looming Productivity Issues Temper Expectations For 2019; Maintain NEUTRAL Rating, \$33 Target**

	2017		2018E		2019E		2020E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.19	\$0.11A		\$0.33	\$0.26	\$0.35		
June	0.26	0.23A		0.38	0.32	0.41	0.40	
Sep.	0.28	0.27A		0.43	0.37	0.44	0.41	
Dec.	<u>0.23</u>	<u>0.29</u>	<u>0.24</u>	<u>0.36</u>	<u>0.35</u>	<u>0.36</u>	<u>0.38</u>	
EPS	<b>\$0.96</b>	<b>\$0.89</b>	<b>\$0.84</b>	<b>\$1.50</b>	<b>\$1.31</b>	<b>\$1.56</b>	<b>\$1.53</b>	
P/E					30.8x		27.2x	
EBITDA (mil)	<b>\$89.9</b>	<b>\$77.0</b>	<b>\$73.4</b>	<b>\$123.7</b>	<b>\$111.6</b>	<b>\$128.0</b>	<b>\$127.2</b>	
EV / EBITDA					19.5x		17.1x	

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	\$1.31	\$1.53

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

- **This morning, AAON reported 4Q:18 revenue grew 8% to \$112 million, topping our and consensus' estimate of \$109 million.**
- **Despite the strong revenue in 2018's final quarter, EPS grew just 5% to \$0.24, missing our estimate of \$0.29 and consensus of \$0.28.**
- **The earnings miss was fully due to gross margin coming in much lower than anticipated (24.7% versus our estimate of 30.2%).**
- **Backlog at the end of 2018 was \$152 million, up 87% from a year ago; orders grew 23% in 4Q:18. At the end of January, backlog was up 127% to \$147 million.**
- **We increase our revenue growth estimates for 2019-2020, due to the strong backlog, but reduce our gross margin targets to reflect the ongoing productivity issues.**
- **We now project lower EPS of \$1.31 (from \$1.50) in 2019, but just tweak our EPS forecast to \$1.53 (from \$1.56) in 2020.**
- **Overall, we are encouraged by the strong backlog, which in our view is a testament to the company's product development and improved distribution network.**
- **However, productivity issues that have been lingering for over two years are offsetting these positives. We acknowledge that 2018 was a very challenging year. Still, the issues preceded tariff-induced inflation. Furthermore, AAON has been underperforming relative to its peers when it comes to dealing with the challenges such as material inflation and labor shortages. In our view, we still expect productivity will improve through 2019; we just think it will take a little longer than previously expected.**
- **Using yesterday's closing price, the stock trades at 19.5x our new 2019 EBITDA estimate, compared to a five-year average of 14.7x and peer Lennox International's (NYSE: LII, NC) stock currently trades at 14.7x.**
- **Given the lofty valuation, we maintain a NEUTRAL rating.**
- **We derive our unchanged \$33 price target by applying about a 22x multiple to our 2020 EPS estimate of \$1.53; this equates to 13.6x our 2020 EBITDA estimate of**

**NEUTRAL**

Price Target: \$33

Price: \$41.56

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### Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$2,170
Enterprise Value	\$2,177
52-Week Range (NASDAQ)	45-29
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	136,000
Shares Out (Mil)	52.095
Float Shares (Mil)	40.495
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.32
Dividend Yield	0.8%
FCF Per Share (2020E)	\$1.21
FCF Yield (2020E)	2.9%
Net Cash Per Share (2020E)	\$1.05
Price to Book Value	8.7x
Return on Equity (2020E)	20.1%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	11.5%
Short Interest Days To Cover	45.5
Russell 2000	1,581
Russell 2000 – Last 12 Months	0.4%
AAON – Last 12 Months	14.2%



\$127 million. (Previously, we applied a 21x multiple to our prior 2020 EPS estimate of \$1.56; this equated to 13.5x our 2020 EBITDA estimate of \$128 million).

- Management will host a conference call at 4:15 a.m., accessible at (888) 241-0551.

<b>Key Risks</b>	Construction does not improve	Steel and copper prices rise	U.S. recession
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**Exhibit 1: AAON, Inc. 4Q:18 Variance Analysis**

	<u>4Q:18 Actual</u>	<u>4Q:18 Estimate</u>	<u>Variance</u>	<u>% Variance</u>	<u>4Q:17 Actual</u>	<u>YoY Change</u>
Revenue (thou.)	\$112,340	\$109,335	\$3,005	2.7%	\$104,160	7.9%
Gross profit <i>Margin</i>	27,795 24.7%	33,052 30.2%	(5,257)	-15.9%	31,075 29.8%	-10.6%
Operating income <i>Margin</i>	16,535 14.7%	20,390 18.6%	(3,855)	-18.9%	18,362 17.6%	-9.9%
EBITDA <i>Margin</i>	21,325 19.0%	24,890 22.8%	(3,565)	-14.3%	21,344 20.5%	-0.1%
Adjusted net income <i>Profit margin</i>	\$12,533 11.2%	\$15,081 13.8%	(2,548)	-16.9%	\$12,020 11.5%	4.3%
Adjusted EPS	\$0.24	\$0.29	(\$0.05)	-17.3%	\$0.23	5.3%

Source: Sidoti & Co., and Company reports

AAON, INC.

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

	MarA	JunA	SepA	DecA	2017	MarA	JunA	SepA	DecA	2018	MarE	JunE	SepE	DecE	2019E	MarE	JunE	SepE	DecE	2020E
<b>Sales, net</b>	\$86,078	\$101,326	\$113,668	\$104,160	\$405,232	\$99,082	\$109,588	\$112,937	\$112,340	\$433,947	\$111,963	\$126,026	\$134,395	\$129,191	\$501,575	\$122,039	\$133,588	\$135,739	\$127,899	\$519,265
Cost of sales	61,092	69,648	78,010	73,085	281,835	83,692	82,003	80,174	84,545	330,414	82,293	88,848	93,405	91,726	356,271	85,428	90,840	92,303	88,506	357,076
<b>Gross profit</b>	<b>24,986</b>	<b>31,678</b>	<b>35,658</b>	<b>31,075</b>	<b>123,397</b>	<b>15,390</b>	<b>27,585</b>	<b>32,763</b>	<b>27,795</b>	<b>103,533</b>	<b>29,670</b>	<b>37,178</b>	<b>40,990</b>	<b>37,465</b>	<b>145,304</b>	<b>36,612</b>	<b>42,748</b>	<b>43,436</b>	<b>39,393</b>	<b>162,189</b>
SG&A	10,530	11,971	13,034	13,714	49,249	10,219	13,086	13,190	11,260	47,755	11,196	14,367	14,783	12,532	52,878	11,838	14,828	14,931	12,598	54,195
Other	(1)	48	(1)	(1)	45	(7)	(4)	2	(3)	(12)	0	0	0	0	0	0	0	0	0	0
<b>Operating income</b>	<b>14,457</b>	<b>19,659</b>	<b>22,625</b>	<b>17,362</b>	<b>74,103</b>	<b>5,178</b>	<b>14,503</b>	<b>19,571</b>	<b>16,535</b>	<b>55,790</b>	<b>18,474</b>	<b>22,811</b>	<b>26,207</b>	<b>24,934</b>	<b>92,425</b>	<b>24,774</b>	<b>27,920</b>	<b>28,505</b>	<b>26,795</b>	<b>107,994</b>
<b>Operating income (ex. one-time items)</b>	<b>14,457</b>	<b>19,659</b>	<b>22,625</b>	<b>18,362</b>	<b>74,103</b>	<b>7,078</b>	<b>15,003</b>	<b>19,571</b>	<b>16,535</b>	<b>55,790</b>	<b>18,474</b>	<b>22,811</b>	<b>26,207</b>	<b>24,934</b>	<b>92,425</b>	<b>24,774</b>	<b>27,920</b>	<b>28,505</b>	<b>26,795</b>	<b>107,994</b>
Interest expense	(60)	(71)	(84)	(83)	(298)	(68)	(67)	(36)	(25)	(196)	(35)	(50)	(70)	(70)	(225)	(70)	(70)	(70)	(70)	(280)
Other (income) expense	(11)	(34)	(41)	(5)	(91)	6	(12)	(5)	58	47	10	10	10	10	40	10	10	10	10	40
<b>Income before income taxes</b>	<b>14,528</b>	<b>19,764</b>	<b>22,750</b>	<b>17,450</b>	<b>74,492</b>	<b>5,240</b>	<b>14,582</b>	<b>19,612</b>	<b>16,502</b>	<b>55,939</b>	<b>18,499</b>	<b>22,851</b>	<b>26,267</b>	<b>24,994</b>	<b>92,610</b>	<b>24,834</b>	<b>27,980</b>	<b>28,565</b>	<b>26,855</b>	<b>108,234</b>
Income tax provision	4,311	5,970	8,033	1,680	19,994	980	2,891	5,527	3,969	13,367	4,810	5,941	6,829	6,498	24,079	6,457	7,275	7,427	6,982	28,141
<b>Net Income</b>	<b>\$10,217</b>	<b>\$13,794</b>	<b>\$14,717</b>	<b>\$15,770</b>	<b>\$54,498</b>	<b>\$4,260</b>	<b>\$11,691</b>	<b>\$14,085</b>	<b>\$12,533</b>	<b>\$42,572</b>	<b>\$13,689</b>	<b>\$16,910</b>	<b>\$19,438</b>	<b>\$18,495</b>	<b>\$68,532</b>	<b>\$18,377</b>	<b>\$20,705</b>	<b>\$21,138</b>	<b>\$19,873</b>	<b>\$80,093</b>
<b>Net Income (ex. one-time items)</b>	<b>\$10,217</b>	<b>\$13,794</b>	<b>\$14,717</b>	<b>\$12,020</b>	<b>\$50,748</b>	<b>\$5,723</b>	<b>\$12,092</b>	<b>\$14,085</b>	<b>\$12,533</b>	<b>\$44,433</b>	<b>\$13,689</b>	<b>\$16,910</b>	<b>\$19,438</b>	<b>\$18,495</b>	<b>\$68,532</b>	<b>\$18,377</b>	<b>\$20,705</b>	<b>\$21,138</b>	<b>\$19,873</b>	<b>\$80,093</b>
<b>GAAP Diluted EPS</b>	<b>\$0.19</b>	<b>\$0.26</b>	<b>\$0.28</b>	<b>\$0.30</b>	<b>\$1.03</b>	<b>\$0.08</b>	<b>\$0.22</b>	<b>\$0.27</b>	<b>\$0.24</b>	<b>\$0.81</b>	<b>\$0.26</b>	<b>\$0.32</b>	<b>\$0.37</b>	<b>\$0.35</b>	<b>\$1.31</b>	<b>\$0.35</b>	<b>\$0.40</b>	<b>\$0.41</b>	<b>\$0.38</b>	<b>\$1.53</b>
<b>Diluted EPS</b>	<b>\$0.19</b>	<b>\$0.26</b>	<b>\$0.28</b>	<b>\$0.23</b>	<b>\$0.96</b>	<b>\$0.11</b>	<b>\$0.23</b>	<b>\$0.27</b>	<b>\$0.24</b>	<b>\$0.84</b>	<b>\$0.26</b>	<b>\$0.32</b>	<b>\$0.37</b>	<b>\$0.35</b>	<b>\$1.31</b>	<b>\$0.35</b>	<b>\$0.40</b>	<b>\$0.41</b>	<b>\$0.38</b>	<b>\$1.53</b>
Diluted shares outstanding	53,190	53,151	53,014	52,932	53,072	52,910	52,718	52,628	52,421	52,668	52,301	52,548	52,181	52,428	52,364	52,308	52,244	52,188	52,124	52,216

YOY Growth:

Revenue	0.8%	-1.0%	8.7%	13.6%	5.5%	15.1%	8.2%	-0.6%	7.9%	7.1%	13.0%	15.0%	19.0%	15.0%	15.6%	9.0%	6.0%	1.0%	-1.0%	3.5%
Cost of sales	2.3%	0.1%	9.1%	12.2%	6.0%	37.0%	17.7%	2.8%	15.7%	17.2%	-1.7%	8.3%	16.5%	8.5%	7.8%	3.8%	2.2%	-1.2%	-3.5%	0.2%
SG&A	18.1%	13.4%	25.3%	58.9%	27.9%	-3.0%	9.3%	1.2%	-17.9%	-3.0%	9.6%	9.8%	12.1%	11.3%	10.7%	5.7%	3.2%	1.0%	0.5%	2.5%
Gross profit	-2.9%	-3.3%	7.8%	17.2%	4.5%	-38.4%	-12.9%	-8.1%	-10.6%	-16.1%	92.8%	34.8%	25.1%	34.8%	40.3%	23.4%	15.0%	6.0%	5.1%	11.6%
Operating income	-14.1%	-11.4%	-0.3%	-2.9%	-6.9%	-64.2%	-26.2%	-13.5%	-4.8%	-24.7%	256.8%	57.3%	33.9%	50.8%	65.7%	34.1%	22.4%	8.8%	7.5%	16.8%
Net income	-5.5%	-3.8%	-6.2%	38.1%	4.3%	-58.3%	-15.2%	-4.3%	-20.5%	-16.1%	221.3%	44.6%	38.0%	47.6%	54.2%	34.2%	22.4%	8.7%	7.4%	16.9%
Diluted EPS	-5.0%	-3.4%	-2.4%	6.2%	-2.2%	-43.7%	-11.6%	-3.6%	5.3%	-11.7%	142.0%	40.3%	39.2%	47.6%	55.0%	34.2%	23.2%	8.7%	8.1%	17.2%

Margin Analysis:

COGS/sales	71.0%	68.7%	68.6%	70.2%	69.5%	84.5%	74.8%	71.0%	75.3%	76.1%	73.5%	70.5%	69.5%	71.0%	71.0%	70.0%	68.0%	68.0%	69.2%	68.8%
SG&A/sales	12.2%	11.8%	11.5%	13.2%	12.2%	10.3%	11.9%	11.7%	10.0%	11.0%	10.0%	11.4%	11.0%	9.7%	10.5%	9.7%	11.1%	11.0%	9.9%	10.4%
Gross profit margin	29.0%	31.3%	31.4%	29.8%	30.5%	15.5%	25.2%	29.0%	24.7%	23.9%	26.5%	29.5%	30.5%	29.0%	29.0%	30.0%	32.0%	32.0%	30.8%	31.2%
Operating margin (ex. one-time items)	16.8%	19.4%	19.9%	16.7%	18.3%	5.2%	13.2%	17.3%	14.7%	12.9%	16.5%	18.1%	19.5%	19.3%	18.4%	20.3%	20.9%	21.0%	21.0%	20.8%
Pretax margin	16.9%	19.5%	20.0%	16.8%	18.4%	5.3%	13.3%	17.4%	14.7%	12.9%	16.5%	18.1%	19.5%	19.3%	18.5%	20.3%	20.9%	21.0%	21.0%	20.8%
Net margin	11.9%	13.6%	12.9%	15.1%	13.4%	4.3%	10.7%	12.5%	11.2%	9.8%	12.2%	13.4%	14.5%	14.3%	13.7%	15.1%	15.5%	15.6%	15.5%	15.4%
Tax rate	29.7%	30.2%	35.3%	9.6%	26.8%	18.7%	19.8%	28.2%	24.1%	23.9%	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	DecA	2018	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	\$12,536	\$42,572	\$68,532	\$80,093
Depreciation and amortization	3,638	3,643	3,744	3,982	15,007	4,129	4,309	4,427	4,790	17,655	19,200	19,200
Amortization of bond premiums	16	13	10	8	47	5	3	3	2	13	-	-
Provision for losses on account receivable	184	(43)	39	(1)	179	(11)	100	(22)	107	174	-	-
Provision for excess and obsolete inventories	60	200	(206)	210	264	101	198	(244)	97	152	-	-
(Gain)/loss on disposition of assets	(1)	48	(1)	(1)	45	(7)	(4)	2	(3)	(12)	-	-
Share-based compensation	1,645	1,884	1,431	1,498	6,458	1,724	1,975	1,915	1,760	7,374	7,600	7,600
Excess tax benefits from stock options exercised	-	-	-	0	-	-	-	-	0	-	-	-
Deferred income taxes	720	(356)	783	(2,701)	(1,554)	420	18	426	1,985	2,849	-	-
Other	(74)	66	(36)	7	(37)	17	20	(19)	23	41	-	-
Change in assets and liabilities	(6,223)	4,358	(12,366)	(2,635)	(16,866)	111	7,195	(12,624)	(10,631)	(15,949)	(8,083)	(4,559)
<b>Net cash provided by operating activities</b>	<b>10,166</b>	<b>23,594</b>	<b>8,105</b>	<b>16,122</b>	<b>57,994</b>	<b>10,744</b>	<b>25,502</b>	<b>7,946</b>	<b>10,641</b>	<b>54,856</b>	<b>87,249</b>	<b>102,334</b>
Cash flows from investing activities												
Other	7	7	-	56	70	(5,994)	139	16	(472)	(6,311)	-	-
Investment in certificates of deposit and other	9,340	(7,993)	1,883	7,361	10,591	(5,976)	5,955	5,060	3,905	8,944	-	-
Capital expenditures	(6,071)	(10,776)	(9,589)	(15,277)	(41,713)	(8,451)	(17,474)	(8,403)	(2,940)	(37,268)	(44,000)	(40,000)
<b>Net cash provided by investing activities</b>	<b>3,276</b>	<b>(18,762)</b>	<b>(7,706)</b>	<b>(7,916)</b>	<b>(31,052)</b>	<b>(20,421)</b>	<b>(11,380)</b>	<b>(3,327)</b>	<b>(7,916)</b>	<b>(34,635)</b>	<b>(44,000)</b>	<b>(40,000)</b>
Cash flows from financing activities												
Exercise of stock options	898	675	142	544	2,259	1,340	959	1,205	1,483	4,987	-	-
Other	(560)	(506)	(127)	(421)	(1,614)	(568)	(240)	(52)	(237)	(1,097)	(18,000)	-
Repurchase of common stock	(6,303)	(3,065)	(3,623)	(3,629)	(16,620)	(4,379)	(7,160)	(5,961)	(9,346)	(26,846)	(12,000)	(12,000)
Cash dividends paid to stockholders	-	-	(6,828)	(6,835)	(13,663)	-	-	(8,400)	(8,328)	(16,728)	(15,410)	0
<b>Net cash provided by (used in) financing activities</b>	<b>(5,965)</b>	<b>(2,896)</b>	<b>(10,436)</b>	<b>(10,341)</b>	<b>(29,638)</b>	<b>(3,607)</b>	<b>(6,441)</b>	<b>(13,208)</b>	<b>(10,341)</b>	<b>(39,684)</b>	<b>(45,410)</b>	<b>(12,000)</b>
Net change in cash	7,477	1,936	(10,037)	(2,135)	(2,696)	(13,284)	7,681	(8,589)	19,690	(19,463)	(2,161)	50,334
Cash, beginning of period	24,153	31,630	33,566	23,529	24,153	21,457	8,173	15,854	96	21,457	1,994	(167)
<b>Cash, ending of period</b>	<b>\$31,630</b>	<b>\$33,566</b>	<b>\$23,529</b>	<b>\$21,394</b>	<b>\$21,457</b>	<b>\$8,173</b>	<b>\$15,854</b>	<b>\$96</b>	<b>\$972</b>	<b>\$1,994</b>	<b>(\$167)</b>	<b>\$50,167</b>
<b>Free cash flow</b>	<b>\$4,095</b>	<b>\$12,818</b>	<b>(\$1,484)</b>	<b>\$845</b>	<b>16,281</b>	<b>\$2,293</b>	<b>\$8,028</b>	<b>(\$457)</b>	<b>\$7,701</b>	<b>17,588</b>	<b>43,249</b>	<b>62,334</b>
<b>FCF per share</b>	<b>\$0.08</b>	<b>\$0.24</b>	<b>(\$0.03)</b>	<b>\$0.02</b>	<b>\$0.31</b>	<b>\$0.04</b>	<b>\$0.15</b>	<b>(\$0.01)</b>	<b>\$0.15</b>	<b>\$0.34</b>	<b>\$0.83</b>	<b>\$1.19</b>

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	2018	2019E	2020E
<b>Assets</b>										
Current assets:										
Cash	31,630	33,566	23,529	21,457	8,173	15,854	7,265	1,994	(167)	50,167
Short-term securities	10,259	18,252	16,382	8,957	14,942	8,475	3,412	0	0	0
Accounts receivable	44,377	43,114	57,342	50,338	54,319	53,418	51,207	54,078	66,146	69,066
Income tax receivable	3,009	809	0	1,643	7,316	4,971	2,292	6,104	6,104	6,104
Note receivable	25	26	28	28	27	27	28	27	27	27
Inventories	55,988	63,075	66,117	70,786	68,680	70,467	79,182	77,612	87,358	87,414
Prepaid expenses and other	929	888	757	518	1,230	1,453	1,310	1,046	517	512
<b>Total current assets</b>	<b>146,217</b>	<b>159,730</b>	<b>164,155</b>	<b>153,727</b>	<b>154,687</b>	<b>154,665</b>	<b>144,696</b>	<b>140,861</b>	<b>159,984</b>	<b>213,288</b>
Property, plant and equipment, net	118,417	124,628	138,308	142,375	147,928	161,121	164,896	163,003	187,803	228,203
Goodwill					3,677	3,851	3,793	3,735	3,735	3,735
Long-term securities	656	667	689	678	653	634	639	598	598	598
<b>Total assets</b>	<b>265,290</b>	<b>285,025</b>	<b>303,152</b>	<b>296,780</b>	<b>306,945</b>	<b>320,271</b>	<b>314,024</b>	<b>308,197</b>	<b>352,120</b>	<b>445,824</b>
<b>Liabilities and stockholders' equity</b>										
Current liabilities:										
Accounts payable	9,936	14,108	18,933	10,967	22,214	25,127	16,224	10,616	12,108	12,143
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	37,455	49,165	47,439
Total current liabilities	41,122	55,250	60,615	50,065	57,292	71,673	53,716	48,071	61,273	59,582
Deferred tax liabilities	10,251	9,895	10,678	7,977	8,397	8,415	8,841	10,826	10,826	10,826
Other long-term liabilities	2,115	2,119	1,547	1,512	1,645	1,746	1,838	1,801	1,801	1,801
<b>Total stockholders' equity</b>	<b>211,802</b>	<b>217,761</b>	<b>230,312</b>	<b>237,226</b>	<b>239,611</b>	<b>238,437</b>	<b>249,629</b>	<b>247,499</b>	<b>278,221</b>	<b>373,615</b>
<b>Total liabilities and stockholders' equity</b>	<b>265,290</b>	<b>285,025</b>	<b>303,152</b>	<b>296,780</b>	<b>306,945</b>	<b>320,271</b>	<b>314,024</b>	<b>308,197</b>	<b>352,120</b>	<b>445,824</b>
<b>Key Financial Ratios:</b>										
Long-term debt/total capital	1.0%	1.0%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.6%	0.5%
Book value/share	\$3.92	\$4.00	\$4.31	\$4.44	\$4.49	\$4.46	\$4.67	\$4.65	\$5.24	\$7.21
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	1.6	1.4	0.0
Leverage	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.2
Net cash	\$41,914	\$51,844	\$39,939	\$30,442	\$23,142	\$24,356	\$10,705	\$2,021	(\$140)	\$50,194
Net cash per share	\$0.80	\$0.98	\$0.76	\$0.58	\$0.45	\$0.47	\$0.21	\$0.05	\$0.01	\$0.99
Inventory turnover	5.0	5.4	5.4	5.0	5.2	4.9	4.9	4.0	4.2	4.1
Return on equity (ROE)	22.8%	26.0%	23.8%	23.1%	79.3%	21.6%	22.9%	21.2%	18.2%	0.0%
Return on assets (ROA)	16.3%	20.3%	20.8%	16.1%	69.5%	3.9%	13.1%	16.9%	23.1%	0.0%
Return on total capital (ROTC)	23.8%	33.0%	30.4%	21.5%	91.5%	5.5%	16.8%	20.7%	27.2%	0.0%

Sources: Company reports and Sidoti &amp; Company, LLC estimates

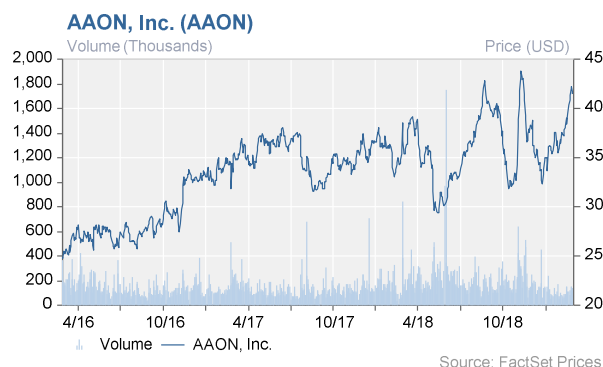
## Appendix Required Disclosures

### Required Disclosures

**AAON, Inc. (AAON-\$41.56) NEUTRAL Price Target: \$33 February 28, 2019**

Rating and Price Target History Table

Action Date	Px	Rating	PT
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
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#### Valuation:

- We derive our unchanged \$33 price target by applying about a 22x multiple to our 2020 EPS estimate of \$1.53; this equates to 13.6x our 2020 EBITDA estimate of \$127 million. (Previously, we applied a 21x multiple to our prior 2020 EPS estimate of \$1.56; this equated to 13.5x our 2020 EBITDA estimate of \$128 million).

#### Required Disclosures

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## APPENDIX CONTINUED

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