

AAON, Inc. (AAON)

4Q:19 EPS Top Our Estimate On Margin Expansion; Backlog Declined, But Order Trends Positive; Increase 2020-2021 Estimates; Raise Price Target To \$54 (From \$52); Valuation Keeps Us NEUTRAL

	2018		2019		2020E		2021E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
Mar.	\$0.09	\$0.21A	0.17A	\$0.36	\$0.35	\$0.40	\$0.41	
June	0.23	0.25A	0.26A	0.33	0.39	0.43	0.45	
Sep.	0.28	0.26A	0.27A	0.35	0.40	0.43	0.46	
Dec.	0.25	0.29	0.33A	0.37	0.40	0.45	0.47	
EPS	\$0.84	\$1.01	\$1.02A	\$1.36	\$1.54	\$1.71	\$1.79	
P/E					34.4x		29.6x	
EBITDA (mil)	\$73.0	\$89.4	\$89.8A	\$118.5	\$130.9	\$142.5	\$147.3	
EV/EBITDA					21.0x		18.7x	

Note: 2018-2021E 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	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Rev.(Mil.)	\$303.1	\$321.1	\$356.3	\$358.6	\$384.0	\$405.2	\$430.9	\$469.2	\$528.8	\$564.4
GAAP EPS	\$0.49	\$0.68	\$0.80	\$0.84	\$0.98	\$1.03	\$0.86	\$1.01	\$1.36	\$1.68

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.

- **4Q:19 revenue grew 9% to \$122.6 million and EPS expanded 33% to \$0.33. We, along with consensus, estimated \$122.5 million and \$0.29, respectively.**
- **The better than expected EPS was driven by a 29.7% gross margin (we projected 26.0%), partially offset by slightly higher than estimated SG&A.**
- **Backlog at the end of the quarter was down 6%, year over year. We are not too concerned about this since we estimate order trends will accelerate through 1H:20.**
- **We increased our 2020 and 2021 EPS estimates to \$1.54 (from \$1.36) and \$1.79 (from \$1.71), respectively, or an implied CAGR of about 33%.**
- **We view the fundamentals as strong, given the order trends and the gross margin expansion.**
- **The raised \$54 price target is based on 30x our new 2021 EPS estimate of \$1.79; this equates to 19.0x our 2021 EBITDA estimate of \$147 million. (The prior \$52 target was based on 30x our previous 2021 EPS estimate of \$1.71; this equated to 19.0x our prior 2021 EBITDA estimate of \$143 million.)**
- **With limited upside to this new target, we maintain a NEUTRAL rating.**
- **Management will host a conference call today at 4:15 p.m. E.T.**

Our pre-conference call thoughts on the fundamentals remain positive. EPS in 4Q:19 exceeded our estimate by about 13% on gross margin expansion. The 29.7% margin compared to our estimate of 26.0% and was the widest margin since 4Q:17. This indicates to us that the challenges the company faced in the past two years, including price/cost headwinds, operational issues and capacity constraints, are abating; and that the gross margin will widen to more than 30% in 2020. The 4Q:19 results still do not fully reflect current pricing, following a recent 5% increase (we estimate only about half of the shipments in 4Q:19 reflected current pricing), so price/cost will continue to act as a tailwind in 2020. Reduced capacity constraints and improved operational efficiencies also will be tailwinds in early 2020. Some of these benefits will be offset by cost inflation (i.e. wages and other costs), but we now estimate the gross margin will widen to 30.4% (was 27.9%) in 2020, from 25.4% in 2019. We still forecast 13% revenue growth in 2020 as we think order trends are

NEUTRAL

Price Target: \$54
 Price: \$52.98

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Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$2,760
Enterprise Value	\$2,765
52-Week Range (NASDAQ)	58-40
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	136,000
Shares Out (Mil)	52.098
Float Shares (Mil)	40.563
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.32
Dividend Yield	0.6%
FCF Per Share (2021E)	\$1.29
FCF Yield (2021E)	2.4%
Net Cash Per Share (2021E)	\$2.08
Price to Book Value	9.9x
Return on Equity (2021E)	20.1%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	10.8%
Short Interest Days To Cover	38.8
Russell 2000	1,513
Russell 2000 – Last 12 Months	-1.6%
AAON – Last 12 Months	27.2%



positive.

The backlog at the end of December was down 6%, year-over-year, and down 12% at the end of January. However, the backlog is still at a historic high. Also, it was expected backlog would decline as the company shortens its lead times from the extended times in early 2019. With increased capacity and improved lead times, the company's independent sales reps can convey this positive data to customers; we think this will lead to an acceleration in orders. Given the wider gross margins and strong demand trends, we increased our EPS estimates to \$1.54 (from \$1.36) in 2020 and \$1.79 (from \$1.71) in 2021.

Valuation	We raise the price target to \$54 (from \$52) and maintain a NEUTRAL rating. The shares trade at next 12-month P/E and EV/EBITDA multiples of 34.3x and 21.0x, respectively, compared to historic five-year averages of 28.6x and 16.4x. We think AAON's premium multiples are attributable to its backlog and the robust growth anticipated in 2020-2024. Peer Lennox International (NYSE: LII, NC) trades at next 12-month P/E and EV/EBITDA multiples of 21.3x and 15.8x, respectively. Our \$54 price target is based on 30x our 2021 EPS estimate of \$1.79; this equates to 19.0x our 2021 EBITDA estimate of \$147 million. (The prior \$52 target was based on 30x our previous 2021 EPS estimate of \$1.71; this equated to 19.0x our prior 2021 EBITDA estimate of \$143 million.) We think the stock's valuation is full. We model annual revenue growth of 12% and incremental margins of 40% will translate into EPS of about \$3.00 in 2024; this equates to EBITDA of about \$238 million. The \$54 target equates to the stock trading at 18x estimated 2024 EPS and 11.4x estimated 2024 EBITDA. We would reconsider our rating if the stock were to pull back to the low \$40s or if the fundamentals improved more than we now project. We think execution was less than ideal in the last two years; to justify more of a premium valuation that would result in enough upside to rationalize a BUY rating, we want to see execution improve.		
Key Risks	Construction does not improve	Steel and copper prices rise	U.S. recession

Exhibit 1: AAON, Inc. 4Q:19 Variance Analysis							
	<u>4Q:19 Actual</u>	<u>4Q:19 Estimate</u>	<u>Variance</u>	<u>% Variance</u>	<u>4Q:18 Actual</u>	<u>YoY Change</u>	<u>4Q:19 Consensus</u>
Revenue (thou.)	\$122,574	\$122,451	\$123	0.1%	\$112,340	9.1%	\$122,527
Gross profit	36,381	31,837	4,544	14.3%	27,846	30.7%	
<i>Margin</i>	29.7%	26.0%			24.8%		
Operating income	23,226	20,327	2,899	14.3%	17,126	35.6%	
<i>Margin</i>	18.9%	16.6%			15.2%		
EBITDA	28,365	26,227	2,138	8.2%	21,916	29.4%	
<i>Margin</i>	23.1%	21.4%			19.5%		
Adjusted net income	\$17,273	\$15,290	1,983	13.0%	\$12,964	33.2%	
<i>Profit margin</i>	14.1%	12.5%			11.5%		
Adjusted EPS	\$0.33	\$0.29	\$0.04	12.8%	\$0.25	32.5%	\$0.29

Source: Sidoti & Co., and Company reports

AAON, INC.

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

	MarA	JunA	SepA	DecA	2018	MarA	JunA	SepA	DecA	2019	MarE	JunE	SepE	DecE	2020E	MarE	JunE	SepE	DecE	2021E
Sales, net	\$99,082	\$109,588	\$112,937	\$112,340	\$433,947	\$113,822	\$119,437	\$113,500	\$122,574	\$469,333	\$125,204	\$134,964	\$136,370	\$132,380	\$528,918	\$135,221	\$145,761	\$145,916	\$145,618	\$572,516
Cost of sales	83,886	81,927	80,107	84,494	330,414	88,392	89,233	86,090	86,193	349,908	88,269	93,800	94,095	92,004	368,168	93,978	99,846	99,515	99,748	393,088
Gross profit	15,196	27,661	32,830	27,846	103,533	25,430	30,204	27,410	36,381	119,425	36,935	41,164	42,275	40,376	160,750	41,242	45,915	46,401	45,870	179,428
SG&A	11,651	13,153	12,667	10,723	48,194	13,677	12,912	12,374	13,114	52,077	12,270	14,306	14,319	12,576	53,471	12,846	14,868	14,810	13,251	55,775
Other	(7)	(4)	2	(3)	(12)	284	6	6	41	337	0	0	0	0	0	0	0	0	0	0
Operating income	3,552	14,512	20,161	17,126	55,351	11,469	17,286	15,030	23,226	67,011	24,665	26,858	27,956	27,800	107,279	28,396	31,047	31,591	32,618	123,653
Operating income (ex. one-time items)	5,452	15,012	20,161	17,126	55,351	11,469	17,286	15,030	23,226	67,011	24,665	26,858	27,956	27,800	107,279	28,396	31,047	31,591	32,618	123,653
Interest expense	(68)	(67)	(36)	(25)	(196)	(9)	(31)	(9)	(17)	(66)	(25)	(25)	(25)	(25)	(100)	(25)	(25)	(25)	(25)	(100)
Other (income) expense	6	(12)	(5)	58	47	26	(17)	7	30	46	10	10	10	10	40	10	10	10	10	40
Income before income taxes	3,614	14,591	20,202	17,093	55,500	11,452	17,334	15,032	23,213	67,031	24,680	26,873	27,971	27,815	107,339	28,411	31,062	31,606	32,633	123,713
Income tax provision	460	2,894	5,688	4,129	13,171	2,695	3,943	742	5,940	13,320	6,047	6,584	6,853	6,815	26,298	6,961	7,610	7,743	7,995	30,310
Net Income	\$3,154	\$11,697	\$14,514	\$12,964	\$42,329	\$8,757	\$13,391	\$14,290	\$17,273	\$53,711	\$18,634	\$20,289	\$21,118	\$21,000	\$81,041	\$21,451	\$23,452	\$23,862	\$24,638	\$93,403
Net Income (ex. one-time items)	\$4,617	\$12,098	\$14,514	\$12,964	\$44,193	\$8,757	\$13,391	\$14,290	\$17,273	\$53,711	\$18,634	\$20,289	\$21,118	\$21,000	\$81,041	\$21,451	\$23,452	\$23,862	\$24,638	\$93,403
GAAP Diluted EPS	\$0.06	\$0.22	\$0.28	\$0.25	\$0.80	\$0.17	\$0.26	\$0.27	\$0.33	\$1.02	\$0.35	\$0.39	\$0.40	\$0.40	\$1.54	\$0.41	\$0.45	\$0.46	\$0.47	\$1.79
Diluted EPS	\$0.09	\$0.23	\$0.28	\$0.25	\$0.84	\$0.17	\$0.26	\$0.27	\$0.33	\$1.02	\$0.35	\$0.39	\$0.40	\$0.40	\$1.54	\$0.41	\$0.45	\$0.46	\$0.47	\$1.79
Diluted shares outstanding	52,910	52,718	52,628	52,421	52,668	52,370	52,474	52,722	52,701	52,567	52,581	52,447	52,461	52,327	52,454	52,207	52,334	52,087	52,214	52,210
YOY Growth:																				
Revenue	15.1%	8.2%	-0.6%	7.9%	7.1%	14.9%	9.0%	0.5%	9.1%	8.2%	10.0%	13.0%	20.2%	8.0%	12.7%	8.0%	8.0%	7.0%	10.0%	8.2%
Cost of sales	37.3%	17.6%	2.7%	15.6%	17.2%	5.4%	8.9%	7.5%	2.0%	5.9%	-0.1%	5.1%	9.3%	6.7%	5.2%	6.5%	6.4%	5.8%	8.4%	6.8%
SG&A	10.6%	9.9%	-2.8%	-21.8%	-2.1%	17.4%	-1.8%	-2.3%	22.3%	8.1%	-10.3%	10.8%	15.7%	-4.1%	2.7%	4.7%	3.9%	3.4%	5.4%	4.3%
Gross profit	-39.2%	-12.7%	-7.9%	-10.4%	-16.1%	67.3%	9.2%	-16.5%	30.7%	15.3%	45.2%	36.3%	54.2%	11.0%	34.6%	11.7%	11.5%	9.8%	13.6%	11.6%
Operating income	-75.4%	-26.2%	-10.9%	-1.4%	-25.3%	222.9%	19.1%	-25.5%	35.6%	21.1%	115.1%	55.4%	86.0%	19.7%	60.1%	15.1%	15.6%	13.0%	17.3%	15.3%
Net income	-69.1%	-15.2%	-1.4%	-17.8%	-16.6%	177.6%	14.5%	-1.5%	33.2%	21.5%	112.8%	51.5%	47.8%	21.6%	50.9%	15.1%	15.6%	13.0%	17.3%	15.3%
Diluted EPS	-54.6%	-11.6%	-0.7%	8.9%	-12.2%	91.6%	11.2%	-1.7%	32.5%	21.7%	111.9%	51.6%	48.5%	22.4%	51.2%	15.9%	15.8%	13.8%	17.6%	15.8%
Margin Analysis:																				
COGS/sales	84.7%	74.8%	70.9%	75.2%	76.1%	77.7%	74.7%	75.9%	70.3%	74.6%	70.5%	69.5%	69.0%	69.5%	69.6%	69.5%	68.5%	68.2%	68.5%	68.7%
SG&A/sales	11.8%	12.0%	11.2%	9.5%	11.1%	12.0%	10.8%	10.9%	10.7%	11.1%	9.8%	10.6%	10.5%	9.5%	10.1%	9.5%	10.2%	10.2%	9.1%	9.7%
Gross profit margin	15.3%	25.2%	29.1%	24.8%	23.9%	22.3%	25.3%	24.1%	29.7%	25.4%	29.5%	30.5%	31.0%	30.5%	30.4%	30.5%	31.5%	31.8%	31.5%	31.3%
Operating margin (ex. one-time items)	3.6%	13.2%	17.9%	15.2%	12.8%	10.1%	14.5%	13.2%	18.9%	14.3%	19.7%	19.9%	20.5%	21.0%	20.3%	21.0%	21.3%	21.7%	22.4%	21.6%
Pretax margin	3.6%	13.3%	17.9%	15.2%	12.8%	10.1%	14.5%	13.2%	18.9%	14.3%	19.7%	19.9%	20.5%	21.0%	20.3%	21.0%	21.3%	21.7%	22.4%	21.6%
Net margin	3.2%	10.7%	12.9%	11.5%	9.8%	7.7%	11.2%	12.6%	14.1%	11.4%	14.9%	15.0%	15.5%	15.9%	15.3%	15.9%	16.1%	16.4%	16.9%	16.3%
Tax rate	12.7%	19.8%	28.2%	24.2%	23.7%	23.5%	22.7%	4.9%	25.6%	19.9%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%

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	2018	MarA	JunA	SepA	DecA	2019	2020E	2021E
Cash flows from operating activities												
Net income	\$4,260	\$11,691	\$14,085	\$12,536	\$42,572	\$8,757	\$15,106	\$14,290	\$15,558	\$53,711	\$81,041	\$93,403
Depreciation and amortization	4,129	4,309	4,427	4,790	17,655	5,914	5,846	5,867	5,139	22,766	23,600	23,600
Amortization of bond premiums	5	3	3	2	13	-	-	-	0	-	-	-
Provision for losses on account receivable	(11)	100	(22)	107	174	115	13	(37)	0	91	-	-
Provision for excess and obsolete inventories	101	198	(244)	97	152	357	796	(150)	451	1,454	-	-
(Gain)/loss on disposition of assets	(7)	(4)	2	(3)	(12)	284	-	12	41	337	-	-
Share-based compensation	1,724	1,975	1,915	1,760	7,374	2,030	3,043	2,785	3,941	11,799	8,400	9,400
Excess tax benefits from stock options exercised	-	-	-	0	-	-	-	-	0	-	-	-
Deferred income taxes	420	18	426	1,985	2,849	1,887	2,225	96	1,830	6,038	-	-
Other	17	20	(19)	23	41	(22)	-	(14)	(9)	(45)	-	-
Change in assets and liabilities	111	7,195	(12,624)	(10,631)	(15,949)	(6,554)	(3,914)	12,314	(72)	1,774	(3,826)	(9,012)
Net cash provided by operating activities	10,744	25,502	7,946	10,641	54,856	12,768	23,115	35,163	26,888	97,925	109,215	117,391
Cash flows from investing activities												
Other	(5,994)	139	16	(472)	(6,311)	-	-	-	120	120	-	-
Proceeds from sale of property, plant and equipment	-	-	-	0	0	52	7	9	1	69	-	-
Investment in certificates of deposit and other	(5,976)	5,955	5,060	3,905	8,944	17	(3,989)	4,011	(39)	0	-	-
Capital expenditures	(8,451)	(17,474)	(8,403)	(2,940)	(37,268)	(8,772)	(8,012)	(14,047)	(6,335)	(37,166)	(73,200)	(50,000)
Net cash provided by investing activities	(20,421)	(11,380)	(3,327)	965	(34,635)	(8,703)	(11,994)	(10,027)	(6,373)	(37,046)	(73,200)	(50,000)
Cash flows from financing activities												
Exercise of stock options	1,340	959	1,205	1,483	4,987	4,010	3,675	3,598	1,342	12,625	-	-
Other	(568)	(240)	(52)	(237)	(1,097)	(588)	(403)	(32)	6,129	5,106	-	-
Repurchase of common stock	(4,379)	(7,160)	(5,961)	(9,346)	(26,846)	(4,483)	(5,708)	(5,246)	(4,149)	(19,586)	(12,000)	(12,000)
Cash dividends paid to stockholders	-	-	(8,400)	(8,328)	(16,728)	-	-	(8,303)	(8,342)	(16,645)	(16,766)	(17,731)
Net cash provided by (used in) financing activities	(3,607)	(6,441)	(13,208)	(16,428)	(39,684)	(1,061)	(2,436)	(9,983)	(5,020)	(18,500)	(28,766)	(29,731)
Net change in cash	(13,284)	7,681	(8,589)	(4,822)	(19,463)	3,004	8,685	15,153	15,495	42,379	7,249	37,660
Cash, beginning of period	21,457	8,173	15,854	7,265	21,457	1,994	4,998	13,683	28,836	1,994	44,373	51,622
Cash, ending of period	\$8,173	\$15,854	\$7,265	\$2,443	\$1,994	\$4,998	\$13,683	\$28,836	\$44,331	\$44,373	\$51,622	\$89,282
Free cash flow	\$2,293	\$8,028	(\$457)	\$7,701	17,588	\$3,996	\$15,103	\$21,116	\$20,553	60,759	36,015	67,391
FCF per share	\$0.04	\$0.15	(\$0.01)	\$0.15	\$0.34	\$0.08	\$0.29	\$0.40	\$0.39	\$1.16	\$0.69	\$1.29

Sources: Company reports and Sidoti & Company, LLC estimates

AAON, INC.

Table 3. AAON, Inc. Balance Sheet

(in thousands, except where noted)

	MarA	JunA	SepA	2018	MarA	JunA	SepA	2019	2020E	2021E
Assets										
Current assets:										
Cash	8,173	15,854	7,265	1,994	4,998	13,683	28,836	26,797	51,622	89,282
Short-term securities	14,942	8,475	3,412	0	0	4,000	0	17,576	17,576	17,576
Accounts receivable	54,319	53,418	51,207	54,078	58,688	68,933	56,083	67,399	72,809	80,381
Income tax receivable	7,316	4,971	2,292	6,104	4,756	3,246	3,870	772	772	772
Note receivable	27	27	28	27	27	28	28	29	29	29
Inventories	68,680	70,467	79,182	77,612	74,577	77,044	80,623	73,601	78,301	84,892
Prepaid expenses and other	1,230	1,453	1,310	1,046	1,607	1,696	1,559	1,375	530	582
Total current assets	154,687	154,665	144,696	140,861	144,653	168,630	170,999	187,549	221,638	273,514
Property, plant and equipment, net	147,928	161,121	164,896	163,003	166,652	167,631	175,738	178,094	229,694	256,094
Goodwill	3,677	3,851	3,793	3,735	3,229	3,229	3,229	3,501	3,501	3,501
Long-term securities	653	634	639	598	2,243	2,153	2,055	1,683	1,683	1,683
Notes receivables	0	0	0	0	603	608	594	597	597	597
Total assets	306,945	320,271	314,024	308,197	317,380	342,251	352,615	371,424	457,113	535,389
Liabilities and stockholders' equity										
Current liabilities:										
Accounts payable	22,214	25,127	16,224	10,616	5,947	7,885	11,118	11,759	12,513	13,566
Dividend payable		8,400	0	0		8,355		0	0	0
Accrued liabilities	35,078	38,146	37,492	37,455	38,053	42,713	42,764	44,629	49,314	53,465
Total current liabilities	57,292	71,673	53,716	48,071	44,000	58,953	53,882	56,388	61,827	67,031
Deferred tax liabilities	8,397	8,415	8,841	10,826	12,713	14,938	15,034	15,297	15,297	15,297
Other long-term liabilities	1,645	1,746	1,838	1,801	3,442	3,791	3,669	9,959	9,959	9,959
Total stockholders' equity	239,611	238,437	249,629	247,499	259,370	264,569	280,030	289,780	370,031	443,103
Total liabilities and stockholders' equity	306,945	320,271	314,024	308,197	319,525	342,251	352,615	371,424	457,113	535,389
Key Financial Ratios:										
Long-term debt/total capital	0.7%	0.7%	0.7%	0.7%	1.3%	1.4%	1.3%	3.3%	2.6%	2.2%
Book value/share	\$4.49	\$4.46	\$4.67	\$4.65	\$4.88	\$4.99	\$5.30	\$5.46	\$7.15	\$8.66
Profit Margin	11.9%	13.6%	13.3%	10.8%	12.4%	1.9%	9.4%	10.6%	15.9%	0.0%
Asset Turnover	1.3	1.4	1.4	1.5	1.4	1.4	1.3	1.3	1.2	1.1
Leverage	1.3	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.2	1.2
Net cash	\$23,142	\$24,356	\$10,705	\$2,021	\$5,025	\$17,711	\$28,864	\$44,402	\$69,227	\$106,887
Net cash per share	\$0.45	\$0.47	\$0.21	\$0.05	\$0.14	\$0.38	\$0.60	\$0.88	\$1.39	\$2.08
Inventory turnover	5.4	4.9	4.4	4.6	4.9	4.8	4.3	4.6	4.7	4.7
Return on equity (ROE)	19.6%	25.0%	24.0%	19.7%	21.8%	3.4%	15.3%	17.9%	22.8%	0.0%
Return on assets (ROA)	2.5%	13.4%	16.6%	18.9%	11.2%	16.2%	17.1%	20.3%	20.3%	19.2%
Return on total capital (ROTC)	3.2%	18.8%	21.3%	23.2%	13.7%	21.6%	22.6%	27.2%	27.3%	27.2%

Sources: Company reports and Sidoti & Company, LLC estimates

Appendix Required Disclosures

Required Disclosures

AAON, Inc. (AAON-\$52.98) NEUTRAL Price Target: \$54 February 27, 2020

Rating and Price Target History Table

Action Date	Px	Rating	PT
PT 5/4/17	37.2		37
PT 8/3/17	33.8		35
PT 4/3/18	37.2		33
PT 5/30/19	46.6		37
PT 7/19/19	50.6		40
PT 12/11/19	48.6		52



Valuation

We raise the price target to \$54 (from \$52) and maintain a NEUTRAL rating. The shares trade at next 12-month P/E and EV/EBITDA multiples of 34.3x and 21.0x, respectively, compared to historic five-year averages of 28.6x and 16.4x. We think AAON's premium multiples are attributable to its backlog and the robust growth anticipated in 2020-2024. Peer Lennox International (NYSE: LII, NC) trades at next 12-month P/E and EV/EBITDA multiples of 21.3x and 15.8x, respectively. Our \$54 price target is based on 30x our 2021 EPS estimate of \$1.79; this equates to 19.0x our 2021 EBITDA estimate of \$147 million. (The prior \$52 target was based on 30x our previous 2021 EPS estimate of \$1.71; this equated to 19.0x our prior 2021 EBITDA estimate of \$143 million.) We think the stock's valuation is full. We model annual revenue growth of 12% and incremental margins of 40% will translate into EPS of about \$3.00 in 2024; this equates to EBITDA of about \$238 million. The \$54 target equates to the stock trading at 18x estimated 2024 EPS and 11.4x estimated 2024 EBITDA. We would reconsider our rating if the stock were to pull back to the low \$40s or if the fundamentals improved more than we now project. We think execution was less than ideal in the last two years; to justify more of a premium valuation that would result in enough upside to rationalize a BUY rating, we want to see execution improve.

Key Risks

Construction does not improve

Steel and copper prices rise

U.S. recession

Required Disclosures

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