



AAON, Inc. (AAON)

After AAON's 2Q:20 Conference Call, We Increase Our 2020-2021 Estimates And Introduce 2022 Estimates; We Raise Our Target To \$53 (From \$50), But Maintain A NEUTRAL Rating

	2019	2020E		2021E		2022E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	\$0.17	\$0.41A		\$0.30	\$0.31		\$0.40
June	0.26	0.34A	0.36A	0.32	0.34		0.45
Sep.	0.27	0.30	0.34	0.32	0.37		0.47
Dec.	<u>0.33</u>	<u>0.31</u>	<u>0.32</u>	<u>0.41</u>	<u>0.39</u>		<u>0.44</u>
EPS	\$1.02	\$1.36	\$1.42	\$1.36	\$1.42		\$1.77
P/E			40.7x		40.7x		32.7x
EBITDA (mil)	\$89.8	\$116.2	\$119.9	\$119.7	\$126.0		\$151.8
EV / EBITDA			24.8x		23.6x		19.6x

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	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Rev.(Mil.)	\$321.1	\$356.3	\$358.6	\$384.0	\$405.2	\$430.9	\$469.3	\$504.4	\$499.9	\$565.3
GAAP EPS	\$0.68	\$0.80	\$0.84	\$0.98	\$1.03	\$0.86	\$1.02	\$1.40	\$1.42	\$1.77

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.

- **After AAON's August 6th conference call and follow up calls with management since then, we now estimate EPS grows 39% to \$1.42 (from \$1.36) and is flat at \$1.42 (from \$1.36) in 2021. We also introduce an estimate of \$1.77 in 2022, which equates to 24% growth.**
- **We increase our estimates slightly to reflect improving order trends in July and August (up year-over-year after falling in April-May).**
- **We also are optimistic productivity that has improved since dealing with COVID-related increased labor absentee issues in June and early July.**
- **In the medium-term, we remain cautious on AAON's business that is associated with nonresidential building construction (50% of sales). We anticipate a decline in construction markets will offset replacement demand, resulting in a 1% decline in sales and flat EPS in 2021.**
- **Our new \$53 price target is now based on 30x our 2022 EPS estimate of \$1.77; this equates to 18x our 2022 EBITDA estimate of \$152 million. (Our previously \$50 target was based on 37x our prior 2021 EPS estimate of \$1.36; this equated to 21x our prior 2021 EBITDA estimate of \$120 million.)**
- **Given that AAON shares trade above our price target, we maintain a NEUTRAL rating.**

AAON reported weaker-than-expected 2Q:20 results and a soft backlog of bookings. AAON reported 2Q:20 sales and EPS of \$126 million (up 5% year over year) and \$0.36 (up 40%), respectively; we adjusted the pro forma EPS realized in the quarter to reflect \$1.25 million of SG&A costs related to a donation. The results compare to our respective estimates of \$133 million and \$0.37 and consensus forecasts of \$125 million and \$0.35. The year-over-year EPS growth was largely related to an easy gross margin comparison. The 2Q:19 gross margin of 30.4% (versus our estimate of 30.5% and the gross margin of 31.2% realized in 1Q:20) was hurt by productivity issues related to COVID-related labor absentee issues. The EPS miss relative to our projection was largely related to the softer sales and higher than expected SG&A expenses (up 14% year over year excluding the \$1.25 million donation). Backlog of \$104 million at the end of the quarter was down year-over-year 42% and quarter-

NEUTRAL

Price Target: \$53

Price: \$57.81

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Key Statistics

Analysts Covering	3
Market Cap (Mil)	\$3,020
Enterprise Value	\$2,985
52-Week Range (NASDAQ)	61-40
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	215,000
Shares Out (Mil)	52.262
Float Shares (Mil)	40.520
Insider Ownership	25%
Institutional Holdings	60%
Annualized Dividend	\$0.38
Dividend Yield	0.7%
FCF Per Share (2022E)	\$1.42
FCF Yield (2022E)	2.5%
Net Cash Per Share (2022E)	\$2.69
Price to Book Value	9.4x
Return on Equity (2022E)	20.1%
Total Debt to Capital	2%
Interest Coverage Ratio	N/A
Short Interest %	8.6%
Short Interest Days To Cover	22.9
Russell 2000	1,578
Russell 2000 – Last 12 Months	7.5%
AAON – Last 12 Months	30.3%



over-quarter 13%. The year-over-year decline was not unexpected as we anticipated improved lead times would result in a smaller backlog. However, new bookings in the quarter were down 17% year-over-year and 4% quarter-over-quarter, which reflected adverse effects of the COVID-related economic shutdown. On the weaker than estimated 2Q:20 results that were reported prior to market open on August 6th, shares of AAON declined 5%; the Russell 2000 was flat that day. Since then, shares have rebounded 1.6%, compared to a 2.2% increase in the Russell 2000.

COVID-related labor absentee issues seem to be in the past now and bookings trends have improved. On the August 6th conference call, management stated they were challenged by higher than normal employer absenteeism, related to the COVID-19 outbreak the state of Oklahoma was dealing with in June and July. According to management, this affected productivity in the latter half of June and the first half of July; by the latter half of July, these issues subsided. Management also stated that new bookings stabilized in June and started to improve to year-over-year growth in July. On the call, CEO Gary Fields stated he thinks 3Q:20 sales will be comparable to 2Q:20. We expect gross margin will also be similar to 2Q:20 as the extent of the productivity issues in July were comparable to what they realized in June. We also estimate SG&A will be similar in 3Q:20 to 2Q:20 levels since SG&A is correlated to pre-tax profits (about 15% of SG&A costs are related to profit sharing expenses, which amount to about 11% of pre-tax profits; we estimate the rest of SG&A costs will be stable).

We increase our 2020-2021 estimates and introduce 2022 estimates. We now estimate EPS grows 39% to \$1.42 (from \$1.36) and is flat at \$1.42 (from \$1.36) in 2021. Our 2020 estimate compares to consensus of \$1.35 (two other estimates in consensus are \$1.27 and \$1.35); and our 2021 estimate compares to the one other estimate in consensus of \$1.22. We also introduce an estimate of \$1.77 in 2022, which equates to 24% growth; there are no other 2022 estimates in consensus.

We continue to anticipate a slowdown starting in 4Q:20 and extending through 1H:21 before a recovery begins in 2H:21. Although new bookings have rebounded in July, we think demand will slow over the next several months due to our anticipation of a decline in new construction related sales (50% of total sales) to end-markets like retail, office buildings and hotels. We anticipate replacement demand (50% of total sales) will continue to grow, particularly due to COVID-related retrofit work, but expect that will be a partial offset to declining construction-related demand in 4Q:20-1H:21.

Long-term, we think AAON's fundamentals are very strong, which are reflected in our new 2022 estimates. AAON's niche market within the HVAC industry, which focuses on customized, highly sophisticated HVAC equipment, will continue to grow at outpacing rates compared to the overall nonresidential HVAC market. The 5% sales growth that AAON realized in 2Q:20 compares to peers Lennox International's (NYSE: LII, NC) 28% decline at its commercial HVAC segment and Trane Technologies' (NYSE: TT, NC) mid-single digits revenue decline for its commercial HVAC business. Lennox International estimates the commercial HVAC market will be down 25% and its commercial HVAC business will be down 10%-15%; this compares to our 2020 estimate that AAON will realize 7% sales growth. In addition to the customized nonresidential HVAC market growing at quicker rates than the overall nonresidential HVAC market, AAON's revamped group of independent sales representatives will help drive higher growth rates. In our view, in a growing nonresidential construction market, AAON can grow sales at low- to mid-double digits for several years, compared to the overall nonresidential HVAC market, which we would expect to grow in the mid- to high single digits. Accounting for incremental margins of 35%-40%, in a growing nonresidential construction market, we estimate AAON's earnings will grow annually 20%-30% on average.

Valuation	We maintain a NEUTRAL rating with a price target of \$53 (from \$50). The shares now trade at forward P/E and EV/EBITDA multiples of 44x and 26x, respectively, compared to historic five-year averages of 29.5x and 17.0x. Based on our 2021 estimates, the shares trade at 41x and 24x, respectively; and relative to our new 2022 estimates, the shares trade at 33x and 20x, respectively. We think AAON's premium multiples are attributable to its positioning and the secular trends in the niche that the company competes in within the commercial HVAC industry. Peers Trane Technologies and Lennox International trade at next 12-month P/E and EV/EBITDA multiples of 27x-29x and 17x-21x, respectively. We highlight that TT's and LII's premium multiples, relative to historical averages, are based on earnings that are forecasted to be down significantly in 2020; AAON's forward multiples are based on earnings that we estimate will be up, year over year. Our new \$53 price target is based on 30x our 2022 EPS estimate of \$1.77; this equates to 18x our 2022 EBITDA estimate of \$152 million. (Previously, our target was based on 37x our prior 2021 EPS estimate of \$1.36; this equated to 21x our prior 2021 EBITDA estimate of \$120 million.) With shares trading above the \$53 price target, we maintain a NEUTRAL rating.		
Key Risks	Construction does not improve	Steel and copper prices rise	U.S. recession

Exhibit 1: AAON, Inc. 2Q:20 Variance Analysis (from our note dated August 6th)

	<u>2Q:20 Actual</u>	<u>2Q:20 Estimate</u>	<u>Variance</u>	<u>% Variance</u>	<u>2Q:19 Actual</u>	<u>YoY Change</u>	<u>2Q:20 Consensus</u>
Revenue (thou.)	\$125,596	\$132,575	(\$6,979)	-5.3%	\$119,437	5.2%	\$125,084
Gross profit	38,131	40,435	(2,304)	-5.7%	30,204	26.2%	
<i>Margin</i>	30.4%	30.5%			25.3%		
Operating income	23,442	25,587	(2,145)	-8.4%	17,286	35.6%	
<i>Margin</i>	18.7%	19.3%			14.5%		
EBITDA	28,530	31,587	(3,057)	-9.7%	23,132	23.3%	31,017
<i>Margin</i>	22.7%	23.8%			19.4%		
Adjusted net income	\$18,805	\$19,330	(525)	-2.7%	\$13,391	40.4%	
<i>Profit margin</i>	15.0%	14.6%			11.2%		
Adjusted EPS	\$0.36	\$0.37	(\$0.01)	-3.3%	\$0.26	39.7%	\$0.35

Source: Sidoti & Co., and Company reports

AAON, INC.

Table 1. AAON, Inc. Income Statement

(in thousands, except where noted)

	MarA	JunA	SepA	DecA	2019	MarA	JunA	SepE	DecE	2020E	MarE	JunE	SepE	DecE	2021E	2022E
Sales, net	\$113,822	\$119,437	\$113,500	\$122,574	\$469,333	\$137,483	\$125,596	\$124,850	\$116,445	\$504,374	\$116,861	\$121,828	\$127,347	\$133,912	\$499,948	\$565,324
Cost of sales	88,392	89,233	86,090	86,193	349,908	94,536	87,465	86,896	80,929	349,826	81,218	83,452	86,596	91,060	342,327	378,987
Gross profit	25,430	30,204	27,410	36,381	119,425	42,947	38,131	37,954	35,516	154,548	35,642	38,376	40,751	42,852	157,621	186,338
SG&A	13,677	12,912	12,374	13,114	52,077	15,214	15,939	14,857	13,973	59,984	13,790	14,376	15,027	15,534	58,726	63,079
Other	284	6	6	41	337	(62)	0	0	0	(62)	0	0	0	0	0	0
Operating income	11,469	17,286	15,030	23,226	67,011	27,795	22,192	23,097	21,542	94,627	21,853	24,000	25,724	27,318	98,895	123,259
Adjusted operating income	11,469	17,286	15,030	23,226	67,011	27,795	23,442	23,097	21,542	94,627	21,853	24,000	25,724	27,318	98,895	123,259
EBITDA	17,383	23,132	20,897	28,365	89,777	33,797	28,530	29,497	28,042	119,867	28,453	30,700	32,524	34,318	125,995	151,809
Adjusted EBITDA	17,383	23,132	20,897	28,365	89,777	33,797	29,780	29,497	28,042	119,867	28,453	30,700	32,524	34,318	125,995	151,809
Interest expense	(9)	(31)	(9)	(17)	(66)	(61)	(19)	(25)	(25)	(130)	(25)	(25)	(25)	(25)	(100)	(100)
Other (income) expense	26	(17)	7	30	46	27	(32)	10	10	15	10	10	10	10	40	40
Income before income taxes	11,452	17,334	15,032	23,213	67,031	27,829	22,243	23,112	21,557	94,742	21,868	24,015	25,739	27,333	98,955	123,319
Income tax provision	2,695	3,943	742	5,940	13,320	5,976	4,439	5,316	4,958	20,689	5,358	5,884	6,306	6,697	24,244	30,830
Net Income	\$8,757	\$13,391	\$14,290	\$17,273	\$53,711	\$21,853	\$17,804	\$17,796	\$16,599	\$74,053	\$16,510	\$18,131	\$19,433	\$20,636	\$74,711	\$92,489
Net Income (ex. one-time items)	\$8,757	\$13,391	\$14,290	\$17,273	\$53,711	\$21,853	\$18,805	\$17,796	\$16,599	\$75,053	\$16,510	\$18,131	\$19,433	\$20,636	\$74,711	\$92,489
GAAP diluted EPS	\$0.17	\$0.26	\$0.27	\$0.33	\$1.02	\$0.41	\$0.34	\$0.34	\$0.32	\$1.40	\$0.31	\$0.34	\$0.37	\$0.39	\$1.42	\$1.77
Adjusted diluted EPS	\$0.17	\$0.26	\$0.27	\$0.33	\$1.02	\$0.41	\$0.36	\$0.34	\$0.32	\$1.42	\$0.31	\$0.34	\$0.37	\$0.39	\$1.42	\$1.77
Diluted shares outstanding	52,370	52,474	52,722	52,701	52,567	52,871	52,750	52,751	52,630	52,751	52,510	52,631	52,390	52,511	52,511	52,331

YOY Growth:

Revenue	14.9%	9.0%	0.5%	9.1%	8.2%	20.8%	5.2%	10.0%	-5.0%	7.5%	-15.0%	-3.0%	2.0%	15.0%	-0.9%	13.1%
Cost of sales	5.4%	8.9%	7.5%	2.0%	5.9%	7.0%	-2.0%	0.9%	-6.1%	0.0%	-14.1%	-4.6%	-0.3%	12.5%	-2.1%	10.7%
SG&A	17.4%	-1.8%	-2.3%	22.3%	8.1%	11.2%	23.4%	20.1%	6.6%	15.2%	-9.4%	-9.8%	1.1%	11.2%	-2.1%	7.4%
Gross profit	67.3%	9.2%	-16.5%	30.7%	15.3%	68.9%	26.2%	38.5%	-2.4%	29.4%	-17.0%	0.6%	7.4%	20.7%	2.0%	18.2%
Adjusted operating income	110.4%	15.1%	-25.5%	35.6%	21.1%	142.3%	35.6%	53.7%	-7.2%	41.2%	-21.4%	2.4%	11.4%	26.8%	4.5%	24.6%
Adjusted EBITDA																
Net income	177.6%	14.5%	-1.5%	33.2%	21.5%	149.5%	33.0%	24.5%	-3.9%	37.9%	-24.4%	1.8%	9.2%	24.3%	-0.5%	23.8%
Adjusted diluted EPS	91.6%	11.2%	-1.7%	32.5%	21.7%	147.2%	39.7%	24.5%	-3.8%	39.2%	-23.9%	-3.4%	9.9%	24.6%	0.0%	24.2%

Margin Analysis:

COGS/sales	77.7%	74.7%	75.9%	70.3%	74.6%	68.8%	69.6%	69.6%	69.5%	69.4%	69.5%	68.5%	68.0%	68.0%	68.5%	67.0%
SG&A/sales	12.0%	10.8%	10.9%	10.7%	11.1%	11.1%	12.7%	11.9%	12.0%	11.9%	11.8%	11.8%	11.8%	11.6%	11.7%	11.2%
Gross profit margin	22.3%	25.3%	24.1%	29.7%	25.4%	31.2%	30.4%	30.4%	30.5%	30.6%	30.5%	31.5%	32.0%	32.0%	31.5%	33.0%
Operating margin (ex. one-time items)	10.1%	14.5%	13.2%	18.9%	14.3%	20.2%	17.7%	18.5%	18.5%	18.8%	18.7%	19.7%	20.2%	20.4%	19.8%	21.8%
Pretax margin	10.1%	14.5%	13.2%	18.9%	14.3%	20.2%	17.7%	18.5%	18.5%	18.8%	18.7%	19.7%	20.2%	20.4%	19.8%	21.8%
Net margin	7.7%	11.2%	12.6%	14.1%	11.4%	15.9%	14.2%	14.3%	14.3%	14.7%	14.1%	14.9%	15.3%	15.4%	14.9%	16.4%
Tax rate	23.5%	22.7%	4.9%	25.6%	19.9%	21.5%	20.0%	23.0%	23.0%	21.8%	24.5%	24.5%	24.5%	24.5%	24.5%	25.0%

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	2019	MarA	JunA	SepE	DecE	2020E	2021E	2022E
Cash flows from operating activities												
Net income	\$8,757	\$15,106	\$14,290	\$15,558	\$53,711	\$21,853	\$17,804	\$17,796	\$16,599	\$74,053	\$74,711	\$92,489
Depreciation and amortization	5,914	5,846	5,867	5,139	22,766	6,002	6,338	6,400	6,500	25,240	27,100	28,550
Amortization of bond premiums	-	-	-	0	-	10	10	-	-	20	-	-
Provision for losses on account receivable	115	13	(37)	0	91	294	(218)	-	-	76	-	-
Provision for excess and obsolete inventories	357	796	(150)	451	1,454	(274)	81	-	-	(193)	-	-
(Gain)/loss on disposition of assets	284	-	12	41	337	(62)	-	-	-	(62)	-	-
Share-based compensation	2,030	3,043	2,785	3,941	11,799	2,351	3,343	2,100	2,100	9,894	9,400	7,600
Excess tax benefits from stock options exercised	-	-	-	0	-	-	-	-	-	-	-	-
Deferred income taxes	1,887	2,225	96	1,830	6,038	(167)	5,228	-	-	5,061	-	-
Other	(22)	-	(14)	(9)	(45)	55	(17)	-	-	38	-	-
Change in assets and liabilities	(6,554)	(3,914)	12,314	(72)	1,774	7,545	(7,394)	(89)	(2,265)	(2,203)	(11,846)	(4,115)
Net cash provided by operating activities	12,768	23,115	35,163	26,888	97,925	37,597	25,165	26,207	22,934	111,903	99,365	124,524
Cash flows from investing activities												
Other	-	-	-	120	120	-	-	-	-	-	-	-
Proceeds from sale of property, plant and equipment	52	7	9	1	69	61	-	-	-	61	-	-
Investment in certificates of deposit and other	17	(3,989)	4,011	(39)	0	12	13	-	-	25	-	-
Capital expenditures	(8,772)	(8,012)	(14,047)	(6,335)	(37,166)	(21,877)	(11,633)	(20,000)	(20,000)	(73,510)	(50,000)	(50,000)
Net cash provided by investing activities	(8,703)	(11,994)	(10,027)	(6,373)	(37,046)	(21,804)	(11,620)	(20,000)	(20,000)	(73,424)	(50,000)	(50,000)
Cash flows from financing activities												
Exercise of stock options	4,010	3,675	3,598	1,342	12,625	4,497	9,676	-	-	14,173	-	-
Other	(588)	(403)	(32)	6,129	5,106	(953)	(149)	-	-	(1,102)	-	-
Repurchase of common stock	(4,483)	(5,708)	(5,246)	(4,149)	(19,586)	(11,565)	(4,372)	(3,000)	(3,000)	(21,937)	(12,000)	(12,000)
Cash dividends paid to stockholders	-	-	(8,303)	(8,342)	(16,645)	0	-	(8,440)	(8,421)	(16,861)	(17,833)	(0)
Net cash provided by (used in) financing activities	(1,061)	(2,436)	(9,983)	(5,020)	(18,500)	(8,021)	5,155	(11,440)	(11,421)	(25,727)	(29,833)	(12,000)
Net change in cash	3,004	8,685	15,153	15,495	42,379	7,772	18,700	(5,233)	(8,487)	12,752	19,532	62,524
Cash, beginning of period	1,994	4,998	13,683	28,836	1,994	44,373	52,145	70,845	65,612	44,373	57,125	76,657
Cash, ending of period	\$4,998	\$13,683	\$28,836	\$44,331	\$44,373	\$52,145	\$70,845	\$65,612	\$57,125	\$57,125	\$76,657	\$139,181
Free cash flow	\$3,996	\$15,103	\$21,116	\$20,553	\$60,759	\$15,720	\$13,532	\$6,207	\$2,934	\$38,393	\$49,365	\$74,524
FCF per share	\$0.08	\$0.29	\$0.40	\$0.39	\$1.16	\$0.30	\$0.26	\$0.12	\$0.06	\$0.73	\$0.94	\$1.42

Sources: Company reports and Sidoti & Company, LLC estimates

AAON, INC.

Table 3. AAON, Inc. Balance Sheet

(in thousands, except where noted)

	MarA	JunA	SepA	2019	MarA	JunA	2020E	2021E	2022E
Assets									
Current assets:									
Cash	4,998	13,683	28,836	26,797	52,145	70,845	57,125	76,657	139,181
Short-term securities	0	4,000	0	17,576	0	0	0	0	0
Accounts receivable	58,688	68,933	56,083	67,399	69,894	56,394	64,045	73,919	78,355
Income tax receivable	4,756	3,246	3,870	772	0	5,154	5,154	5,154	5,154
Note receivable	27	28	28	29	27	28	28	28	28
Inventories	74,577	77,044	80,623	73,601	72,855	85,411	69,319	77,996	81,703
Prepaid expenses and other	1,607	1,696	1,559	1,375	2,045	1,943	466	536	568
Total current assets	144,653	168,630	170,999	187,549	196,966	219,775	196,137	234,290	304,988
Property, plant and equipment, net	166,652	167,631	175,738	178,094	193,029	204,428	223,323	246,223	285,323
Goodwill	3,229	3,229	3,229	3,501	3,442	3,384	3,384	3,384	3,384
Long-term securities	2,243	2,153	2,055	1,683	1,641	1,665	1,665	1,665	1,665
Notes receivables	603	608	594	597	542	555	555	555	555
Total assets	317,380	342,251	352,615	371,424	395,620	429,807	425,064	486,117	595,915
Liabilities and stockholders' equity									
Current liabilities:									
Accounts payable	5,947	7,885	11,118	11,759	13,501	19,698	11,039	12,384	12,973
Dividend payable		8,355		0		9,930	0	0	0
Accrued liabilities	38,053	42,713	42,764	44,629	50,684	46,992	43,378	48,808	52,279
Total current liabilities	44,000	58,953	53,882	56,388	64,185	76,620	54,417	61,192	65,252
Deferred tax liabilities	12,713	14,938	15,034	15,297	15,130	20,358	20,358	20,358	20,358
Other long-term liabilities	3,442	3,791	3,669	9,959	9,982	10,134	10,134	10,134	10,134
Total stockholders' equity	259,370	264,569	280,030	289,780	306,323	322,695	340,155	394,432	500,172
Total liabilities and stockholders' equity	319,525	342,251	352,615	371,424	395,620	429,807	425,064	486,117	595,915

Key Financial Ratios:

Long-term debt/total capital	1.3%	1.4%	1.3%	3.3%	3.2%	3.0%	2.9%	2.5%	2.0%
Book value/share	\$4.88	\$4.99	\$5.30	\$5.46	\$5.81	\$6.16	\$6.57	\$7.71	#DIV/0!
Profit Margin	12.4%	1.9%	9.4%	10.6%	13.7%	9.1%	15.9%	0.0%	0.0%
Asset Turnover	1.4	1.4	1.3	1.3	1.4	1.2	1.1	1.0	1.0
Leverage	1.2	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Net cash	\$5,025	\$17,711	\$28,864	\$44,402	\$52,172	\$70,873	\$57,153	\$76,685	\$139,209
Net cash per share	\$0.14	\$0.38	\$0.60	\$0.88	\$1.04	\$1.41	\$1.15	\$1.49	\$2.69
Inventory turnover	4.9	4.8	4.3	4.6	5.1	4.3	4.7	4.7	4.7
Return on equity (ROE)	21.8%	3.4%	15.3%	17.9%	24.6%	14.2%	21.8%	0.0%	0.0%
Return on assets (ROA)	11.2%	16.2%	17.1%	20.3%	24.5%	18.4%	16.7%	17.1%	17.5%
Return on total capital (ROTC)	13.7%	21.6%	22.6%	27.2%	33.3%	27.4%	24.4%	22.2%	22.9%

Sources: Company reports and Sidoti & Company, LLC estimates

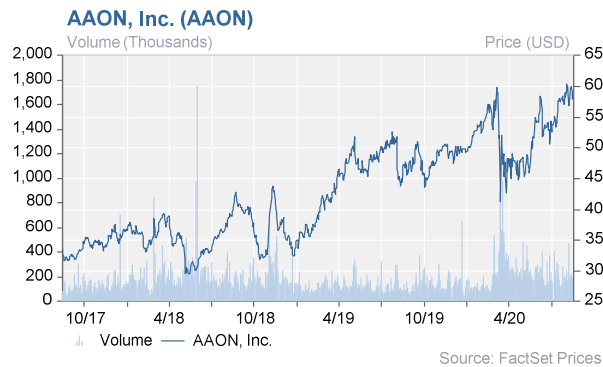
Appendix Required Disclosures

Required Disclosures

AAON, Inc. (AAON-\$57.81) NEUTRAL Price Target: \$53 August 17, 2020

Rating and Price Target History Table

Action Date	Px	Rating	PT
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
PT 2/27/20	53		54
PT 4/28/20	48		50
PT 5/8/20	48.6		52
PT 7/23/20	59		50



Valuation

We maintain a NEUTRAL rating with a price target of \$53 (from \$50). The shares now trade at forward P/E and EV/EBITDA multiples of 44x and 26x, respectively, compared to historic five-year averages of 29.5x and 17.0x. Based on our 2021 estimates, the shares trade at 41x and 24x, respectively; and relative to our new 2022 estimates, the shares trade at 33x and 20x, respectively. We think AAON's premium multiples are attributable to its positioning and the secular trends in the niche that the company competes in within the commercial HVAC industry. Peers Trane Technologies and Lennox International trade at next 12-month P/E and EV/EBITDA multiples of 27x-29x and 17x-21x, respectively. We highlight that TT's and LII's premium multiples, relative to historical averages, are based on earnings that are forecasted to be down significantly in 2020; AAON's forward multiples are based on earnings that we estimate will be up, year over year. Our new \$53 price target is based on 30x our 2022 EPS estimate of \$1.77; this equates to 18x our 2022 EBITDA estimate of \$152 million. (Previously, our target was based on 37x our prior 2021 EPS estimate of \$1.36; this equated to 21x our prior 2021 EBITDA estimate of \$120 million.) With shares trading above the \$53 price target, we maintain a NEUTRAL rating.

Key Risks

Construction does not improve

Steel and copper prices rise

U.S. recession

Required Disclosures

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