



## AAON, Inc.

AAON - NASDAQ

## Institutional Equity Research

February 26, 2021

## Core Results Match, Choppy Bookings; Still Rich for Our Blood

Core earnings met our expectations with modest changes to 2021 earnings expectations (still forecast below 2020). Some air pockets are matched with industry optimism around demand, which drives our healthier 2H outlook. Our PT is now \$50 (prev. \$35). Still, with AAON trading at an unusually high premium to others (and itself), we remain **UNDERPERFORM**.

**Can/when will AAON grow into its robust multiple?** Our estimates do not materially change for 2021 (expect lower vs. 2020). Historically AAON has typically traded at a premium to public HVAC peers. Peers today (LII, TT) trade 4-7 turns above 10-year avg. EV/EBITDA multiples (and 4-10 turns above 10-year avg. P/E multiples). Today AAON trades 18 turns above its 10-year avg. EV/EBITDA multiple (35x vs. 17x avg.) or 64x 2021 EPS (vs. 31x avg.). Navigating a potential *trough* year, there is justification for elevated NT multiples and broader industry valuation expansion justifies a higher target (we bump to \$50 from \$35 or 23x/21x our 2021/2022 EBITDA estimates - a respectable premium on a relative and absolute basis historically). We still struggle to bridge the gap between what we agree is a well positioned platform for LT growth; and AAON equity's very robust valuation and the underlying earnings prospects embedded within it.

**Core 4Q results in line with sales, GP and op. income b/f insurance proceeds matching estimates.** 4Q EPS of \$0.35/sh includes an \$0.08/sh insurance proceed; ex. that \$0.27/sh matched our estimate (prior year was \$0.33/sh). GM declined 60 bp Y/Y to 29.1% (in-line with estimate) and remains within previously articulated target ranges. Sales declined 4.8% Y/Y to \$116.7M (vs. our \$115M estimate). Water source heat pumps (WSHP) sales did increase Y/Y (+19%) - for the year -25%. Rest of business sales declined 6% Y/Y (+12% for the year). Backlog was -48% Y/Y to \$74.4M (sequential decline of 12%) reflecting a planned reduction in lead times. On a net basis, bookings were +6.2% Y/Y (-8.5% sequentially). February 1 backlog improved since year-end (only down 20% Y/Y), however with much shortened lead times we don't see backlog as a perfect predictor of AAON's MT (or ST) sales prospects. A variance is attached.

**Soft 1H start - expected to pick up.** AAON does not provide guidance. Factors including timing of a price increase in early January (and associated pull forward), some mixed demand from customers and disruptions in the South are expected to impact 1Q/2Q. AAON sees positive signs emerging in replacement markets and strength in subsectors (data centers, warehouses, healthcare, education, grow centers - all which we've heard from peers as well). These and other opportunities may strengthen sales as we advance through 2021 and are factored in our model. A new WSHP configuration will be available Spring/early Summer and would supplement core business orders. For 2021, we still project 5% sales decline. Inflation in commodity prices led to early January price increases (4% across product lines). AAON has enough hedged supply in materials to carry through 1H with recent price increases sufficient to offset escalating costs seen to date (the company will evaluate whether more are necessary). As such, our GM assumptions are unchanged. Depending upon the direction which underlying manufacturing inputs go, and ability to capture with future price increases; these gyrations could have varying impacts into 2H.

**B/S clean.** AAON has no debt (unlikely to change), cash of \$82.3M (\$1.58/sh) and 2020 FCF was \$61.0M. Capex will remain elevated in 2021 (\$70.7M vs. \$67.8M in 2020 and \$42.1M 5-year avg.) and well above depreciation. Internal initiatives (capacity improvements, WSHP, R&D), dividends and share repurchases remain priorities.

FY (Dec)		2020A	2021E	Previous	Cons.	2022E	Previous	Cons.
EPS	Q1 (Mar)	\$0.41	<b>\$0.24E</b>	\$0.28	\$0.29	n.a.	-	n.a.
	Q2 (Jun)	\$0.34	<b>\$0.31E</b>	NC	\$0.32	n.a.	-	n.a.
	Q3 (Sep)	\$0.38	<b>\$0.33E</b>	NC	\$0.35	n.a.	-	n.a.
	Q4 (Dec)	\$0.35	<b>\$0.32E</b>	\$0.29	\$0.32	n.a.	-	n.a.
		\$1.49	<b>\$1.20E</b>	NC	\$1.31	<b>\$1.34E</b>	NC	\$1.58
Price/EPS		51.5x	63.9x			57.4x		
Revenue (\$M)	Q1 (Mar)	\$137.5	<b>\$113.0E</b>	\$115.0	\$115.9	n.a.	-	n.a.
	Q2 (Jun)	\$125.6	<b>\$125.0E</b>	\$122.0	\$121.9	n.a.	-	n.a.
	Q3 (Sep)	\$134.8	<b>\$130.0E</b>	NC	\$131.7	n.a.	-	n.a.
	Q4 (Dec)	\$116.7	<b>\$122.0E</b>	\$115.0	\$121.6	n.a.	-	n.a.
		\$514.6	<b>\$490.0E</b>	\$482.0	\$500.6	<b>\$518.0E</b>	\$510.0	\$540.1
EV/Sales		7.6x	8.0x			7.6x		

BV Per Share uses tangible book value.

## Underperform

<b>Price Target</b>	↑\$50.00
Price (2/25/21)	\$76.63
Industry	DIVERSIFIED INDUSTRIALS

## Valuation &amp; Performance

Total Debt/Total Capital	n.a.
Cash per share (12/31/20)	\$1.58
BV Per Share (12/31/20)	\$6.66
Dividend	\$0.38 (0.5%)
Return on Equity (T-T-M)	24.8%

## Trading Data

Shares Outstanding (M)	52.2
Market Capitalization (\$M)	\$4,002.0
52-week range	\$40.48 - \$81.25
Avg. Volume (3-mth.) (K)	185.8

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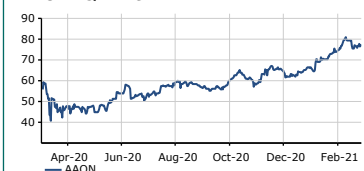
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## Company Description

Tulsa, OK – AAON, Inc. manufactures and sells air-conditioning and heating equipment in the U.S. and Canada. Products include rooftop units, chillers, air-handling units, make-up air units, heat recovery units, condensing units, self-contained units and coils; with an expanding presence in water source heat pumps (WSHP). Primary markets served are the commercial and industrial new construction and replacement markets.

## Price Performance

NASDAQ: AAON



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Please refer to pages 6 - 7 of this report for detailed disclosure and certification information.

## AAON, Inc.

## Historical Operating Results &amp; Projections

(Dollars in millions except for per share data - 2/25/21)

Fiscal Year: December	12/31/19	12/31/20e	12/31/20	% chg
Revenue	\$122.6	\$115.0	\$116.7	-4.8%
Cost of Revenue	86.2	81.5	82.8	(4.0)
Gross Profit	36.4	33.5	33.9	
SG&A	13.1	14.3	14.6	11.5
Gain (Loss) on Disposal of Assets	(0.0)	0.0	6.4	
Operating Income	23.2	19.2	25.7	
Interest Expense, net	0.0	0.0	(0.0)	
Interest Income, net	0.0	0.0	0.0	
Other Income (Expense), net	(0.0)	0.0	0.0	
Non-Operating Income	(0.0)	0.0	0.0	
Pre-Tax Income	23.2	19.2	25.7	
Taxes	5.9	4.8	6.9	
Net Income	\$17.3	\$14.4	\$18.9	
Applicable Shares	52.7	53.3	53.5	
EPS - Diluted	\$0.33	\$0.27	\$0.35	
Dividends Per Share	\$0.16	\$0.19	\$0.19	
Depreciation & Amortization	\$5.1	\$6.6	\$6.6	
EBITDA	28.4	25.8	32.3	
Gross Margin	29.7%	29.1%	29.1%	
EBITDA Margin	23.1	22.4	27.7	
Operating Margin	18.9	16.7	22.0	
Pre-tax Margin	18.9	16.7	22.1	
Net Margin	14.1	12.5	16.2	
Tax Rate	25.6%	25.0%	26.6%	
Backlog	\$142.7	\$79.0	\$74.4	-47.9%

Source: Company reports and D.A. Davidson &amp; Co. estimates.

## AAON, Inc.

## Quarterly Financial Position

(Dollars in millions except for per share data)

Fiscal Year: December	3/31/17	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	12/31/18	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20	12/31/20
Cash & Equivalents	\$31.6	\$33.6	\$23.5	\$21.5	\$8.2	\$15.9	\$7.3	\$2.0	\$7.1	\$13.7	\$28.4	\$44.4	\$52.1	\$70.8	\$78.6	\$82.3
Accounts Receivable	44.4	43.1	57.3	50.3	54.3	53.4	51.2	54.1	58.7	68.9	56.1	67.4	69.9	56.4	62.2	47.4
Inventories	56.0	63.1	66.1	70.8	68.7	70.5	79.2	77.6	74.6	77.0	80.6	73.6	72.9	85.4	78.8	82.2
Deferred Taxes	3.0	0.8	0.0	1.6	7.3	5.0	2.3	6.1	4.8	3.2	3.9	0.8	0.0	0.0	0.0	0.0
Certificates of Deposit	3.1	5.5	5.0	2.9	6.0	5.5	2.2	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments Held to Maturity	7.1	12.7	11.3	6.1	8.9	3.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.0	0.9	0.8	0.5	1.3	1.5	1.3	1.1	1.6	1.7	1.6	1.4	2.1	7.1	5.9	8.4
Total Current Assets	146.2	159.7	164.1	153.7	154.7	154.7	144.7	140.9	146.80	168.6	170.5	187.5	197.0	219.8	225.5	220.3
Property, Plant & Equipment	118.4	124.6	138.3	142.4	147.9	161.1	164.9	163.0	166.7	167.6	175.7	178.1	193.0	204.4	208.9	223.3
Certificates of Deposit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments Held to Maturity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill & Intangibles						3.2	3.8	3.2	3.7	3.6	3.6	3.5	3.4	3.4	3.3	3.3
Note Receivable	0.7	0.7	0.7	0.7	0.7	0.6	0.0	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6
Other Assets	0.0	0.0	0.0	0.0	3.7	0.6	0.6	0.5	1.8	1.8	1.7	1.7	1.6	1.7	1.6	1.6
Total Assets	\$265.3	\$285.0	\$303.1	\$296.8	\$306.9	\$320.3	\$314.0	\$308.2	\$319.5	\$342.3	\$352.2	\$371.4	\$395.6	\$429.8	\$439.9	\$449.0
Current Portion of Long-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts Payable	9.9	14.1	18.9	11.0	22.2	25.1	16.2	10.6	5.9	7.9	11.1	11.8	13.5	19.7	16.0	12.4
Accrued Liabilities	31.2	34.3	41.7	39.1	35.1	38.1	37.5	37.5	38.1	42.7	42.8	44.3	50.7	47.0	45.5	46.6
Dividends Payable	0.0	6.8	0.0	0.0	0.0	8.4	0.0	0.0	0.0	8.4		0.0	0.0	9.9	0.0	0.0
Total Current Liabilities	41.1	55.3	60.6	50.1	57.3	71.7	53.7	48.1	44.0	59.0	53.9	56.0	64.2	76.6	61.5	59.0
Long-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	10.3	9.9	10.7	8.0	8.4	8.4	8.8	10.8	12.7	14.9	15.0	15.3	15.1	20.4	23.0	28.3
Deferred Revenue & Other	2.1	2.1	1.5	1.5	1.6	1.7	1.6	1.7	3.4	3.8	3.7	10.0	10.0	10.1	10.5	10.8
Donations							0.2	0.1								
Total Liabilities	53.5	67.3	72.8	59.6	67.3	81.8	64.4	60.7	60.2	77.7	72.6	81.3	89.3	107.1	95.0	98.1
Stockholders' Equity	211.8	217.7	230.3	237.8	239.6	238.4	249.6	247.5	259.4	264.6	279.6	290.1	306.3	322.7	344.9	350.9
Liabilities & Equity	\$265.3	\$285.0	\$303.1	\$296.8	\$306.9	\$320.3	\$314.0	\$308.2	\$319.5	\$342.3	\$352.2	\$371.4	\$395.6	\$429.8	\$439.9	\$449.0
Shares Outstanding	52.6	52.6	52.6	52.4	52.9	52.3	52.3	52.4	52.1	52.1	52.1	52.0	52.1	52.2	52.3	52.2
Per Share Items:																
Cash and Equivalents	\$0.60	\$0.64	\$0.45	\$0.41	\$0.15	\$0.30	\$0.14	\$0.04	\$0.14	\$0.26	\$0.54	\$0.85	\$1.00	\$1.36	\$1.50	\$1.58
Working Capital	2.00	1.99	1.97	1.98	1.84	1.59	1.74	1.77	1.97	2.10	2.24	2.53	2.55	2.74	3.14	3.09
Book Value	4.02	4.14	4.38	4.54	4.53	4.56	4.77	4.72	4.98	5.08	5.36	5.58	5.88	6.18	6.60	6.72
Tangible Book Value	4.02	4.14	4.38	4.54	4.53	4.50	4.70	4.66	4.91	5.01	5.30	5.51	5.82	6.11	6.54	6.66
Total Debt/Capitalization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company reports.

## AAON, Inc.

## Quarterly Cash Flow &amp; Projections

(Dollars in millions except for per share data - 2/25/2021)

Fiscal Year: December	3/31/19	6/30/19	9/30/19	12/31/19	2019	3/31/20	6/30/20	9/30/20	12/31/20	2020	3/31/21e	6/30/21e	9/30/21e	12/31/21e	2021e	2022e
Net Income	\$10.9	13.0	\$13.8	\$16.0	\$53.7	\$21.9	17.8	\$20.5	\$18.9	\$79.0	\$13.0	16.4	\$17.9	\$17.1	\$64.3	\$71.9
Depreciation and Amortization	5.9	5.8	5.9	5.1	22.8	6.0	6.3	6.7	6.6	25.6	6.6	6.6	6.6	6.6	26.4	27.0
Other	4.7	6.1	2.7	6.3	19.7	2.2	8.4	7.5	1.4	19.6	1.0	1.0	1.0	1.0	4.0	4.0
Cash from Operations	21.5	24.9	22.4	27.4	96.2	30.0	32.6	34.6	27.0	124.2	20.6	24.0	25.5	24.7	94.7	102.9
Working Capital	(6.6)	(3.9)	12.3	(0.1)	1.8	7.5	(7.4)	(0.4)	5.3	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash from Operating Activities	14.9	21.0	34.7	27.3	97.9	37.6	25.2	34.2	32.2	129.2	20.6	24.0	25.5	24.7	94.7	102.9
Capital Expenditures	(8.8)	(8.0)	(14.0)	(6.3)	(37.2)	(21.9)	(11.6)	(15.4)	(18.8)	(67.8)	(15.0)	(15.0)	(20.0)	(20.7)	(70.7)	(60.0)
Proceeds From Sale of Property, Plant & Equipment	0.1	0.0	0.0	0.0	0.1	0.1	0.0	0.0	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds (Investments) from CDs, net	0.0	(4.0)	4.0	(6.0)	(6.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds (Purchases) of Investments, net	0.0	0.0	0.0	6.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Notes Receivable & Other	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	6.4	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Net Investment Activity	(8.7)	(12.0)	(10.0)	(6.3)	(37.0)	(21.8)	(11.6)	(15.4)	(12.4)	(61.3)	(15.0)	(15.0)	(20.0)	(20.7)	(70.7)	(60.0)
Cash Flow Before Financing	6.2	9.0	24.7	21.0	60.9	15.8	13.6	18.8	19.8	67.9	5.6	9.0	5.5	4.0	24.0	42.9
Net Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Equity	(0.5)	(2.0)	(1.6)	(2.8)	(7.0)	(7.1)	5.3	(1.1)	(5.8)	(8.6)	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	(8.3)	(8.3)	(16.6)	0.0	0.0	(9.9)	(9.9)	(19.8)	0.0	(10.2)	0.0	(10.2)	(20.4)	(20.4)
Other	(0.6)	(0.4)	(0.0)	6.1	5.1	(1.0)	(0.1)	(0.0)	0.0	(1.1)	0.0	0.0	0.0	0.0	0.0	0.0
Net Financing Activity	(1.1)	(2.4)	(10.0)	(5.0)	(18.5)	(8.0)	5.2	(11.0)	(15.7)	(29.6)	0.0	(10.2)	0.0	(10.2)	(20.4)	(20.4)
Effect of Exchange Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow	\$5.1	\$6.5	\$14.7	\$16.0	\$42.4	\$7.8	\$18.7	\$7.8	\$4.1	\$38.4	\$5.6	(\$1.2)	\$5.5	(\$6.3)	\$3.6	\$22.4
Beginning Cash Position	\$2.0	\$7.1	\$13.7	\$28.4	\$2.0	\$44.4	\$52.1	\$70.8	\$78.6	\$44.4	\$82.7	\$88.3	\$87.1	\$92.6	\$82.7	\$86.3
Ending Cash Position	7.1	13.7	28.4	44.4	44.4	52.1	70.8	78.6	82.7	82.7	88.3	87.1	92.6	86.3	86.3	108.7
Applicable Shares	52.4	52.7	52.7	52.7	52.6	52.9	52.8	53.2	53.5	53.1	53.5	53.5	53.6	53.7	53.6	53.8
Cash Flow Per Share:																
Free Cash Flow	\$0.12	\$0.25	\$0.39	\$0.40	\$1.15	\$0.30	\$0.26	\$0.35	\$0.25	\$1.16	\$0.10	\$0.17	\$0.10	\$0.07	\$0.45	\$0.80
Free Cash Flow (net of dividend)	0.12	0.25	0.23	0.24	0.84	0.30	0.26	0.17	0.06	0.78	0.10	(0.02)	0.10	(0.12)	0.07	0.42
From Operations	0.41	0.47	0.42	0.52	1.83	0.57	0.62	0.65	0.50	2.34	0.39	0.45	0.47	0.46	1.77	1.91
Working Capital	(0.13)	(0.07)	0.23	(0.00)	0.03	0.14	(0.14)	(0.01)	0.10	0.09	0.00	0.00	0.00	0.00	0.00	0.00
Net Investments	(0.17)	(0.15)	(0.27)	(0.12)	(0.71)	(0.41)	(0.22)	(0.29)	(0.35)	(1.28)	(0.28)	(0.28)	(0.37)	(0.39)	(1.32)	(1.12)
Cash Flow Before Financing	0.12	0.17	0.47	0.40	1.16	0.30	0.26	0.35	0.37	1.28	0.10	0.17	0.10	0.07	0.45	0.80
Net Financing Activity	(0.02)	(0.05)	(0.19)	(0.10)	(0.35)	(0.15)	0.10	(0.21)	(0.29)	(0.56)	0.00	(0.19)	0.00	(0.19)	(0.38)	(0.38)
Net Cash Flow	0.10	0.12	0.28	0.30	0.81	0.15	0.35	0.15	0.08	0.72	0.10	(0.02)	0.10	(0.12)	0.07	0.42

Source: AAON, Inc. company reports.

AAON, Inc.  
**Historical Operating Results & Projections**  
(Dollars in millions except for per share data - 2/25/21)

Fiscal Year: December	3/31/19	6/30/19	9/30/19	12/31/19	2019	3/31/20	6/30/20	9/30/20	12/31/20	% chg	2020	% chg	3/31/21e	% chg	6/30/21e	% chg	9/30/21e	% chg	12/31/21e	% chg	2021e	% chg	2022e	% chg
Revenue	\$113.8	\$119.4	\$113.5	\$122.6	\$469.3	\$137.5	\$125.6	\$134.8	\$116.7	-4.8%	\$514.6	9.6%	\$113.0	-17.8%	\$125.0	-0.5%	\$130.0	-3.5%	\$122.0	4.5%	\$490.0	-4.8%	\$518.0	5.7%
Cost of Revenue	88.0	89.3	86.1	86.2	349.6	94.5	87.5	93.9	82.8	(4.0)	358.7	2.6	80.0	(15.4)	87.0	(0.5)	90.0	(4.2)	84.0	1.5	341.0	(4.9)	357.5	4.8
Gross Profit	25.8	30.2	27.4	36.4	119.7	42.9	38.1	40.8	33.9		155.8		33.0		38.0		40.0		38.0		149.0		160.5	
SG&A	11.0	13.5	13.0	13.1	50.6	15.2	15.9	14.7	14.6	11.5	60.5	19.6	15.6	2.5	16.3	2.0	16.3	10.4	15.3	4.3	63.3	4.7	64.8	2.2
Gain (Loss) on Disposal of Assets	(0.3)	0.0	0.0	(0.0)	0.0	0.1	0.0	0.0	6.4		6.5		0.0		0.0		0.0		0.0		0.0		0.0	
Operating Income	14.5	16.7	14.4	23.2	69.1	27.8	22.2	26.1	25.7		101.8		17.4		21.8		23.8		22.8		85.7		95.8	
Interest Expense, net	(0.0)	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.0	(0.0)		(0.0)		0.0		0.0		0.0		0.0		0.0		0.0	
Interest Income, net	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0		0.1		0.0		0.0		0.0		0.0		0.0		0.0	
Other Income (Expense), net	0.0	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0		0.1		0.0		0.0		0.0		0.0		0.0		0.0	
Non-Operating Income	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.1	0.0	0.0		0.1		0.0		0.0		0.0		0.0		0.0		0.0	
Pre-Tax Income	14.5	16.7	14.4	23.2	69.2	27.8	22.2	26.2	25.7		102.0		17.4		21.8		23.8		22.8		85.7		95.8	
Taxes	3.6	3.8	0.6	5.9	13.9	6.0	4.4	5.7	6.9		23.0		4.4		5.4		5.9		5.7		21.4		23.9	
Net Income	\$10.9	\$13.0	\$13.8	\$17.3	\$55.3	\$21.9	\$17.8	\$20.5	\$18.9		\$79.0		\$13.0		\$16.4		\$17.9		\$17.1		\$64.3		\$71.9	
Applicable Shares	52.4	52.7	52.7	52.7	52.6	52.9	52.8	53.2	53.5		53.1		53.5		53.5		53.6		53.7		53.6		53.8	
EPS - Diluted	\$0.21	\$0.25	\$0.26	\$0.33	\$1.05	\$0.41	\$0.34	\$0.38	\$0.35		\$1.49		\$0.24		\$0.31		\$0.33		\$0.32		\$1.20		\$1.34	
Dividends Per Share	\$0.00	\$0.16	\$0.00	\$0.16	\$0.32	\$0.00	\$0.19	\$0.00	\$0.19		\$0.38		\$0.00		\$0.19		\$0.00		\$0.19		\$0.38		\$0.38	
Depreciation & Amortization	\$5.9	\$5.8	\$5.9	\$5.1	\$22.8	\$6.0	\$6.3	\$6.6	\$6.7		\$25.6		\$6.6		\$6.6		\$6.6		\$6.6		\$26.4		\$27.0	
EBITDA	20.4	22.5	20.3	28.4	91.9	33.8	28.5	32.8	32.4		127.5		24.0		28.4		30.4		29.4		112.1		122.8	
Gross Margin	22.7%	25.3%	24.1%	29.7%	25.5%	31.2%	30.4%	30.3%	29.1%		30.3%		29.2%		30.4%		30.8%		31.1%		30.4%		31.0%	
EBITDA Margin	17.9	18.9	17.9	23.1	19.6	24.6	22.7	24.3	27.7		24.8		21.2		22.7		23.3		24.1		22.9		23.7	
Operating Margin	12.7	14.0	12.7	18.9	14.7	20.2	17.7	19.4	22.0		19.8		15.4		17.4		18.3		18.6		17.5		18.5	
Pre-tax Margin	12.7	14.0	12.7	18.9	14.7	20.2	17.7	19.4	22.1		19.8		15.4		17.4		18.3		18.6		17.5		18.5	
Net Margin	9.6	10.9	12.2	14.1	11.8	15.9	14.2	15.2	16.2		15.4		11.5		13.1		13.7		14.0		13.1		13.9	
Tax Rate	24.8%	22.5%	3.9%	25.6%	20.0%	21.5%	20.0%	21.8%	26.6%		22.5%		25.3%		24.8%		24.8%		25.1%		25.0%		25.0%	
Backlog	\$166.6	\$179.6	\$165.3	\$142.7	\$142.7	\$119.6	\$103.5	\$84.9	\$74.4	-47.9%	\$74.4	-47.9%	\$79.0	-34.0%	\$79.0	-23.7%	\$79.0	-6.9%	\$79.0	6.2%	\$79.0	6.2%	\$85.0	7.6%

Source: Company reports and D.A. Davidson & Co. estimates.

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## Potential Risks

- **Results are susceptible to the cyclical nature and seasonality of construction end markets.** Demand for products within the HVAC industry is sensitive to inherently cyclical construction markets and seasonal influences on construction activity, including weather.
- **Reliance on metals in its manufacturing processes.** Steel, copper, and aluminum are the most important purchased materials. Increases in materials costs may not be recaptured immediately in pricing and could result in margin pressure.
- **Most functions performed at single site, results susceptible to major business disruptions.** Most financial and major manufacturing functions are performed from AAON's site in Tulsa, OK. While we believe this offers notable cost advantages, a major event that disrupts operations at this primary asset could be significantly disruptive to financial results and the company's ability to serve its customers.
- **Warranties.** AAON offers a variety of warranties ranging from 1-25 years. Estimated warranty expenses are accrued at the time of shipment; under-accrued warranty expenses and/or a significant product failure could result in additional accrual charges or legal liabilities.

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**BUY:** Expected to produce a total return of over 15% on a risk adjusted basis over the next 12-18 months

**NEUTRAL:** Expected to produce a total return of -15% to +15% on a risk adjusted basis over the next 12-18 months

**UNDERPERFORM:** Expected to lose value of over 15% on a risk adjusted basis over the next 12-18 months

Rating Distribution (as of 12/31/20)	Coverage Universe Distribution			Investment Banking Distribution		
	IR	WMR	Combined	IR	WMR	Combined
<b>BUY (Buy)</b>	58%	92%	62%	11%	0%	10%
<b>NEUTRAL (Hold)</b>	41%	8%	38%	4%	0%	3%
<b>UNDERPERFORM (Sell)</b>	1%	0%	1%	0%	0%	0%

*IR denotes Institutional Research; WMR denotes Wealth Management Research whose rating scale is Buy/Add, Neutral, Sell/Reduce. Investment Banking Distribution denotes companies from whom D.A. Davidson & Co. has received compensation in the last 12 months.*



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### **Other Companies Mentioned in this Report**

<b>Company Name</b>	<b>Ticker</b>	<b>Rating</b>	<b>Price</b>
AAON, Inc.	AAON	UNDERPERFORM	\$76.63