

AAON, Inc. AAON (NAS)

Last Close	Industry	Sector
18.95 USD	Building Materials	Basic Materials

Profile

Pricing data through 10 Feb 2012

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AAON, Inc., a Nevada corporation, was incorporated on August 18, 1987. It manufactures and sale of air-conditioning and heating equipment. Its products consist of standardized and custom rooftop units, chillers, air-handling units, make-up air units, heat recovery units, condensing units, coils and boilers. AAON's products serve the commercial and industrial new construction and replacement markets. The company's rooftop and condenser markets consist of units installed on commercial or industrial structures of generally less than 10 stories in height. AAON's air-handling units, chillers, coils and boilers are applicable to all sizes of commercial and industrial buildings. The company purchases certain components, fabricate sheet metal and tubing and then assemble and test the finished products. AAON's primary finished products consist of a single unit system containing heating, cooling and/or heat recovery components in a self-contained cabinet, referred to in the industry as 'unitary' products. The company's other finished products are coils, air-handling units, condensing units, make-up air units, heat recovery units, and boilers. Coils consist of a sheet metal casing with tubing and fins. Air-handling units consist of coils, blowers and filters. AAON offers five groups of rooftop units. Its HB Series consists of four cooling sizes ranging from two to five tons: the Company's RM and RN Series offered in 21 cooling sizes ranging from two to 70 tons; AAON's RL Series, which is offered in 15 cooling sizes ranging from 40 to 230 tons; and its HA Series, which is a horizontal discharge package for either rooftop or ground installation, which it offers in eight sizes ranging from seven and one-half to 50 tons. The company also produces customized rooftop products with direct and indirect heating in sizes as required. AAON also manufactures a Model LL chiller, which is available in both air-cooled condensing and evaporative cooled configurations. The company's air-handling units consist of the F1 and H/V Series, the modular Series and a customized NJ Series. AAON's heat recovery option applicable to its RM, RN and RL units, as well as its M2, M3 and NJ Series air handlers, respond to the U.S. Clean Air Act mandate to increase fresh air in commercial structures.

AAON, Inc. AAON

Sales USD Mil 269 **Mkt Cap USD Mil** 467 **Industry** Building Materials **Sector** Basic Materials

AAON manufactures commercial rooftop air-conditioning and heating equipment. The company's products serve the air-conditioning manufacturing and construction markets for commercial or industrial structures generally less than 10 stories in height. The company markets its products primarily in the United States. One of its largest customers is Wal-Mart Stores.

2425 South Yukon
Tulsa, OK 74107
Phone: 1 918 583-2266
Website: <http://www.aaon.com>

Employees: 1420

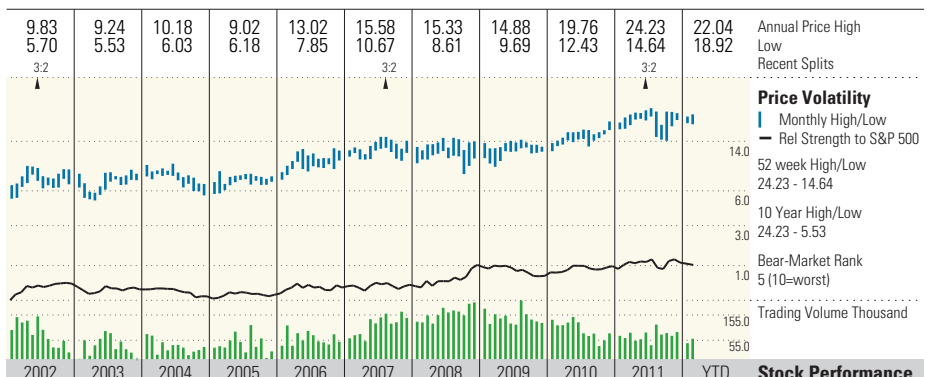
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-0.3	-2.3	5.7	4.7	
Operating Income %	-25.2	-2.8	12.9	4.6	
Earnings/Share %	-18.8	2.1	16.7	7.8	
Dividends %	0.0	7.1	—	—	
Book Value/Share %	3.2	10.2	10.4	14.1	
Stock Total Return %	3.8	18.7	10.2	13.9	
+/- Industry	2.4	6.3	18.5	8.2	
+/- Market	2.2	1.2	11.6	12.4	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	15.8	23.8	-6.9
Return on Assets %	11.0	16.9	-2.4	9.5
Fixed Asset Turns	3.4	4.2	1.7	7.5
Inventory Turns	5.6	6.3	6.6	16.1
Revenue/Employee USD K	189.2	195.4*	—	1049.9
Gross Margin %	19.3	23.0	28.1	38.3
Operating Margin %	10.9	14.3	2.1	16.7
Net Margin %	7.0	9.3	-3.6	11.2
Free Cash Flow/Rev %	—	7.5	1.7	0.1
R&D/Rev %	—	—	—	9.7

Financial Position	12-10 USD Mil	09-11 USD Mil
	Cash	2
Inventories	34	42
Receivables	40	40
Current Assets	92	91
Fixed Assets	67	90
Intangibles	—	—
Total Assets	160	182
Payables	15	22
Short-Term Debt	0	14
Current Liabilities	36	49
Long-Term Debt	—	—
Total Liabilities	44	57
Total Equity	117	125

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	25.0	18.0	—
Forward P/E	22.6	—	—	13.5
Price/Cash Flow	23.9	14.3	16.8	7.4
Price/Free Cash Flow	—	—	55.3	16.9
Dividend Yield %	1.3	—	1.1	2.0
Price/Book	3.7	3.7	1.8	2.0
Price/Sales	1.8	1.6	0.9	1.2
PEG Ratio	1.7	—	—	1.4

Morningstar Rating **Last Price** 18.95 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
13.0	5.3	-15.3	9.7	47.8	14.8	7.0	-4.9	46.6	10.2	-7.5	Total Return %
36.4	-21.1	-24.3	6.7	34.2	11.3	45.5	-28.3	33.8	10.2	-14.3	+/- Market
27.0	-35.3	-46.7	-20.5	21.8	27.7	42.4	-24.4	47.5	20.4	-22.4	+/- Industry
—	—	—	—	1.5	1.5	1.5	1.9	1.3	1.2	1.3	Dividend Yield %
244	249	204	222	324	358	359	336	466	505	467	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
157	155	149	173	185	231	263	280	245	245	269	Revenue USD Mil
24.7	24.4	24.4	15.8	19.1	19.0	21.9	24.0	27.5	22.6	19.3	Gross Margin %
23	23	21	12	18	26	36	43	44	33	29	Oper Income USD Mil
14.5	14.7	14.3	7.1	9.6	11.2	13.6	15.5	17.8	13.4	10.9	Operating Margin %
14	15	14	8	11	17	23	29	28	22	19	Net Income USD Mil
—	0.47	0.48	0.26	0.40	0.60	0.81	1.07	1.07	0.87	0.76	Earnings Per Share USD
—	—	—	—	—	0.18	0.20	0.21	0.24	0.24	0.24	Dividends USD
—	31	30	29	29	28	28	27	26	25	25	Shares Mil
2.09	2.34	2.55	2.87	3.30	3.52	3.74	4.57	4.72	5.08	5.08	Book Value Per Share USD
24	22	16	16	12	19	31	33	45	32	20	Oper Cash Flow USD Mil
-9	-6	-8	-17	-10	-18	-11	-10	-10	-17	-35	Cap Spending USD Mil
15	16	9	-1	2	2	20	24	35	15	-15	Free Cash Flow USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
—	17.4	14.7	7.3	10.5	14.1	17.3	20.6	18.7	13.8	11.0	Return on Assets %
—	26.0	21.9	10.9	15.2	20.0	24.8	29.8	25.8	18.6	15.8	Return on Equity %
9.0	9.4	9.6	4.3	6.2	7.4	8.8	10.2	11.3	9.0	7.0	Net Margin %
—	1.85	1.54	1.67	1.69	1.90	1.96	2.01	1.65	1.55	1.56	Asset Turnover
—	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.3	1.4	1.5	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	09-11	Financial Health
20	21	35	28	33	36	39	41	65	56	42	Working Capital USD Mil
1	—	—	0	0	—	—	—	0	—	—	Long-Term Debt USD Mil
50	62	67	71	80	92	95	97	118	117	125	Total Equity USD Mil
—	—	—	0.00	0.00	—	—	—	—	—	—	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
17.4	18.1	28.3	20.0	19.5	16.2	13.1	12.2	21.7	27.0	25.0	Price/Earnings
1.6	1.7	1.2	1.3	1.4	1.4	1.3	1.4	2.0	1.9	1.8	P/E vs. Market
3.9	3.7	2.9	2.8	3.5	3.8	3.7	2.8	4.0	4.0	3.7	Price/Sales
11.6	15.6	13.2	19.3	17.1	12.0	11.2	7.5	14.8	25.8	23.9	Price/Cash Flow

Quarterly Results				
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	65.8	59.9	69.1	73.8
Prior Year Period	54.2	49.3	64.5	64.9
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	21.4	21.5	7.0	13.8
Prior Year Period	-9.9	-22.9	-5.9	10.9
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	0.23	0.15	0.15	0.23
Prior Year Period	0.23	0.20	0.23	0.21

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
AAON, Inc.	467	269	25.0	15.8
Asahi Glass	—	—	—	—
Siam Cement Public C	—	—	—	—

Major Fund Holders		% of shares
		—
		—
		—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NORMAN H. ASBJORNSON	CEO/Director/Founder/President/President, Subsidiary,Director	4,907,451	05 Aug 2011	-
JERRY R. LEVINE	Director	104,650	18 Aug 2011	-
DAVID E. KNEBEL	Vice President, Divisional	49,600	18 Nov 2011	10,000
JOHN B. JOHNSON, JR	Director/Secretary	23,550	13 Jun 2011	-
JOSEPH E. CAPPY	Director	22,575	13 Jun 2011	-
PAUL K. LACKEY, JR	Director	19,800	13 Jun 2011	-
A. H. MCELROY, II	Director	19,800	13 Jun 2011	-
JACK E. SHORT	Director	8,400	13 Jun 2011	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Fidelity Low-Priced Stock	QQQQ	4.73	0.08	-34	31 Oct 2011
Royce Pennsylvania Mutual Invmt	QQQQ	4.67	0.42	0	31 Dec 2011
Royce Low Priced Stock Svc	QQQQ	2.42	0.32	-111	31 Dec 2011
Fidelity Series Small Cap Opps	QQQQQ	2.02	0.58	8	31 Oct 2011
Fidelity Stock Selector Sm Cp	QQ	1.90	0.58	-62	31 Oct 2011

Concentrated Holders

Great-West Life Smaller Company (M) NL	QQQQ	0.14	3.79	0	31 Dec 2011
London Life Smaller Company (Mackenzie)	QQQ	0.23	3.76	1	31 Dec 2011
Mac Ivy Enterprise Segregated	QQQQ	0.77	3.53	0	31 Oct 2011
Mac Ivy Enterprise Class Series F	QQQQ	0.07	3.39	0	31 Oct 2011

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Virtus Small-Cap Sustainable Growth A	QQQ	0.66	3.20	37	30 Sep 2011
Maxim Index 600 Portfolio	QQQ	0.05	0.07	12	30 Sep 2011
Vanguard Asset Allocation Inv	Q	0.04	0.00	10	30 Sep 2011
Fidelity Series Small Cap Opps	QQQQQ	2.02	0.58	8	31 Oct 2011
American Beacon Small Cap Idx Inst	QQQ	0.04	0.04	7	31 Oct 2011

Top 5 Sellers

Royce Low Priced Stock Svc	QQQQ	2.42	0.32	-111	31 Dec 2011
Fidelity Stock Selector Sm Cp	QQ	1.90	0.58	-62	31 Oct 2011
Royce Micro-Cap Invmt	QQQQ	1.60	0.71	-45	31 Dec 2011
Fidelity Low-Priced Stock	QQQQ	4.73	0.08	-34	31 Oct 2011

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Industry Focus: Building Materials

What's in Store for Congress' Next Highway Bill?

26 September 2011

Min Tang-Varner, CFA
Securities Analyst

D.C. gridlock creates near-term uncertainty for construction-related companies.

As construction-related companies wrap up an eventful summer season interrupted by hurricanes, flooding, drought, fire, excessive heat, and other natural disasters, we think the modest demand gains driven by the traditional seasonal uptick may not be enough to alleviate the underlying weak work flows these companies are facing. Overcapacity remains stubbornly high, and we still anticipate some further weakness in the near term. The tepid construction environment has led to a record level of unemployment in the industry and unprecedented belt-tightening across the board during the past couple of years. Although most of the industrial sector in the U.S. economy enjoyed at least a couple quarters of upbeat earnings and expanding margins, the engineering and construction industry and building materials companies have been in solid recession territory throughout the year. One of the most troubling indicators is the perceived deterioration in public infrastructure market conditions. The spread between infrastructure work that needs to be done and the availability of public financing remains wide, and sentiment supporting spending has become weaker since the most recent raucous debt-ceiling debate. The reading of one leading indicator--the Architecture Billing Index--has not been supportive for the industry development six to nine months down the road, consistent with the weakness in sentiment for construction activity. The Highway Bill has been extended through March 31, 2012. The Highway Trust Fund was created in 1956 as a dedicated funding source for building and maintaining the nation's transportation system with user fees. Prior to the HTF program, the federal government funded highway construction through general funds (general tax receipts, including income taxes and fuel taxes). The dedicated source of HTF funding is fuel taxes, which include the 18.4 cents per gallon gasoline tax and the 24.4 cents per gallon diesel tax. All of the tax rates were last updated in 1997 and have not been indexed for inflation

or subject to change since. We're currently operating under the eighth extension of SAFETEA-LU, the highway bill that was signed into law in 2005 and originally was set to expire on September 30, 2009. SAFETEA-LU, which is the guaranteed minimum funding for highway, safety, and public transportation for the 2005-10 period, totals \$244.1 billion (averaging \$40.67 billion per year). In the past few years, spending levels have actually not been fully supported by fuel taxes, requiring the federal government to transfer money from the general fund every year to make up the difference. In mid-September, Congress extended SAFETEA-LU through March 31, 2012, after much 11th-hour wrangling between the two major political parties. The new short-term extension should give politicians additional time for further negotiation before deciding on a new multiyear bill. However, the gap between the two parties has never been wider, which may mean another round of wrangling or even another extension. The current extension calls for the same level of funding for highway transportation, and the next step is for Congress to appropriate the authorized funds. Neither proposal for the next highway bill contemplates an increase in fuel taxes. The gap between the Democrat-controlled Senate proposal and the Republican-controlled House proposal is very wide. The Senate is proposing a two-year, \$109 billion bill, which essentially maintains the current spending level, but will likely fully deplete the HTF without general fund transfers. The House is proposing a six-year, \$230 billion bill, which amounts to roughly \$38 billion/year--a whopping 36% below the Senate bill (and 18% below the previous authorization without adjusting for inflation). This proposal would maintain the HTF a nominal surplus and requires no general fund transfers. In our opinion, the Senate bill represents the best-case scenario in the current political environment, albeit for only two years, while the House bill would likely spell some deep trouble for infrastructure contractors and building materials companies. The two-year Senate bill would give Congress and the industry time to develop more creative ways for financing highway construction, which is critical as long as raising fuel taxes remains off the table. Funding our future transportation

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Industry Focus: Building Materials

system with fuel taxes is a risky proposition due to increased fuel-efficiency requirements and fluctuating fuel demand. Fuel consumption is influenced by a number of factors, including fuel prices, fuel-efficiency standards, and general economic activity. These factors do not bode well for the concept of fixed fuel taxes funding highway construction. And as construction materials (such as steel, aluminum, cement, and wood) increase in price, we are looking at a real loss in purchasing power for infrastructure spending. If there is no change to the funding mechanism, we think this trend will likely result in the number of projects declining precipitously in the long term. We think the public-private financing model should be greatly expanded to fill up the gaping funding hole. In addressing the pending need to stimulate out of a double-dip recession, the Obama Administration proposed to set up a \$105 billion infrastructure bank that leverages federal money with private money for infrastructure projects. We have long championed the idea of a public-private financing model as a great compromise for rebuilding domestic infrastructure projects during the time when government finances are stretched. The public-private model (also known as the public private project, or PPP) uses government money or EC contractors' equity as a source of seed money and finances the entire project with low-cost private money, then relies on tolls or other user fees to service the loan. The PPP financing model is widely embraced in Europe, Asia, and Canada, but has not been very popular in the domestic U.S. market. However, the I-Bank idea is already in use at a much smaller scale under the Federal Highway Administration, which runs the TIFIA (Transportation Infrastructure Financing and Innovative Act) program. This program provides federal funding by leveraging 10 times with private money to help finance large-scale surface transportation projects. According to the FHA, each federal dollar can provide up to \$10 in TIFIA credit, which has a larger multiplier effect than the traditional transportation match of state and federal money. Similar to the Build America Bond program, the federal government can entice state and local governments with low interest rates (which, as of August 19, stood at 3.42% for a 35-year for a TIFIA

loan), making it an attractive funding stream for large, long-duration infrastructure projects. We think the I-Bank should broadly open up the access to the public-private funding stream much more than TIFIA, which is reportedly over 12 times subscribed. Companies such as AECOM ACM, SNC-Lavalin SNC, and Fluor FLR are active in project financing related to large-scale projects, and we think if the I-Bank idea is enacted, they will be at the forefront benefiting from this new initiative.