

AAON, Inc. AAON (NAS)

Last Close	Industry	Sector
21.46 USD	General Building Materials	Industrial Materials

Profile

Pricing data through 17 Mar 2010

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AAON, Inc., 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 245 **Mkt Cap USD Mil** 369 **Industry** General Building Materials **Sector** Industrial 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.

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Tulsa, OK 74107
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Website: <http://www.aaon.com>

Employees: 1178

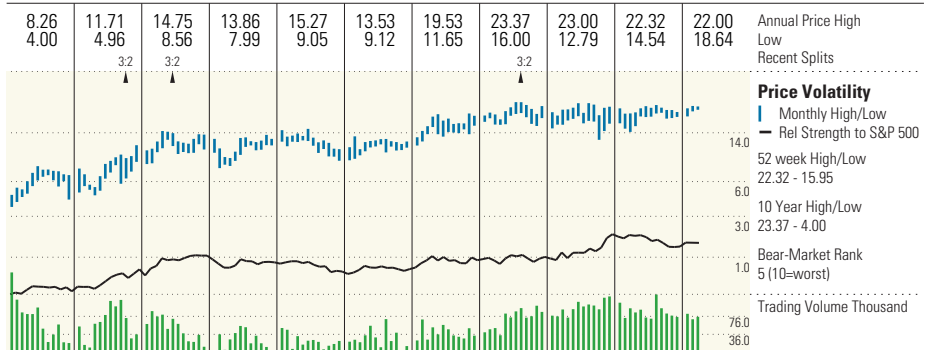
Growth Rates	Compound Annual			
	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-12.3	2.0	7.2	6.7
Operating Income %	0.8	19.2	29.0	10.6
Earnings/Share %	0.0	21.1	32.9	13.7
Dividends %	12.5	10.5	—	—
Book Value/Share %	22.1	11.5	12.4	15.7
Stock Total Return %	14.8	7.9	16.6	16.0
+/- Industry	-57.0	20.0	16.6	12.3
+/- Market	-35.1	13.5	17.0	18.1

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	25.8	23.1	1.6
Return on Assets %	18.7	16.2	0.7	7.3
Fixed Asset Turns	4.1	4.2	2.1	6.8
Inventory Turns	5.5	6.4	6.7	12.1
Revenue/Employee USD K	208.2	200.9*	—	669.6
Gross Margin %	27.5	22.3	27.9	41.0
Operating Margin %	17.8	13.5	0.5	12.2
Net Margin %	11.3	8.8	0.8	8.2
Free Cash Flow/Rev %	14.4	6.5	1.3	0.1
R&D/Rev %	—	—	—	10.7

Financial Position	12-08 USD Mil	12-09 USD Mil
	Cash	0
Inventories	36	29
Receivables	39	33
Current Assets	80	96
Fixed Assets	61	60
Intangibles	—	—
Total Assets	141	156
Payables	15	12
Short-Term Debt	3	0
Current Liabilities	40	31
Long-Term Debt	—	0
Total Liabilities	44	38
Total Equity	97	118

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	13.4	16.2	—
Forward P/E	15.1	—	—	14.4
Price/Cash Flow	8.2	13.4	10.2	7.2
Price/Free Cash Flow	10.5	—	61.4	17.7
Dividend Yield %	1.7	—	1.0	1.8
Price/Book	3.1	3.3	1.7	2.3
Price/Sales	1.5	1.4	0.8	1.3
PEG Ratio	1.0	—	—	1.7

Morningstar Rating **Last Price** 21.46 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
23.0	107.5	13.0	5.3	-17.2	11.3	49.2	14.8	7.0	-4.9	10.1	Total Return %
33.1	120.5	36.4	-21.1	-26.2	8.3	35.6	11.3	45.5	-28.3	5.5	+/- Market
26.2	99.5	20.4	-26.1	-34.3	-6.2	33.2	24.8	39.4	-22.7	9.3	+/- Industry
—	—	—	—	—	—	1.5	1.5	1.5	1.9	1.7	Dividend Yield %
103	212	244	249	199	220	324	358	359	336	369	Market Cap USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Financials
155	157	155	149	173	185	231	263	280	245	245	Revenue USD Mil
22.4	24.7	24.4	24.4	15.8	19.1	19.0	21.9	24.0	27.5	27.5	Gross Margin %
21	23	23	21	12	18	26	36	43	44	44	Oper Income USD Mil
13.4	14.5	14.7	14.3	7.1	9.6	11.2	13.6	15.5	17.8	17.8	Operating Margin %
13	14	15	14	8	11	17	23	29	28	28	Net Income USD Mil
0.61	0.69	0.71	0.71	0.39	0.60	0.90	1.22	1.60	1.60	1.60	Earnings Per Share USD
—	—	—	—	—	—	0.27	0.29	0.32	0.36	0.36	Dividends USD
20	20	20	19	19	19	18	18	17	17	17	Shares Mil
1.89	2.57	3.14	3.51	3.82	4.30	4.95	5.28	5.61	6.85	6.87	Book Value Per Share USD
14	24	22	16	16	12	19	31	33	45	45	Oper Cash Flow USD Mil
-11	-9	-6	-8	-17	-10	-18	-11	-10	-10	-10	Cap Spending USD Mil
3	15	16	9	-1	2	2	20	24	35	35	Free Cash Flow USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Profitability
18.9	18.5	17.4	14.7	7.3	10.5	14.1	17.3	20.6	18.7	18.7	Return on Assets %
36.2	32.5	26.0	21.9	10.9	15.2	20.0	24.8	29.8	25.8	25.8	Return on Equity %
8.3	9.0	9.4	9.6	4.3	6.2	7.4	8.8	10.2	11.3	11.3	Net Margin %
2.29	2.05	1.85	1.54	1.67	1.69	1.90	1.96	2.01	1.65	1.65	Asset Turnover
2.1	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.5	1.3	1.3	Financial Leverage

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	12-09	Financial Health
15	20	21	35	28	33	36	39	41	65	65	Working Capital USD Mil
6	1	—	—	0	0	—	—	—	0	0	Long-Term Debt USD Mil
37	50	62	67	71	80	92	95	97	118	118	Total Equity USD Mil
0.16	0.02	—	—	0.00	0.00	—	—	—	—	0.00	Debt/Equity

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
8.6	15.7	17.4	18.1	27.7	19.9	19.5	16.2	13.1	12.2	13.4	Price/Earnings
—	0.7	0.9	0.9	1.5	1.2	1.2	1.0	1.2	0.7	0.7	P/E vs. Market
0.7	1.4	1.6	1.7	1.2	1.2	1.4	1.4	1.3	1.4	1.5	Price/Sales
2.8	4.2	3.9	3.7	2.8	2.8	3.5	3.8	3.7	2.8	3.1	Price/Book
7.9	9.3	11.6	15.6	12.9	19.1	17.1	12.0	11.2	7.5	8.2	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Mar 09	Jun 09	Sep 09	Dec 09		
Most Recent Period	64.0	68.6	58.5	54.2		
Prior Year Period	65.5	74.8	79.3	60.2		
Rev Growth %	Mar 09	Jun 09	Sep 09	Dec 09		
Most Recent Period	-2.3	-8.3	-26.2	-9.9		
Prior Year Period	11.7	5.6	11.8	-3.1		
Earnings Per Share USD	Mar 09	Jun 09	Sep 09	Dec 09		
Most Recent Period	0.39	0.41	0.45	0.35		
Prior Year Period	0.35	0.43	0.47	0.35		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
AAON, Inc.	369	245	13.4	25.8
Anhui Conch Cement C	—	—	—	—
Assa Abloy AB	—	—	—	—

Major Fund Holders		% of shares
Royce Pennsylvania Mutual Invmt		3.62
Royce Low Priced Stock Svc		2.77
Fidelity Low-Priced Stock		2.65

*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
NA	NA	NA	NA	NA

*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
Royce Pennsylvania Mutual Invmt	QQQQ	3.62	0.24	100	31 Dec 2009
Royce Low Priced Stock Svc	QQQQ	2.77	0.27	0	31 Dec 2009
Fidelity Low-Priced Stock	QQQQ	2.65	0.03	90	31 Oct 2009
Fidelity Series Small Cap Opps		2.14	0.48	0	31 Oct 2009
Royce Micro-Cap Invmt	QQQQ	1.33	0.41	-4	31 Dec 2009
Concentrated Holders					
Walhausen Small Cap Value		0.06	1.25	6	31 Oct 2009
Berwyn	QQQ	0.51	1.23	38	31 Dec 2009

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Royce Pennsylvania Mutual Invmt	QQQQ	3.62	0.24	100	31 Dec 2009
Fidelity Low-Priced Stock	QQQQ	2.65	0.03	90	31 Oct 2009
Berwyn	QQQ	0.51	1.23	38	31 Dec 2009
Oppenheimer Main St Small Cap A	QQ	0.82	0.08	14	30 Sep 2009
Vanguard Small Cap Index	QQQ	1.03	0.02	13	31 Dec 2009
Top 5 Sellers					
Pacific Capital Small Cap Y	QQQ	0.03	0.07	-10	31 Oct 2009
Vanguard Strategic Equity	QQ	0.61	0.06	-9	31 Dec 2009
Delaware Small Cap Core I	QQQQ	0.10	0.49	-8	30 Sep 2009
GuideStone Funds Small Cap GS4	QQQ	0.09	0.09	-8	31 Dec 2009

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Industry Focus: Building Materials

Patricia Oey
ETF Analyst

The multiyear decline in demand for construction materials may be over soon.

Aggregate Producers Positioned for a Recovery in 2010

16 September 2009

After a forecasted 40% peak-to-trough decline in domestic demand for construction materials by the end of 2009, we expect volumes to begin to gradually trend up starting in 2010. By that time, we expect stimulus spending on roads and infrastructure and a recovery in residential construction to drive growth in demand for construction materials, which will be somewhat offset by declines in nonresidential construction spending. Starting in 2011, we expect an improving economy will support construction spending growth across end markets, including the nonresidential segment. We think domestic aggregate producers Vulcan Materials VMC and Martin Marietta MLM are well positioned to benefit from this recovery. However, while demand for cement will also enjoy similar growth drivers, we think there is a risk that potential emission regulations could weigh on the industry's profitability.

Indicators Suggest Demand for Construction Materials Will Turn Positive in 2010

According to the U.S. Census construction spending figures, growth in public spending on highways and streets has been tepid in 2009, which reflects the slow startup of stimulus spending, and lower state and local spending due to weakening budgets. However, we are optimistic that stimulus-driven road construction activity will pick up in the spring of 2010--highway construction awards reached a record high of \$6.8 billion in June, which was followed by \$6.2 billion in awards in July. We estimate about 60% to 70% of the \$28 billion in stimulus allocated for road work will be spent in 2010, and this boost in federal spending will offset a slowdown in state and local spending. Public spending on roads and highways accounts for a significant portion of demand for construction materials--about 30% to 40%. If we include spending on infrastructure projects such as sewers and bridges, this figure rises to 45% to 55% of

total demand.

Another major end market for construction materials is residential construction. In a normal demand environment, residential construction accounts for about 20% to 30% of demand for construction materials, but it is currently trending lower, as residential construction spending has fallen around 60% over the last few years. After about four years of declines, we started to see some light at the end of the tunnel in 2009, when single-family housing starts and housing permits rose for five straight months starting in March. Reed Construction Data estimates residential construction spending to grow 18% in 2010.

Anticipated increases in spending on roads and residential construction in 2010 will be offset by declines in nonresidential construction. Nonresidential construction starts were down over 20% in the first half of 2009, weighed by the weaker economic environment and a tight credit environment. If the economy begins to strengthen in 2010, we expect nonresidential construction activity will begin to grow again in 2011. This segment accounts for about 20% of demand for construction materials.

Our Top Picks Are Martin Marietta and Vulcan Materials

During this recent unprecedented downturn in construction spending, Vulcan Materials and Martin Marietta have worked to manage their costs and improve production efficiencies as volumes declined over 13 consecutive quarters. In addition, both companies benefit from a flexible business model in which the companies can decrease rock crushing capacity without incurring significant cash costs. These wide-moat companies also have been able to sustain some pricing increases throughout this downturn, thanks to their relatively consolidated positions in a number of attractive markets. We also highlight that in 2009, both companies enjoyed significantly lower diesel expenses due to an average 50% decrease in diesel prices. Despite operating at about 50% to 60% of peak production capacity, we forecast both companies to report decent EBITDA

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Industry Focus: Building Materials

margins of 20%-plus in 2009. In 2010, we expect aggregate volume sales for Vulcan and Martin to rise at a mid- to high-single-digit rate. Both companies have stated that at current low production levels, assets and resources are somewhat underutilized such that incremental volume demand will generate incremental gross profits of 50% to 60%. We are optimistic both companies will be able to enjoy this boost in the next year or two until they have to start to materially scale up production as demand returns to more normalized levels. Longer term, we expect midcycle margins for the aggregate segments of Vulcan and Martin to be higher than in previous cycles, thanks to a slightly more consolidated supplier environment, improved processes, and recent capital expenditures to upgrade operating assets and IT systems.

Risks on the Horizon for the Cement Industry

While cement is expected to enjoy similar near-term growth trends, we highlight our concern about potential emission regulations, which would increase the cost of cement production. While there is still significant uncertainty regarding a potential emission trading program, the Portland Cement Association estimates that based on the House's American Clean Energy and Security Act of 2009, cement companies could face future taxes equivalent to \$10 to \$37 per ton starting in 2020, which would account for a significant 10% to 37% of current cement prices. In addition to this federal program, individual states are also looking to develop initiatives to address climate change. Finally, we highlight that the EPA has proposed a rule amendment that would dramatically reduce the permitted levels of emissions of mercury, total hydrocarbons, particulate matter, and hydrochloric acid from cement plants, which could take place starting in 2013.

In the U.S., over 80% of cement production capacity is owned by large foreign multinational cement companies, such as CEMEX CX and Lafarge LG.PA, that are exposed to the macroeconomic environment of the numerous countries where they have cement production assets. The only publicly listed U.S. cement pure play is

Texas Industries TXI, a company with cement production facilities in Texas and California. While we expect Texas Industries would face higher costs under any new emission laws, we highlight that the company has a relatively modern and cost-effective fleet of cement production facilities. Longer term, the company could benefit as older, less efficient competing facilities are forced to shut down.

In summary, we think the best way to play a recovery in construction spending is through an investment in Vulcan Materials and Martin Marietta. We like these companies' competitive positioning, sustainable pricing power, and relatively flexible production capabilities. From current production levels, we expect an initial growth in volumes will drive healthy margin expansion in the near term.