James Van Varick | August 13, 2025 | Ticker: AAON | Price: $88.29 (as of market close 8/13/2025)

AAON, Inc.

Sector: Industrial Manufacturing
Industry: Building Products

Summary: AAON is a manufacturer of high-performance, energy-efficient HVAC systems for commercial and industrial applications.

Key Stock Statistics

52 Week Range:	$62.00 - $144.06	**Market Cap:**	$6,763mn	**TTM EPS:**	$1.50
30D Avg Volume:	1,505,897	**Enterprise Value:**	$7,143mn	**TTM P/E:**	58.9x
5yr Adj Beta:	1.02	**Institutional Ownership:**	75.3%	**NTM EPS:**	$1.89

3-Year Stock Performance

Risk Assessment

AAON faces risks tied to the cyclicality of the commercial and industrial construction markets. While rising data center demand provides a strong secular tailwind, a broad economic downturn could slow replacement cycles and new project activity in AAON's core HVAC segments. Such weakness could pressure overall performance, particularly if non-residential demand remains depressed for an extended period.

Highlights

Explosive AI Infrastructure Growth

- BASX 3-year sales CAGR of ~40% vs. ~10% market.
- $623mn backlog in 1Q25 (+58% YoY).
- TAM expected to grow from ~$2.5–$3.0bn to $5bn+ by 2028.

Value Proposition → Market Share Gains

- Price premium reduced from 15–20% to <10%
- 10x increase in marketing spend since 2022.

Decarbonization Tailwinds

- Alpha Class heat pump now operable to -20°F, exceeding DOE challenge two years early.
- Accounted for 10% of total sales and grew 39% YoY despite rooftop market decline.

Strong Balance Sheet & Margin Expansion

- $317mn debt; average borrowing cost of 5.7%.
- 10-year average net D/E below zero.
- Management targeting 32–35% gross margins; 10-year average is 30%.

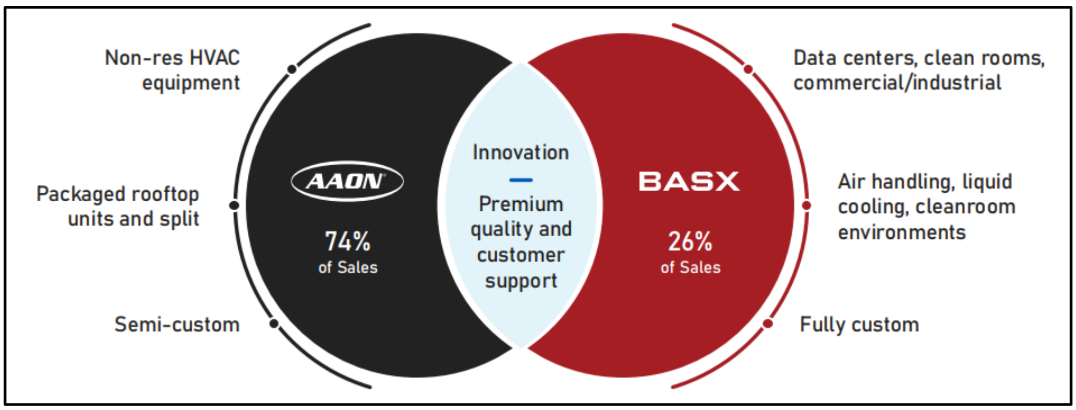
Shares Moderately Undervalued – DCF

- $44.50 conservative case.
- $77.13 base case.
- $132.57 optimistic case.
- Target: $107.40.

Business Overview

AAON is a manufacturer and designer of heating, ventilation, and air conditioning (HVAC) equipment, headquartered in Tulsa, Oklahoma. Founded in 1987, the Company has expanded from a regional player into a nationwide leader, specializing in high-performance, energy-efficient systems for commercial and industrial applications. It operates under three subsidiaries: AAON Oklahoma, AAON Coil Products (ACP), and BASX, and sells products under two flagship brands: AAON and BASX. Each subsidiary generally markets products under its corresponding brand, though ACP also sells certain products under the BASX brand. AAON is the flagship brand, primarily manufacturing rooftop units (RTUs), air handling units, heat pumps, and related controls, serving both new construction and replacement markets. BASX, co-founded by current CEO Matt Tobolski, was acquired in 2021 and delivers solutions for mission-critical facilities such as data centers and cleanrooms. Its products include computer room air handling (CRAH) units, direct-to-chip liquid cooling systems, and packaged chillers. As of the end of the first quarter, the AAON brand contributed 74% of sales while BASX contributed 26%.

AAON's philosophy is to provide semi-custom or custom *solutions* of the highest quality and energy efficiency rather than standardized products. To bring these solutions to market, the Company utilizes 55 independent manufacturer representatives across the U.S. and Canada, selling directly to contractors or end users. Products are shipped from one of five manufacturing plants in Tulsa, Oklahoma; Longview, Texas; Parkville, Missouri; Redmond, Oregon; or Memphis, Tennessee. AAON also emphasizes customer experience and aftermarket support, offering replacement parts, controls upgrades, and service training through its representative network.



In support of this philosophy, the Norman Asbjornson Innovation Center, a 134,000-square-foot, industry-leading research and development laboratory built in 2019, enables the Company to test equipment under a wide range of environmental conditions, including extreme temperatures, wind, rain, and snow. The facility's capabilities allow AAON to verify performance beyond standard industry certification requirements, reinforcing its reputation for quality and reliability. This engineering focus has historically supported a price premium over competitors such as Lennox, Trane, Carrier, York, and Daikin. In recent years, operational efficiencies have helped narrow the premium while maintaining quality, making the Company's semi-custom equipment increasingly competitive.

AAON's customer base includes several large groups that account for a meaningful share of sales. In 2024, Texas AirSystems represented about 16% of revenue, with Meriton-affiliated groups bringing the total to over 24%. Two other representative groups, Ambient and AIR Control Concepts, accounted for roughly 15% and 9% of sales, respectively. The Company's backlog was $1.03 billion at the end of the first quarter, comprised of firm commitments with historically minimal cancellations. Typical lead times are 10–12 weeks for AAON-branded products, while BASX orders are often placed many months in advance. This stable order base, supported by strong customer relationships, provides consistent production visibility across its manufacturing footprint.

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EVP: Matt Shaub

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Norman H. Asbjornson

Gary D. Fields

Angela E. Kouplen

Caron A. Lawhorn

Stephen O. LeClair

David R. Stewart

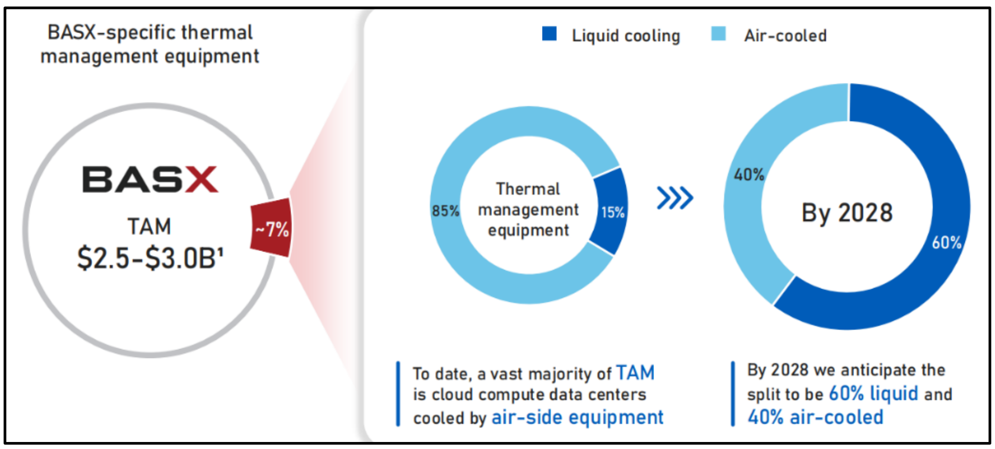
Bruce Ware

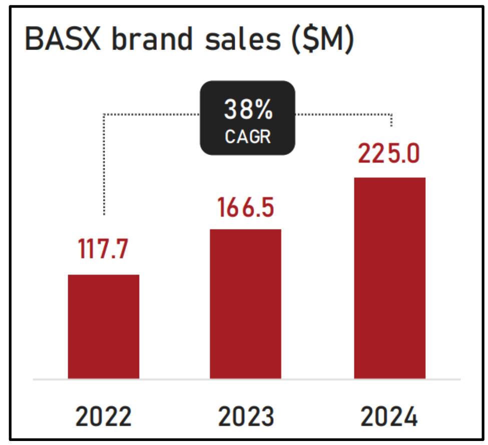
Key Investment Ideas

Capitalizing on Explosive AI Infrastructure Growth

BASX has posted a 3-year sales CAGR of approximately 40% versus 10% for its broader market, with a $623mn backlog in 2Q25, up 58% year-over-year. This growth is being driven primarily by hyperscale and AI data center demand, where BASX is a leading provider of both air-side and liquid cooling solutions. Rising compute density and the AI-driven shift toward liquid cooling are expanding BASX's TAM from ~$2.5bn–$3.0bn today to a forecast $5bn+ by 2028, with the mix expected to flip to 60% liquid cooling.

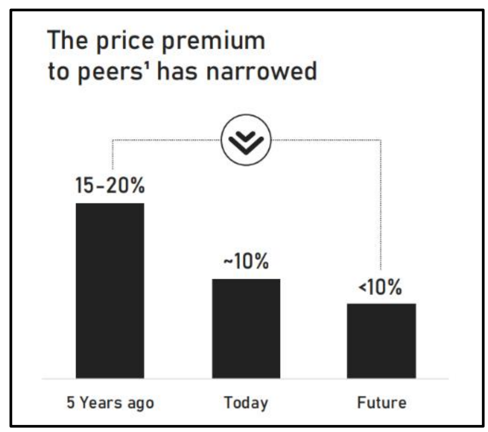
The company's value proposition is reinforced by its ability to design and deliver fully customized thermal management systems at scale—an increasingly critical capability as AI racks push power densities beyond 200kW and require advanced hybrid cooling strategies. BASX's dual expertise in air- and liquid-cooled applications positions it as one of the few vendors able to meet these demands without compromise, as seen in its recent partnership with Applied Digital to deliver advanced cooling for its purpose-built AI data center campus. With global AI-specific infrastructure spend projected to reach $6.7 trillion by 2029, BASX's engineering capabilities, strong backlog, and upcoming capacity expansions in Longview and Memphis leave it well positioned to capture meaningful share in a supply-constrained, rapidly expanding market.





Enhanced Value Proposition Driving Market Share Gains

AAON's differentiated semi-custom platform commands a price premium relative to peers, historically 15–20% above the closest market alternative. In recent years, operational efficiencies and manufacturing automation have reduced this premium to below 10%, expanding the addressable customer base while retaining product superiority. Competitors have struggled with cost inflation from refrigerant transition and regulatory compliance, while AAON maintained cost parity, further enhancing its value proposition.



The company's Gary D. Fields Exploration Center, the only showroom in the world displaying all major rooftop brands side-by-side, provides a clear comparison that reinforces AAON's premium quality and value proposition to prospective customers. This, combined with a robust independent sales channel, expanded marketing initiatives, and a newly established national account sales team, is enabling AAON to penetrate accounts that used to be out of reach. Marketing spend has increased tenfold since 2022, driving brand recognition and accelerating market share gains. With competitors unable to match AAON's integrated engineering, semi-custom manufacturing, and demonstration capabilities, the company is positioned to grow meaningfully faster than its market backdrop.

Key Investment Ideas (contd.)

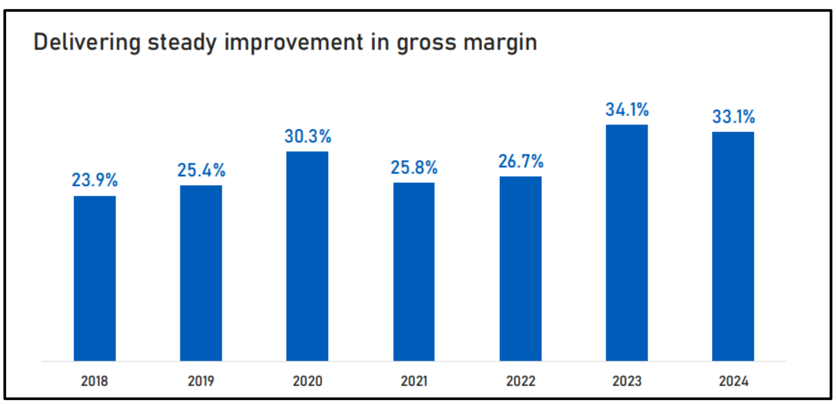
Leveraging Decarbonization Tailwinds

Alpha Class, AAON's high-performance heat pump line, was the only rooftop product on the market operable down to 0°F in 2023, and the company has since advanced it to -20°F, beating the Department of Energy's date of requirement by two years. Alpha Class accounted for 10% of total sales and grew 39% year-over-year despite an overall rooftop sales decline. Its cold-climate operability and efficiency are resonating with customers pursuing electrification and decarbonization goals, with demand further supported by mandates such as New York City's Local Law 97. This momentum will help AAON's core brand meet or exceed its mid-single-digit sales growth target, even in a slower commercial and industrial market.

Strong Balance Sheet & Margin Expansion

AAON's leverage is currently at its highest point in over a decade due to the Memphis facility expansion, with $14 million in cash against $317 million in total debt at an average borrowing cost of 5.7%. Even so, the company's net debt-to-equity ratio is just 0.42x, compared to a ten-year average that has been negative, reflecting a long history of maintaining low or no net debt.

Additionally, management is targeting gross margins of 32–35% over the next three years, supported by investments in improved throughput at existing plants and scaling capacity in Memphis and Longview. AAON has historically reinvested heavily in its manufacturing capabilities while maintaining balance sheet strength, and its current plan continues that approach by pursuing margin expansion and capacity growth without taking on undue financial risk. The Company's conservative track record, coupled with strong cash generation, provides confidence that debt levels will normalize in the near term comfortably.



Valuation

My model is broken down into a base case, conservative case, and optimistic case. It offers numerous switches including for brand sales, EBIT, WACC, and TGR. To begin, Total Sales are broken into AAON Brand Sales and BASX Brand Sales, as is done in AAON's financial statements. As described in the Business Overview, this is different from AAON's three business segments. In the base case AAON Brand Sales, I chose to use a 5% CAGR between 2025-2027 because this is what management has presented as their target for that timeframe. This figure then declines by 15% between 2028-2030 as a hedge for uncertainty. In the base case BASX Brand Sales, I chose to use a 45% CAGR between 2025-2027 because it is almost in line with management's target of 40% for that timeframe. The reason I bumped the estimate up is because I believe it's a better reflection of BASX's extraordinary backlog growth as a result of AI infrastructure buildout. This figure declines in the exact same fashion as the previous figure. The brand sales ultimately flow through to a base case Total Sales CAGR between roughly 12.5-17% until 2030 which is in line with management's target of low teens for 2025 and mid to high teens afterwards. In the base case EBIT margin, I chose 15% for 2025 which is around equal to what management has indirectly guided for 2025. I say indirectly because management only guides on gross margin, but the four year historical difference between the Company's gross margin and EBIT margin is 14 percentage points so the latter can easily be calculated. For 2026 and 2027, management guided a 32-35% gross margin translating to an 18-21% EBIT margin, so I used the average of 19.5% for those two years. For 2028-2030 I chose not to decrease the EBIT margin.

In the conservative and optimistic cases for both brands, I chose to deviate from the base case by 15% in respective directions between 2025-2030. In the conservative and optimistic cases for EBIT margin in 2025, I only deviated from the base case by 1 percentage point in respective directions because 2025 is halfway over. For 2026 and 2027 a made the conservative case the bottom end of management's guidance (18%), and I made the optimistic case the top end (21%). Between 2028-2030, I deviated from the base case by 20% in respective directions to broaden the range.

I found the base case WACC using the CAPM and deviated from it 50 basis points in respective directions for the optimistic and conservative cases. Similarly, I chose the base case TGR to be 2.5% and deviated from it 50 basis points in respective directions for the optimistic and conservative cases.

The base case, conservative case, and optimistic case value the stock at $77.13, $44.50, and $132.57 per share respectively. Based on the investment ideas previously outlined, I would keep all switches at the base case other than BASX Brand Sales and EBIT. This would imply a share price of $107.40, moderately above the current trading price.

AAON DCF

Ticker	AAON		Implied Price Per Share	107.53
Date	8/20/2025		Current Share Price	88.29
EOY	12/31/2025		Implied Upside / (Downside)	22%

Assumptions

Switches		Conservative			Base			Optimistic		
Assumptions		**Assumptions**	**Year**	**Metric**	**Assumptions**	**Year**	**Metric**	**Assumptions**	**Year**	**Metric**
AAON Brand Sales	2	AAON Brand Sales	2025-2030	*(15.0%)*	AAON Brand Sales	2028-2030	*(15.0%)*	AAON Brand Sales	2025-2030	*15.0%*
BASX Brand Sales	3	BASX Brand Sales	2025-2030	*(15.0%)*	BASX Brand Sales	2028-2030	*(15.0%)*	BASX Brand Sales	2025-2030	*15.0%*
EBIT	3	EBIT	2026-2030	*(20.0%)*	EBIT	2028-2030	*0.0%*	EBIT	2028-2030	*20.0%*
WACC	2									
TGR	2									
Valuation										
WACC	8.1%	WACC		8.6%	WACC		8.1%	WACC		7.6%
TGR	2.5%	TGR		2.0%	TGR		2.5%	TGR		3.0%

Income Statement	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E
AAON Brand Sales								771	1,002	976						
% growth									*29.9%*	*(2.6%)*						
Brand mix								*86.8%*	*85.7%*	*81.3%*						
BASX Brand Sales								118	167	225						
% growth									*41.5%*	*35.1%*						
Brand mix								*13.2%*	*14.3%*	*18.7%*						
Total Sales	359	384	405	434	469	515	535	889	1,169	1,201	1,402	1,587				
% growth		*7.1%*	*5.5%*	*7.1%*	*8.2%*	*9.6%*	*3.9%*	*66.3%*	*31.5%*	*2.7%*	*16.8%*	*13.2%*				
EBIT	71	80	74	56	68	102	69	127	227	209	228	299				
% of sales	*19.9%*	*20.7%*	*18.3%*	*12.9%*	*14.5%*	*19.8%*	*13.0%*	*14.3%*	*19.5%*	*17.4%*	*16.3%*	*18.8%*				
Taxes	26	27	20	13	14	23	10	24	46	38	46	65				
Tax rate	*35.9%*	*34.1%*	*27.0%*	*24.0%*	*20.0%*	*22.6%*	*15.0%*	*19.1%*	*20.0%*	*18.2%*	*19.9%*	*21.9%*				

Cash Flow Items	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E
D&A	12	13	15	18	23	26	30	35	47	63						
% of sales	*3.3%*	*3.4%*	*3.7%*	*4.1%*	*4.9%*	*5.0%*	*5.7%*	*4.0%*	*4.0%*	*5.2%*						
CapEx	21	27	42	37	37	68	55	54	104	196	220	150				
% of sales	*5.8%*	*6.9%*	*10.3%*	*8.6%*	*7.9%*	*13.2%*	*10.4%*	*6.1%*	*8.9%*	*16.3%*	*15.7%*	*9.5%*				
Change in NWC	(7)	(8)	(17)	(16)	2	5	(44)	(78)	(77)	(49)	(153)					
% of sales	*(1.8%)*	*(2.2%)*	*(4.2%)*	*(3.7%)*	*0.4%*	*1.0%*	*(8.3%)*	*(8.7%)*	*(6.6%)*	*(4.1%)*	*(10.9%)*					

DCF	2015A	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E
AAON Brand Sales								771	1,002	976	1,024	1,076	1,129	1,177	1,220	1,257
% growth									*29.9%*	*(2.6%)*	*5.0%*	*5.0%*	*5.0%*	*4.3%*	*3.6%*	*3.1%*
											4.3%	*4.3%*	*4.3%*	*3.6%*	*3.1%*	*2.6%*
											5.0%	*5.0%*	*5.0%*	*4.3%*	*3.6%*	*3.1%*
											5.8%	*5.8%*	*5.8%*	*4.9%*	*4.2%*	*3.5%*
Brand mix								*86.8%*	*85.7%*	*81.3%*	*75.0%*	*67.5%*	*59.0%*	*51.0%*	*44.0%*	*38.0%*
BASX Brand Sales								118	167	225	341	518	786	1,132	1,555	2,050
% growth									*41.5%*	*35.1%*	*51.8%*	*51.8%*	*51.8%*	*44.0%*	*37.4%*	*31.8%*
											38.3%	*38.3%*	*38.3%*	*32.5%*	*27.6%*	*23.5%*
											45.0%	*45.0%*	*45.0%*	*38.3%*	*32.5%*	*27.6%*
											51.8%	*51.8%*	*51.8%*	*44.0%*	*37.4%*	*31.8%*
Brand mix								*13.2%*	*14.3%*	*18.7%*	*25.0%*	*32.5%*	*41.0%*	*49.0%*	*56.0%*	*62.0%*
Total Sales	359	384	405	434	469	515	535	889	1,169	1,201	1,366	1,594	1,916	2,310	2,775	3,307
% growth		7.1%	5.5%	7.1%	8.2%	9.6%	3.9%	66.3%	31.5%	2.7%	13.8%	16.7%	20.2%	20.6%	20.2%	19.2%
EBIT	71	80	74	56	68	102	69	127	227	209	219	335	402	540	649	774
% of sales	*19.9%*	*20.7%*	*18.3%*	*12.9%*	*14.5%*	*19.8%*	*13.0%*	*14.3%*	*19.5%*	*17.4%*	*16.0%*	*21.0%*	*21.0%*	*23.4%*	*23.4%*	*23.4%*
Conservative Case											*14.0%*	*18.0%*	*18.0%*	*15.6%*	*15.6%*	*15.6%*
Base Case											*15.0%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*
Optimistic Case											*16.0%*	*21.0%*	*21.0%*	*23.4%*	*23.4%*	*23.4%*
Taxes	26	27	20	13	14	23	10	24	46	38	42	64	77	103	124	148
Tax rate	35.9%	34.1%	27.0%	24.0%	20.0%	22.6%	15.0%	19.1%	20.0%	18.2%	19.1%	19.1%	19.1%	19.1%	19.1%	19.1%
EBIAT											**177**	**271**	**326**	**437**	**526**	**626**
D&A	12	13	15	18	23	26	30	35	47	63	65	76	92	110	133	158
% of sales	*3.3%*	*3.4%*	*3.7%*	*4.1%*	*4.9%*	*5.0%*	*5.7%*	*4.0%*	*4.0%*	*5.2%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*	*4.8%*
CapEx	21	27	42	37	37	68	55	54	104	196	150	175	210	253	304	363
% of sales	*5.8%*	*6.9%*	*10.3%*	*8.6%*	*7.9%*	*13.2%*	*10.4%*	*6.1%*	*8.9%*	*16.3%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*
Change in NWC	(7)	(8)	(17)	(16)	2	5	(44)	(78)	(77)	(49)	(73)	(85)	(102)	(123)	(148)	(177)
% of sales	*(1.8%)*	*(2.2%)*	*(4.2%)*	*(3.7%)*	*0.4%*	*1.0%*	*(8.3%)*	*(8.7%)*	*(6.6%)*	*(4.1%)*	*(5.3%)*	*(5.3%)*	*(5.3%)*	*(5.3%)*	*(5.3%)*	*(5.3%)*
Unlevered FCF											**165**	**257**	**309**	**418**	**502**	**598**
PV of Unlevered FCF											**62**	**240**	**267**	**334**	**371**	**409**
Period											0.38333333					
Discount Period											0.19166667	0.88333333	1.88333333	2.8833333	3.8833333	4.8833333
Terminal Value																11,005
PV of Terminal Value																7,533
Enterprise Value																**9,218**
(+) Cash																2
(-) Debt																317
Equity Value																**8,903**
Shares Outstanding																82.89
Implied Price Per Share																**107.40**