



# Q2 2023 Earnings Conference Call

August 3, 2023



# Forward-Looking Statements and Other References

Certain statements and information set forth in this presentation contains “forward-looking statements” and “forward-looking information” within the meaning of the Private Securities Litigation Reform Act of 1995. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements which include management’s assessment of future plans and operations and are based on current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Forward-looking statements are provided to allow potential investors the opportunity of management’s beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. Some of the forward-looking statements may be identified by words such as “may”, “plan”, “foresee”, “will”, “should”, “could”, “anticipate,” “believe,” “expect,” “intend,” “potential,” “continue,” and similar expressions. While the Company’s management believes that these forward-looking statements are reasonable as and when made, these statements are not guarantees of future performance and undue reliance should not be placed on them. The Company’s forward-looking statements involve significant risks and uncertainties

(some of which are beyond the Company’s control) and assumptions that could cause actual future results to differ materially from the Company’s historical experience and its present expectations or projections. For additional information regarding known material factors that could cause the Company’s results to differ from its projected results, please see its filings with the SEC, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. The reader is cautioned not to place undue reliance on forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement after they are made, whether as a result of new information, future events, or otherwise, except as required by federal securities laws.

This presentation includes references to calculations that are not based on generally accepted accounting principles (“GAAP”). Reconciliations of each of those non-GAAP measures to the most directly comparable GAAP measures have been included in the Appendix.



# Q2 2023 Summary

**SALES \$284.0M**

Organic +36.0% Y/Y

**GROSS PROFIT MARGIN 33.1%**

+1040 bps Y/Y • +410 bps Q/Q

**EBITDA \$65.9M**

+120.3% Y/Y • 23.2% margin

**DILUTED EPS \$0.82**

+173.3% Y/Y

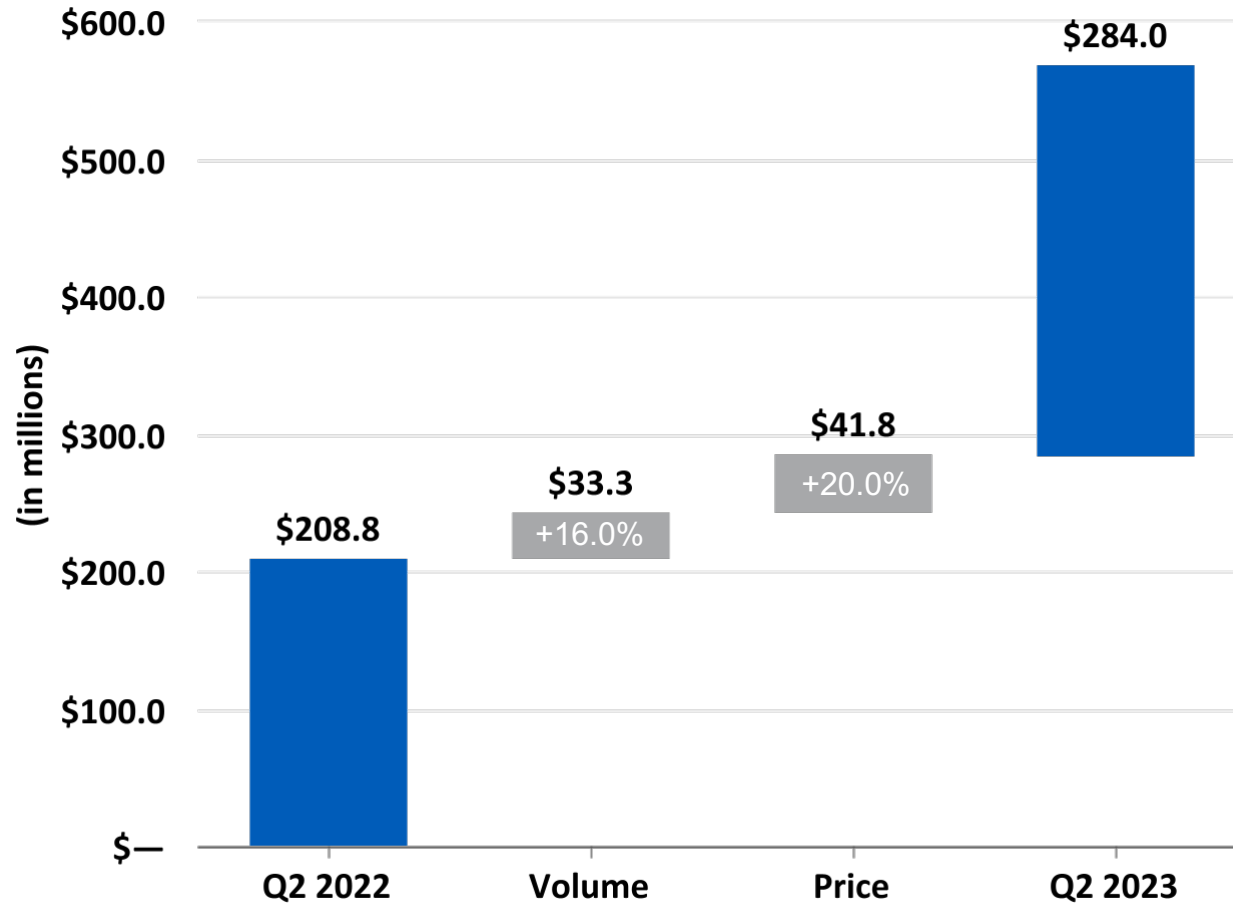
**BACKLOG \$526.2M**

+13.4% Y/Y • -12.3% Q/Q





# Q2 2023 Sales Bridge

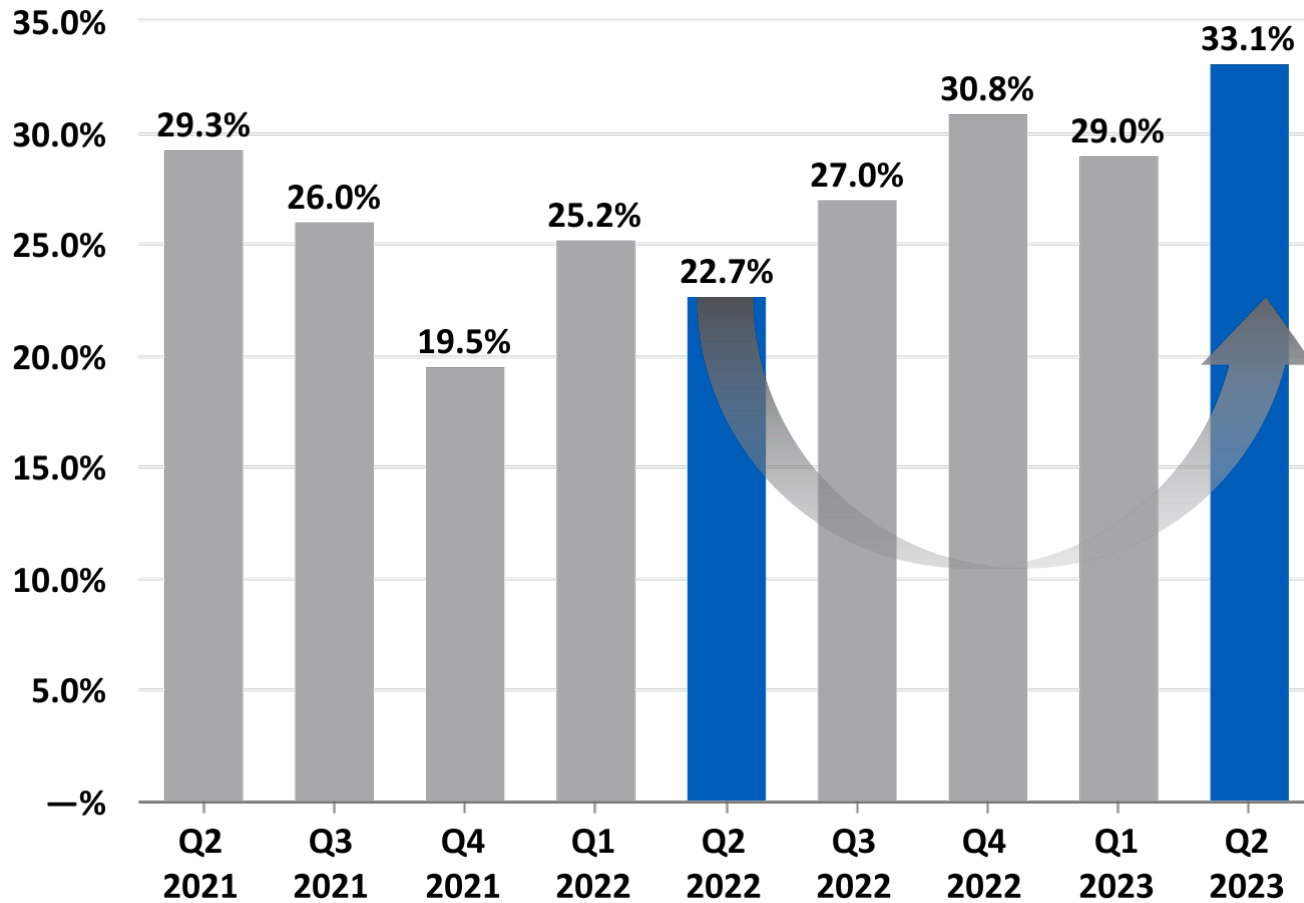


## Q2 Highlights

- Record quarterly sales
- Organic sales growth +36.0%
- Organic unit volume growth +16.0%
- Reflects strong backlog
- Record production rates
- Organic headcount growth +26.1%
- Parts sales growth +14.2%
- Robust growth at BASX



# Q2 2023 Gross Profit Margin



## Q2 Highlights

### Positives

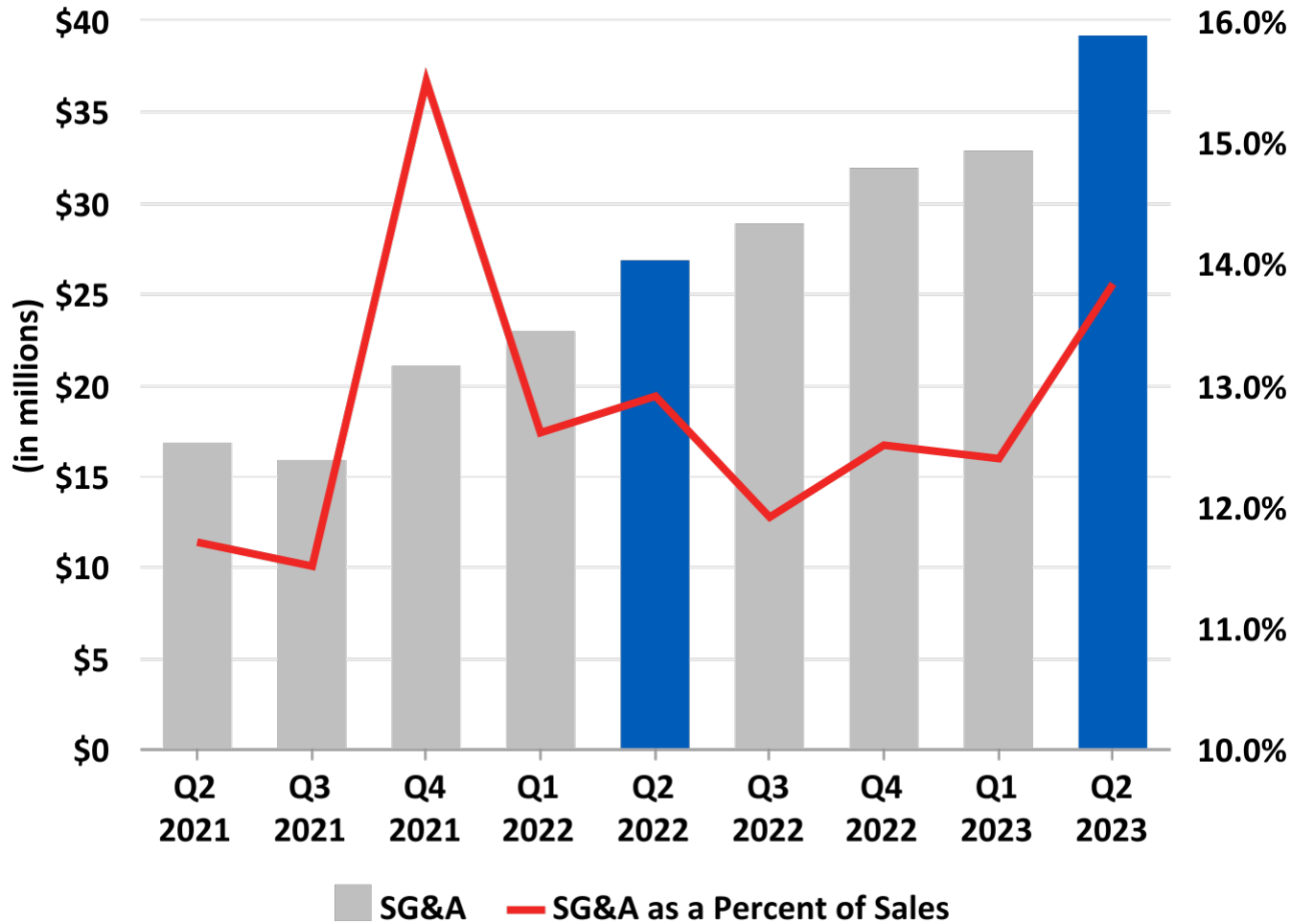
- Improved pricing
- Moderating cost inflation
- Increased production output

### Negatives

- Higher wages
- Temporary inefficiencies



# Q2 2023 SG&A

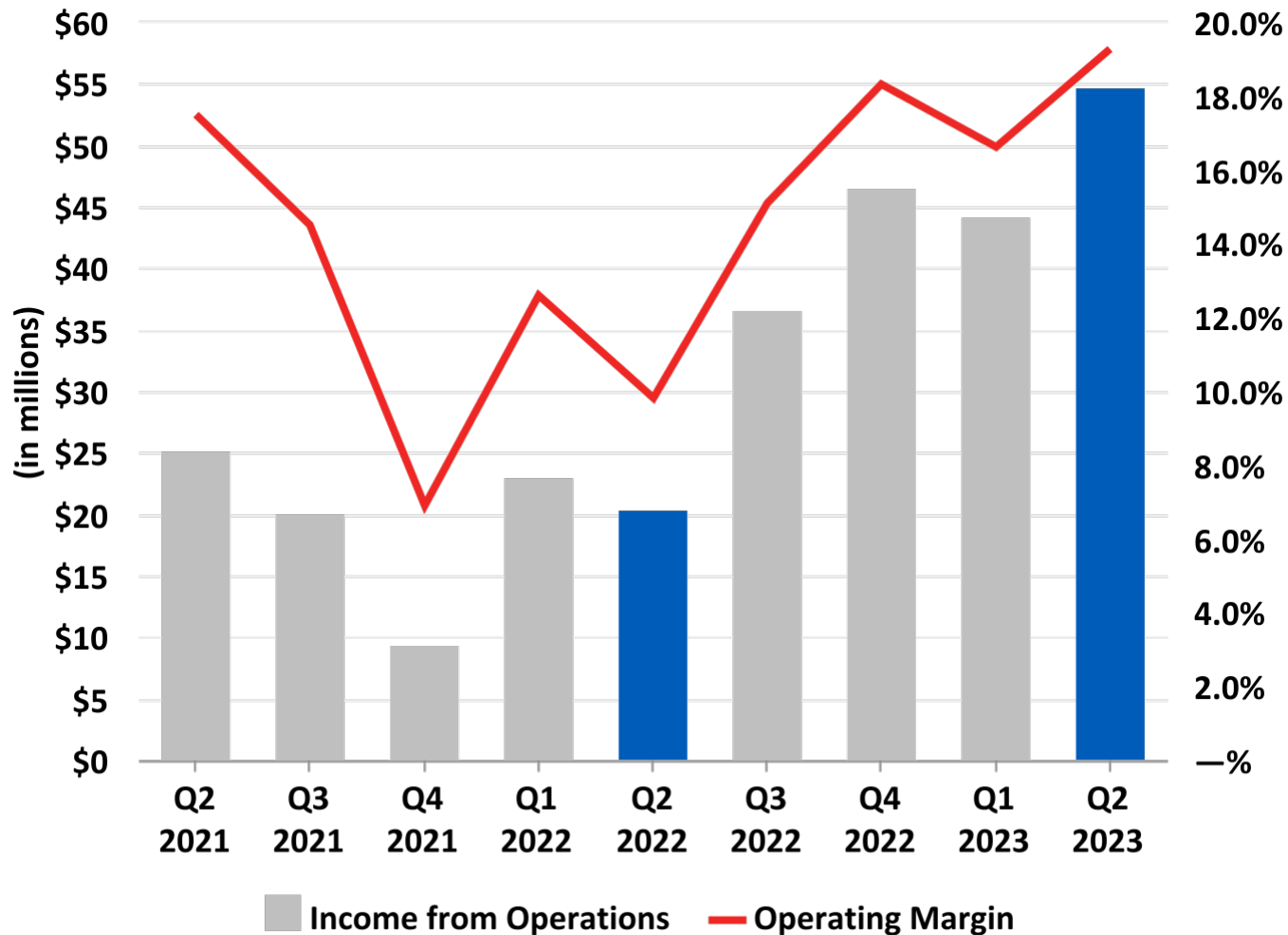


## Q2 Highlights

- As a percent of sales, SG&A increased y/y 90 bps to 13.8%
- SG&A grew y/y 45.8% on total sales growth of 36.0%
- The biggest increase in SG&A is from our profit sharing that has increased due to our record earnings
- SG&A includes investments that will help facilitate long-term growth



# Q2 2023 Income from Operations

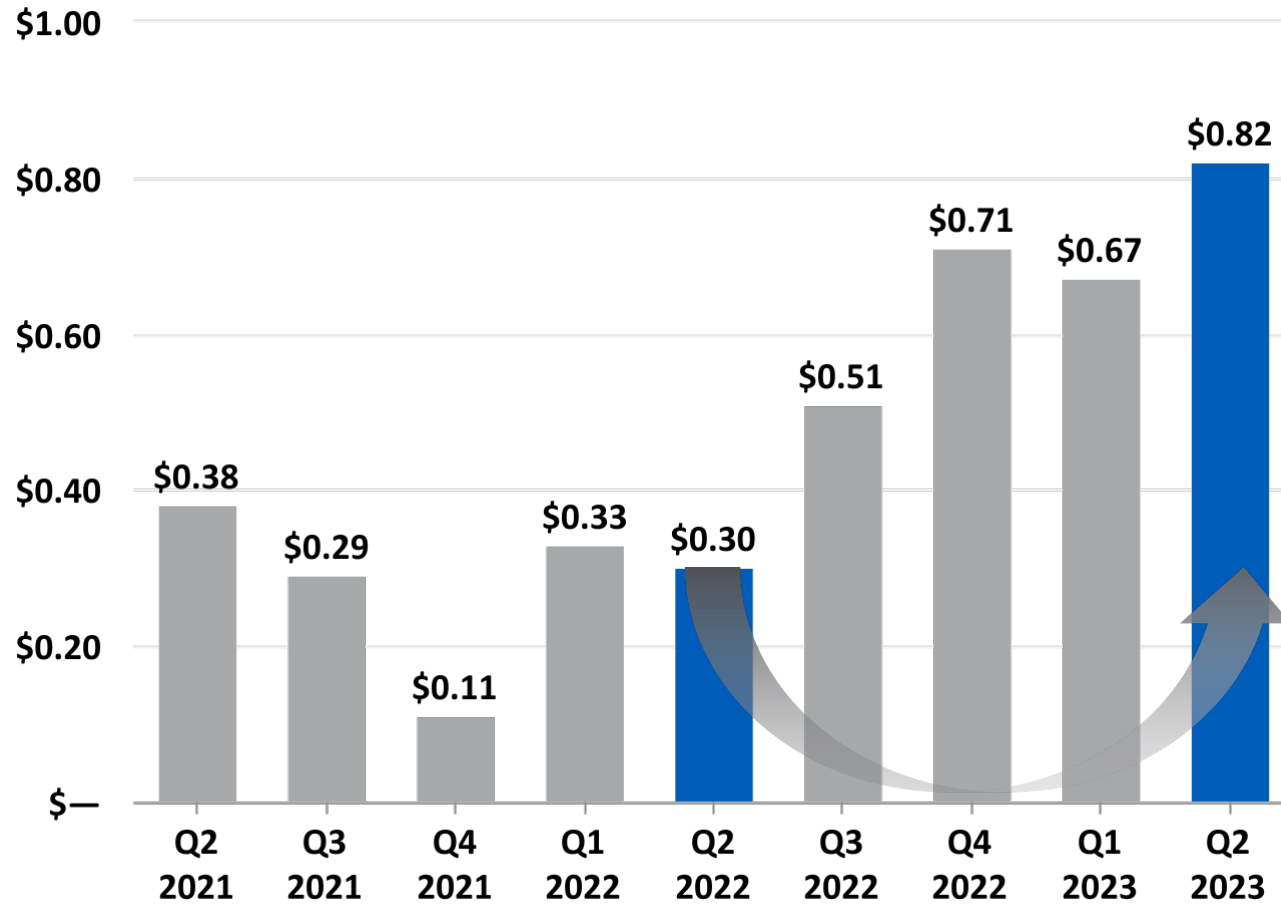


## Q2 Highlights

- Operating income grew 167.6% on total sales growth of 36.0%
- Operating margin expanded y/y 950 basis points to 19.3%
- Robust sales combined with moderating cost inflation
- Operating margin expanded q/q 270 bps



# Q2 2023 DILUTED EPS



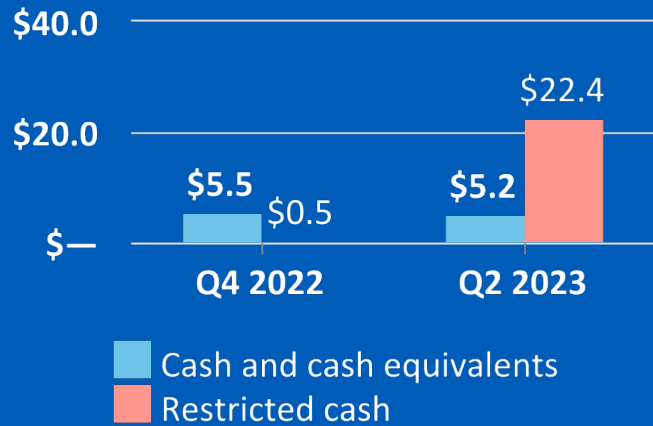
## Q2 Highlights

- Y/Y growth +173.3%
- Strongest quarterly EPS in history
- EPS was partially boosted by a one-time tax benefit of \$3.1 million

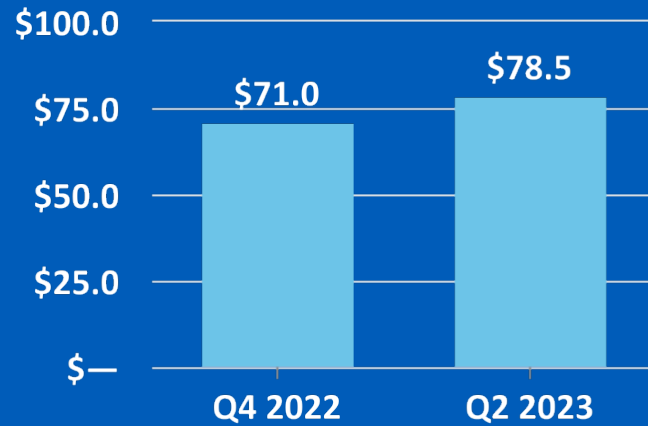


# Q2 2023 Balance Sheet and Liquidity

## Restricted Cash, Cash & Cash Equivalents



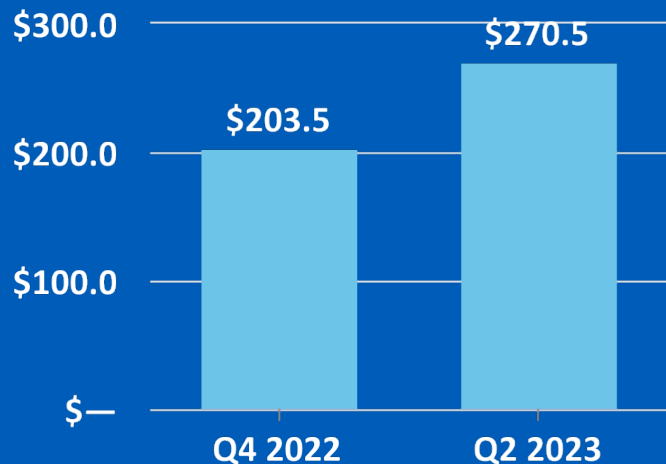
## Debt



## Q2 Highlights

- Balance sheet remains strong
- Debt of \$78.5 million is down as compared to year-end by \$7.5 million, but still only equates to a leverage ratio of 0.37, down from 0.46 at prior year-end
- Increase in debt primarily due to financing working capital investments to facilitate robust volume growth and help mitigate supply chain issues
- Expect capex of approximately \$135.0 million in 2023

## Working Capital



## Capex





# Record Organic Volume and Production

## Production Capacity

- Squeezing additional capacity out of existing footprint
- Total headcount +26.1% y/y
- Added production equipment



## Productivity

- Supply chain issues waning
- More efficient hiring practices
- Managing equipment hours better
- Temporary internal coil production challenges



## Backlog

- Strong backlog entering quarter
- Total backlog at the end of Q2'23 +13.4% y/y
- Robust backlog at BASX



## Strengthening Sales Channel

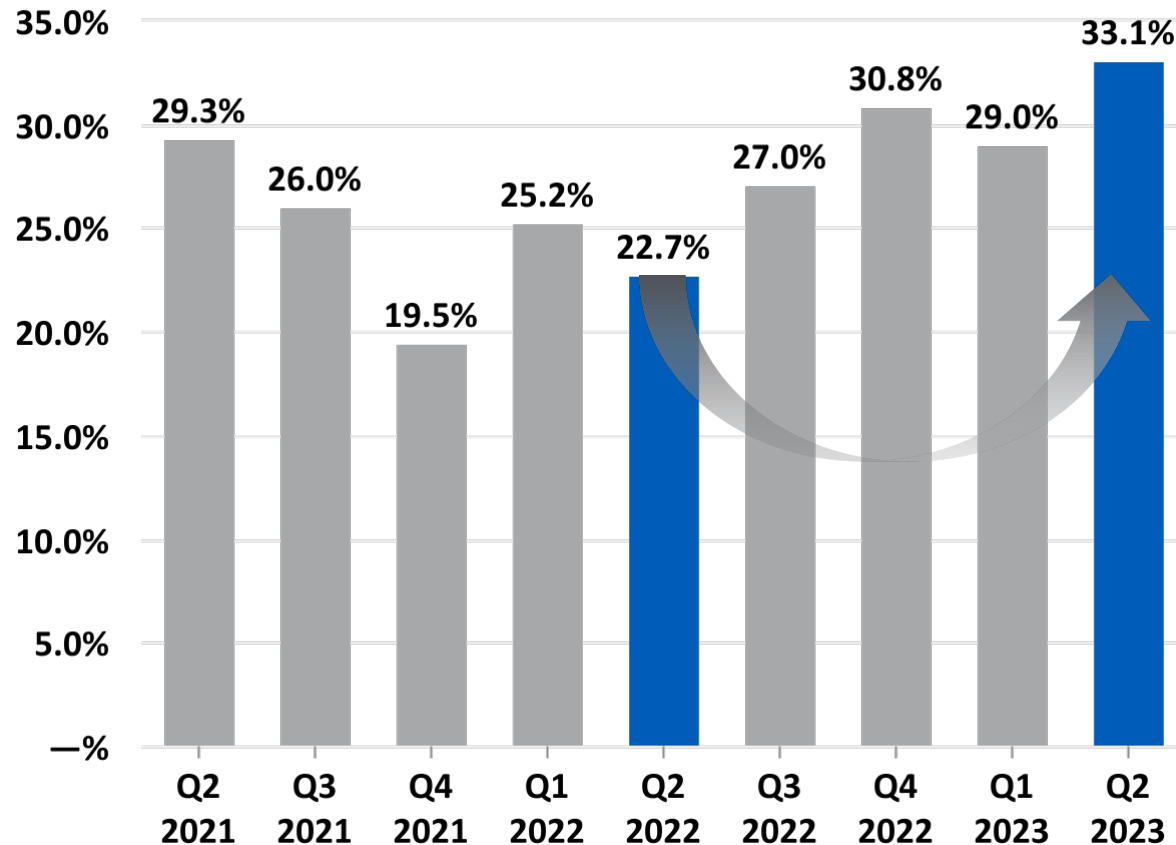
- More alignment with channel partners
- More AAON support for channel partners
- Strongest collection of channel partners ever
- Resulting in strong order and backlog trends





# Pricing Strategy Driving Gross Profit Margin

Gross Margin



## Q2 Highlights

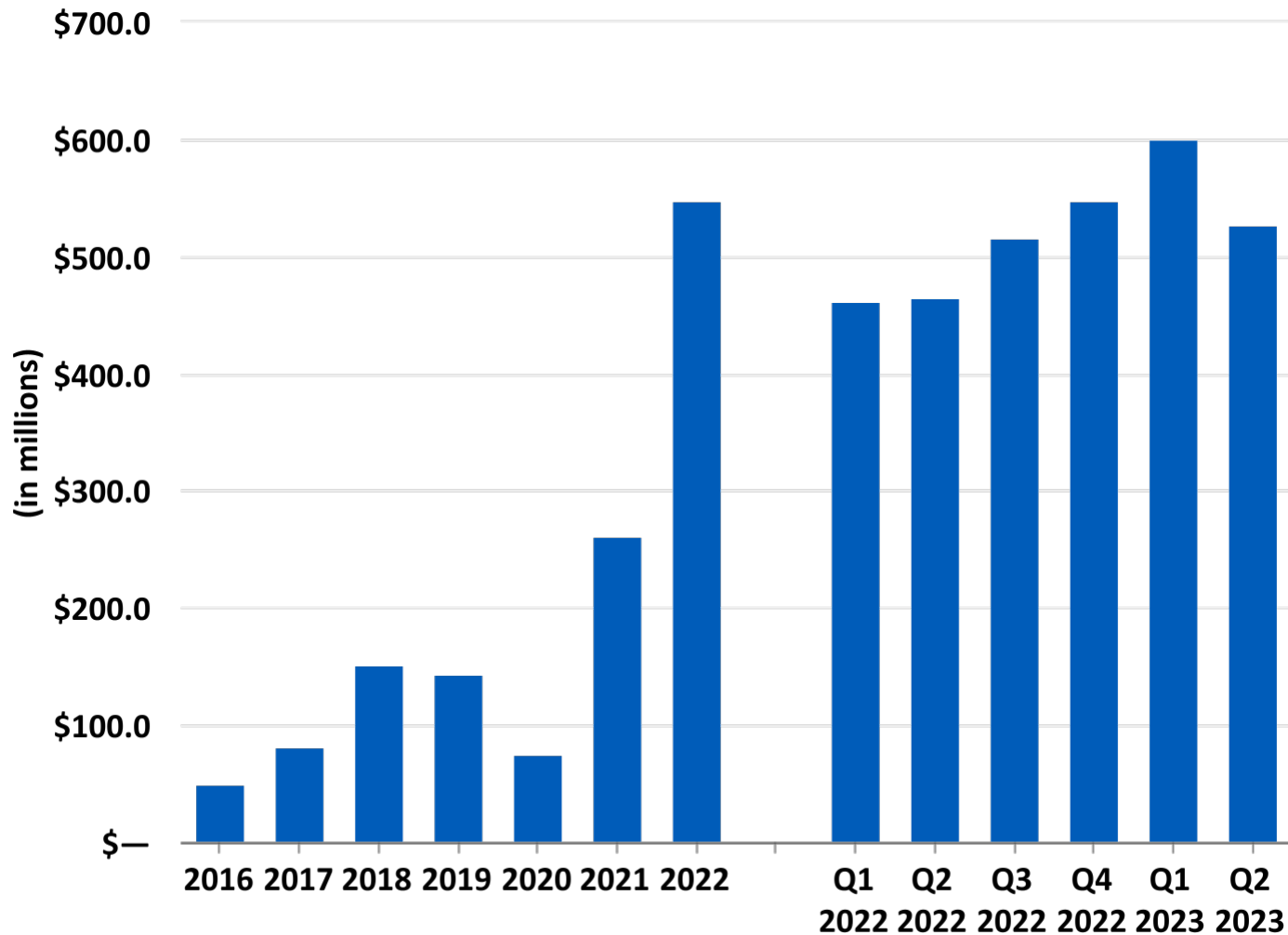
- Strong gross margin expansion
- Anticipate gross margin will continue to improve in the second half of 2023, but modestly compared to the expansion realized in the first half of the year

## Managing Pricing to Market

- Favorable market trends are resulting in AAON managing its pricing more to market
- Higher minimum efficiency standards resulting in higher costs of manufacturing and higher market pricing
- As regulations drive market pricing higher, AAON's price premium has narrowed
- We will maintain a premium price to market to reflect AAON's premium product offering



# Backlog Continues to Climb

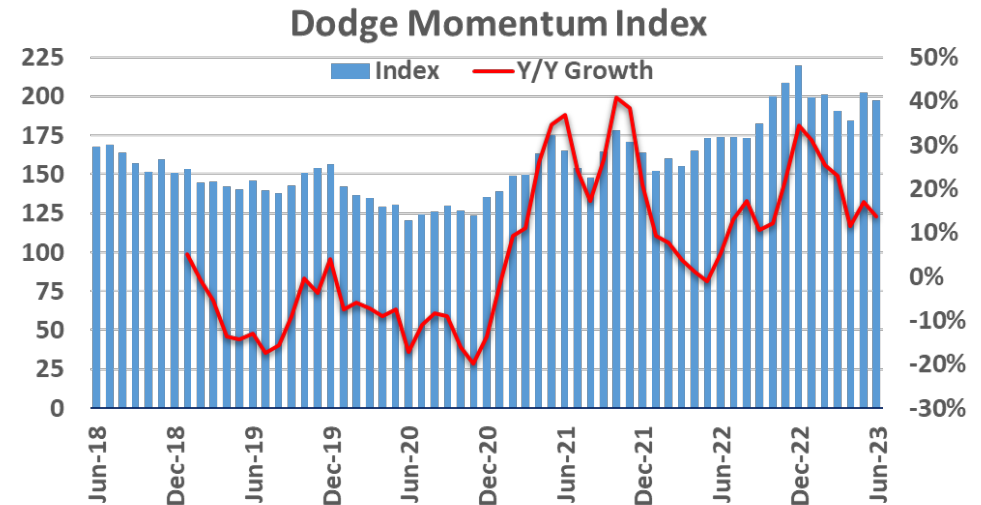
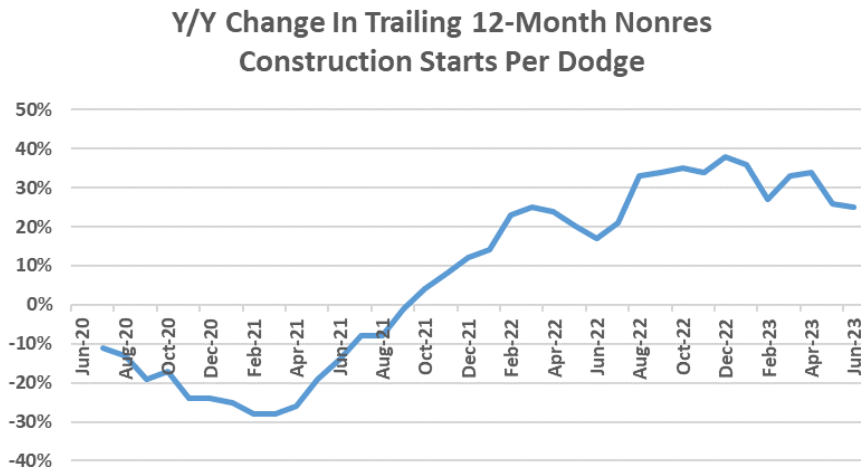
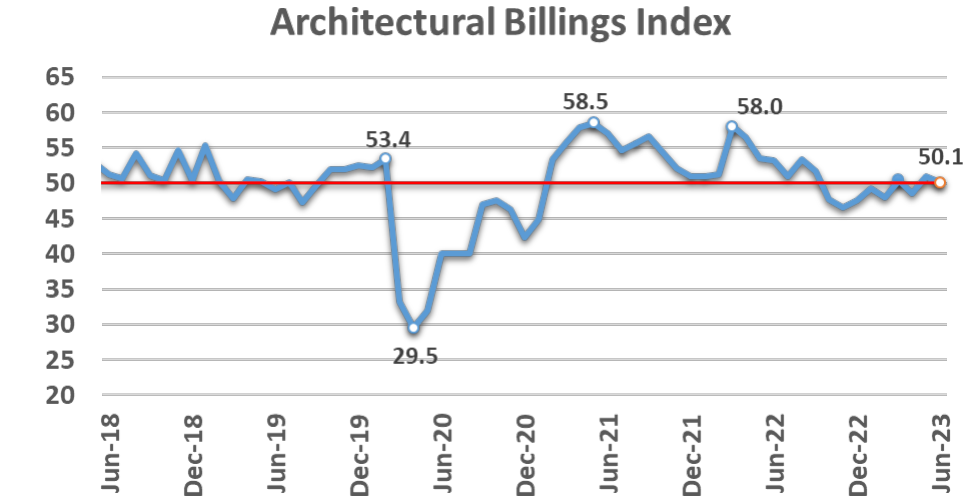
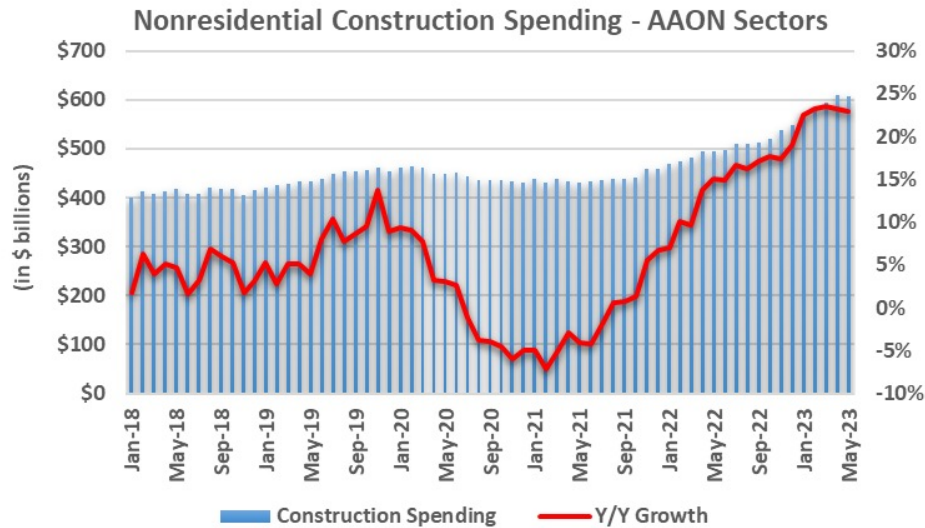


## Q2 Highlights

- Organic backlog +13.4% y/y, -12.3% q/q
- Industry best lead-times and on-time delivery rates
- Narrowing price premium of AAON equipment versus market
- AAON equipment offers most attractive value proposition
- Strengthening sales channel
- Robust demand at BASX
- Favorable secular trends



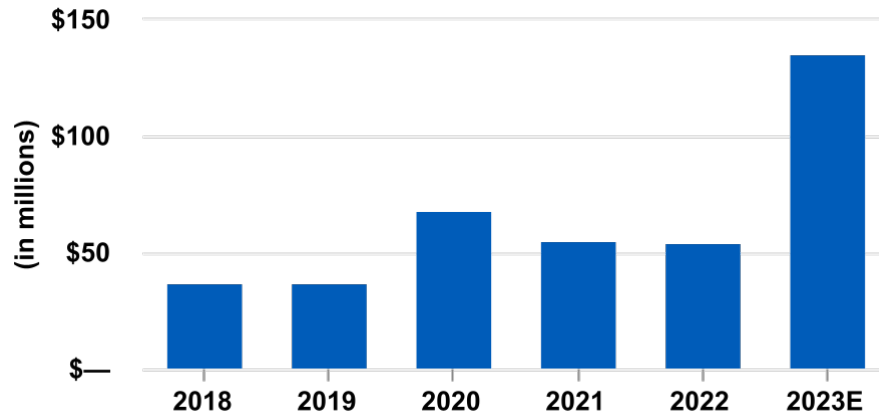
# Macroeconomic Indicators Remain Positive



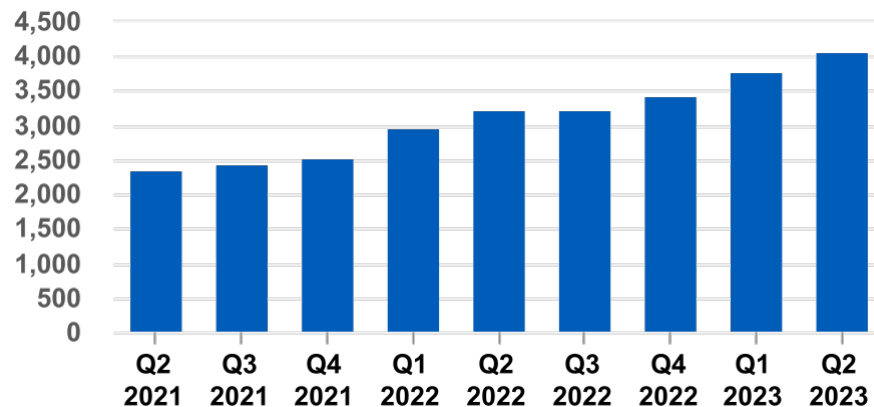


# We Continue To Invest in Production Capacity

## CAPEX



## HEADCOUNT

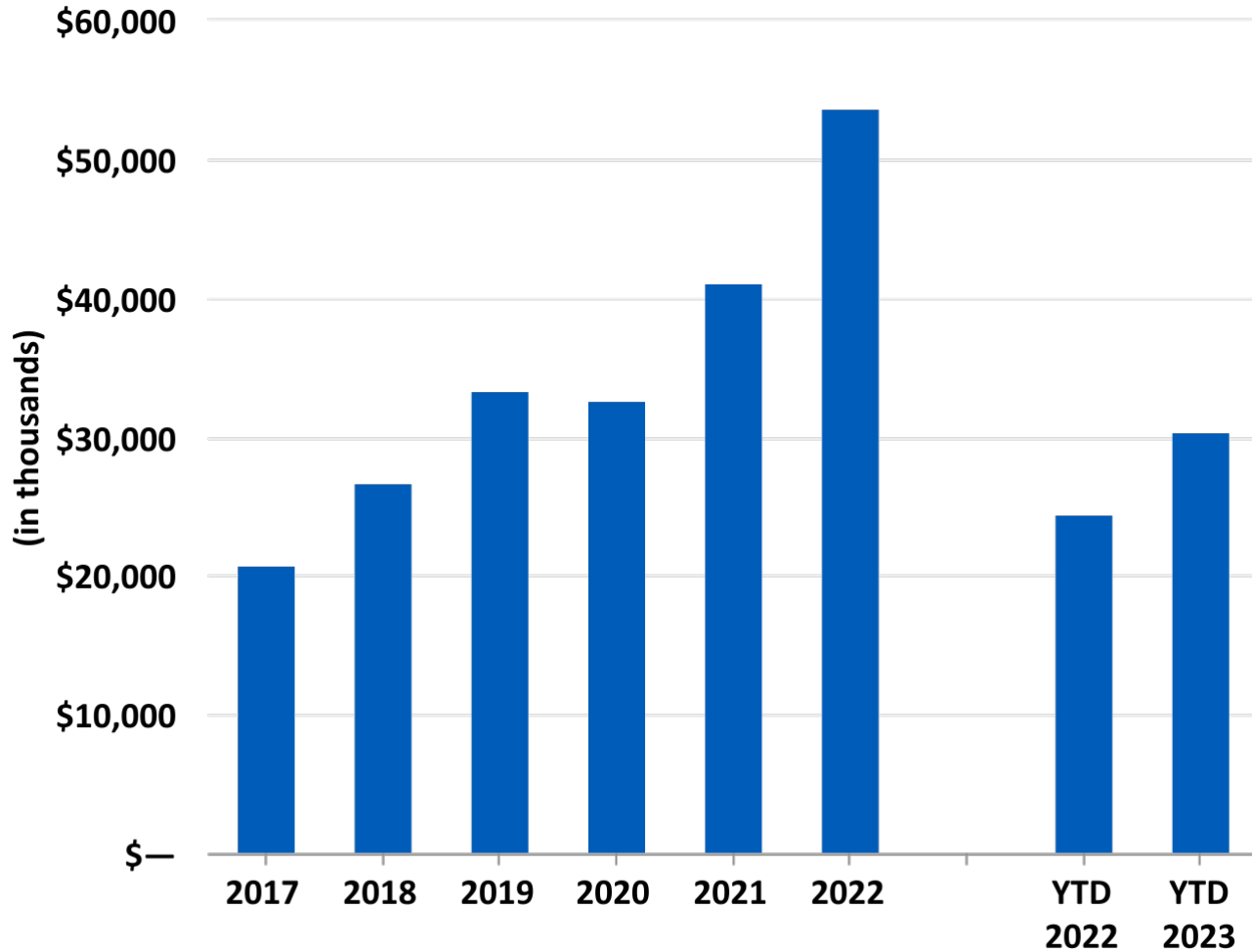


## Q2 Highlights

- AAON's lead-times are still an industry-best and have begun to decline
- Lead-times are still above normal
- We will continue to invest in production capacity
- Headcount +26.1% y/y, +7.1% q/q
- Despite a continuance of manufacturing challenges, Q2 organic volume was up y/y 16.0%, implying we are doing a great job at managing production capacity



# Focusing on Parts



## Q2 Highlights

- Parts sales were up 14.2% in Q2 and 24.4% in the first six months of the year
- Parts sales were up 30.3% in 2022
- Parts sales should accelerate as supply chain issues wane
- Long-term fundamentals are strong



# Outlook

## Highlights

- Strong backlog entering Q3
- Margin profile of backlog continues to improve entering Q3
- Strong pipeline of business
- Productivity will improve in the second half of the year
- Anticipate sales and EPS will modestly improve in Q3

## Modeling Assumptions

Pricing contribution to 2023 sales growth:	Mid double digits
Gross profit margin:	Improvement throughout the year
SG&A as a percent of sales:	Higher in 2023 compared to 2022
Capex:	\$135.0 million