AAON, Inc. 2023 Investor Day | May 18, 2023

Joseph Mondillo, Director of Investor Relations:

Good morning. Welcome to AAON's 2023 Investor day. My name is Joe Mondillo. For those who are not familiar, AAON's director of investor relations. Thank you for all coming today. We really appreciate it. We know Tulsa is not the easiest place to get to. And, your time is very valuable, so we really respect that and we really appreciate it. For those on the webcast that couldn't be here in-person, we also appreciate your attention. So really excited for what we have in store for you guys today. Yesterday I think was very educational. You really had a chance to see the products, see the facilities, get a chance to see our new exploration center, which is our marketing center, the laboratory, and the manufacturing. Today is really all about the who AAON is, where we've come from, where we're going, and really showcasing our leadership team that's leading the company strategy.

I want to just give some information in case of emergency, there's some exits on the left and right, just in case. You are all familiar with our safe harbor statement, there are inherent risks to the things we say today or predictions we make. We have no obligation to update or revise our statements today as you're aware. Our agenda will kick it off with our president CEO Gary Fields. We'll then introduce the business segment leaders of the three segments that we have. We'll then have a Q&A session. We'll move to marketing and branding, our sales channel strategy and market updates, capacity expansion plans, and then we'll finish with a financial overview by our CFO, Rebecca Thompson. And then we'll finish with one last Q&A. Our executive leadership team, most of them, what you will be hearing from today. And, leading off is Gary Fields, President and CEO of the company. Thank you.

Gary Fields, President and CEO:

Good morning. Want to go over a little bit of the history of the company real quick, set the foundation for where we're at and what we've done. So, first off, AAON has a little over two and a half million square feet of manufacturing space total. We have just short of 4,000 employees. Company started in 1988 as spin out from John Zink company. That's when Norm founded it. And, as Joe set the foundation for this conversation, he said we were... Or the video actually did. We're trying to bridge the gap between fully custom equipment and normal commercial equipment that has no customization to it. So this all done with semi customizations, highly configurable equipment with a lot of flexibility. What this allowed us to do is to create solutions for a lot of the applications that are demanding, such as indoor air quality, demand ventilation, makeup air, and things like that, that we've been able to pioneer applications that are affordable and flexible.

So, talking about our financial aspects of the company, the cap value is currently just over 5 billion. Our EBITDA margin runs around 22 to 25%. Currently, it's at 25. Trailing 12 months sales are 972 million, so we're approaching that 1 billion mark. Our three year CAGR is 25%. I think the longer term CAGR was in the 13% range over the last five years or so. Return on invested capital is 18%. And then, I want to talk about our markets real quick. So, we are primarily a North American U.S. market. We have some penetration in Mexico, Canada, and a little bit in the Caribbean that only comprises about 3%. The legacy company as we call it, primarily manufactures rooftop equipment, commercial and industrial rooftop equipment. The company in the segment in Longview, Texas primarily has indoor air handling units and condensing units. Some of those indoor air handling units are chilled water as opposed to direct expansion refrigeration.

And then the acquisition that we made in December of '21 of BasX allowed us to address a much broader vertical market of data centers and clean rooms. And that's a hugely growing aspect of our business. The base business had participated in data centers for many, many years, but in a support manner probably encompassing 10 to 15% of the HVAC needs of that project. And, the acquisition of BasX allowed us to attack the entire project, very, very accretive to the whole overall effort. So, from about 2012 through '17, the CAGR for the company was about 6%. And then, it began to rise significantly once we got a foundation of new leadership empowered. And, it is currently for the last five years, 13.8%. Stretch that over 10 years, it's 11.4, so that's pretty significant.

We have put a lot of things in place to keep that moving along sustainably, in that, this leadership team that you're going to be introduced today, when I came here nearly seven years ago, most of these people were here. They were very, very talented. Yet, they had not yet been fully developed as autonomous leaders. And now, they have a very strong track record, wonderful accomplishments. Little history, the company started in '88, as I said, along about '92 is when they acquired the Coils Plus business in Longview that became AAON Coil Products. Around '98, we finally exceeded a 100 million in revenue.

As we march on through there, I think it was about 2012, we finally got to about 300 million in revenue. When I took over in 2016, we were just a little above 300 million. And, as we've gone along here, we've introduced not only new products, the acquisition of BasX, and things like that, that have empowered us to grow at a much more rapid rate. One of those was in 2020 when I became the CEO. We were able to bring in the entire team. Prior to that, I had everything except finance and accounting, IT, and HR. That allowed the whole team to be under one leadership. We call it methodology. And, brought a lot of collaboration throughout the entire company.

Then, we have marched right along here, and we've opened up the Norman Asbjornson Innovation Center, which is the most capable HVAC laboratory of its type in the world. Has the largest acoustic chamber, has the only reverb acoustic chamber that will measure simultaneously airflow and thermal performance. Most acoustic chambers will measure airflow and acoustics but not thermal performance. This is a very significant thing. This laboratory also has unit size capacity beyond what anyone else currently has. The AHRI certification program goes to 63 tons for rooftop units. The logic for that was that no one had testing facilities larger than that. We have also a 100 ton and a 300 ton thermal chamber for testing these units. This means that we have empirical data to support what we say our equipment does, as opposed to modeled data that is extrapolated off of that 63 ton limit.

So, there's two core platforms that this company was founded on. Semi-customization being primary to that. The way that we went about utilizing computerization to assist this, and then the overall manufacturing strategy lends itself very well to this semi-customization. I look at, say, the automotive industry for instance, you can have a plain white pickup truck with rubber floor mats all the way through a luxury truck with a moon roof, and power windows, and door locks, and that's the semi-customization that the automotive did in there. Yet, that truck will only do the one thing. It pulls trailers or hauls loads.

Ours, we're able to do many things with it, with many different strategies for end use such as single zone VAC, full VAC, dedicated outside air systems, pressurization systems, temperature and humidity control systems, all of these different operational strategies that are required in all the complex facilities that we serve. Medical facilities, laboratories, office buildings, schools, hotels, just a long list of things that each have their own individual application and we're able to bridge that gap, where the standard manufacturers can provide basic heating and cooling, but they do not in general control, pressure, temperature, humidity, all simultaneously. Energy recovery is also something that we pioneered in rooftop units. We had the earliest patented application of combining a DX package rooftop unit with energy recovery. Now it's become the defacto way of doing things in this energy conscious world. Our innovation goes all the way back to the beginning. The fact is, I worked with Norman Asbjornson when he was at a company before he was at AAON, and he was also highly regarded for his innovation with that company. So this has been his history for a very, very long time. He set the foundation under this and it's allowed us to expand on the foundation that he put in place. So, innovation allows you to reach out, and serve, and provide new solutions that other people have not yet even thought about.

Some of our notable in innovations in '89, we introduced 2 to 140 ton rooftop units. Well, in that era, most of your commercial rooftop units stopped at around 20 or 30 tons. You had to go to a highly customized unit, it was very, very expensive in order to gain these larger size capacities. '97, backwardly inclined fans in small commercial units, well again, in the large custom units, this had been used for many years. It had a characteristic that it was more efficient, quieter, and had more capability to overcome higher pressures, all while maintaining that higher efficiency. This had never been done in these size units, all the way down to our little two ton unit has this style of fan.

In 2001, we introduced evaporative condensed units, which is a way of combining air cooled and water cooled in order to have the highest efficiency possible in a DX system. This was another one that had only been been available in the highly customized offerings at a much, much higher price. So we brought that to a very affordable price and the applications began to expand considerably. In 2002, along this same timeframe, the outdoor air requirements per person had been raised understanding that this enhanced indoor air quality, it would mitigate viruses much better if you diluted with more fresh outside air. While this brought in the challenge of controlling temperature and humidity, this had been done with very complex systems in the past and we brought this to package rooftop units by using hot gas reheat that modulated, so that we could maintain a very level temperature humidity value.

In 2003, we introduced foam panel construction units. Now this doesn't sound like anything significant, but it is very, very significant. I want you to think about the old styrofoam coolers that you used to keep your Coca-Colas in when you went on a trip, and when the Yeti cooler was invented and how much more robust it was, and you remember them saying you could put your bag of ice and your Coca-Colas in there and three days later open it up and they were still in there nice and cold.

Well, this is exactly why we did what we did, because we were trying to maintain a higher degree of energy efficiency at that point without losing the work that the unit had done. This has been a foundation for going forward with the most energy efficient equipment of its type in the whole industry. We introduced digital scroll compressors and some other technologies of modulating the refrigerant flow at this same time. This was a huge improvement in maintaining stable temperatures. When you turn a compressor off, turn a compressor on, they have a minimum time that they can be on and off. This causes temperature swings. So having this modulating capacity compressor technology was just wonderful with regards to stable temperature and humidity in a space.

2015, we introduced low leakage dampers, again, to enhance the energy efficiency, so that we could control exactly how much air you wanted in certain aspects of the unit, whether it was outside air coming in, exhaust air going out, or return air. These dampers have been highly acclaimed, won lots of awards for their quality and doing what they say they're going to do. But, primarily, their efficiency for leakage is many times better than what we had been using prior to that and what any of the competitors currently use. Our most significant recent advancement are air source heat pumps capable of operating down to very low ambient temperatures. We're currently operating down to zero degrees with very good efficiency, very good capacity. This is in contrast to most of our competitors. If they even have an air source heat pump available, it usually goes down to around 30 degrees capability at the most.

So, we've been winning with premium equipment offerings for many, many years. I myself came from the sales channel and understood clearly what it took to win. I understood clearly what solutions we were trying to solve for and was always assistant to AAON in bringing voice of the customer back here so that we knew that we stayed on track with a high value proposition that would be a great solution for a lot of the recognized problems out there. AAON is recognized as having the lowest total cost of ownership over the whole lifespan of the equipment. When you look at the durability of the cabinetry, when you look at the durability of the components, when you look at things like direct drive fans in all models with variable speed control on those, as opposed to having a belt that you have to maintain, a belt that also costs you three to 5% efficiency, and contributes dirt into your system, much like the brake dust you find on the wheels on your car.

AAON's energy efficiency has been setting the bar for others to follow. AHRI is a third-party watchdog organization that measures your equipment performance to make sure that it meets what you've produced in your literature. In looking at AHRI's public information, there is no size rooftop unit that anyone exceeds AAON's energy efficiency. And fact is, they rarely meet our energy efficiency. In 2023, there was a huge upgrade in energy efficiency requirements, we'll call it equivalent to the miles per gallon in your car, increasing around 25%, versus what it was prior to that. AAON had already been producing equipment for many years that was above that level, so we had no additional cost content in order to bring it to that level. We've seen significant cost or price increases from our competitors and we believe a significant portion of that is related to bringing it up to the 2023 energy standards. So our current portfolio of equipment shown here on the screen. In the top left, that's an indoor compressor eyes, water cooled, air handling unit. It's either an SA or SB model, often used in mid to high-rise office buildings.

On the left side is our DBOX series unit that goes up to about 70 tons. Across the bottom there, the very bottom unit is a RQ unit. It's a two to six ton unit. It is one of the most admired units, highly regarded units for K-12 schools. To the right of that is our RZ custom unit that goes all the way up to a little over 250 tons air cooled, nearly 300 tons of out condensing. Walking around the clock there, counterclockwise, that's an M2 air handling unit. A significant amount of those are configured as water source heat pumps, customized with energy recovery, with pressurization control, with economizer control. That's an indoor air handling unit that has more flexibility than any other air handling unit in the market in regards to being able to provide economizer operation, ground source heat pump, or water source heat pump operation in addition.

Above that is an H3 air handler. That's an indoor air handler. Direct drive fans, backwardly inclined, plenum fans that are very, very efficient. This unit can be configured with hot water, steam, chilled water, or DX, and right above that is a CF model condensing unit, and should you want to have a DX split system, those two top right corner devices coupled together through field piping.

Some of our favorable secular market trends that have really played well for us are de-carbonization. We've seen the world shifting its thought process towards electrification. We see electric vehicles being a topic conversation every day. We see certain states saying on a date that they will no longer allow internal combustion engine automobiles to be sold in their state. Well, let's flip over to the building side. These same people are saying, "We don't want any natural gas, propane, oil fired heating medium in your buildings. We want it to be an electrified medium." So, when you look at the commercial market, you'll find that the competitors to us have very large centralized systems that are capable of some of these things. But when they come into the mid-sized market with package rooftop units, for some reason they're absent of participating significantly in this effort. We find a few competitors have air source heat pumps, but again, they're only capable to about 30 degrees, and there's a huge swath of North America that is below 30 degrees a good bit of the wintertime.

Ours are currently certified for use down to zero degrees Fahrenheit. We have in our development laboratory down to minus 20 just awaiting the updated components for the new refrigerant. So, de-carbonization and electrification are huge, secular driving trends. Government regulations, I mentioned 2023 things went up significantly. Well, they're already working on the next round of regulation changes for 2029. And we have people that sit on those committees and they give us feedback as to what that's going to be. Currently, a substantial portion of AAON's portfolio already meets this new 2029 standard. And, all of the other competitors sitting in the room says, "Oh my gosh, we just got to 2023." And, they're hanging onto that rung of the ladder and saying, "We didn't realize there was more rungs of the ladder to climb." And so, they've got quite a little challenge on their hands here trying to get to this next level for 2029. At the same time, January 1st, 2025, we have a need for new refrigerants, as mandated by the government trying to lower the global warming potential of our current refrigerants.

So, these new refrigerants, while this is speaking to the energy efficiency regulations here, like I said, it led to a lot higher cost of manufacturing for many of our competitors. For us, we were already above that bar, so there was no additional cost content that went into that. We've worked on our pricing strategy through this pandemic, this inflationary time, this regulatory change time. Historically, AAON was a 15, maybe 20% premium, versus the closest alternative. Now, they were never apples to apples. They were just the closest alternative. And so, it was our duty to explain why there was a value to spend 15 to 20% more.

Well, as a result of this higher energy regulation for 2023, that gap has narrowed. We're now seeing a gap that is closer to between 8 and 10%, and then when you put these units side by side like we've done out in our new customer exploration center, then the value of this 8 to 10% difference is easily seen absent of even a technical evaluation. When you do a technical evaluation, it's even more proof in the pudding that our value is the best it's ever been in the history of the company. So the net outcome of this is we're driving market share. If you look at our historical performance over the last three to five years, you'll see that we've gained significant market share each and every year.

There's additional regulations coming along, as I said with the refrigerant, we have selected R454B as our primary refrigerant for rooftop units to replace 410A. The vast majority of the industry has announced this same refrigerant. It has a very low global warming potential of 467, as opposed to the current refrigerant, 410A now has a 2088. And, GWP stands for global warming potential. So, there's a lot of effort to change this over. One of the primary things is, this new refrigerant that we've all are going to is called an A2L. This modification to the nomenclature bringing three digits into it was because this is a mildly flammable refrigerant. Now, you have to put an open flame on it in order to keep it burning, and it has a very slow burn rate. If you remove the flame, then it will immediately extinguish.

So, in other words, a spark will not ignite this stuff. So it's not explosive, it's just mildly flammable. What that's done though is required UL to update their safety standards and they have prescribed that we have to have refrigerant leak detection in the unit that will shut the unit down and alarm that there is a leak. So, all of this has caused a lot of development in the equipment. And, there's a huge effort, time-wise, bandwidth wise, in order to do this. And, what we've seen from industry peers is that they're fully absorbed in trying to do this, and so they're not so available in their R&D efforts for further innovation, advancing things like a cold climate capable air source heat pump in this configuration. We believe we're going to have that space to ourself for a period of time here.

These cold climate capable air source heat pumps, we began producing these to the market in Q4 of '21. And, I'll have to say that our utilization of the Norman Asbjornson Innovation Center, again, one of the most capable laboratories in North America, allowed us to provide empirical data and absolute evidence of the success of this strategy. This is not something that we modeled and we're going to use you as a Guinea pig in a test bed on. This is all done right here. We have chambers that can snow two inches an hour, rain eight inches an hour, below 50 mile an hour wind. These units were subjected to all of this ambient terror, if you'll call it that and they survived it. So you say how in a laboratory can you make it look like a blizzard? We have that chamber to do that and it's just a blast to watch it, by the way. But we've gone through this very, very carefully. The units are actually capable of operating much lower than what we've certified to. We took them to their destruction point and it's much lower than zero degrees, so your unit's just not going to fall off the roof at zero degrees or less.

ESG has been something that we, as a result of our innovation and our application strategy have been very, very participant in. The fact is that in commercial buildings, 16% of their total carbon come from the HVAC systems that are from electricity. 40% of those are from the HVAC systems, so you can see that the HVAC systems contribute substantially to the carbon emissions of a building.

Our higher efficiency that we have had in our application strategies have made it such that we have the best ESG footprint of any of the manufacturers that have packaged rooftop equipment. We've been able to attract a lot of new talent in the last few years. Our headcount is now up 27% from a year ago. We think that being good stewards of the ESG model has been a good reason for this. We're one of the most desirable places to work.

In 2022. AAON was awarded the top manufacturer in the state to work for, and we were awarded in the top five of all employers in the state of Oklahoma. I would say that our employment strategy for Missouri, Texas, and Oregon is exactly the same. We just have not yet been measured on the same benchmark, but the performance is the same. So we're very consistent across all of those.

Our total addressable market is many, many times what we are now. So if you're thinking we've grown a lot and we're getting close to the glass ceiling, that's the furthest thing from the truth. We've probably got the ability to grow a very substantial percentage on a CAGR basis going forward for the next very long time, 5 to 10 years because the total addressable market is somewhere around 10 to 12 times greater than our current production rates.

We've never been more aligned with the sales channel than we are now, and the sales channel's never been as capable as it is now. That was my heritage. I spent 32 years there. The firm that I was with set the bar for what best practices looked like. As I departed that company after the 32 years, I was engaged as a consultant for AAON to help understand how we established these best practices. As I began to share that, they began to absorb that their improvement was substantial. As I came and took over the company, we were able to push forward with lots of programs, training programs that assisted them even more.

The fundamentals are very, very strong for this company. Decarbonization, electrification, as I said earlier, these are topics of conversation in all circles now. We talk about this with automobiles. We talk about this with buildings. This is going to drive a lot of interest in AAON becoming a mainstream manufacturer as opposed to what was formerly perceived as a niche manufacturer. Regulations are favorable to our approach. Our approach is to set the bar as high as possible. Our total cost of ownership is best in class. These cold climate capable heat pumps are driving a lot of this.

As I mentioned earlier, the pricing premium is narrowed because now these other people have to provide energy efficiency that's closer to what we were already doing. We have a huge addressable market that we can yet expand into. Our sales channel continues to strengthen. Our investment in marketing is evident by the new building that some of you were visiting yesterday. I think this is probably one of the most contributory tools for our sales channel that we could have ever envisioned.

We've had a lot of exposure to a lot of attractive sectors such as data centers and semiconductor manufacturing with the acquisition of basics, what we envisioned there for basics when we brought them in, that the collaboration and the ownership of basics by AAON would provide. We have achieved already far in excess of what we ever envisioned.

This is why our backlog has grown so substantially. If you go back to 2016, it was around 50 to 60 million. We were growing substantially. The pandemic hit and slowed us up for just a moment, and that was really supply chain related and people not at work for a little while, and it took a little while to sort things out and then boom, here we go. And look at that growth in '21 and '22. I mean, is that magnificent or what? We continue to grow, the backlog continues to rise. There will be a time when the backlog will peak out and begin to roll over. As a result of increased manufacturing capacity that we're putting in place. We would actually like for the backlog to back down just some to help us with shortening our lead times, not through fewer orders coming in, but through greater production going out the door. With that, I'd like to introduce Stephen Wakefield, our Chief Operating Officer.

Stephen Wakefield, Chief Operating Officer:

Thank you, sir. Good morning. My name's Stephen Wakefield. I'm the COO here at AAON and anybody that knows me knows that I love to talk about our company. Something very important to me. My friends at the table last night very respectfully said, "We won't ask you too many questions because you're eating." And I said, bring them on, like this. So we had a good time last night.

I've been with the company since the late 1990s and it's been quite the ride. It's been a blood, sweat and tears affair. Definitely blood, definitely sweat, definitely cried. But all in all, it's been a wonderful overall experience and the reason I'm up here today is to tell you about that I have a unique perspective on the history of AAON because I've kind of seen it all.

So today we're going to start with an overview of our Oklahoma segment. I'm going to try to keep this from being boring, but it's important that you know. This is our flagship manufacturing location, about 1.5 million square feet. We also have in addition to that, our NAIC, which Gary eloquently described, and I will attempt to as well. And also our brand new customer escalation center. This is where we build our rooftop units. This is kind of the bread and butter of our product lines, and those make up 75% of our sales and about 73% of our gross profit.

So this is a bird's eye view of the AAON campus, the blue box in the middle. That was the original facility here in Tulsa. That's the facility we were in when I started here in 1999. And we used about, I'm going to say two-thirds of that building that you see in the picture today. So over time we moved across Yukon, which is to the west, and I don't know what color it is, but the bigger box, the green color right next door. If you look close, you can see that the roof is patchwork together. That's because we would add to the building and then decide, oh no, we need more room. And we did it over and over and over for years. So much so that we ate up all of our parking lots and created a parking challenge for a little while.

Just to the west of that, the red or orange or brown box is our NAIC. You can see it's very large relative to our manufacturing facility, over a hundred thousand square feet. But maybe most importantly, what I want to show you today is our plans for expansion. The land to the west of the NAIC there at 30 acres, we own that. That is something that we have plans for expansion. We don't know exactly what it will be just yet, but we have a multitude of plans on paper that we're working on.

In addition to that, very recently we added 14.9 acres to east of our east building of the original building. So the significance of this is it adds a third access road to our campus. So now we have the original Yukon Avenue. We also have the constructed AAON Avenue, which is just north of the 30 acres, and now we have the addition of Union Avenue. So our facility is becoming a campus.

In addition to that, in the northeast corner of this picture, you can see that we've just recently obtained office buildings. These will be for the administrative part of our company, HR and accounting and whatnot. And then in addition to that, we've purchased another manufacturing building that we can use for a multitude of things. The plan today is to increase our vertical integration. We'll talk about that a little bit more. Things that make us independent and allow us to control our own destiny.

Gary mentioned this already, but these are our flagship products that are built in Tulsa, the RQ series and the RN series. They range from 2 to 70 tons and they're all foam injected construction, which we're going to talk about at depth. My new friend back here Houston asked me a great question about that last night. So I got pre-test my presentation, seem like it worked.

Innovation is the key, is the foundation of how we think here at AAON. We think laterally, we think outside of the box. We think in a very challenging way. So we have a mission and vision for this. To provide premier HVAC solutions that bring long-term value to our customers and owners. And by leading the HVAC industry in innovation, we create tomorrow's solutions today. This is very much our mindset.

We don't go to the drawing board with preconceived ideas here at AAON. We invest in the future. We invest in something new. Matt mentioned in the video earlier that we almost intend to fail. We know that if we push the limits, we're going to fail. We're going to learn from that and ultimately learn how to correct that failure. We invested in a world-class NAIC. This was a very large investment. We also invest in the best R&D staff in the industry. Our R&D investments consistently make up over 3% of sales, which is well ahead of our industry average.

Let's talk for a minute about some specs on our NAIC. Gary's already mentioned some of this, but this way it's in writing. It's over 100,000 square feet, uses up to 7.25 megawatts, has 12 chambers. It's been in operation since 2019. It now runs seven days a week, 12 hours a day, has 43 test technicians in it, 30 engineers, and these people are basically very capable people that have the tools they need to be at their best. That's the environment in our lab. It also has the largest sound chamber in the HVAC industry. We can test, like Gary mentioned, a 300 ton unit and do a sound test on it at the same time so we can get sound data off of the unit in operation. And then finally, the coolest part about it is we have an environmental chamber where we can create all kinds of weather. We'll have a rep meeting. Our sales reps will come here and we'll send them in there in their coats and let them experience a blizzard while it's summertime here in Tulsa, it's hundred degrees outside.

Let's talk about our engineering team for a little bit. It's important that you know AAON's philosophy when it comes to our workforce, whatever department they're in, is that we very much believe in connecting people's passion, their passion, their skillset to their responsibility. This creates an experience that's unparalleled for a person working at their desk. Then what we do is we give them great tools and we turn them loose. We empower them to use them. This creates leading capabilities in our departments. It creates an attraction for great people to come want to be part of that.

Our team is very experienced in creating highly customizable, but yet cost effective equipment with our standard offerings. This is part of our secret sauce. We're going to talk today about AAON secret sauce. A portion of that is the fact that we can make such a diverse product very effectively. Our engineering department also is very flexible. I think you'll find this is uncommon. Our director of engineering is sitting in this room and he is one of the most brilliant people you'll ever meet, but yet he's also very practical. He also works very well with his peers. He can go into our director of operations office and help her solve a problem.

We don't have an ivory tower in our engineering department. I think this is a very important fact and a very unique thing about our company. As Gary mentioned, we stay ahead of regulations around here. We don't adjust our products to match regulations. They kind of adjust them to match our products. We want to be ahead on that. We have industry leading performance when it comes to our products that is not easy to mimic.

Automated fabrication is AAON secret sauce. We mastered semi customization, which is required these days to meet the new demands. We did this 25 years ago. This was some of the very innovative thinking that happened around here. We decided that we were going to design for manufacturer and then make the end product be its very best rather than design for the end product, then figure out how to manufacture it.

This is a very key difference, a very big part of AAON secret sauce, and I will tell you it is considerably more difficult to do. I can tell you that unequivocally, because I was a part of that, I was a design engineer for 15 years and led that effort for 10. So I personally experienced that. I don't use my right hand for my mouse control at my computer anymore because I did so much design work with it that I kind of ruined it.

I've learned how to use my left hand to use my computer now. I don't do any work anymore, but back then, for sure. So we have this fully automated process that is extraordinarily difficult to mimic. This was one of the great questions that Houston asked me last night here in our audience. So I hope that I've got a good answer for you here because this I think is really important that you understand. What does it take to mimic what AAON does? Well, I broke this down into three gauntlets, if you will.

The first one is you have to make the investment in the particular kind of machinery, which is massive. You have to have an engineering team, an operations team, a programming team that understands how to use that equipment, which I will tell you, it personally took me five years to master that, of working on it every day all day long from 6:30 AM to 5:30 PM I did that for years. All day long designing parts. There's a gentleman that works here that has been in charge of our [inaudible] program for, I don't know, 30 years now, and he'd have this big grin on his face and walk down the hall with all these papers to show me what I did wrong, what we couldn't do.

And we had a situation where we had that litmus test, that filter, and he would bring it back and I would redo what I did. I wouldn't say, or we wouldn't say, as a company, you got to figure out how to make this. So we reversed the system, if you will, and because we were a smaller company back then and we had hundreds and hundreds of parts rather than thousands of thousands, we were able to force that to happen. We had a law in this company that we were going to design parts for manufacturer, even though most of us barely even knew how these machines work. They're very complicated machines. They're not something that you can learn how to use in a few weeks.

So as I explained to my friend last night, you can take a very simple part, flat parts. You can put bins that are what we call positive on two sides of it, and then you can attempt to put bins on the other two sides of a plain square part that are negative and you cannot make that part. That's the difference between a very cumbersome labor intensive fabrication of a part versus a very smooth, untouched by a human hand fabrication of a part.

So when you attempt to mimic what AAON has, you have to go down to every single part, document it and program it and understand how to make it on this machine. Okay, that's gauntlet number one. This is something that if you had a large product line, would take, I don't know, dozens and dozens of capable engineers and other support staff that actually understood how to do it, years to do gauntlet.

Number two, let's say that you figure out all that and you spend all that money and you take all that time. Gauntlet number two is you can make beautiful parts on these machines, beautiful parts that are difficult to assemble. It is likely that if you use this method, you're going to increase your part count.

Now, in manufacturing, when you say "We're going to increase our part count," it's almost synonymous with we're going to increase our cost. Gauntlet number two is designing parts that come through gauntlet number one that are actually efficient to assemble. If you don't save labor rate, at gauntlet number two, you've already lost. So you have to have parts that are easy to put together. When we'd redesigned our equipment to use this method, when we redesigned it again to use this method plus use foam injected panels, we had to get through these gauntlets all over again and we had to make sure that our labor rate actually went down at gauntlet number two.

Otherwise it would've cost too much. It would've put us out of business. We actually, I'm going to say screwed it up on one of our lines and did not pass gauntlet number two, and it was a very painful summer, and I can tell you I experienced that firsthand. I probably aged a couple years that summer.

Gauntlet number three. Let's see you get through those first two. Gauntlet number three is, you made beautiful parts on this machine. You figured out how to efficiently put them together, but the final product is a piece of junk. It is very easy to get the first two things right, but the third one wrong. The third gauntlet is the parts have to make a great assembly. They have to make a great product. They have to last 20 years. They have to do what they're supposed to do.

So if you think about what it takes for an engineer to design every single part to go through step one, step two and step three versus an engineer deciding how to make a part that goes directly to step three, then you understand the difference and how difficult it is to mimic what we do.

Let's talk about management, especially in a post pandemic situation. It comes down to three things, starting with people. People are our most important asset at AAON. We make sure that they know that it's a big reason why people want to come work here and why our headcount has increased and why we have such a great culture here. It starts with people. Then we're going to talk about parts and infrastructure.

When it comes to people, since the end of the first quarter in 2021, the Oklahoma segment has added over 750 employees or 42%. I can tell you, since this presentation was written, which just a few days, it's already more than that. We also decided that we were going to make a tremendous focus on people by hiring staff that did that very thing, and our new VP of administration is evidence of that. He's sitting right here in the room. We like him most of the time. He's done a really great job, basically like putting rocket fuel in your tank when it comes to what we were doing here in Tulsa.

So a lot of people ask me, "How did we add so many people in such a short period of time and not disrupt efficiency?" Well, I'm not going to give away too many secrets, but I'm going to tell you this. We focus on what people need here and when you understand what people need and you provide people what they need, you get a whole different person than if you don't do that. Then you throw in a tremendous amount of opportunity, which everyone can feel, and then you find that great people attract more great people. It's a system that has worked very well for us that I think is very unique.

Next, let's talk about parts. Parts has been a very difficult challenge over the last few years, as you can imagine. There's still constant challenges. They're more minor than they were even a year ago, but they're still there. I will tell you that we're dealing with it. We have a system to deal with it. It's working. We have a independent rep council, as most of you know, that has... well, I should say an independent sales rep force that has a rep council. And these are very capable people that represent. They are congress of our rep force and we work directly with them on major issues. And because we have a great relationship, we have been able to navigate together the biggest challenges rather than just shutting down. We don't just shut down, we don't panic. We find a way to navigate. And by being able to work with this rep congress, if you will, it has made it all that much easier.

I'll also tell you that our vendors are treated like business partners. We don't call and yell and scream and threaten our vendors. We treat them very well. We understand what they're dealing with and what we've found is a lot of them have come to us for help. You might be surprised if I told you all the details of some of the visits we've had with our vendors. In many cases, our team has helped them solve their problems.

So when that happens, you can imagine who they prefer to work with and who they want the parts to go to. We've also been able to hold our inventory through historic supply chain disruptions. At times it even went up, the volume of it. This was a major accomplishment to be able to continue to grow and take care of our customers through a pandemic. And then as I mentioned before, our engineering resources have the mentality to help the company navigate such issues. They are not sitting on an ivory tower and too good to help redesign a simple product for a part that's available so that we can continue to move forward.

Infrastructure and capacity. Well, you saw the Tulsa campus overview earlier. You saw that we are not intending to stop growing. We've made big investments to be able to continue to grow, but that's not happening just in Tulsa. And you'll hear more about this from my colleagues here in a little bit. But we're also expanding in Longview, Kansas City and in Redmond. And not only are we just increasing our space, but we're also improving our space. Those are two different things.

We have teams of people focused on improving how we use our space. These teams of people have increased the efficiency and usable space in the Tulsa campus alone by 30% or 40% over the last three years. An astronomical number, but something that is absolutely factual. These automated fabrication machines that I referred to earlier, we have plans to add eight more machines here in Tulsa alone in 2023. Several of them are already here and online.

We also are expanding our fan operation as you know that our friends at Redmond, BASX manufactured fans, when we partnered up with them, and we took that as a motivation to do that ourselves. And we have begun manufacturing fans here in Tulsa. By the end of the second quarter, we'll probably be nearly 100% capacity there here in Tulsa. And of course, we have a mindset to vertically integrate. We have vertically integrated when it comes to coils and controls and fans and many other things. This is a mindset that we have. Like I said before, the more independent we are, the better.

And of course, we have a continuous improvement mindset in this company. We are not one to sit on our laurels. In fact, sometimes I wonder, is it ever going to be enough? And then I quickly answer that with, no, it's not going to ever be enough. The day I retire, that might be it. We don't have the mindset to be that's good enough around here, and that's a wonderful thing.

Okay, now let's talk about something that's near and dear to my heart that I experienced firsthand. Probably have a unique perspective on relative to anyone that works at AAON, because of my tenure here and the fact that Norman and I had such a great relationship and when Gary came along, the same thing happened very quickly and I was able to kind of be a middle man in a lot of cases.

So let's talk about the transition of leadership that's happened at AAON over the last few years. Many of you know, I've figured it out at dinner last night about our founder and how capable he was and really maybe the most talented individual contributor I've ever seen. But because of that and because of his passion for the company, many, many things ran through him. We used to tease him that he approved our toilet paper purchases.

And because of that and because of his talent, the company had tremendous success. But what happened is he still was just one man, and we hit a ceiling with that. And he certainly recognized that, which is why he brought in Gary and to go from that mindset, a person that was very passionate, loved our company to his soul, he would still be here every day probably if he could. For him to hand over that much responsibility and that love for what he did, like he did was an exceptional thing. A lot of people didn't think he could do it, but he did do it.

And I will tell you that it was very rough. You can even see in our numbers that it was rough there for a few years. The formability, the strength of our CEO, Gary Fields to go through what he did there and lead us through that. Something I will never forget. A team was born out of that. That is like something I have never seen in my 24 year career.

We have an exceptional gifted team here in Tulsa and in Longview and in Redmond, in Kansas City today. In a very short period of time, this has turned, I believe from your perspective, you can see that. We went from an exceptionally good idea and way of doing things to an exponential function of that in a very short period of time. And I witnessed it firsthand.

I can tell you we're no longer limited by a few people or by some gut feelings. We have a wide swath of talent that cares about each other. They work together like a well-oiled machine. They're not perfect, but they are absolutely exceptional as a whole. And if any one person was to be gone, you wouldn't notice it. So to me, this is one of the most amazing things I've ever seen in my career for this to happen in such a short period of time. The company has never been better managed. We have never had the more perfect fit people in the right spots throughout the company.

We have a executive leadership team now that is empowered. We have a senior leadership team that is empowered. We have a management team under that that's empowered. We have a supervisor team under that that's empowered. And you can feel it throughout the company. I gave Matt a plant tour yesterday and I took him out to our new unified tool crib. This is one of the many improvements that we've made to how we manufacture in the last few years.

And the gentleman that runs that is a former Marine and a former assistant plant manager in our plant. This is not a person that walks around smiling. He's all business, okay? He's a formidable person, but his skillset matches managing tools much better than it does managing people. So we moved him into this role. How often was he smiling yesterday? The whole time. Didn't stop smiling the whole time. Usually he'd been all business and talking to a president of a subsidiary, all business, but he just had a grin on his face the whole time. And I told Matt, that's the evidence that cannot be tricked. There's no acting there. That basically solidifies what's happened here at AAON. The culture at AAON is it one of teamwork and collaboration where people care about each other, and they work to make things better for everyone. And it's just a great joy to be a part of it.

And my last slide, Joe, wanted me to put this in here as proof in the pudding slide. You've already kind of seen this, but here's my proof in the pudding slide. So I hope you see this and recognize that this is a legitimate thing. This is something we're very passionate about here at AAON. And I'm just thrilled to be able to get up and tell you this story. It's just a really wonderful thing for me. At this point, I'm going to turn this over to Doug Wichman, president of our coil product facility in Longview, Texas. There you go, sir.

Doug Wichman, President of AAON Coil Products:

Thank you, Stephen. He's kind of a tough act to follow, but I'll try here. So my name's Doug Wichman. I've been with the AAON for 10 years. I actually cut my roads here on the Tulsa location, and it was about a year and a half ago, I was asked to kind of take over the Longview operation. So moved down there and transitioned pretty seamlessly.

Talk a little bit about AAON coil products. We referenced that as a ACP internally quite often, so I may say that phrase quite a bit. That's what I mean. We were acquired in... actually, the assets were acquired in '91. We moved into a facility, our original facility down there in '92. It's in Longview, Texas, approximately 500,000 square feet. There's 675-680 employees down there, just under 500 that is dedicated to unit production.

As Gary and Stephen kind of covered down in Texas. We produced the condensers and air handlers, self-contained units, modular units, as well as our coils. We produce a majority of the coils for Tulsa and our Longview operation in Longview, Texas. We represent about 12% of our top line revenue and kind of share that same percentage for our margins.

So a little bit of history down there. Purchased the assets in '91. '92 we moved into the original facility. In '99, we did a significant addition to the original facility down there to actually initiate unit production in Texas. It was about a 20 year gap before we actually did any major expansions, but we did break ground on a new facility in 2019. We occupied that facility in 2021, which essentially doubled our manufacturing capacity at that time.

In 2023, we're actually the fifth largest employer in Longview, Texas. We also started a collaboration with our BASX partner this year as well. And we'll talk a little bit about that. A couple more slides.

So here's a campus image to the right there, that nice shiny white building that is the new facility we began producing out of in 2021. The building on the left, much like our original Tulsa operation, you can see it's kind of patchwork together just to kind of fit more things in there, right? Overall that is 500,000 square feet. If you look at the new facility, to the right of that new facility, kind of keep that in mind. I will be talking about a further expansion that will be added on to that new facility and kind of what that entails.

So when we talk about ACP, we really have two business operations in one there. We have the coil shop side and we do have the unit production side. Even with the new facility in play, we are still operating or we're still building unit production on both sides of the street. We only produce coils in the original facility.

Our unit side, we are a feature string-driven product, much like Tulsa. We do our commercial split systems. For those that think of a single family residential home, you have your outside unit, your inside unit, very much like that just on a larger scale. These go up to 70 tons.

With self-contained units, we talked about the SASB and the M2 product lines. Those are more of a modular configuration. You'll see those more on an interior mechanical room in large high-rise buildings. We've have kind of had a history in Longview of kind of utilizing our capacity and our geographical location for advantage for the overall organization.

I talked mentioned a little bit about this BASX collaboration that I'll talk to in here in a couple slides, but we've got a history of doing that down there. If we have capacity or resources or maybe Tulsa has the needs, we have a very flexible team down there that can actually adapt to that. Coil shop, just an example of some of the vertical integration, it's mostly internal demand-driven. Because we produce semi-custom units, we have to produce semi-custom coils that go along with that. So when we talk about coil manufacturing and the automation process that go into that, there are a lot of things that can be automated, but there's also a lot of things that cannot be automated. So it is very heavily manual labor process on some aspects of that. But this is also where a lot of our capital expenditures for Longview have gone in the past 18 months to expand that capacity.

New leadership investments and kind of a culture change. On that kind of timeline slide, we saw that large gap between '99 and 2019. I will say that the Longview operation kind of felt siloed, I'll say, in that time period. Very siloed, very operationally on their own until Gary's leadership actually kind of changed that transition into more of a collaborative effort. We look at the leadership style that we have today versus even three years ago. There's a lot of multi-location management structure in place, so we don't have separate engineering departments, we don't have separate maintenance departments even. It is all kind of rolled up into one umbrella and the communication has far exceeded our expectations on those. This allows us to cross-pollinate our teams. It allows us to garner best practices when we're looking at whether it's design or process or even on the purchasing aspect for procurement, we've been able to capitalize on the unique resources from all of our locations and now we're getting definitely Oregon in the mix of this as well with their BASX sites.

So the one AAON culture, that's just what is formed out of this. I reside in Longview, Texas. A lot of the ELT resides here in Tulsa, but we don't skip a beat when we're around each other devising and developing and laying out the future because we do collaborate a lot on a frequent basis. We are multi-site minded. Now, this was not the case maybe a few years ago. We were more segmented and didn't think of the overall impact and the overall resource that we actually had at play and how we could utilize that and leverage that to the best of our abilities.

Talking about collaboration, I guess the funnest things that we kind of experienced this year is we've, right out the gate, experienced or noticed some synergies between Longview, Texas and our BASX partner in Oregon. That kind of allowed us to leverage the BASX sales and engineering applications team with the Longview capacity. I know we disclosed in Q2 of the '22 earnings that there was a 16 plus million dollar initial order for a single customer for a product type that meshed really well with the production methodology for Longview. We have since started building those units, this single customer, this was a single phase out of many phases and they're still ongoing talks with many customers in similar projects for similar product types. So this is not something that's going to be going away quickly. It provided us with a geographical win. You got to imagine shipping from Oregon to the east coast, east coast is a lot more expensive than it would be from Longview, Texas.

So right there's a win. It also also kind of led the way into us sharing best practices on the build standards and design and process. When you're looking at a full custom manufacturer bringing into a semi-custom manufacturer. There are differences and our teams have definitely learned how to elevate our expectations and just the overall product. Another great example of what we do to partner to meet our consumer needs. Little bit about the financial performance for Longview segment. I mentioned the future's probably at the time is now. It is exciting times down here. It's exciting times in Tulsa. It's exciting times that all of our campuses really. I mentioned to keep that new facility in mind, that's one of the things I'm talking about is we are expanding that facility essentially doubling that facility. This was an expectation that we had when we originally built that facility, knowing that we were going to double it sometime down the road.

At that time it was a five to seven year time period that has accelerated drastically because of the synergies we've recognized right away. Our current footprint utilization is at about 60%. Once we get to operational steady state with our collaboration product, we expect that to be in the 85% range, hence the need for a new building down there. Now this new facility will be a 40% increase of square footage, but that's not the only win of that. It's going to expand our manufacturing square footage, but it'll also allow us to bring all of unit production under one roof. That's going to be an immediate efficiency gain, not only on the management side, but also because it's going to be a purpose-built facility.

Remember how cobbled up that original facility is? A lot of lines had to work around, whether it's columns or just infrastructure in the way. In this new facility that is not the case. A centralized unit production, but also allow for coil production growth in the original facility. So it's all a square footage that's going to be kind of traded, but it's also going to allow us to up our capacity levels. This new facility will also allow us to capitalize on future collaborative efforts, whether it is from the Tulsa product line or from the BASX collaboration. It also just gives us a kind of clean slate space to actually produce more out of that location. And with that, I'm going to hand it over to Matt Tobolski, the president of BASX.

Matt Tobolski, President of BASX:

All right, well thanks Doug. Met a lot of you in the past as well as last night, but Matt Tobolski, president and co-founder of BASX. I keep laughing thinking, "Oh, it's been about a year since we've been part of the AAON family", and I was realizing last night it's actually been a year and a half, so time certainly flies when you're having fun. So BASX is headquartered out in Redmond, Oregon. So for those of you that don't know, it's about a three hour drive kind of southeast of Portland on the east side of the Cascades. We call it God's country. It's a high desert and it is one of the most beautiful areas to live. The photo we're seeing here is the south building. So right prior to the acquisition by AAON, we had just wrapped up completion of a brand new 75,000 square foot purpose-built manufacturing facility.

So high bay, overhead cranes, efficient material flow. You kind of can see in the right corner there. The actual original building that we operated out of was actually an old Walmart building that we were able to pick up at a steal kind of in the downturn of the market back in 2013. But one of the huge changes in bringing in that new building was purpose-built manufacturing that really drove manufacturing efficiency and allowed us to produce product with a far greater velocity at a far more efficient manner, which really helped drive bottom line performance. So BASX as a manufacturer, I would like to put my phonetics up there, not Bass X, not BaseX, but basics. The whole company's name was founded on a principle of getting back to the basics and really it was about looking at the industry, looking at how we deliver product and solutions to our customers and really being a people focused organization. Recognizing that taking care of our team, our customers and our trade partners is really what allows us to win and be successful as an organization.

And that's really where the name came from. It was about getting back to that mindset and really delivering great quality with the fantastic performance to our overall end users. One of the differentiators we talk about from a BASX perspective versus a legacy AAON perspective is the transition from a semi-custom to a true custom manufacturer. And so when we look at, and we've heard both Steve and Doug talk about feature string based product specification. It's basically an environment where there's huge flexibility within the AAON product to fine tune a product in a given chassis as Gary called it for an application. When we talk about BASX, one of the key differentiators is being a true kind of clean sheet custom manufacturer. So we're able to basically take a product demand, product specification and requirement and develop a solution for that customer around an overall platform-minded construction tech or construction manner.

So there's a huge amount of automation that we have in there, a huge amount of standards that allow us to do that in an efficient, cost effective manner, but obviously comes with the price premium as compared to a semi-custom product. But the whole logic there is driving long-term value. So when we deal with customers and the semiconductor and the clean room markets that are operating 24/7, 365 days a year, saving five percentage points in efficiency equates to real dollars to the overall investment. And so the value proposition provided by a true custom-tuned solution is something we can really help sell to a customer and show the value it provides and show the cost premium is made up in a very short term. And so you'll see a lot of the stuff BASX does is driven around owner-operators, so the semiconductor in data center markets where customers tend to develop and own the property. That value proposition is very important and really rings true from an investment strategy perspective.

The facility in Redmond, it has been growing kind of throughout the process, but the whole concept here is it's about building not just a facility, but building a team and building a process that allows us to be successful in delivering solutions to our customers at scale. So within Redmond, we've got between the factories and some lease properties offsite, we have just over 260,000 square feet of footprint within the central Oregon region and just over 500 team members within that location. The team is very well mature from a standpoint of a lot of our senior leadership members that are in the BASX team have been in the custom air handling market for 20, 30 years. So a very seasoned team, very focused team on delivering innovative solutions to our customers as well as developing in fine tuning the automation process that can flow information through our manufacturing process.

One of the first big investments we made as BASX both five years ago in driving automation was very much in line with AAON, which was the investment in Salvagnini sheet metal fabrication equipment. Again, allowing us to utilize soft tooled equipment but minimize the amount of human intervention and really drive efficiency in the manufacturing and fabrication process. One of the key examples that we talked about after we got the equipment online is we had a specific product that was a very large, it was a data center product that was a single piece construction that was roughly 14 feet wide, 55 feet long, 13 feet tall, and that piece of equipment before investing in Salvagnini equipment required about 400 labor hours in our metal fabrication department to basically manually produce all those parts. As we invested and implemented the new equipment focused on automation and really driving manufacturing efficiency, it took that same project down to under 80 hours of actual human intervention time in processing all those parts.

So really it wasn't just about the cost savings perspective, but it was really about driving manufacturing velocity. So reducing the amount of time involved and really driving the overall throughput of parts allowed us to manufacture that many more units and drive that much more revenue through the production facility. As we look at who BASX is, I always really focus on, we are a solutions provider, and our goal is to be a trusted partner with our customers. So one of the things that we really focus on is not trying to sell a product to an end user but sell a solution to an end user. We want to understand what the overall requirements are, understand the pain points, and develop and present a solution that provides the best value to our customers in the long term. From energy efficiency, durability, and lifecycle perspective of the equipment.

Our team has been doing this in various fashions for many, many decades and through BASX the last 10 years, consistently proving our ability to deliver innovative solutions, cost effective solutions in high value, long-term value solutions to our customers. Innovation is something that is a heavy focus within the BASX family, and it's one of those huge things that align with the AAON mindset.

We are an innovation-driven manufacturer. We want to provide technology that advances the needle within the HVAC market. For the past 30, 40 years, our team has consistently moved that needle in the H V A C market, whether through fan technology, whether through innovative ways to provide free cooling for data center applications, consistently looking at pushing that needle, pushing the boundaries and developing solutions that push us beyond what our competition can do. One of the huge other aspects of BASX that is really unique to our company is decades-long relationships in very key markets. So when we think about data centers, we think about the clean room markets and especially let's talk to semiconductor for a second. Semiconductor over the decades has been a marketplace that sees huge investment and then huge offshore investment, and a lot of the relationships and talent within the US market weren't as strong as they were as a lot of the investment was made outside the US. Our team has been heavily involved in that marketplace since the seventies.

And in those decades-long relationships uniquely positioned BASX as the reshoring of semiconductor manufacturing occurs to position us with the owners, the engineers and the contractors to leverage and maximize the opportunity for us to be a huge impact within that market as the investment is brought back to the US. We also focused very heavily on vertically integrating our products. And as we talked through supply chain disruption over the last two and a half, three years, that vertical integration has been one of the areas that has allowed us to excel in the midst of one of the most chaotic supply chain markets we've ever experienced. I'll talk a little bit about it once I get to the data center slides, but we are one of the few manufacturers in the HVAC market that manufacture our own fans. And that may sound trivial to a certain extent, it seems like a relatively small piece inside the overall cabinet, but that's the lifeblood of the HVAC solution.

That is the device that is providing air and moving air through that system and without it you can't sell air handling units. So as supply chain became chaotic and a lot of our competition had moved to motor technology and fan technology that was highly disrupted in the European market, lead times went out exorbitantly due to that constraint. While our engineering team, being driven with the DNA of true innovation in customization, quickly pivoted to alternate technology from motor technology, reapplied our fan on that technology and was able to provide and continue providing solutions to our customers and data center market throughout all that chaos. And that was a huge ability for us to gain leverage and market share within the data center market during that dynamic time.

But as the acquisition's gone through and we have the new relationship with AAON, one of the biggest aspects that we've been able to leverage is scale. And we talk about the scale in leveraging Doug and the AAON coil products facility down in Longview, Texas, but it's not just using that manufacturing footprint, it's talking about leveraging the engineering teams, engineering talent, collaborating across all of our locations to continue moving the needle. Looking at this not from a, "Here's our little window in BASX", but what is the overall opportunity to leverage the capacity and the talent of this organization to push this company further, continue acquiring market share, continue in innovating the product. And in this year and a half, there has been substantial movement in the overall innovation of the product, the manufacturing philosophy and leveraging of capacity and scale from a sales perspective.

So the two prime markets that we operate in, the data center market and the clean room market, represent the lions share of what we do at BASX. As we look at the data center market and where we are today as BASX as a manufacturer, we continue to be a small piece of a very large market. And so when we talk about the opportunity for us to grow, we have huge headroom from a market share acquisition perspective that positions us well to continue growing within the data center market and leveraging capacity from a manufacturing perspective within the Longview facility. But beyond that, it's a marketplace that continues to grow. So the demand for data center development continues to be strong and robust, certainly has a little bit of volatility in the short term just with some of the market dynamics that are happening. But the long term outlook and investment strategy for data centers continues to be a very strong end market with continued growth.

And so we have a coupled benefit where we've got a strong growth market with a very high ceiling for us. And so we're able to grow substantially greater than what the overall marketplace is growing. And we've shown that year after year from our overall revenue growth in data center sales. I talked a little bit about the supply chain risk, but the more we vertically integrate our process, the better positioned we are to manage disruption in chaos within the supply chain market as well as drive innovation. So as we look at alternate motor technologies and additional ways to drive efficiencies, by manufacturing our own fans provides us ways to leverage new technology faster than a lot of our competition can. This marketplace is also driven with long-term contracts.

And so as we look at some of what the supply chain dynamics have done. Pre-Covid, everyone loved the idea of just-in-time manufacturing and just-in-time purchasing. Obviously the pandemic has really shifted that mindset. And so a lot of the development contracts we have with large data center operators and owners are focused on multi-year contracts, looking out with very good level of stability and visibility in the production demand well into the future, which positions us well to be able to make smart, strong investments to support that growth into the future.

From a product standpoint, we offer a pretty broad range of products within the data center market. When we look at the overall product portfolio, you can kind of break it down into indoor and outdoor units. The vast majority of what we provide, and where the market has shifted, is really going into split systems where we have indoor air handling products, providing heat rejection of the server heat, and then transferring that to some outdoor unit to then reject that into the atmosphere. We have very strong, very competitive products that we're leveraging manufacturing across multiple plants to be able to support within those indoor air handling products. So whether fan coil products, which essentially is a product where you have chilled water air handling units that essentially surround the perimeter of the overall data hall and essentially are providing cooled air, pulling the hot air back through a return and continuing a closed loop cycle within a data center, but at very large scale.

So fan coil walls are a huge part of our product portfolio. Direct evaporative cooling, which is using a similar logic, but instead evaporating water to provide heat rejection within the space. Downflow crawl units, similar concept, just different configuration. But we also do provide outdoor units. So we provide units such as indirect free cooling chillers, we provide those coupled with air handlers. So we have a lot of customers we use where we're providing a package system, which is a high efficiency, air-cooled, free cooling chiller system that provides complete cooling to the overall facility, and then a variety of other customized solutions that we provide within that market. But the whole goal in our manufacturing process is to be able to provide these customized solutions at scale at a very cost competitive point. And we're very aggressive in the marketplace to be able to provide that customization in a cost competitive fashion at a very large scale at very large scale projects.

The second prime market that we live in is the cleaner market. And obviously right now there's a huge investment to reshoring the manufacturing of semiconductors within the United States. Our team is very well positioned to provide not just air handling products, but also air filtration, air delivery solutions to that industry as that market grows. Our team has been in this marketplace for decades, so very strong relationships as well as very good track record within the overall BASX organization. When we look at the velocity of growth within the semiconductor world, we have seen very good growth within the BASX product portfolio in the last five years in growing that overall segment within our business. One of the unique things about semiconductor manufacturing and providing solutions to semiconductor manufacturing is there's very limited competition. There's a very deep moat around that industry from an overall manufacturing perspective because the specifications and the requirements while similar, are very different than what a traditional commercial air handling unit is required to provide.

So the fit finish in manufacturing standards required to provide units to a semiconductor plant are very unique to that industry. And a lot of our competition or, a lot of the other industry competition, doesn't quite understand the level of detail required to build those units, which provides very limited competition in that marketplace as we look at that reshoring investment coming to the US. So from a overall product portfolio in the clean room side in the lower left there is the most obvious. We provide air handling units to the clean room market and that is makeup air units, so providing outside air into the data or into the clean space as well as recirc air handling units to the clean space. But we also provide plenum and grid and modular clean room systems. And so we talk about plenum and grid, we look at the ceiling and we have distributed air distribution in this building. When we go to a lot of semiconductor manufacturing, that same grid may be providing a hundred percent covered highly filtered air to a clean space to ensure there is very solid contaminant-free air coming into that space.

And so we manufacture that entire air delivery solution as well. And then we take that same technology and shift that into a smaller scale and provide that same level in high fidelity filtration to operating rooms across the country. And so we have a partnership with one of the largest medical device manufacturers in the world providing that stylist solution to operating rooms across the country on a contract manufacturing basis that is the same technology at a very different scale, but in a large volume.

So mentioned at the beginning of this slide or presentation, but it's been a year and a half since the acquisition occurred. And as we look at things we talked about and everything sounds great during a negotiation and the discussion of a sale, but we all talk about revenue synergies and cost synergies and pontificate about what they may be. But we've been extremely pleased to actually witness the synergies come to fruition from a revenue perspective, leveraging AAON scale in growing orders with our existing customer base. One of the things we talked about is before the sale, we were under a hundred million dollars in revenue, and if we look at what we are as a combined organization with the Q1 results annualized, we're over a billion dollar organization. That provides a much different conversation when you talk to some of our customers in terms of scale and providing overall volume of orders to us just given the overall balance sheet kind of strength within that organization.

So that's allowed us to continue to accelerate order growth within our existing customer base. We've been able to cross-sell products where we'd be able to sell legacy AAON products coupled with BASX products to operators on variety of data center and semiconductor projects. Obviously the manufacturing capacity utilizing in place capacity with the Longview plant has been a huge boost for us to be able to capitalize on the opportunity within the data center market. As well, we're using in collaborating with certain sales channel partners within the AAON sales channel to further accelerate sales opportunities within the semiconductor and data center markets. So there's a very select few of our sales channel partners that have extremely strong relationships with certain owners and customers that we've been able to capitalize on and continue to accelerate the overall order interest within that marketplace. But from a cost energy standpoint, a lot of work has been accomplished and there's a lot of work to be accomplished within leveraging the overall cost efficiencies from a manufacturing and a buying power perspective between AAON and BASX.

We are going to continue looking at how do we capitalize the investments we make and the capacity that we have across the overall fleet to basically maximize the utilization and drive demand to all of our plants within the BASX product. And by doing that help to improve the overall overhead leverage and really take advantage of previous investments. And then we are spending a lot of time collaborating and utilizing and capitalizing on the human capital across the organization. So whether it's the overall kind of corporate services aspects of the business down to the engineering aspects, we're spending a lot of time with our teams collaborating and utilizing the talent across the overall organization to our overall benefit. So kind of in summary, we've had extremely strong demand for BASX, extremely strong growth of BASX. Five year CAGR has been 47% in a year over year perspective.

We've had 143% backlog growth in the last 12 calendar months, with a 55% growth in our team and continued investment to support that growth well into the future. So when we look at the overall opportunity that sits in front of us with BASX and especially coupled with the AAON team, the future's extremely bright from not only a growth and opportunity perspective, but a profitability perspective in driving overall bottom line dollars in leveraging the investment that's been made across the fleet to really meet the needs of our customers. So with that, I'm going to take a short break and then we're going to come back with the first session of question and answers.

Joseph Mondillo, Director of Investor Relations:

Questions and answers here. Those on the webcast, feel free to send in a question and we'll try to get that answered for you. Those in the room, raise your hand for a microphone and please speak directly into the microphone, please state your name and firm. So we have a couple on the webcast, we'll start with those. You talked a lot about the transition that the company has been undergoing over the last several years. Have we fully realized the benefits of that and can or can we expect more benefits going forward?

Gary Fields, President and CEO:

That's a perfect question. We've seen a lot of it, but I don't want to misconstrue this. There's a lot yet to be gained. The team has gained a lot of confidence. They had a lot of ability. It was the need for recognition of their ability to make decisions, be held accountable to decisions in a very meaningful way such that it was not corrosive to what we were trying to do. We've been able to build this collaboration as various leaders have already talked about today very successfully, but we're growing the company fast enough now that we have good coverage of everything we're doing today. Where I want to see us continue to grow is build our bench deeper and deeper so that we don't become bandwidth limited by any individual in the leadership team, myself included.

One of the things I've tried to do is leverage what I was doing through empowering all these that are sitting around me and that are involved in the executive leadership team going down into senior leadership team. So it's continuous evolution. Anyone that ever says, "Well, yeah, it's as good as it can be." Well, I think those are foolish people. I think there's always room for improvement no matter how good you are.

Joseph Mondillo, Director of Investor Relations:

Okay, thank you Gary. Second question. You stated that upcoming regulations are going to consume a lot of R&D and engineering resources over the next few years, limiting a significant amount of innovation across the industry. How does this affect AAON versus others when it comes to innovation?

Gary Fields, President and CEO:

Well, I can speak directly to AAON's efforts there. We have a product development roadmap that we maintain for our accountability to what we're doing, how we're going to do it, and when we're going to do it. One of the reasons that we discontinued the WHWV line for instance was, there were a bit over 14,000 hours of laboratory time required to convert that to the new refrigerant required in January of 2025. When we looked at the income potential, both current and future for that product line, we realized that that was not a great investment of our R&D time, was not a great investment for the company overall. And we've been able to repurpose that into things that are much, much more beneficial.

So just removing the need for that 14,000 hours opened up a channel for us to rededicate that time for things such as the cold climate capable air source heat pump, which currently is capable of zero degree ambient, but we've already developed strategies to go to minus 20 degrees, which when we reach the minus 20 degree point, we will have captured all of North America. The significant number of hours, the number of hours in the year that are below minus 20 anywhere in North America are very, very minimal and they're pretty much unpopulated areas.

Joseph Mondillo, Director of Investor Relations:

Okay. Just a reminder, anyone in the room if they do want to ask a question, just raise your hand, we'll bring you a microphone. Another question online. Your current product portfolio has realized tremendous growth in recent years. Are there opportunities to further diversify the portfolio and would you expect that being through organic investments or would it require M&A?

Gary Fields, President and CEO:

We maintain a five year strategic plan, including the outlook on product portfolio development. When we acquired BasX, that was very strategic in that we had aspirations to be in the commercial and industrial custom air handling unit market. It was a small portion of what their current business was, but the knowledge base was there to grow that substantially. So we recognized there were certain developments primarily to do with software in order to get from a user interface all the way to the plant floor with software as opposed to stopping in the middle with sales application engineers or other county engineers' time required. So that is an organic growth opportunity that we're working on at this moment. Software is being developed. It's moving along actually ahead of schedule. We're looking at production facilities to make sure that we can service what we are able to book. We want to make sure that we're absolutely prepared there.

So that's one of the product portfolio areas that we've been very open about our intent to move into. There are things within the existing portfolio that'll continue to be refined, yet these things might not be visualized as an absolute expansion as far as a number of boxes that we produce discreetly or uniquely. They'll be more like innovations within the box. So that is very much a strategy that we have planned out with both tactical and strategic plan documentation. M and A is something that I would've said prior to BasX that we didn't have a strong appetite for. BasX was a company that I had a lot of knowledge of the people there from my prior activities at my other company, had a lot of confidence in them. So it was a real easy thing. It's kind of like marrying someone that you went to high school with.

So it was quite easy in that regard. You didn't have to go out and go to the other high school and try and go shopping for somebody. It was just a wonderful thing. And that acquisition has allowed us to create a playbook for how we do this. The integration, all the back office systems that were required to be integrated. We've created a documentation of all of this. We continue to work on further documentation. And so I would say that another opportunity might not be as daunting as this one was, and what kept that one from being overly daunting was this familiarity aspect that I mentioned. So the next time we might be able to go outside our comfort zone a little bit where we don't know the company to that degree and look at something, but there'd be some gates that we have to go through with any M and A.

Cultural aspects are primary to that. Sales channel integration. Next gate, it has to go through. Manufacturing strategy, next gate it has to go through. So you're not going to find us going out and saying, "Oh, well we are great at sheet metal fabrication. Maybe we ought to build washing machines." I mean, they are just sheet metal and they do have motors and pumps in them. Well, that would make zero sense for us. If we were to pursue another acquisition, it would be one of those, "Oh yes, absolutely. That makes sense for AAON, because of these gates that I just described we would go through."

Joseph Mondillo, Director of Investor Relations:

Peter, I think, do you have a question?

Peter Psallidas:

Yeah, thanks for taking my question. This is Peter [inaudible] from Rockefeller. I just wonder, you guys obviously we saw so much around the capacity expansion plans, which is great. I'm just wondering how you guys balance that, this multi-year outlook that necessitate that with what it would look like should we enter a period of more material macro softness that actually impacts you guys, even though we really haven't seen it yet. Would you take the foot off the gas a little bit? Would you maybe often... I know you've sort of seized on price for a little bit right now. Would you rather kind of go that route and just sort of maintain current capacity? Just wondering how you guys think about being nimble with the macro spending.

Gary Fields, President and CEO:

So what we look at is what is the projected growth rate of the company, keeping in mind that it takes three years roughly from the day you say, "I need more production facility footprint than what I have today." It takes three years to make that decision, flesh out the plans, build it and put it into production. So we have to keep a minimum of a three-year outlook in front of us what we think our projections are. Now, three year outlooks are much easier to digest than five and 10 year outlooks. I think one year you absolutely know what's going to happen. Two years, you've got a very good idea what's going to happen. Three years maybe not quite as good an idea, but you're looking at some macroeconomic data that's a little longer forecasting and saying what we think's going to happen in three years. Going out beyond, that's a little harder.

So the answer to that question is we'll continue to monitor what our production expansion capability is, knowing that we've got to plan for additional facilities when we reach that ceiling that says with forecast and projections for the next three years, we're going to reach the maximum production rate. Right now we have in excess of three years in Tulsa, available to us is direct result of two things primarily. One is the group we call Space Force. They continue to amaze me with their ability to find more efficient ways to add more capacity to this existing footprint. Each and every time that I think that they have fleshed it out as far as they can go and actually declare, "Oh, this is as far as we can go." It doesn't seem like much time expires, and they tell me, "Hey, we just found a way to put more production capacity in this footprint."

So I'm very proud of the group Space Force and what they've been able to accomplish. They've now recovered over 40% of this facility here in Tulsa for beneficial manufacturing from the day they started. That's considerable when you're talking about a million and a half square feet. That's a lot of space that they found that we didn't need to build a new building because of that. The next thing was with proper business analysis of product portfolio and understanding what is sensible for us to build, what generates best revenue, best profits, most consistent growth opportunity, not just on today, but what are we looking for three to five years out? What are we doing with these products? So this is one of the reasons that we discontinued the WHWV. It did not have good alignment with our goals going forward. It was utilizing space that was better utilized for the other product lines. That probably in itself, that one decision gained us in the range of one to one and a half years of additional growth opportunity in the rest of the portfolio. So that's how we look at things. We're not wanting to build buildings just to have more buildings. We want to make sure that we've got a three-year reasonable growth rate, reasonably certain growth rate captured in our production ability before we pull the trigger. So let's go to Longview for instance. We went years and years and years without building a building. Our lead times were way too long. Our ability to continue to grow and supply Tulsa with coils was being compromised. So we jumped in. We built a new building. Two years ago back in February is when it went into production. We envisioned that it had a five to seven year life expectancy before we had to expand again. We built the building with the intent that we could double it. There was three permanent walls, one temporary wall.

Well, lo and behold, along comes this opportunity to buy BasX and as Matt described in his talk while ago, we were able to easily integrate some of that space in Longview for a BasX product. Well, they used up about two years of our expansion with that opportunity, which is a great thing. What it showed us was we didn't have three years left of growth opportunity in that facility as a result of what we added for him. That's why we pulled the trigger and are starting the new building. Okay.

Joseph Mondillo, Director of Investor Relations:

One more question on the webcast. If anyone has any other questions in the room, please just raise your hand and then we'll take a break. This question is actually for Stephen. It seems you stated that the supply chain issues definitely still persist. If and when supply chain returns to pre-pandemic normal, how significant would this be to productivity and margins?

Stephen Wakefield, Chief Operating Officer:

What a great question. I'd really like to know who came up with that question. That's an answer that I absolutely don't have, but I'm very excited about. I'm very optimistic about. I can tell you that our race car runs over speed bumps constantly, and I really believe in my heart that we don't really know what this factory will do until those speed bumps are gone. Even though we have years of metrics and a lot of talent running it. The idea that our shop would be fed at a rate where they were never hungry tells me that the number is probably going to surprise me, but I would, if you need a guess, I would say there's at least 10 or 15% efficiency to be gained without such problems.

Gary Fields, President and CEO:

I want to add to that just a little for Stephen. I watch numbers on a daily basis. They give me production numbers. On the days that the production numbers don't meet expectations, I don't even need to call and ask. I know we had a supply chain disruption. The days that we don't have a supply chain disruption, I start seeing what the rhythm is. When they get eight or 10 days in a row of no supply chain disruption, that 10 to 15% efficiency you're talking about is absolutely there, empirical evidence of it. So I just wanted to give you some confirmation. He's not just swagging this out of thin air, that we have empirical data that I observed that supports exactly what he said.

Joseph Mondillo, Director of Investor Relations:

Okay, great. We're going to take a break right now. About 10 minutes. Oh, I'm sorry. I guess we have another question from the audience.

Bob Mitchell:

Bob Mitchell from Conestoga. Maybe building on that question about the supply chain, how confident, given the growth that you see, can the supply chain keep up with you and how much change have you seen in your partner supplier base as a result of that growth that you've seen over the last several years? Have you had to qualify a lot more and et cetera?

Stephen Wakefield, Chief Operating Officer:

Well, we're very confident that we can continue to grow and the supply chain problems can be handled, if you will. And this is very much relative to our process of dealing with it. There's certain higher risk items that we have built a buffer tank on that give me a higher level of confidence of that. But our relationship with our vendors is the main reason why I'm answering that way, which answers your second question. We have always had a very good relationship with our vendors because, well, frankly, we pay very quickly and we've treated them well. But during this time where they've struggled, where they've had challenges like they've never seen before, and then they saw us having success with it and then our response to them was... It was not, "What's a matter with you? We can do it. Why can't you?" It was, "Let us help you with this."

And it was a very interesting situation. For several months, they did not believe us and we tried to get into their factories. We tried to get them into our factories and they just didn't want to get yelled at. But at the end of the day, we broke through that barrier and we began helping them and many, many, many of them saw immediate impact to their situation. So I would say that bond, that business partnership is exceptionally good and because of the challenges of that, it's that much better. So I feel very confident that that ceiling, there's still a considerable amount of head space there. Does that answer your question?

Gary Fields, President and CEO:

I'd love for you to real quickly tell the story about the factory that burned down and what we did for them so that they get a better flavor for this. Not everyone in this room understands that story. And this would be one example.

Stephen Wakefield, Chief Operating Officer:

One example.

Gary Fields, President and CEO:

Of how you've gone about helping vendors be great suppliers for us.

Stephen Wakefield, Chief Operating Officer:

So we have a particular vendor that's a very unique vendor. They make a part that is, there's not a lot of other options in the industry. So that means that a lot of companies like AAON are very much dependent on this company and it's a great company, but they were dealing with the same challenges everyone else was, and then all of a sudden, 75% of their factory burned down just like that. 75% of their factory's gone. They're in dire straits. We reach out to them to help them. They didn't believe us for a minute. We aggressively reached out to help them.

And long story short, we found a way to help them produce their product, which we are doing today in our factory, and we are now a vendor of theirs. So we supply them with parts that they could not make so they could supply us with parts that they couldn't make so that we didn't have to not have parts. It was like a immediate solution and we never had a single shortage with that company, even though they were in such dire, and they're extraordinarily grateful for this, obviously, because we kept them in business frankly, at the end of the day.

Jean Ramirez:

Hi, this is Jean. Hi, this is Jean Ramirez from D.A. Davidson. Thank you for opportunity. So I have a two part question looking at long-term targets. At the Longview facility, could you provide some color on how much revenue can come from BasX and looking at AAON as a whole, what is the totality of revenue for this business? What is it capable of? And are we looking at past three, five or 7 billion. You provided three-year targets or five-year targets? So.

Gary Fields, President and CEO:

Well, let's start with the first one there, the BasX opportunity built in Longview. What do we think on that, Matt?

Matt Tobolski, President of BASX:

Yeah, I'd say the opportunity is pretty immense. The key, and as we develop the additional space and work with our engineering teams to basically identify additional products in our data center portfolio, the headroom is far greater than what the revenue is today in Longview. There's substantial growth for headroom many times what we're doing today because one of the great things about these products is when we talk about what the scale of these projects are, data centers continue getting larger in the overall scale of construction. And so the project size that then gets realized from an HVAC manufacturing perspective is very substantial and it's single designs, high repetition. That is the best opportunity to leverage the talents within the Longview facility. And so when we talk about a 16.2 million dollar order, that's a phase of a project and there's many projects like that. And so when you kind of start pulling that together, what the marketplace looks like, the ability to leverage that manufacturing capacity with additional product lines that we can leverage that manufacturing skills with, we can be manyfold what we're doing today from Longview.

Gary Fields, President and CEO:

Speaking to the overall company, my group says, "This first billion's been pretty hard to get to. It's taken us 35 years to get there. But boss, we think that next billion's going to be much easier to get to." There's a lot of things put in place that are scalable. We're constantly looking at the production capability as I mentioned earlier and how we think of that. We're also looking at the investment required from a human capital standpoint, the development. We have extraordinary leadership development programs here within AAON. We interface with entities such as Oklahoma State University, Spears School of Business, to help us develop some of these programs. So you can put physical infrastructure in place and if you don't have human talent to operate that structure, you can't grow. This is something that we have very intentional plans that we've been executing on. You've seen a lot of evidence of that sitting right here next to me as well as others that you'll speak to.

So we're very aggressive with that. Our ability to grow headcount on the plant floor as well is proven. There are no other manufacturing companies like us that have been able to grow headcount in this pandemic era the way we have. I can't imagine how nice it's going to be when we get into normal times. I mean, just think of how we've grown in some of the most demanding times. Now, give us normal times, kind of like you asked about supply chain. Like Stephen answered, we've developed programs that are wonderful with being able to scale the personnel. Sales channel is the next thing that is very, very important to us to be able to continue to grow because we don't directly sell anything other than part of BasX portfolio to primarily clean room and chip manufacturing and that sort of thing. So we're highly dependent on the independent sales channel.

Well, that was a role that I spent many years of my career in and have a great deal of understanding of that and have established a team here, Andrew Edmondson right here, bringing him aboard, understands the sales channel development as well as I do. So we've got a great team of leaders within AAON to help the sales channel to continue to develop. Our expectations are clearly communicated to them that if you're not growing, we're not growing, you must be growing and how do we help you do that? So we've put in training programs. This room that all of you are sitting in here, we hold a one-week training class that goes on for six months. It's one week each month for six months called Masters of HVAC. We've graduated over 500 sales channel partners through that training program.

I was speaking to our technical training leader this morning and he says he graduates over 500 service technicians per year currently, but he's working on a plan to increase that to 800 per year. So being able to scale all aspects of the business, you have to sell it, you have to produce it, you have to service it so that it is meeting everyone's expectations and operations. If you don't have all pieces of that puzzle prepared to grow together, then you cannot grow. That's why it's been very difficult to get alignment to get this first billion behind us. Once we got all of this infrastructure in place and understood what it took to get to that, then it becomes much more scalable. So I don't know what the ultimate number is, but I know when I look at just the legacy rooftop business has the ability, we are...

Last year we were 550 million in package rooftop units in a many billion dollar, what was it, six billion dollar addressable market. There's 11 times right there. For us to get up in a 25, 30% market share in package rooftops is very, very achievable. Then when you look at all the other growth opportunities, indoor air handling units. Our current total addressable market of indoor air handling units is a larger exponential number than package rooftop units. This is one of the driving factors for why we're investing more in Longview and why we continue to look at how to invest for indoor air handling units, data centers, clean rooms. Oh my goodness. There's just so much opportunity out there. I don't know where this thing's going. I know that we have the team in place. We have the strategy in place to grow at a very, very strong level, stronger than historic. If you look at the long-term past, I think that our compounded annual growth rate and actual volume will continue to strengthen as we go forward, and I think it's very, very sustainable.

Joseph Mondillo, Director of Investor Relations:

Okay. We'll have more time for questions and answers later this morning. We're going to take a quick 10-minute break and then we'll get back to it.

Joseph Mondillo, Director of Investor Relations:

All right, hope everyone's been enjoying the session so far. We're going to get back to it. And we're going to start the second session and we will finish with the Q&A after this section. But to start the second section, we're going to start with our marketing strategy and with Jeremy Cavness, our Director of Marketing.

Jeremy Cavness, Director of Marketing:

Great. Thanks again for being here. My name's Jeremy Cavness, I'm the Director of Marketing, and we are going to talk about the state of marketing at AAON, if this would advance. Give it a shot. Okay, perfect. There it is. A good place to start, I think, for this segment is the history of marketing at AAON, just so you can understand a little bit about the organization and how they've treated marketing throughout the years.

Generally speaking, marketing decision at AAON have been made by the founder. Marketing decisions have been engineering focused, in fact so much that we've had engineering individuals running the marketing department and doing those things. So also marketing often has been viewed as a cost center or ROI hard to measure in some cases, especially on the advertising side. Does advertising do a good job supplementing the AAON business model, going through the sales channel and those types of things? So third here is bandwidth was extremely limited. So in the areas where we were putting effort, there just weren't enough resources, generally speaking. Overwhelming prioritization of product documentation, technical writing and engineering content were the result, always focused on the engineering. And some of that is by strategic decision.

Gary said in his opening remarks yesterday that the really good reps don't need marketing to be successful. We sell our products through solutioning and application design and being that guidance, that north star for our customers. The problem is that a good portion of our rep offices don't necessarily perform at a really high level, and so that has always limited our growth in that regard. And then lastly here is the primary focus has been mostly on features and not customer benefits. Let's see if we can get this to advance. There we go. So all in all, the true discipline of marketing has never been a priority or been in existence here at AAON. Okay, so a little bit more about the history of marketing at AAON. I think if there's anything I want this audience to leave with today, it would just be this visual right here, in that since the company was founded all the way up until 2021, 535 million in revenue... Pressing hard, I promise. There has been no marketing strategy. And this concept, this idea is not trivial. This is very important. So if you're taking notes, write this down. It's that up to this point, there's been literally no emphasis placed on marketing outside of supporting the rep channels with engineering content that allows them to go in and be that solution provider. I thought my segment was going to be fast.

All right, so then why the change? So why invest in marketing? If we've been up and to the right for 35 years, why do we need marketing programs? So we've talked about a few things. We've highlighted the fact that we do want our rep force to be performing at a higher level than they have in the past, and some of that is taking that 80% and holding their hands, producing content that's more customized, easier to utilize, easier to learn our products, easier to recall our products, and easier to sell our products to their customers, so there is that. The other real obvious thing here is that we are in grow mode. AAON is hungry to grow. We don't want to stop at 500 million, 600 million, a billion. We have a vision to go way beyond that, and we believe in order to do that, we're going to need to supplement the sales process in some new ways.

The other thing here is evolving consumer behavior. People have changed over the last 35 years. The way they consume information and knowledge has changed. Number one, people are extremely busy. They're inundated with advertising, inundated with messaging, they're surfing multiple channels, and they've overall become harder to reach than before. Customers are doing more research. They're learning and connecting and experiencing with things in all new ways. And all of us can speak to this when we go and shop on Amazon or we go do research about the next big vehicle that we want to buy or house purchase even. The real estate market has been disrupted by research. And so we as an organization, we have to understand that and we have to embrace that. And the point, I guess the bedrock and where I'm headed with my strategy is to understand these behaviors better and be less concerned with finding customers and more concerned with being found.

The last thing I want to highlight on evolving consumer behavior is relational and not transactional, and this is something I think all of us understand maybe subconsciously a little bit, is that there's been an increased emphasis on a relational connection with brands. Starbucks is a great example, an organization that's been around a long time embracing this concept of, hey, let's talk to our customers. Let's be a part of their lives, let's connect with them. And similarly, customers want to believe in the brands they buy from. So bottom line as it relates to history and where we're headed, reps have been largely responsible for marketing AAON's products with limited support from corporate. And when reps do marketing alone, the result is pretty shocking. Or maybe it's not shocking, maybe it's easy to understand. That's a couple of things.

AAON narrative becomes misconstrued, diluted or incomplete, missing altogether. Every rep is selling a different version of AAON, east coast, west coast, north and south. The AAON narrative and the AAON value proposition can be muddied and it becomes a different product altogether. Marketing assets are usually undeveloped, inconsistent or disparate from one another, and then opportunities in sales are missed. At the end of the day, growth for everybody is limited. That said, things are changing, which is where we're headed. So I like to kick off my strategic slides with this idea that the objective of a marketing program is not only to build a brand, but to dominate a category. And I like to say this, lead off with this, because so many times brands invest in marketing teams only to focus on the pictures and the images and the look and the feel. But it's important to understand that AAON is moving forward with a real strategy to address the concerns that we've already talked about.

So the big strategy really is fourfold. Number one is having a strong foundation. Two is humanizing the AAON brand. Three is owning the narrative better, telling the AAON story. And then four is creating deeper relationships with our reps. So we're just going to take a second to dive into each one of those things. Strong foundation. Strong foundation for me is three things. It's people, culture, and tools. So we're talking about the back office, having the backbone inside of the organization to do marketing efficiently and drive results. Results look like this. They live at the top. As the foundation gets strong and strategies start to be implemented, you get things like creative and tactical processes and timelines. But there is a key difference between the two, and why I like to start with strong foundation is because I want to create value for the organization. That's been the strategy since day one is to create value that can last way beyond me and go into the next 10, 20, 30 years. On top of that, you're really talking about driving results. So strong foundation, create value, everything else, that's where the results come from.

So what do we do? Human capital and strong partners. Number one, we add more talent to the mix. This part is critical. Like I said before, we were under-resourced. We didn't have marketers as a starting point. We had engineers doing marketing. So add talent to the mix. Right people in right seats. Be intentional about where we put people and what their focus is. And then perhaps most important is develop outside relationships that help us accelerate through our initiatives. I'm bringing in expertise, so I'm a huge fan of outsourcing, and along the way we've developed strong partnerships with agencies around the country that have helped us execute some of our initiatives. On the tools side, enterprise tech. AAON didn't have that on the marketing side. We used paper mostly and printing and printing documents, mailing documents to rep offices. So one of my big areas of focus has been tech, talking about new CRM, adding automation, new websites, project management software, digital asset management, all the things that we need in order to be successful.

Two on the strategy is to humanize. This one, what does that mean? What does it mean to humanize? And I think it's important to clarify. The best way to describe this is when I was vetting AAON as an opportunity for myself, looking at the competition, looking at the landscape, looking at the opportunities, there was one low common denominator and it felt like there were no people involved. Looking at the other brands and the major players, the Daikins, the Tranes, the Lennox, the Carriers, everybody. There was just a lack of people. And to me, that was a red flag and something I felt like we could execute on really well. So along the way, talking about strategies and putting together websites and content and even the paper products and the digital marketing and all the things that we're doing from a content side, showcasing our people has been a huge priority for us thus far.

We wouldn't be anywhere without our people. I think we say that in several of our marketing videos that are on the websites. I know we say that in these presentations, but it's really our people that are driving us forward. Bringing them to the front, humanizing the brand, I think gives AAON a competitive advantage in a marketplace that's ready to embrace that, so it's been a major priority for us.

Number three on the strategy is to own the narrative. This is probably the most important thing for us is that the narrative for AAON has been lost over the years. What I found in my initial research, first two or three months working for AAON is that for the most part, everybody internally had a good feel for who AAON was and what AAON did. The problem is nobody would say it the same way. They had their own way of saying it, so number one on the list for me was to clarify our basis to compete. Listening to the executive team, listening to the leadership team, and trying to encapsulate our competitive advantage into a few words: long-term value, premier ownership experience, things that you're going to be seeing in the future. We're going to be casting that verbal vision and that messaging strategy for AAON.

Again, messaging strategy. We cannot offer real value until our customers understand the value we offer. That hits the nail on the head is AAON has a ton to offer in the marketplace, but it was confusing to some people. They didn't understand it. It wasn't clear. This might seem easy, but a lot of companies struggle with this and it's something we've been prioritizing. And then lastly on the narrative is dominating the airwaves. This is putting a strategy in place to disseminate the message, propagate it into the world, and that's all channels. That's traditional advertising, digital strategy, all the things that you can expect out of a high-performing marketing department. Number four is to create deeper engagements with our reps and customers. And when I say customer engagement, I look at four things specifically as tactical ways we can do that, and most of these have already been hit on today, so I'm going to be brief here. But training programs. AAON has world-class training programs. Masters of HVAC, our new rep training and our academy, our technical academy are three, just to name it a few here. We're going to be supercharging these training programs. Marketing's come in to try to add value to these training programs, give them some airtime and promote them in a new way that has never been done before. Webinars, customer visits, and then the AAON experience.

I'll touch on the AAON experience for just a second. We call it the trifecta in my department. It's a combination of the NAIC, which is the lab, the brand new exploration center, which can't be understated. And then one thing that we've had in play the next last couple of years is our mobile experience, which is like a transformer if you haven't seen it. It pulls up to the facility and it just unloads and it's an amazing experience around our product and our value proposition.

The last thing I want to talk about, and I know we've hit this really hard, but the point is it can't be understated is the value of the exploration center being the building that's designed to separate us from the competition. 28,000 square feet, 10, 000 square feet of exhibits and AAON products, conference rooms, interactive exhibits, so on and so forth. This is a living facility for us. It's a place where we want our customers to come. We want them to experience the AAON value proposition for themselves, to touch, to feel, to do side by side comparisons. All of those things are important when it comes down to understanding the AAON value proposition.

The other thing that's cool to note is that's a net-zero building, and so we get to actually live the promise that we talk about, and being efficient and doing those things. So the exploration center, again, cannot be understated. That's where I'm going to end. I'm going to hand it off to our sales director, Andrew Edmondson. One thing just to keep in mind for AAON is that the time is now, and I think that that's what's been boiling with yesterday's walkthrough and today's meeting. The time is now for AAON. It's a great time for us to capitalize and do some good work. Andrew?

Andrew Edmondson, Director of Sales:

All right. Thank you very much, Jeremy. Well, many of you I don't know, so I'll spend just a moment tell you a little bit about myself and actually attest to many of the things that you've already heard. I've been in the HVAC industry about 23 years, spent much of that, about 21 of those years, at a particular other manufacturer where I led sales in a variety of other roles. And I'll tell you, it's not just talk that you're hearing here today about the value of the people and the culture. I'll attest personally that that was a lot of the conversations with the variety of leaders here as we had talks about me coming on board and really wanted to vet that it was a good fit. And I'll tell you, it has been an awesome fit. I am having the time of my life, love being here, and really, really having a great time.

So, glad to be here with you today. Glad you all made it in, and I wanted to start by talking about how we go to market. And to set the stage for that, I want to talk about the different ways that manufacturers go to market with their products in their channel and path to the customer. Starting with the left here, factory direct, that's a model where a manufacturer owns the channel. So they have direct branches of maybe 100, 120, 140 individual branches in all markets across US and Canada, just paralleling to our primary coverage area as been mentioned. In those branches are employees of the manufacturer who sell the equipment. There's a whole operation staff that goes along with that to ensure project delivery. And then as you can imagine, there's a whole hierarchy of internal structure to lead that organization. So that's factory direct.

There's also a hybrid, which is where some of those hundred plus markets are factory direct and where some of those markets are a third=party representative of the product. Oftentimes, it's with a manufacturer who already has a physical presence in those markets, so oftentimes those representatives roll into a local presence of the manufacturer, not up directly to the factory levels. That's an important distinction that I'll talk a little bit more in a moment.

Then there is multichannel. Multichannel is where there are multiple brands of essentially what's being manufactured out of the same factory with different brand naming, different model numbers and goes through multiple representatives or factory direct channels in each market. And so there are some complexities in that, but there are some perceived advantages. Really important that the manufacturer is aware of is that a net positive to their business? Oftentimes there's complications that are counterproductive. Sometimes it's helpful in reaching more of the market, depending on the strength of each rep.

Then there's the independent rep network, which you've heard us talk about many times before, including today, and obviously is the channel that we subscribe to and have a lot of conviction in this is the right channel for us. And this is where we have small business owners, some not so small, that represent our equipment in each market. They're a third party, and they roll up into our organization through a regional sales manager structure that rolls up to me, so that's what I'm leading here at AAON.

So there's a lot of benefits of this. Before I get into those, I want to just discuss some of the movement that's going on with some of the other manufacturers in the marketplace. So there are two manufacturers in particular that play in our space that are in an active and deliberate and long-term transition towards a factory direct or factory owned model where they are in the process of acquiring some of what used to be independent representatives or buying large stakes in those firms to take them in-house. And there are some reasons that we can get into if you'd like on why that might be their rationale. There's other manufacturers that are going the other direction, are going more towards a hybrid model where they have local presence, but they are adding more third parties to complement their capabilities in that market and some of the complexities come into play there. But for whatever reason, that is the answer that those manufacturers have chosen.

I'll tell you the reasons why we've chosen and have been dedicated to the independent rep network for a long time, and a lot of that has to do with the right relationships in the market to serve the customers. Our business is nothing without a close, deep personal relationship and a lot of credibility in the marketplace to serve customers. That's one aspect of it. Another aspect of it is our rep network is really very finely tuned to scale up themselves, and when they have broad line cards, because you see our reps don't only rep AAON, they rep other products that are complimentary to AAON to put together a whole package of offerings on a system. So when you're a rep firm that offers that suite of offerings that fill out the entire HVAC system, you have a tremendous amount of credibility and ability to serve your customers better than a single product offering represented directly by the factory can be oftentimes, and that's what we find is exactly what's happening.

You also see some of the dollar sign indicators on the level of cost that is seen by the manufacturer in the various models. The independent rep network is a very low SGNA and overhead for us, meaning as we scale, we don't have to make additional SGNA and overhead investments in the channel. The reps are doing that, and they're able to run very efficient businesses in that regard because of their breadth of line card, because they're in the service business, because they're in the aftermarket parts business. All of those elements help them have the appropriate staff to represent that line card and be very successful in the marketplace. So for all these reasons, that's why we have been convicted and will remain in this model.

So speaking of rep network, and it's been touched on a couple of times throughout today, so I'm just going to add a little more color behind this, is what we've been doing to help our reps increase their foundational capabilities to have strong rep firms. So like I mentioned, these rep firms are independent rep firms, many times operating in one, two or only a few markets, and so the ability for them to run strong successful businesses can be greatly complemented by what we can bring to them in the way of helping tune up their capabilities or sharing best practices with other reps in our network. So what I have at the bottom represents the foundational attributes of a solid rep firm as we see it. And these are 12 attributes, and many of them go back to the same thing that Gary Fields was doing as a consultant when he came on board here as a consultant over 10 years ago, and is very closely aligned with how I see the foundational activities as well.

So I've been working with the regionals sales manager team to make sure that we all have strengths in coaching and collaborating with our reps around these, and I'll explain just a few of them to give you a flavor for it. One of the most important obviously is a strong business plan. So we want our reps to have very strong business plans that include succession planning, that include talent development, that include recruiting. We want rep firms who have a line out the door of people wanting to come work for them. Do they have the right culture? How well does that align with AAON? These are the sorts of things that we look for within their business plan. And so we can find a rep that has a strong business plan, we can find a rep who may have some work needed and we can match them up, and through the rep council, which I'll talk more about in a moment, we can help make connections like that.

Another one I touched on already a little bit was talent management. So what is the recruiting process for the agent? How are they attracting talent? How are they retaining talent? Do they value people in the same way that Stephen Wakefield talked about the value that we place in our people? And what can we do to help them learn that? Many of our reps are very, very good at this, but as you can imagine across all these 12 elements, everyone's going to have something to work on. So I want our RSM team and myself to be very engaged in identifying which of our reps have the strengths and which have opportunities to increase their abilities and let's help our team grow across that network. That's what we can do as a manufacturer with disparate individual reps in various markets to strengthen them. So that's an incredible value we can bring to their business, and we're doing that.

So over this timeline, and the reason why I wanted to overlay this across our sales growth over the last 10 years, similar to what Jeremy showed you with the marketing plan, we have been executing on a rep development strengthening plan dating back to when Gary came on board 10 years ago and continuing as he came into the President role, CEO role. And through that time and towards the end, Rob Tyson, when he was pulled in as Director of Sales and now VP of Sales and Marketing, myself being pulled on board, we're increasing the horsepower, the quantity of touchpoints that we can have with our reps in this effort. So we have a really strong focus on developing a strong rep network.

Through that time and moreso earlier on, you can imagine some of those reps responded very positively to strengthening their business, and some unfortunately didn't have the full capabilities and ability or desire to become what we needed to be a strong AAON representative, and so we have made changes were needed along this timeline as well to pull in the best rep in every market, and we're in a really, really strong state at this point.

So when I came to AAON last October, I've been here just about seven months. Actually, yesterday was seven months exactly. And so part of what was a really good fit is where I came from was one of the manufacturers in that hybrid model. And when you look at AAON's representatives in the marketplaces that we have, when you look at the rep firm and the market locations, I already had familiarity and close relationships with 48% of the reps. So that was a really great cultural fit for me. In addition to all the other things you heard about today was my familiarity with our specific reps and the key leaders. So when you look at the upper echelon or the larger markets that we serve, that's the predominant of the reps that I was close to, so that was a real great fit.

Pretty early on in my time here, I wanted to get to know the other 52% that I hadn't met before, and so spent a lot of time with my team traveling around getting to know those rep firms, and I can tell you that we have an extremely strong rep network I have a lot of confidence in. So now let me talk about a few ways that we're engaging in supporting those reps, and there's many other ways that we do. What I'm highlighting here is four ways that we do that are either very new to how we are supporting our reps or our ways that we've reinvented in recent time. The first of which I'll talk about is the rep council. So the rep council is a pretty small group of individuals that represent our rep firms, and then there's four or five of us on our side that are very involved. I lead it from the AAON side. Gary Fields is very involved. He previously led it. Rob Tyson is involved, and all of our RSMs are involved.

On the rep side, it's 11 individuals who are generally owners or principals of our most distinguished rep firms. Occasionally we cycle in new members to keep it fresh, but usually it's a multi-year term. These 11 key leaders have been involved for quite some time and have tremendous contributions. They don't only represent their 11 firms though. They're also representing the whole rep network. So we have sort of the rep network divided up to each of them and they help cascade information up to us. We meet quarterly, they bring feedback, we have a planned agenda, usually spend a day and a half together, and we go through a lot of great discussions that enable us to stay close to the market needs, to the rep needs, and also we can share with them a little bit of behind the scenes of what we have coming to get their feedback before we finalize decisions or finalize a launch or go to market with an offering. We have that very, very close pulse with the market through the rep council.

The one on here that I'm probably the most excited about is the one on the top right, which is the product market manager. So you've heard a lot today about innovation and how AAON was founded on innovation and what Norm brought to it all the way to the manufacturing processes, and all the things that make us unique and extremely difficult for the competition to replicate. This role is about how do we continue that and chart the course of our offerings into the future. So what you see here is an individual, and we've started with one individual, was an internal promotion of somebody that's very talented in the organization, has tremendous technical knowledge of our products and has a very high level of being inquisitive with the marketplace and technology.

So this is somebody who knows the internal systems at AAON, knows what we have to offer, and is going out and getting a lot of voice of customer, voice of rep, understanding from our senior manager of government affairs and regulatory environment what is coming at us from those elements of the marketplace, and boiling all this together to find out where should we go with our product development. It could be features and benefits being added to our existing products. It could be new product development. Gary touched a little bit on some ideas we have for the future. So this individual will be charting the course of our product development and it will not just be one individual. We're going to build up this team, and I'm personally very engaged with that myself because hopefully it's coming through that I'm very passionate about this. So I think it's extremely important for us to stay fresh and ahead of the competition.

The example was given earlier around how far we are ahead in terms of efficiency, so that's just one example of where we're not spending lab hours trying to catch up to energy efficiency standards. We can spend lab hours with R&D on new products and continue our leadership position, so that's what we're going to do. Continuing on, the training has already been touched on, so I'll hit this one relatively quick, but as Gary mentioned, hundreds and hundreds of people have been graduated through masters of HVAC class as well as new rep training. One thing that's very unique to us that I don't want to be understated or just fly by you, but our AAON Technical Academy, we are training service technicians that are not employed by AAON. We have AAON technicians training our customers how to service our equipment. And you'll find that not all manufacturers subscribe to this level of training of customers or this level of training of the reps.

We want to make sure that our reps and our customers have all the training they need. We're not holding anything back from them. We want them to be able to own and operate and maintain our equipment so it sees the full longevity that is far above and beyond the longevity of our competition. We need them to be able to do that and they are. So this training has been wildly successful. Hundreds and hundreds of technicians have come through it, and I think it's a key differentiator for us. Jeremy touched on the exploration center that we bring customers to, and this has gotten a lot of attention within our reps. We just recently had the grand opening where we had every rep firm represented with at least one or multiple principals in marketing contexts from their rep firm who experienced it for themselves, saw what you all saw yesterday, who are here in person, with the hands-on comparison of our offerings versus other market available offerings. And the buzz that's come out of that grand opening has just been awesome.

We have a tremendous amount of customer visits being planned, we're seeing a spike in the quantity of those being planned, and key customers are being brought in to see this for themselves. So really until you visualize it and see it and experience our operation and meet our people, only then will our customers truly be convicted in the value proposition, so we are significantly ramping that up. Now, to get the right customers, we know time is a premium. We mentioned that your time is a premium. I'm sure you can relate to that. We all can. So to make it easier for some of our key customers to get here, we've made an investment in private plane transportation. So to come see a premium product for premium customers and when your time is at a premium, we know that we need premium logistics and transportation. So we're making that available at a shared expense to our reps and they're all about it, and they're organizing trips right now to leverage just to make it easy to get to not only Tulsa, but visiting multiple of our locations in one quick, time efficient trip. This is a big, big benefit.

We've mentioned it a few times around AAON's products being a premium experience, being a premium caliber of equipment, and with that comes a price premium. Now, what I'm here to talk to you about in a little more detail today is there's two elements that I think of when I think of how do we capture premium product. One is the capabilities and caliber and experience level of our sales force. I spoke about the rep network, how strong they are, but it also comes down to the individuals they have. That's why we have a big focus on training. That's why I have a big focus on bringing people here to see hands on, to increase their abilities to properly position AAON's premium caliber equipment as the solution to the customer's needs. That's a variable in the capability of the salesperson. The other variable is the customer's appetite for balancing CapEx versus OpEx.

We know there's a return on investment to be had with efficiency levels, longevity of equipment, not having to maintain a replace as often. All of that can work out to a favorable ROI and does. Not every customer sees both sides of that and they might isolate their budget to one side or the other. As the price premium has narrowed, and it has significantly, that broadens the set of customers who our ROI resonates with, and it broadens the depth through the bench of salespeople who are capable of positioning our offering. A lot of the growth that you see in AAON and what you'll see in the future is being driven by this narrowing of the price premium and you see that our profitability is still doing just fine. Through the bar being raised in the marketplace needs around efficiency and other elements, it's brought, basically, the marketplace to the offering that we've always had and this is how it's manifesting.

Speaking of market opportunity, I'm sure you're interested in a market outlook and some macroeconomic indicators as we see them, so we've put together a few charts to do that. The first one is construction spending in the non-residential market, and this is a lagging indicator that you see on the screen here. I'll get into some leading indicators in a moment, but this is the total dollars spent within each month of the bar that represents that month. It's not just the starts, and most of our equipment is cured at the start of a project. I'll show you that information in a moment. But what I like about this chart is it validates the leading indicators you're about to see and how the leading indicators have accurately predicted what spending is going on in construction right now. And you can really see significant momentum going on because every time a project is started, that start is added for that month. It's being dollars spent in that month as well as all the proceeding active projects that are still underway, so tremendous momentum growing in the actual spending that's happening right now.

In terms of the leading indicators, we'll start with the two charts on the top. These are both looking further out into the future. You've probably seen these before, I'm sure. Architectural billings index on the left, referred to as the ABI. And just to explain this a little bit because not everybody's familiar with where the index is derived from. What this is the American Institute of Architects polls their principles of their member architect firms, which are really the predominant number of firms. Most architecture firms are part of AIA. They pull those principles and ask them, "Have your billings this month increased over last month, decreased or remained flat?" A score of over 50 means that more of those answers were positive than negative. That's why we have the VAR drawn there at 50.

What you see is for the proceeding couple of years now, it's been pretty consistently over 50. A little dip below here in recent time isn't worrisome because it quickly came back up and we're going to continue to monitor this. But what this tells us is there's a consistent growing backlog of projects going into design with architects and engineers. This ends up looking out multiple years of construction spend is what that'll manifest in. And if you look at where that peak started or what started going above 50, it coincides with a lag time of construction start that we saw in the actual spending. The Dodge Momentum Index is very similar. It also is predicting over the past two years, it's been predicting that there'll be solid year-over-year growth in construction spend going forward. When we look at the bottom two charts, this is the actual construction starts. Project starts in May. The whole value of that construction project is attributed to the bar that will be populated for this May and so forth and so on.

This coincides very well with when did the opportunity for us to secure orders coincide is where this chart is growing, and it shows very nice growth in recent time that will feed orders in the coming months and years as well. When you look at all this, really it boils down to we see strong growth on project starts for industries that go directly to AAON's product opportunity and this trajectory is predicted to continue for years to come. This is really exciting news, especially given what I'm about to show you. Here we're showing, and you've seen similar charts before. In this case I'm showing across a four-year period, an 11% CAGR in growth of AAON unit shipments. And when you compare that to what is reported in the industry as total units shipped across the same time period, we see a flat or negative 3% CAGR, actually, across that same time period.

What's really, really incredible about this is it's showing us that we're taking significant market share from the marketplace. Hopefully you've heard why throughout the entire day, but the way that it resonates with me is when we're innovating premium products, when we're meeting our customer needs like nobody else is meeting, and when we're navigating through the supply chain, delivering world-class, best in class lead times consistently, and we're just flat out doing what we're saying we're going to do. It's not that complicated of a business to know what we need to do, but we have a very unique leadership team and staff all the way to the factory floor that makes it happen. Takes strong conviction to do what we say we're going to do, but we're executing on that. The market is rewarding us with share.

As if that wasn't impressive enough, when you think about what we've done in a slightly down market and you consider the macroeconomic charts I just showed you, just think about what we can do in a growing market when it comes to continuing that share growth trajectory. It's just going to magnify our sales growth potential. Thank you very much. With that, I will bring up Matt Tobolski again and he will talk about how we're investing in that sustainable growth opportunity so we can make good on it.

All right, thank, Matt.

Matt Tobolski, President of BASX:

Thank you much, Andrew. Alrighty. Obviously as we talked about throughout this entire day so far, there's an immense amount of opportunity. And some very valid questions came up during the first Q&A session regarding our thought process on how we're managing the investment, how we're managing the ability to support that growth while also recognizing potential macro trends that may impact us. We discussed very, very much on a philosophical perspective, planning for future growth is important, understanding there's a timeframe to build capacity. And so, we look at a lot of these trends that Andrew talked about. We look at capacity metrics at all of our facilities, maximizing that capacity, but then have a very long thought process and detailed thought process on how do we prioritize the use of capital. And as we look at what we've disclosed in the 23 CapEx budget, we're projecting $135 million to be spent in capital expenditures during this calendar year.

As we step back and we look at what that means relative to what we're putting to the bottom line, of the four analysts that follow AAON, there's an expectation of roughly $250 million in EBITDA. We have a large percentage investment planned within our current calendar year, but based on what we understand our capacity to be in ensuring we have excess capacity to continue delivering on solutions for our customers well into the future. We look at what AAON has done and we've seen a lot of these numbers throughout the presentation, but the biggest goal here is we need to be forward-looking but strategic in the use of our shareholder capital as we ensure we can meet the needs of our customers well into the future.

We have seen fantastic growth. This is Q1 numbers that we posted, but 45% year-over-year growth Q1 fantastic growth rate, $266 million. Annualized we have surpassed a billion dollars in annualized run rate. Compare that to a few years ago when we did 500 million. We're talking about very, very substantial growth not just in revenue but also in overall sheet metal produced and delivered to our customers. We have very extensive backlog, which provides us great visibility and understanding about what the demand cycle looks like from a manufacturing capacity perspective. And when we look at that from not just legacy AAON but also on the BasX front, we understand some of that runway that provides us to make smart investments going forward. We continue showing growth in our gross profit profile, so looking at 29%, which was a slight dip compared to Q4, but as we've discussed time and time again during our calls, we expect to see sequential growth of gross profit.

We are generating more profit per dollar as we continue progressing throughout this calendar year, capitalizing in a lot of the efficiency that Stephen's talked about. All in all, that CapEx budget of 135 million is there to ensure we continue having the capacity and the tools in place to allow us to effectively deliver bottom line results to our shareholders.

We discussed the headroom, so obviously the last thing we want to be as a manufacturing company is reactionary to a hard limit that we find ourselves coming up against. As we look at what we have today, we have roughly 30 to 40% excess capacity across the entire fleet as we sit today. Now, 30 to 40% when we're growing at the rate we're growing obviously means we are going to be eating into that capacity as we continue progressing. Within Oklahoma, where we're sitting today, the headroom is the greatest and we discussed the Space Force team within the operation and they continue to find more and more capacity every day within this facility, so continue finding ways to maximize the overall revenue potential of this building. As we stand today, BasX in the Oregon facility has the lowest amount of headroom. It's a smaller facility, a little more space constrained. We have strategic objectives to maximize its capacity but also leverage across the fleet to basically continue developing growth in the BasX product line.

But one thing that's really important to understand is this capacity planning mindset and really what we're doing to ensure we have capacity and continue investing in efficiency, it's not a new process within the AAON organization. The reason we have got where we are is because it is ingrained in the operations team to be thinking into the future, into how do we put capacity online at the appropriate time and how do we maximize what we have in place to ensure the greatest potential of success going forward? Now, whenever we talk about CapEx, we all think buildings and infrastructure. You'll hear us say it and you'll hear me say it time and time again. The number one asset within the AAON portfolio is not a single building, it is not a single piece of equipment. It is the team that delivers the results on a daily basis.

And so, part of the capital expense and part of the plan that we talk about is providing the best possible experience that we can for our team, ensuring that their day-to-day job in life, they're able to execute and deliver on their results in a safe, in a consistent, in a positive manner in providing them the opportunity to grow within the organization and provide for their families. And so, when we talk about CapEx, we don't just talk about putting a new building online, we talk about how do we enhance that employee experience? And that mindset is part of why we have such high headcount growth, because we provide an experience in an environment that allows our team to succeed and that is front of mind throughout all of our investment strategy.

Beyond the actual team, we have a steadfast focus to maximizing the utilization of our existing facilities. We want to be good stewards of capital. And so, one of our huge mindset is let's ensure that we utilize our existing facilities, our existing investments to their maximum potential before we go and have huge step function investment in new facilities. And so, there's a huge mindset across the organization, and how do we drive the most profitability, the most efficiency and the most revenue through the existing fleet of facilities before we then make those decisions to go for larger steps in overall new facilities, in expansions? We talk a lot about efficiency and driving efficiency. It is Stephen's passion, aside from people. His second passion is driving efficiency. And that mindset is, how do we ensure that we minimize waste and we maximize the overall efficiency of our team and our equipment to drive more production through the facility?

Things as simple as tool cages. A unified tool crib may seem like a very simple and straightforward concept, but it reduces waste. It gets the products, it gets the components and the tools to the person that needs them when they need them, without excess activity trying to find those tools. And all of that allows us to produce more revenue for the same amount of employees as a holistic concept. And so, as we go through those, the obviously fourth piece there that I keep reiterating to is we are focused on building smartly. We want to utilize capital when it's needed in a fashion that really has the greatest impact. We don't want to build out too quickly and be sitting on a depreciating asset that is not offsetting that from a very good solid impact to the overall revenue and profitability. And so, that is the foundation of our capital strategy and capital deployment strategy. When we say 135 million, it's because we actually have a true strategic and well-thought-out need to deploy that capital and therefore drive returns for our shareholders well into the future.

I'm just going to touch on the four facilities and just walk through a little bit of what we're doing. You've heard it throughout today, but where we're sitting today in the Oklahoma facility, just recently we're able to acquire some fantastic property to the east of this facility. And roughly just under 15 acres to the east provides a lot of capacity growth from a personnel standpoint to be able to bring more people into the facility. The two northeast buildings, it sounds like a simple problem to solve, but when you are growing as fast as we're growing, one of the challenges, how do you onboard the amount of people that we're bringing in? It became a true constraint. The physical facilities became a constraint for the amount of people we could bring on board to actually meet the demands of our customers.

And so, a lot of those facilities and those investments we're making on site are in place to bolster a lot of the administrative functions and a lot of the corporate services functions to be able to bring on more staff than our accounting department, to be able to bring on more employees through our human resources and onboarding process, and really ensure not only that, but when employees and new employees come to the facility, they're greeted by a facility that's welcoming and makes the employee feel valued during that interview and onboarding process. Stephen mentioned some comments about vertical integration. Bringing coil manufacturing capacity within the Tulsa campus. Today, all of our coil manufacturing exists within the Longview facility and there's not as much room in coil manufacturing as we would like. As we look forward in how do we maximize potential for the overall fleet, bringing on additional coil manufacturing in Tulsa to support the Tulsa manufacturing operations provides additional headroom in Longview.

Now, I'm going to say this as the president of BasX, very selfish comment here, that provides headroom to be able to manufacture BasX coils within the AAON organization. That provides a very meaningful impact to the bottom line when we vertically integrate the coils that are manufactured for BasX product. Those little decisions have a huge impact on the profitability, not of individual locations, but of the overall organization. We all talk about machinery. The Salini equipment that we have is one of the lifeblood of the operation and ensuring that we have the parts to manufacture the product that's needed. And so, adding new equipment, replacing aging equipment and the amazing talents of space force, finding mysterious ways to fit more Salini, which as you've seen in the tour, not small, but continuing to find ways to put more and more of this equipment on that production floor allows us to then maximize the production lines and put more product through the facility.

We are also proactive in some of the planning phases of things. While we aren't breaking around in a brand new building anywhere on this campus, we're also being proactive in laying out and thinking through what would that building look like? Let's get ourselves far enough along in that mindset and that process so that when that time comes that we may need more space here, we've covered the first 12 months of that process with more or less shovel ready plans to be able to execute quicker and be able to put demand online quicker with a shorter lag from when we invest, to when we can recognize revenue. From the coil product standpoint, Doug mentioned very large expansion in doubling or building out the second half of the expansion that was completed a few years back. That is all focused on how do we maximize manufacturing efficiency and future headroom for manufacturing collaborative projects?

But one of the key things to talk about is if you tour the Longview facility today, you'll notice that the New West building, a purpose-built manufacturing facility, only houses a portion of the unit production. If you look at the manufacturing efficiencies in that building versus the lines that exist in the old building on the east side, you recognize there's additional opportunity to realize profitability by purpose building those manufacturing lines. This expansion allows us to relocate all unit production into new purpose-built assembly buildings, thereby freeing up space to do more coil manufacturing, to provide more headroom to produce coils for BasX. It's one of those expansion opportunities that is touching on a lot of aspects of the business, but really allowing us the opportunity to drive bottom line profit from a relatively low cost investment on the grand scheme of what its impact is to the organization.

Within Redmond, the Redmond facility, as I mentioned earlier, underwent an expansion just prior to the acquisition. I always liken the experience... You take an old Walmart building, you put a new purpose-manufacturing building on top of that, and you soon realize that, wow, when you actually build a facility purpose-built for how you manufacture a product, you can actually do a lot more than you originally realized. And so, as we brought that new building online, it became very obvious that the new expansion had a lot more capacity inherent than the supporting feeders that existed, basically, at that point. The investments that are being made within the Redmond facility are to bolster some of those supporting functions and fabrication and coatings as well as inventory and warehousing to maximize the capacity of the assembly and manufacturing building. We recognize there's a lot more headroom in that new south building, and so as long as we get the tools in place to be able to support that, there's a lot more revenue potential within that facility.

Gary also mentioned during the conversation about commercial custom air handling, but that is very, very much a software driven product line. At BasX, about 10% of our revenue is in the commercial custom air handling products right now, and that's very intentional because until the tools are in place to allow the process to flow in a very efficient manner, there's a huge human burden that we would put on that from a technical engineering standpoint to be able to sell that product and produce that product. We are heavily investing right now in software automation tools that will allow us to aggressively enter the commercial custom HVAC market in a very efficient manner, driving automation from the selection and configuration of units all the way through to the manufacturing of those units. And then within AAON in the controls group in Kansas City, I had the pleasure of being up there a couple weeks ago at NC, the almost ready to move in manufacturing facility. And similar to my comment about the BasX facility when you had a non-purpose built facility versus a purpose-built facility, the opportunity that exists in the expansion that we're going through within Kansas City is going to be phenomenal in the overall manufacturing efficiency of AAON controls products. The existing facility is one that is very, very akin to a privately held growing company in that you utilize capital and scap things on progressively and don't really build out the overall efficient long-term facility. Well, this gives us an opportunity, now that we have enough demand, to build a purpose-built production facility for controls. It has efficient manufacturing flow, it has efficient utilization of space and a friendly and welcoming environment with collaborative team spaces to allow that facility to continue to accelerate its growth and continue supplying needed parts within the overall manufacturing process for AAON as a whole.

All four of the facilities are having very, very targeted investments going into them that are going to drive long-term growth and long-term profitability. But we talk about deploying capital on a very high level, and this touches on some of the questions that were asked earlier. It's not just about how do we provide, how do we deploy capital to increase manufacturing today, tomorrow or five years down the road? We're deploying capital in really eight buckets in a philosophical standpoint. Number one is how do we optimize our existing facilities? How do we get the most capacity out of our existing facilities through utilization of space and logistics to drive revenue and drive profit within those facilities?

The second piece goes beyond existing facilities and starts to ask the question, what do we need as a manufacturer from a geographic diversification perspective? We have firsthand experience within the Longview and BasX collaboration in leveraging manufacturing capacity in a better geographic location to serve the customer base. That mindset continues to exist as we look forward and say as we continue to bring on product offerings or expand product offerings, where is the right location to best serve that from a customer based standpoint, from a disaster recovery standpoint and from an overall diversification of workforce standpoint?

We have a very heavy focus and Andrew discussed, we have product marketing managers that exist to evaluate the opportunity in the marketplace for products. We have a very, very tight connection with our sales channel partners. And so, when we look at product offerings, the conversation comes down to what is in our portfolio today and what do you as channel partners need in the future to best serve your customers and best deploy the AAON product and manufacturing philosophy into the marketplace? And so, we continue to look at what that product needs to look like in the future, what offerings are missing and what opportunity we have to leverage the overall AAON culture to drive additional products within the portfolio.

Vertical integration is something that we believe in very heavily. Stephen mentioned bringing on fan manufacturing within the Tulsa campus. That's a huge aspect of the mindset within AAON, is how do we maximize control of our manufacturing process? Bringing [inaudible] master controls and [inaudible] controls today as we call them into the portfolio, is 100% driven by ensuring we have control, reliable delivery and growth potential within our manufacturing process. Same logic with fans, the same logic for why we manufacture our own coils, and that mindset will continue to exist into the future as we evaluate our products and look for opportunities to continue expanding the content of product that we manufacture in-house. Automation is something that is the lifeblood. We talk about AAON's legacy of success over the years in a semiconductor or semi custom world.

The reason for that success has been a focus on computerization, automation and driving manufacturing efficiency and process efficiency through automation. And that is at the forefront of our strategic planning to automate and ensure we have business transformation logic in place, to continue allowing automation and especially collaboration between multiple manufacturing sites so that is not siloed manufacturing, but truly man managed as an overall enterprise.

We continue to evaluate market diversification. One of the great things with the acquisition of BasX by AAON was entering two fantastic markets in the data center and semiconductor market. The same logic will continue when we look at where is their opportunity to continue growing the market share market opportunity from an organization and how do we best capitalize on the AAON culture to do that? One of the key things, and obviously you'll hear it from Gary, and this is very near and dear to his heart, but how do we ensure we provide the best possible experience for our rep partners? Our sales channel is by far the best performing sales channel in the industry. We want to continue ensuring that we as an organization invest in the tools that allow them to be successful.

The tools as simple as an exploration center that provides a fantastic way to showcase the quality and value differentiators of the AAON product in a real face-to-face, no BS, you see it, you can feel it, you can touch it, and you can understand where that value proposition comes from the manufacturing perspective. And obviously, the last thing on that list that I think we hopefully have gotten across. The culture of AAON, the culture of BasX as part of AAON is 100% founded in the idea of innovating product. And so, our capital expense mentality will always focus on ensuring that we innovate our product, we invest in R&D efforts, and we continue to move that needle far quicker than our competition does to differentiate the product and show the value proposition of AAON long into the future.

As we look at that, that's sort of the holistic mindset of how we deploy capital and how we look at utilization of capital. And so, when we see opportunities that target any of those eight verticals, that's where our mindset comes from to strategically deploy capital, doing so in a way that drives returns for the shareholders in the long run. With that, we have our final section of Q&A. Just do a... Oh wait, I'm sorry. Just kidding. With that, I'm going to welcome Rebecca Thompson, CFO. I was trying to keep on Joe's schedule.

Rebecca Thompson, Chief Financial Officer:

Well, I think I know most of the people in this room. But for those of you that don't know me, I'm Rebecca Thompson, I'm the CFO and treasurer. I've been with AAON 10 years now. I started in December 2012 as a chief accounting officer and I'm just finishing up now two years in my CFO role. Since I am the last speaker, before I go on, I do want to give a thank you to Joe Mondillo, our director of investor relations. He's been a very valuable asset to our team. I think both of you talk to him on a regular basis and would say what he's been able to do with our investor relations in the past two years is just amazing. He's totally stepped up our game and this event, which I would say has been a very successful event, would not have happened about all his hard work and planning, so thank you, Joe.

I want to start by talking about where we have been so we can understand where we are today and where we're going to go into the future. When you look at this slide, we've broken it up into three distinguishable distinguishable periods. Starting with 2017 and I'm going to go back even a little bit earlier to when I started at AAON. We were still having record years in 2012, 2013, but they were on a much smaller scale than what you see today. We were having consistent margins, we had consistent growth, but we are still always having that struggle of getting more orders in the door. It was just something we were constantly talking about. How do we get more orders? How can we grow at a higher rate?

Then Gary became president in 2016. We've all heard the story where Norm challenged Gary to outsell our production and he made it happen. When you look at our growth and you look at us heading into 2017 when we have very strong orders coming in the door now, we had a strong backlog, but then we started to have production constraints. Our lead time started to push out a little bit. You could see that disruption in the 2018, 2019 time period where we had to make significant investments in CapEx to add additional Salini machines, increase our sheet metal production. We also had a lot of, what Gary has also talked about, tribal knowledge. In this time period we had many long-term AAON employees that were retiring. We lost some of that tribal knowledge, so we had to put policies and procedures in place, document our processes, develop our people, and get that experience level back up to where it needed to be.

All those things set us on a track for future growth. We're getting our margins back on track. We're growing our production going into 2020 and then COVID hits. Who would have ever anticipated a pandemic? AAON was an essential business. We never shut down. We continued to win. Our history of innovation and superior indoor air quality really set us up for success during AAON. We saw record demand for our ability to outperform against our competition and maintain industry best lead times. We also start to see inflation happen and we put price increases in place to counteract that inflation, but we just could not do it fast enough. When you look at going into 2021, 2022, what we failed to anticipate is the pull forward of orders we do see into our backlog as we implemented those price increases. We also start to experience more serious supply chain disruptions. We had to aggressively manage our vendors and proactively manage our inventory levels so that we can minimize these impacts of supply chain disruptions.

Our backlog was filled with that subpar pricing from all the pull forward we had seen of our demand and getting orders in right before our price increase. It took us some time to get work through that backlog and start to realize those price increases and get ahead of that price cost scenario. 2021 also gave us the opportunity to acquire BasX. This increased our sales by over 20% in 2022. The past two years, we've also made strategic changes in our leadership team. All these new people in leadership roles helped bringing in new ideas and additional experience levels that have accelerated our growth. At the end of 2022, we finally got our margins back in place. We've pulled ahead, we're alignment with the market and we're moving forward. Where are we now? Now we are well positioned for continued growth. Like we've talked about, we keep a five year CapEx budget in front of us at all time. We are constantly evaluating and prioritizing our capital projects. We have expansion happening at all locations in 2023. All of these things are setting us up for top-line growth. We have a record backlog with favorable pricing. Our costs have stabilized. We still have some components are going up, maybe our raw materials are coming down. At the end of the day, all of these things are just our new normal and we've been able to adapt so that we can manage it better.

We still have consistent supply chain disruptions, but again, we've been able to get processes in place. This is something we're used to now. It's occurring on every day. We stood up an FP&A team in the past year. This will give us better data, better insight, more timely insight into what's happening with our cost and our ability to manage our products and our margin and our profitability. We're driving our results down to the bottom line through a more experienced team, through investments in technology and automation, and through improvements in our business processes.

In order to talk about where we're going in the future, we need to look at our strategic objectives for the upcoming year. We've talked a lot about proactively driving our results. Matt, Andrew, we have all talked about managing our margins to the market and putting these product managers in place. Matt just went over very well discussing how we're going to manage our capital. Our culture is key to our success. Stephen spent a lot of time talking about the employee experience and how important our employees and our team members are to this organization. We would not be able to continue where we're going if we can't hire more people and retain the people we have.

The BasX integration is also a key focus for this year. There are still a lot of synergies that we identified going through the acquisition that we've not been able to fully realize. This will be the year where we will focus on finishing up all those loose ends and realizing all that future potential. We're making investments to modernize our systems and we're using data to its fullest potential. Lastly, we're creating a pipeline of leaders that can grow with the company into the future. Investing and training and development of these future leaders is key to our success.

So where are we going? We all know that our bookings have been very strong and continue to outpace production. As we've talked about already throughout the day, our sales channel has indicated to us that we see no signs of recession. We've also talked about our total addressable market and how even if there is some softness in the economy or a slight slowdown, we still have the ability to have organic growth of over 10% for many years to come.

Our growth and the volume of our growth is dependent on really kind of three things, our orders, our people and parts, and it's getting all those three items working in harmony together that creates the volume of growth that we will see in the future. Clearly, we've been winning on orders. We've also been winning on people, I've seen in our increases in headcount. We still have issues with parts. So what will be key is to continue to win on parts, win on orders, sorry, win on orders and win on people, add that additional headcount, make sure they're efficient, and then get those supply chain problems fixed, which we continue to do through trying to add additional vertical integration throughout our manufacturing process.

We do expect to have additional pricing coming out through our backlog. There's still multiple one-percenters that we're sending in there that we will see realizing throughout the year, lower pricing probably in the back half of the year. We'll expect to have margin improvement throughout 2023. We do expect higher SG&A cost. Most of this is due to our investments, like we've talked about throughout the day in technology, in automation. We also are making larger investments into our sales and marketing force. I've mentioned better managing our capital. Here you can see that we've historically always made significant investments in capital as part of our long-term growth. This has allowed us to finance our own CapEx for many years and build up what Gary used to call his war chest of cash. That cash came in handy in 2021 when we wanted to acquire BasX. I would say when I started AAON in 2012, we had a very conservative approach to borrowing and this approach has certainly matured in the past couple of years. We now use our credit facility to manage our working capital needs in the past year and a half, but we still have a very strong balance sheet and lots of liquidity.

Let's talk about our current capital allocations. Our primary focus is still on organic growth and CapEx. I do want to talk a little bit about our working capital needs and our inventory levels. This is always a good topic of conversation, and in the past we've communicated we want to try and keep inventory at 20% of revenue. We still have quite a few parts with extensive lead times. For that reason, we're still managing that sort of target 20% of revenue inventory level, but as things subside, we will be working to bring down those inventory levels to their historical norms. We've talked a little bit about M&A strategy. AAON has certainly never been an inquisitive company, but we are looking at opportunities. We're evaluating the market. Those opportunities will take time to develop and evaluate. In the meantime, our focus will be on paying down our credit facility and building up free cash flow.

Speaking of our credit facility, we've made significant changes to it in the past two years. We significantly have increased our credit limit and our liquidity position. We expect to pay off the facility within the next 12 months and maintain a leverage ratio of less than one. As far as our dividend policy, we typically target a dividend payout of 25% and we would expect to remain consistent with that policy.

On buybacks, we did discontinue the use of our 401(k) buyback program in 2022. We did this so that we could have better control in management of our cash. We do have an authorization for $50 million of open market buybacks. We would only execute on this authorization for selective opportunities. So at the end of the day, we're focused on paying down our line of credit to reduce interest cost and also get our dividend back to our target payout ratio.

This is just showing that we have a 10-year average ROIC of 23%, and I think Matt just did a very good job of explaining how these investments in capital have paid off over time. We're definitely in this for the long-term. We're not looking for short-term gains. We continually evaluate the capital needs of our business and how to use our cash in the best ways to make good use of your dollars.

When we look at dividends, we typically like to target a dividend payout of approximately 25%. We've historically done semi-annual dividends, and sometimes when we've had excess cash on hand we have done special dividends. We've recently moved to doing quarterly dividends in 2023. We also recently increased our dividend by 26% at the end of 2022. We expect to remain consistent with our dividend policy throughout the year. Coming full circle, this is how we will seize the opportunities. We have no intentions of slowing down. Our continued investments and innovation and our ability to perform allow us to continue to take market share. The plans we're putting in place today set us up for future growth and success. Now, I think we get to have Q and A.

Joseph Mondillo, Director of Investor Relations:

Just raise your hand. We'll bring a mic over. And please remember to state your name and firm.

John Braatz:

Thanks, Joe. John Braatz with Kansas City Capital. Andrew, I got a question. One of the things that we talked about over the last couple days is the narrowing of your price premium. And hypothetically, if

Gary came to you and said, "We're leaving some money on the table. We need to increase that premium a little bit," what would you say to him? What would the sales force, sales channels think about that?

Andrew Edmondson, Director of Sales:

Well, there's a lot of factors in that, right? There's the price to the market, which as an independent rep channel structure, we don't see the price to the end user customer. So the rep's perception would depend on what price levels are they at to the market. So that's how they would base their response. How we would analyze our decision on that would be based on what does our backlog look like, what does our bookings growth look like, and how are we achieving that towards our targets in balancing our price and our lead times and capacity?

I'll give you an example. We recently ceased the 1% price increase that we were doing monthly, which by the way was wildly popular with our reps because it's something they could plan around and they were very much in favor of that. They were pleased that we were at a point where we could stop that. What we put in place of that was we re-instituted our premium ship slot program, which is where we can pull orders into the manufacturing cycle with a quicker lead time for a price premium. So we put that mechanism in place to balance the delivery time with the price increase, essentially reaping the price increase on orders at demand at a faster lead time.

John Braatz:

Thank you.

Ryan Cooke:

Hi, thanks for taking my question. I'm Ryan Cooke. I'm from Wolfe Research. So we've heard a little bit about AAON's success with keeping lead times lower than peers despite all the supply chain challenges of the last couple years. What do you point to as the key driver of this? Matt discussed integration with fans for Basx, and I'm curious if that's been a large benefit for the rest of the business.

Stephen Wakefield, Chief Operating Officer:

I'll take that question. I would say the way we manage our inventory and our flexibility, those two things were the key factors in that. We didn't have to meet and hash it out for months and months and months what we were going to do. We made the decision quickly to adjust that and were able to bolster our inventory early on and it helped us have a buffer tank to make adjustments based on what was ordered and what we needed.

And then in addition, our engineering department worked with our manufacturing and operations department, so therefore how we scheduled product even. Our controls department was a part of this as well, and they basically redesigned product to make no difference to the end user but to use available parts. Our controls team alone in 2022 redesigned seven major controls.

Mario Balandran, Director of Controls Technology:

47.

Stephen Wakefield:

Say that again, Mario?

Mario Balandran, Director of Controls Technology:

47.

Stephen Wakefield, Chief Operating Officer:

47. Okay. You want to add something, Gary?

Gary Fields, President and CEO:

Well, you spoke to the vertical integration. So back in 2018 when we acquired the controls business, that was probably the first level of vertical integration under my leadership. That's proven very beneficial because some of the stickiest supply chain issues have been related to electronics. The 47 iterations that Mario speaks to is the BasX controller and what it does remained the same. It was the component arrangement on that board that we were able to be flexible with. So there's definite advantages from the vertical integration.

Fans is the next one. So particularly in the BasX business and in the AAON Coil Products business in Longview. BasX had always manufactured their fans. That was a distinct advantage they had in this environment as Matt spoke to pretty eloquently earlier. What we didn't really speak to directly was how it impacted AAON Coil Products. So AAON Coil Products had utilized a fan that we outsourced from a German manufacturer that went from what was already a terrible lead time of around 26 weeks and they're now in excess of 70 weeks. So us being able to manufacture fans. This was one of the reasons that I reached out to one of our former fan suppliers and bought that technology from them and we're standing up that manufacturing here in this plant now.

So those vertical integration manufacturing techniques are very much instrumental in our success. And as has already been spoken, we're going to continue to look at those. Coils are something that we've manufactured for a very long time for Longview and Tulsa. BasX has always bought their coils. Significant cost advantage for us to manufacture the coils, but also the control over the delivery cycle. So these are very much front of mind, what can we buy next in the vertical integration vein of thought to increase our ability to be either more profitable or more nimble in being able to supply equipment on time?

Peter Psallidas:

Thanks. This is Pete from Rockefeller again. I just had a question on the price increases in that premium. So I guess, if that's what's going out to the reps, is there any chance that the actual end pricing is actually the 15 to 20% that you've historically been at and the reps are capturing a little bit better of a spread there? Any visibility that you have to that would be helpful.

Andrew Edmondson, Director of Sales:

Well, we keep in close contact and that's been a common topic of discussion with the rep council, for example. So we do have a sense for the rep's profitability over time. And what I would tell you is it's at a good state, it's at a steady state, and they are not capturing additional margin at our expense if that's where your question's coming from.

There's other ways to look at indicators. There's AHRI market share reporting where manufacturers will report the quantity of units and the total dollar value of those units. So we are also looking at that as an indicator for how does our price levels track versus the rest of the marketplace. So we can keep a pretty close pulse on that, one, qualitatively with that data and then also just with discussions with the rep council. So it's a great question and one that's top of mind to us when we make those decisions.

Joseph Mondillo, Director of Investor Relations:

Couple questions on the webcast. Sticking on the sales channel here. Some of your competitors have the exact opposite strategy when it comes to the sales channel. Can both strategies coexist long-term or is this going to be a zero-sum game?

Gary Fields, President and CEO:

Well, I'll say that other manufacturers have different driving reasons why they want to have control of that sales channel. They can create long-term annuities for their in-house service businesses, for instance. If they want to go deploy equipment at a lower margin and incentivize in different ways their sales channel to do that because they are wholly owned sales channel, then they can do that to force their long-term objective. Our objectives are a bit different. Our objectives are to make a good solid profit on the equipment we sell. And the sales channel themselves can participate in the service business and the parts business as drivers for how they sell more equipment.

So I think that our dedication to independent makes 100% sense for us. I've got in excess of 40 years of experience with that directly. If I go back to my father's time in the business, I go back to 1970 when he entered this side of the business as an independent. So I know all the attributes of the independent and how they fit our business, our strategy, and our go forward. These other companies have different drivers to what they're trying to accomplish with their businesses. So I'm not the least bit saying they're doing the wrong thing for their business. You want to add anything to that?

Andrew Edmondson, Director of Sales:

No, I would totally agree with that, Gary. Another nuance that comes into play with what you mentioned about the service element of the business is when you are in a model where you rely on the service to feed the profitability of your overall organization, it has implications from the product as well. Whereas when you have a premium product such as we do with the profitability that comes along with that, we're able to continue to fuel investments into the product in order to stay ahead of the competition and garner that premium product and the growth that can come from it. So when you rely on the service business, it's a little bit contrary to the ability to have extensive product development to the extent we're doing.

Joseph Mondillo, Director of Investor Relations:

Another question on the webcast, question on the Exploration Center. For those of us who could not make it down to Tulsa this week to see your new marketing building, can you help us understand how impactful you think this will be for AAON? Would you describe it as a modestly impactful asset or much more than that?

Gary Fields, President and CEO:

I'm going to describe it as much more than that, and we've already got firsthand experience. We've had a limited, since we only opened it a month ago, we've had a limited amount of end user customers that have been here. I had the privilege of sitting with one very, very large customer that had already several hundred of our units in their portfolio. They had orders for several hundred more units. They came here to learn more about the equipment that they were buying just to reinforce why they're buying it.

They went through the Exploration Center. We had the competitor's version of what they had been buying prior to us sitting next to ours, and their comments were, "Oh my goodness. We thought we knew what the value was that we were paying for, but this makes it abundantly clear to us. This reinforces everything we use to make our decisions." And so that one major customer immediately reinforced the value of it, and I think it's going to be a significant driver for continued sustainable growth.

Joseph Mondillo, Director of Investor Relations:

All right. Another webcast question. A big factor to growth in 2022 was related to having a temporary lead time advantage. As lead times normalize across the industry, will this be a headwind to demand for AAON?

Gary Fields, President and CEO:

I don't believe it will. That customer that I just spoke about, they said there were three reasons that they had purchased AAON. The leading reason was the decarbonization electric heat method that we were able to give them. The next reason of significance was lead time, and the final reason was the value that they perceived was there. When they came here and saw that, they said, "Lead time wasn't as big a deal as we thought it was. It wasn't as big a part of the decision-making or shouldn't be going forward. We now fully recognize what the value differences are and the cost for those and understand that this is a great value."

So if we were to have lead time not being as advantageous to us. Let's say that the, not that ours would extend, but the industry would come closer to us, if we didn't have this Exploration Center to more clearly demonstrate what these values are, and if we didn't have the innovative strategy of decarbonization electrification of the heating and some of our other innovative things, then I would believe it would be more impactful. But with these other offsetting factors, I think they more than offset any advantage that we had with lead time.

The other thing is, and Andrew's been working with the sales channel very diligently with this, you've got these people in the door, some of them, some percentage of them because of lead time. Now's your opportunity to show them what a premium owning experience it is, what a great value it was, and how it addressed many of the concerns that have manifest themselves as a result of the pandemic, indoor air quality, improved measures, things like that. So Andrew and his group are firmly focused on having retention of those customers that came, that potentially their lead reason to come was for the availability of the equipment. You want to add anything to that?

Andrew Edmondson, Director of Sales:

No, that's spot on. And I mean, the way I look at that question is there's two sides to it, and Gary just started talking about the second side. With whatever percentage of customers are new to AAON due to lead time, that's a blessing. That's a great opportunity to go out and solidify that relationship. Now they have equipment on their own building. They don't even have to come here to see it. We can go up to their building rooftop and talk about the equipment and see the premium owning experience with that and solidify their decision to continue to buy. So I see that as a great opportunity and we're working with the reps to cultivate that and turn that into sustained growth.

Joseph Mondillo, Director of Investor Relations:

I have one more question on the webcast. Unless anyone else in the room has a question, we'll finish with this. And if you do have a question, just raise your hand and we can get that answered. Many have been concerned that we're entering a recession. How is AAON balancing their aggressive headcount increases and CapEx investments with a potentially upcoming slowing environment?

Gary Fields, President and CEO:

Well, I think there's been multiple illustrations of that given over the last two days. The market, Andrew had probably the best slide to explain that. Over the last three years, the market has gone down, was it 10%?

Andrew Edmondson, Director of Sales:

Negative 3% CAGR.

Gary Fields, President and CEO:

Negative 3% CAGR accumulated to about 10% down, and we have had a positive CAGR of 11% and gone up. We have a huge addressable market that we are a small part of at this point in time, we've been taking market share. So even though the pie might get slightly smaller, it's still a huge pie that we have a small piece of and we can continue to grow into that.

And honestly, over my career I've gone through multiple cycles of what were perceived as down markets and in each and every one of them my business accelerated. Key driver for that. If a market is on fire, people say, "Get me something here quick." They don't have time to evaluate what it is. As the market slows down a bit, people have more time to evaluate best value, and when they do that we win a preponderance of the time.

Joseph Mondillo, Director of Investor Relations:

Okay. I think that's it. I just personally, before handing it off to Gary for some closing remarks, just want to say thank you everyone for attending. Thank you for those on the webcast for attending as well or participating. Thank you. Gary, if you have any closing remarks.

Gary Fields, President and CEO:

Well, I'll just take a moment here to wrap up. First off, I want to thank all of you for spending your time with us participating. Very nice to have people face to face as well. We've spent the last three years looking at each other across a computer screen, and I love getting to see people face to face. So thank you for that those of you that were able to come.

The next thing is the theme The Time is Now was developed by this team. It couldn't be more appropriate. This company has so much energy in its flywheel that is yet to be engaged, that we are engaging moment by moment. You've seen the rapid growth. Well, there was a lot of energy went into the flywheel. There were certain things that kept us from connecting that to the drive wheels. We've been able to connect that successfully. That's what's powered this growth. That's going to continue to power this growth. So I think the theme of The Time is Now is probably the most appropriate theme that's been here since I came on board. And I am so proud to be a part of this team and see how well they've developed, how they've matured.

This is no longer a business that's reliant on one person. It's no longer reliant on tribal knowledge. It's a well-documented business with lots of metrics that we monitor to make sure that we're staying on track. These people enjoy the discipline of that. While it's not burdensome, it's not red tape, it's a discipline, and it's something that's very much appreciated in the entire team. But we have built a very broad bench, very deep bench of very capable leaders and I know that that ensures that our success is sustainable. Thank you very much.