Applied Industrial Technologies (AIT)

Updated May 30th, 2022, by Thomas Richmond

Key Metrics

Current Price:	$103	**5 Year CAGR Estimate:**	7.4%	**Market Cap:**	$4.0 B
Fair Value Price:	$115	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	05/13/22
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date:**	05/31/22
Dividend Yield:	1.3%	**5 Year Price Target**	$140	**Years Of Dividend Growth:**	13
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Applied Industrial Technologies (AIT) is a company that specializes in distributing industrial products to companies across all different industries. The business distributes power transmission products, engineered fluid power components and systems, specialty flow control solutions, advanced automation products, and more through its network of ~400 local service centers across North America, Australia, and New Zealand. The business operates through its two segments, Service Center Based Distribution (68% of 2021 sales) and Fluid Power & Flow Control (32% of 2021 sales). The Service Center Based Distribution segment includes revenue from the local service centers, and it includes business from scheduled maintenance and repair of their customers' machinery, equipment, and facilities. The Fluid Power & Flow Control segment specializes in selling hydraulic (water pressure) and pneumatic (air/gas pressure) technologies, specialty flow control products, and automation products.

On April 28th, 2022, AIT reported Q3 2022 results for the period ending March 31st, 2022. The business earned $1.75 in adjusted earnings-per-share in the quarter, up 27.4% year-over-year, and sales increased 16.6% year-over-year, with 14.7% coming from organic growth and the rest of the increase in revenue mainly due to an increase in the number of selling days in the quarter. Sales in the Service Center Based Distribution segment grew 15% year-over-year driven by stronger local account growth, sales process initiatives, and pricing actions, and sales in the Fluid Power & Flow Control segment increased 17% year-over-year driven by strong demand across most industries, which has led this segment to have a strong backlog.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.54	$2.78	$2.67	$2.80	$2.39	$2.84	$3.61	$3.68	$0.62	$3.68	***$6.20***	***$7.54***
DPS	$0.80	$0.88	$0.96	$1.04	$1.10	$1.14	$1.19	$1.23	$1.27	$1.31	***$1.35***	***$1.64***
Shares	42	42	42	40	39	39	39	39	39	39	***38***	***38***

Over the past 9 years, AIT has seen earnings-per-share grow at an average annualized rate of 4.2%. In 2022, we expect a jump in earnings-per-share based on management's earnings-per-share forecast of $6.15-$6.25 for the full year 2022. We forecast that the business will continue to grow earnings-per-share at 4% annually after 2022's expected uptick in earnings-per-share, which guides our 2027 earnings-per-share estimate of ~$7.50.

Over the past 9 years, the business has grown its dividend at 5.6% annually, and over the past 5 years, the business has grown its dividend at 3.4% annually. Over the next 5 years, we estimate that the business will grow its dividend at 4% annually, in line with historic dividend growth rates, and in line with our estimated earnings-per-share growth rates. As a reminder, AIT has made consecutive dividend payments for 25 years in a row and has increased dividend payments for 13 consecutive years, so it has a stable history of dividend growth.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.9	15.2	18.4	16.1	17.2	19.7	18.3	17.5	---	21.2	***16.6***	***18.5***
Avg. Yld.	2.3%	2.1%	2.0%	2.3%	2.7%	2.0%	1.8%	1.9%	2.2%	1.7%	***1.3%***	***1.2%***

Over the past 5 years, AIT has averaged a P/E ratio of 19.2, and over the past 9 years, the business has averaged a P/E of 17.5. We estimate that a P/E ratio of about 18.5 represents a normalized P/E ratio for this business, so this guided our 2027 P/E estimate. Today, the stock offers a low but dependable 1.3% dividend yield. While this is certainly a low dividend yield for investors that prioritize dividend income, growth investors might be interested in this stock, based on strong growth expectations this year and steady growth expected over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

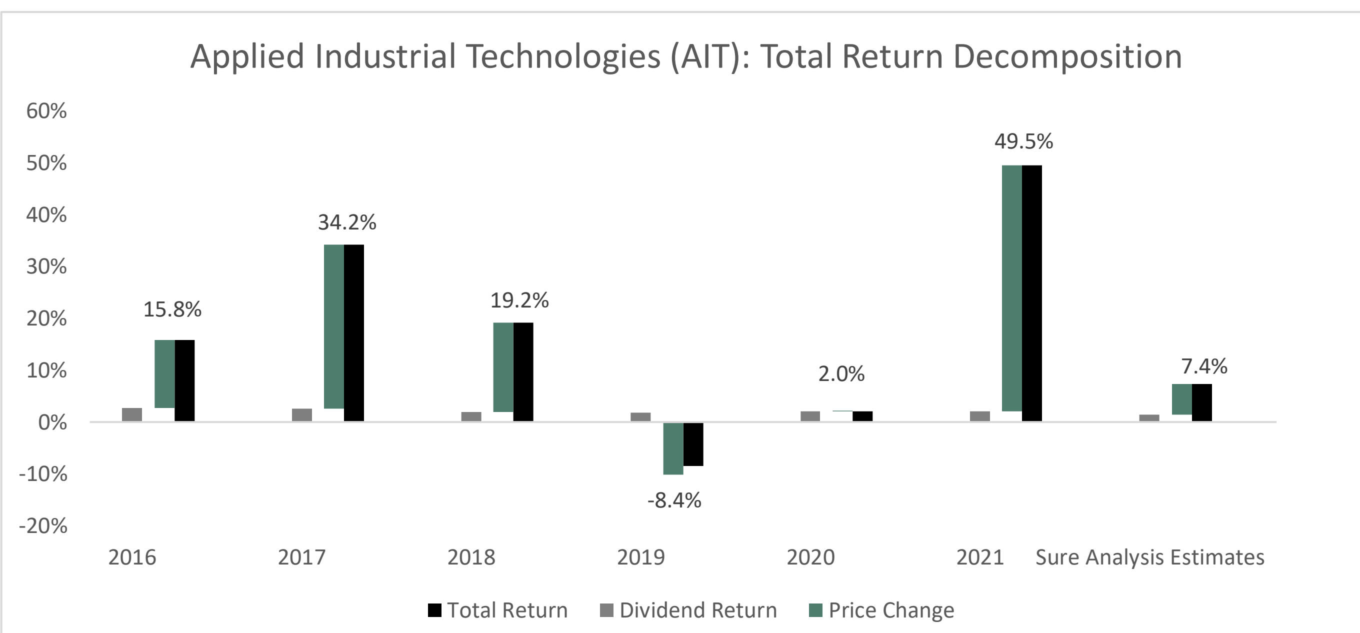
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	31%	32%	36%	37%	46%	40%	33%	33%	205%	36%	***22%***	***22%***

AIT has averaged a payout ratio of 53% over the past 5 years. With the strong growth in earnings-per-share that's expected to take place in 2022, earnings-per-share will grow much faster than dividends in the short term, which we expect will result in a low payout ratio of around 22% in 2022. Additionally, the business has a strong balance sheet with ~$1.3 billion in current assets (including $188 million in cash) and total liabilities of just under $1.3 billion. The business has strong liquidity and solvency ratios and ~$1.1 billion in shareholders' equity.

Final Thoughts & Recommendation

AIT offers investors an opportunity to invest in a stable business that has recently seen strong growth in sales and earnings-per-share. At today's price, we rate the stock as a hold because total return prospects come in at 7.4% annually over the next five years. Still, investors might be interested in this company if they are interested in the Industrial sector, or they like the company's recent increase in earnings-per-share.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,375	2,462	2,460	2,752	2,519	2,594	3,073	3,473	3,246	3,236
Gross Profit	654	683	687	770	707	738	884	1,008	938	936
Gross Margin	27.6%	27.7%	27.9%	28.0%	28.1%	28.4%	28.8%	29.0%	28.9%	28.9%
SG&A Exp.	486	507	523	585	553	562	658	742	718	680
D&A Exp.	23	26	28	42	42	40	50	62	63	55
Operating Profit	168	176	164	185	155	175	226	266	220	255
Op. Margin	7.1%	7.2%	6.7%	6.7%	6.1%	6.8%	7.3%	7.7%	6.8%	7.9%
Net Profit	109	118	113	115	30	134	142	144	24	145
Net Margin	4.6%	4.8%	4.6%	4.2%	1.2%	5.2%	4.6%	4.1%	0.7%	4.5%
Free Cash Flow	64	99	90	142	149	148	124	162	277	226
Income Tax	58	60	53	60	49	33	63	50	31	32

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	962	1,059	1,334	1,433	1,312	1,388	2,286	2,332	2,284	2,272
Cash & Equivalents	78	73	71	69	60	105	54	108	269	258
Acc. Receivable	307	330	376	376	348	391	549	541	450	516
Inventories	229	281	336	362	338	345	422	448	389	363
Goodwill & Int.	168	198	353	453	394	370	1,083	1,031	884	840
Total Liabilities	290	299	534	691	654	642	1,471	1,435	1,440	1,339
Accounts Payable	121	137	172	180	149	181	257	237	186	208
Long-Term Debt	---	---	171	321	328	292	964	958	934	828
Total Equity	672	760	800	741	658	745	815	897	844	933
LTD/E Ratio	---	---	0.21	0.43	0.50	0.39	1.18	1.07	1.11	0.89

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.6%	11.7%	9.4%	8.3%	2.2%	9.9%	7.7%	6.2%	1.0%	6.4%
Return on Equity	16.7%	16.5%	14.5%	15.0%	4.2%	19.1%	18.2%	16.8%	2.8%	16.3%
ROIC	16.7%	16.5%	13.0%	11.4%	2.9%	13.2%	10.1%	7.9%	1.3%	8.2%
Shares Out.	42	42	42	40	39	39	39	39	39	39
Revenue/Share	55.47	57.88	58.11	66.81	63.84	65.82	78.24	88.68	83.22	82.35
FCF/Share	1.50	2.33	2.12	3.45	3.77	3.75	3.16	4.13	7.09	5.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.