Applied Industrial Technologies (AIT)

Updated August 23rd, 2022, by Thomas Richmond

Key Metrics

Current Price:	$110	**5 Year CAGR Estimate:**	8.4%	**Market Cap:**	$4.3 B
Fair Value Price:	$130	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	08/12/22
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.3%	**Dividend Payment Date:**	08/31/22
Dividend Yield:	1.2%	**5 Year Price Target**	$158	**Years Of Dividend Growth:**	14
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 (67% of 2022 sales) and Fluid Power & Flow Control (33% of 2022 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. Over the intermediate term, the company has goals to grow net sales to over $5 billion (2022's sales were $3.8 billion) and expand EBITDA margins to over 12% (2022's EBITDA margin was 10.7%).

On August 11th, 2022, AIT reported Q4 2022 results for the period ending June 30th, 2022. The business earned $2.02 in earnings-per-share for the quarter, which beat analysts' estimates by 36 cents and amounted to 33.8% year-over-year growth. Revenue for the quarter increased 18.3% year-over-year to $1.06 billion. Sales in the Service Center Based Distribution segment growing 14% year-over-year, and sales in the Fluid Power & Flow Control segment increased 21% year-over-year. EBITDA grew 26.5% year-over-year to $120 million for the fourth quarter, which means that profits grew faster than revenue, meaning the business saw margins improve year-over-year. The company announced a new $1.5 million share repurchase program.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.78	$2.67	$2.80	$2.39	$2.84	$3.61	$3.68	$0.62	$3.68	$6.58	***$7.00***	***$8.52***
DPS	$0.88	$0.96	$1.04	$1.10	$1.14	$1.19	$1.23	$1.27	$1.31	$1.36	***$1.36***	***$1.58***
Shares	42	42	40	39	39	39	39	39	39	38	***38***	***38***

Over the past 9 years, AIT has seen earnings-per-share grow at an average annualized rate of 10.0%. In 2022, we expect a jump in earnings-per-share based on management's earnings-per-share forecast of $6.65-$7.30 for the full year 2023. We forecast that the business will continue to grow earnings-per-share at 4% annually after 2023, which guides our 2028 earnings-per-share estimate of ~$8.52.

Over the past 9 years, the business has grown its dividend at 5.0% annually, and over the past 5 years, the business has grown its dividend at 3.6% annually. Over the next 5 years, we estimate that the business will grow its dividend at 3% annually, in line with historic dividend growth rates, and slightly below our estimated earnings-per-share growth rates. As a reminder, AIT has made consecutive dividend payments for 27 years in a row and has increased dividend payments for 14 consecutive years, so it has a stable history of dividend growth.

Applied Industrial Technologies (AIT)

Updated August 23rd, 2022, by Thomas Richmond

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	15.2	18.4	16.1	17.2	19.7	18.3	17.5	---	21.2	14.4	***15.7***	***18.5***
Avg. Yld.	2.1%	2.0%	2.3%	2.7%	2.0%	1.8%	1.9%	2.2%	1.7%	1.4%	***1.2%***	***1.0%***

Over the past 5 years, AIT has averaged a P/E ratio of 17.9, and over the past 9 years, the business has averaged a P/E of 17.6. We estimate that a P/E ratio of about 18.5 represents a normalized P/E ratio for this business, so this guided our 2028 P/E estimate. Today, the stock offers a low but dependable 1.2% 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 steady growth that we expect over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

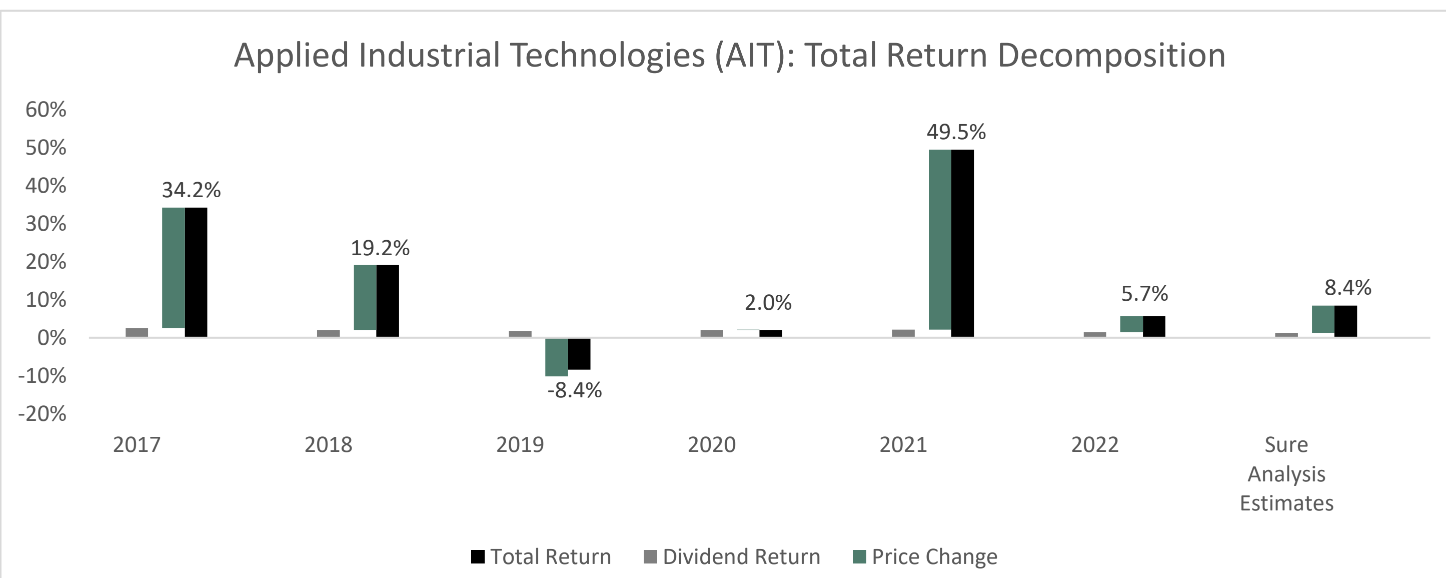
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	36%	37%	46%	40%	33%	33%	205%	36%	21%	***19%***	***19%***

AIT has averaged a payout ratio of about 52% over the past 9 years, but this was skewed by 2020's irregular payout ratio. Excluding 2020, the company has averaged a payout ratio of 35%. We think the business has historically paid a safe dividend based on their earnings, and we expect them to continue to maintain a low payout ratio based on our 2028 estimates. Additionally, the business has a strong balance sheet with ~$1.4 billion in current assets (including $184 million in cash) compared to total liabilities of just above $1.3 billion. The business has strong liquidity and solvency ratios and ~$1.15 billion in shareholders' equity. We think the business's strong balance sheet gives the company recession resiliency, and the business may have a competitive advantage because of its specialized products.

Final Thoughts & Recommendation

AIT offers investors an opportunity to invest in a stable business with a strong balance sheet 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 8.4% annually over the next five years. Still, investors might be interested in this company if they are interested in the Industrial sector, or if they like the company's recent increase in earnings-per-share.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Applied Industrial Technologies (AIT)

Updated August 23rd, 2022, by Thomas Richmond

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.