



Applied Industrial Technologies (AIT)

Updated December 19th, 2022, by Thomas Richmond

Key Metrics

Current Price:	\$123	5 Year CAGR Estimate:	6.6%	Market Cap:	\$4.7 B
Fair Value Price:	\$133	5 Year Growth Estimate:	4.0%	Ex-Dividend Date¹:	02/14/23
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date¹:	02/28/23
Dividend Yield:	1.1%	5 Year Price Target	\$162	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 October 27th, 2022, AIT reported Q1 2023 results for the period ending September 30th, 2022. The business earned \$1.97 in earnings-per-share for the quarter, which beat analysts' estimates by 34 cents and amounted to 44.9% year-over-year growth. Revenue for the quarter increased 23.4% year-over-year to \$1.1 billion and beat analysts' estimates by \$111.5 million. During the quarter, the company renamed its Fluid Power & Flow Control segment to Engineered Solutions, and the company acquired a company that provides automation products and services, called Automation Inc, for an undisclosed amount. Management raised the fiscal year 2023 earnings-per-share guidance range from \$6.65 to \$7.30 to \$6.90 to \$7.55, which caused us to raise our earnings-per-share estimate to \$7.20.

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	\$7.20	\$8.76
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	40

Over the past 9 years, AIT has seen earnings-per-share grow at an average annualized rate of 10.0%. In 2023, we expect a jump in earnings-per-share based on management's revised earnings-per-share forecast of \$6.90-\$7.55 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 ~\$8.76.

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.

¹ Estimated Date.

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 December 19th, 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	17.1	18.5
Avg. Yld.	2.1%	2.0%	2.3%	2.7%	2.0%	1.8%	1.9%	2.2%	1.7%	1.4%	1.1%	1.0%

Over the past 9 years, AIT has averaged a P/E ratio of 17.6, and over the past 5 years, the business has averaged a P/E of 17.9. 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 1.1% 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

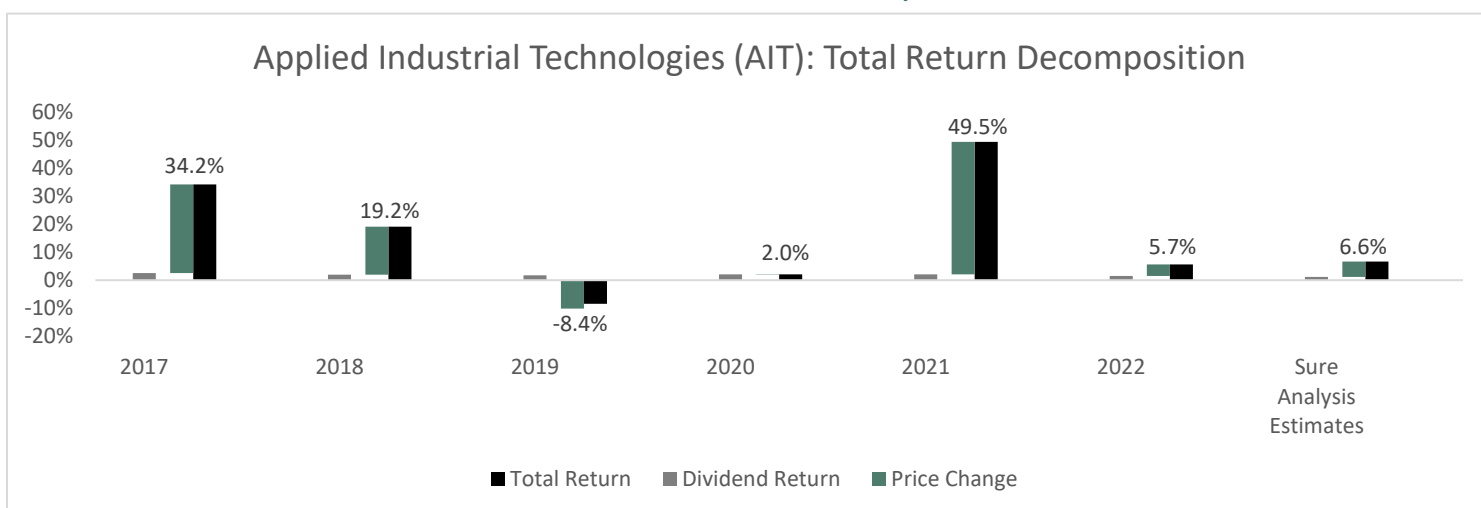
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	32%	36%	37%	46%	40%	33%	33%	205%	36%	21%	19%	18%

AIT has averaged a payout ratio of about 52% over the past 9 years, but this was skewed by 2020's irregular payout ratio of 205%. 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 nearly \$150 million in cash & equivalents) compared to total liabilities of under \$1.3 billion. The business has strong liquidity and solvency ratios and ~\$1.2 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 is 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 6.6% annually over the next five years driven by an estimated 4% annual earnings-per-share growth, a 1.6% valuation multiple rerating, and a 1.1% dividend yield. Still, investors might be interested in this company if they are looking at 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 December 19th, 2022, by Thomas Richmond

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,462	2,460	2,752	2,519	2,594	3,073	3,473	3,246	3,236	3,811
Gross Profit	683	687	770	707	738	884	1,008	938	936	1,107
Gross Margin	27.7%	27.9%	28.0%	28.1%	28.4%	28.8%	29.0%	28.9%	28.9%	29.0%
SG&A Exp.	507	523	585	553	562	658	742	718	680	749
D&A Exp.	26	28	42	42	40	50	62	63	55	54
Operating Profit	176	164	185	155	175	226	266	220	255	358
Op. Margin	7.2%	6.7%	6.7%	6.1%	6.8%	7.3%	7.7%	6.8%	7.9%	9.4%
Net Profit	118	113	115	30	134	142	144	24	145	257
Net Margin	4.8%	4.6%	4.2%	1.2%	5.2%	4.6%	4.1%	0.7%	4.5%	6.7%
Free Cash Flow	99	90	142	149	148	124	162	277	226	169
Income Tax	60	53	60	49	33	63	50	31	32	72

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,059	1,334	1,433	1,312	1,388	2,286	2,332	2,284	2,272	2,453
Cash & Equivalents	73	71	69	60	105	54	108	269	258	184
Acc. Receivable	330	376	376	348	391	549	541	450	516	656
Inventories	281	336	362	338	345	422	448	389	363	450
Goodwill & Int.	198	353	453	394	370	1,083	1,031	884	840	814
Total Liabilities	299	534	691	654	642	1,471	1,435	1,440	1,339	1,303
Accounts Payable	137	172	180	149	181	257	237	186	208	259
Long-Term Debt	---	171	321	328	292	964	958	934	828	689
Total Equity	760	800	741	658	745	815	897	844	933	1,149
LTD/E Ratio	---	0.21	0.43	0.50	0.39	1.18	1.07	1.11	0.89	0.60

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.7%	9.4%	8.3%	2.2%	9.9%	7.7%	6.2%	1.0%	6.4%	10.9%
Return on Equity	16.5%	14.5%	15.0%	4.2%	19.1%	18.2%	16.8%	2.8%	16.3%	24.7%
ROIC	16.5%	13.0%	11.4%	2.9%	13.2%	10.1%	7.9%	1.3%	8.2%	14.3%
Shares Out.	42	42	40	39	39	39	39	39	39	39
Revenue/Share	57.88	58.11	66.81	63.84	65.82	78.24	88.68	83.22	82.35	97.45
FCF/Share	2.33	2.12	3.45	3.77	3.75	3.16	4.13	7.09	5.75	4.33

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.