Applied Industrial Technologies (AIT)

Updated February 2nd, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	$260	**5 Year CAGR Estimate:**	13.0%	**Market Cap:**	$10 B
Fair Value Price:	$266	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date[1]:**	02/14/25
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date[1]:**	02/28/25
Dividend Yield:	0.7%	**5 Year Price Target**	$469	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 2024 sales) and Engineered Solutions (32% of 2024 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 Engineered Solutions segment specializes in selling hydraulic (water pressure) and pneumatic (air/gas pressure) technologies, specialty flow control products, and automation products.

On January 29th, 2025, Applied Industrial Technologies reported results for its second quarter of fiscal year 2025 for the period ending December 31st, 2024. The company reported net income of $93.3 million, or $2.39 in earnings per diluted share, for Q2, which was an increase of 6.7% compared to the prior year's adjusted EPS. Net sales for the quarter declined slightly by 0.4% year-over-year to $1.1 billion. Acquisitions contributed a 1.9% increase in revenue, while foreign currency exchange had a slight negative effect of 0.5%. One extra selling day added a 1.6% boost.

On an organic daily basis, sales decreased 3.4% year-over-year, reflecting a 1.9% decline in the Service Center-Based Distribution segment and a 6.3% decrease in the Engineered Solutions segment. Despite the softness, strong gross margin performance and cost controls contributed to EBITDA growth of 3.3% year-over-year to $135.1 million.

Gross profit for the quarter increased to $328.1 million, with the gross margin improving to 30.6%, reflecting better pricing discipline and operational efficiency.

Management raised its full-year EPS forecast to a range of $9.65 to $10.05, up from $9.25 to $10.00, reflecting the stronger-than-expected Q2 performance and the contribution from the Hydradyne acquisition, which closed at the end of December. The projected total sales growth has been raised to 1% to 3%, up from the prior range of -2.5% to +2.5%, with EBITDA margins now expected to range from 12.2% to 12.4% (previously 12.1% to 12.3%).

This updated guidance reflects ongoing economic uncertainty and potential margin pressures on muted sales trends near term, ongoing inflationary headwinds, and growth investments. Despite these challenges, management remains optimistic about the company's long-term potential.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.80	$2.39	$2.84	$3.61	$3.68	$0.62	$3.68	$6.58	$8.84	$9.83	***$9.85***	***$17.36***
DPS	$1.08	$1.12	$1.16	$1.20	$1.24	$1.28	$1.32	$1.36	$1.40	$1.48	***$1.84***	***$2.13***
Shares	40	39	39	39	39	39	39	38	38	38	***39***	***40***

[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 February 2nd, 2025, by Patrick Neuwirth

The company has grown earnings by 15.0% per year over the past decade and 73.9% over the past five years. We expect earnings to increase by 12% per year for the next five years. AIT has made dividend payments for 27 years in a row and has increased dividend payments for 17 consecutive years, so it has a stable history of dividend growth. Over the last five years, the average annual dividend growth rate is 7.5%. In January 2025, the company increased its quarterly dividend by 24.3% to $0.46 from $0.37.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.1	17.2	19.7	18.3	17.5	93.5	21.2	17.5	18.7	24.4	***26.4***	***27.0***
Avg. Yld.	1.9%	2.7%	2.0%	1.8%	1.9%	2.2%	1.7%	1.4%	1.1%	0.7%	***0.7%***	***0.5%***

During the past decade shares of AIT have traded with an average price-to-earnings ratio of about 26.4 times earnings and today, it stands at 26.4. We are using 27.0 times earnings as a fair value baseline, which is below the 5-year average of 35.1, implying the potential for a valuation tailwind. Excluding the 2020 spike, the company has an average price-to-earnings ratio of 16 since 2015. The company's dividend yield is currently 0.7%, which is below the average yield of 1.8% over the past decade.

Safety, Quality, Competitive Advantage, & Recession Resiliency

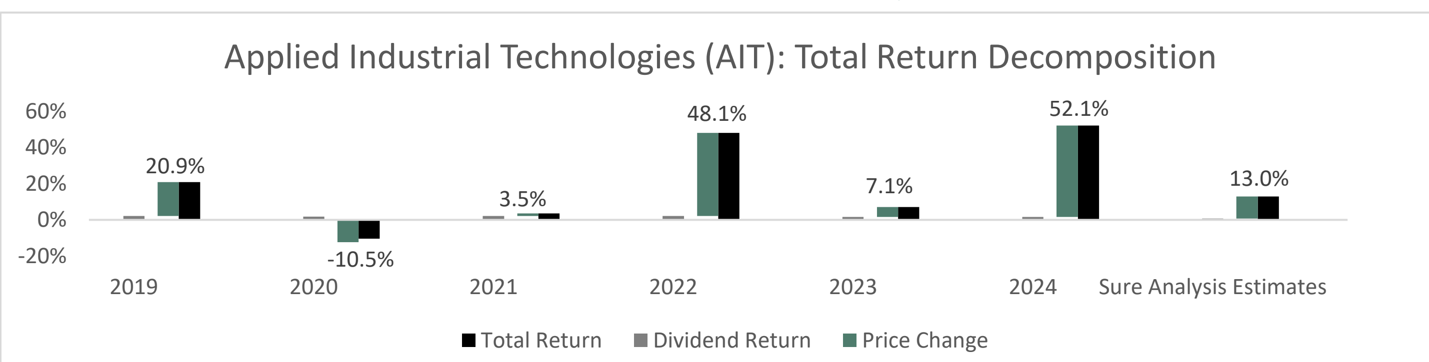
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	39%	47%	41%	33%	34%	206%	36%	21%	16%	15%	***19%***	***12%***

AIT has averaged a payout ratio of about 49% over the past decade, but this was skewed by 2020's irregular payout ratio of 205%. Excluding 2020, the company has averaged a payout ratio of 35%. Historically, the company has had a safe dividend based on their earnings, and we expect them to continue to maintain a low payout ratio based on our 2030 estimates. Additionally, the business has a strong balance sheet with ~$1.61 billion in current assets (including $303 million in cash & equivalents) compared to total liabilities of ~$1.25 billion. The business maintains strong liquidity and solvency ratios and ~$1.79 billion in shareholders' equity. We believe the business's strong balance sheet gives the company recession resiliency, and the business may have a competitive advantage because of its specialized products. Its strategic geographic presence and strong network further enables the company to serve various industries effectively.

Final Thoughts & Recommendation

AIT is a stable business with a strong balance sheet that has recently seen good growth in sales and earnings-per-share. Investors might be interested in this company if they are looking at the industrial sector, or if they like the company's growth prospects. We estimate total return potential of 13% per year for the next five years based on a 12% earnings-per-share growth, a dividend yield of 0.7%, and a valuation tailwind. Shares earn a buy rating.

Total Return Breakdown by Year



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 February 2nd, 2025, by Patrick Neuwirth

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2,752	2,519	2,594	3,073	3,473	3,246	3,236	3,811	4,413	4,479
Gross Profit	770	707	738	884	1,008	938	936	1,107	1,287	1,337
Gross Margin	28.0%	28.1%	28.4%	28.8%	29.0%	28.9%	28.9%	29.0%	29.2%	29.9%
SG&A Exp.	585	553	562	658	742	718	680	749	815	841
D&A Exp.	42	42	40	50	62	63	55	54	53	52
Operating Profit	185	155	175	226	266	220	255	358	472	496
Op. Margin	6.7%	6.1%	6.8%	7.3%	7.7%	6.8%	7.9%	9.4%	10.7%	11.1%
Net Profit	115	30	134	142	144	24	145	257	347	386
Net Margin	4.2%	1.2%	5.2%	4.6%	4.1%	0.7%	4.5%	6.7%	7.9%	8.6%
Free Cash Flow	142	149	148	124	162	277	226	169	317	347
Income Tax	60	49	33	63	50	31	32	72	103	112

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	1,433	1,312	1,388	2,286	2,332	2,284	2,272	2,453	2,743	2,952
Cash & Equivalents	69	60	105	54	108	269	258	184	344	461
Acc. Receivable	376	348	391	549	541	450	516	656	708	725
Inventories	362	338	345	422	448	389	363	450	501	488
Goodwill & Int.	453	394	370	1,083	1,031	884	840	814	814	970
Total Liabilities	691	654	642	1,471	1,435	1,440	1,339	1,303	1,285	1,988
Accounts Payable	180	149	181	257	237	186	208	259	302	254
Long-Term Debt	321	328	292	964	958	934	828	689	622	1,271
Total Equity	741	658	745	815	897	844	933	1,149	1,458	1,262
LTD/E Ratio	0.43	0.50	0.39	1.18	1.07	1.11	0.89	0.60	0.43	1.01

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	8.3%	2.2%	9.9%	7.7%	6.2%	1.0%	6.4%	10.9%	13.4%	16.5%
Return on Equity	15.0%	4.2%	19.1%	18.2%	16.8%	2.8%	16.3%	24.7%	26.6%	44.8%
ROIC	11.4%	2.9%	13.2%	10.1%	7.9%	1.3%	8.2%	14.3%	17.7%	21.1%
Shares Out.	40	39	39	39	39	39	39	39	39	39
Revenue/Share	66.81	63.84	65.82	78.24	88.68	83.22	82.35	97.45	112.51	36.38
FCF/Share	3.45	3.77	3.75	3.16	4.13	7.09	5.75	4.33	8.10	6.76

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