Applied Industrial Technologies, Inc. (AIT)

Updated May 19th, 2025, by Kody Kester

Key Metrics

Current Price:	$233	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$8.9B
Fair Value Price:	$169	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/14/25[1]
% Fair Value:	138%	**5 Year Valuation Multiple Estimate:**	-6.2%	**Dividend Payment Date:**	08/29/25[1]
Dividend Yield:	0.8%	**5 Year Price Target**	$272	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Sector:**	Industrials	**Rating:**	Hold

Overview & Current Events

Applied Industrial Technologies, Inc. (AIT) is a company that specializes in distributing industrial products to companies across various 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 the following two segments:

1. Service Center Based Distribution: The segment offers industrial bearings, motors, drives, pumps, and hydraulic and pneumatic components for customers' general machinery and equipment needs. In the nine months ended March 31st, 2025, this segment comprised $1.87 billion (64%) of AIT's total $2.92 billion in YTD net sales.
2. Engineered Solutions: This segment specializes in selling hydraulic (water pressure) and pneumatic (air/gas pressure) technologies, specialty flow control, and automation products. Through the first nine months of FY 2025, the Engineered Solutions segment made up the remaining $1.05 billion (36%) in YTD net sales.

On May 1st, AIT shared its fiscal third quarter results for the period ending March 31st, 2025. The company's net sales edged 1.8% higher over the year-ago period to $1.17 billion during the quarter. That was largely due to a 6.6% revenue boost which resulted from acquisitions during the quarter. This more than offset the 0.8% impact of fewer selling days and the 0.9% impact of unfavorable foreign currency translation during Q3. AIT's organic sales fell by 3.1% during the quarter. That was due to a 1.6% decline in the Service Center segment net sales and a 6.5% decrease in the Engineered Solutions segment net sales in the quarter. AIT's diluted EPS grew by 3.7% year-over-year to $2.57 for the quarter. This topped the analyst consensus by $0.16 during the quarter. That was made possible by a seven-basis-point expansion in the net profit margin to nearly 8.6% and a reduced share count.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$2.80	$2.50	$3.40	$3.61	$3.68	$3.81	$4.74	$6.58	$8.75	$9.75	***$9.95***	***$16.02***
DPS	$1.04	$1.10	$1.14	$1.18	$1.22	$1.26	$1.30	$1.34	$1.38	$1.44	***$1.84***	***$2.83***
Shares[2]	39.9	39.1	39.0	38.7	38.6	38.7	38.5	38.5	38.7	38.4	***38.1***	***37.5***

Since FY 2015, AIT's diluted EPS have compounded by approximately 15% annually. Moving forward, we believe that the company's diluted EPS can keep growing at a 10% annualized rate over the medium term. This is because AIT has a history of successfully executing bolt-on acquisitions. Earlier this month, the company announced its definitive agreement to acquire IRIS Factory Automation. The company is a provider of automation products, services, and turn-key productized solutions focused on optimizing material handling and traceability workflows across production environments.

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[1] Estimate based on past dividend dates.
[2] Share count is in millions.

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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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.2	17.9	17.4	19.4	16.7	16.4	19.2	14.6	16.6	19.9	***23.4***	***17.0***
Avg. Yld.	2.6%	2.5%	1.9%	1.7%	2.0%	2.0%	1.4%	1.4%	1.0%	0.7%	***0.8%***	***1.0%***

Over the last decade, AIT's shares have ranged from a P/E ratio as low as the low double digits to as high as the low 20s. The average P/E ratio over this time was around 17. In the years ahead, we think that a P/E ratio of 17 remains a sensible fair value estimate. That's because AIT's double-digit annual earnings growth prospects look to be holding up. Compared to the current year P/E ratio of 23.4, shares are meaningfully overvalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	37%	44%	34%	33%	33%	33%	27%	20%	16%	15%	***18%***	***18%***

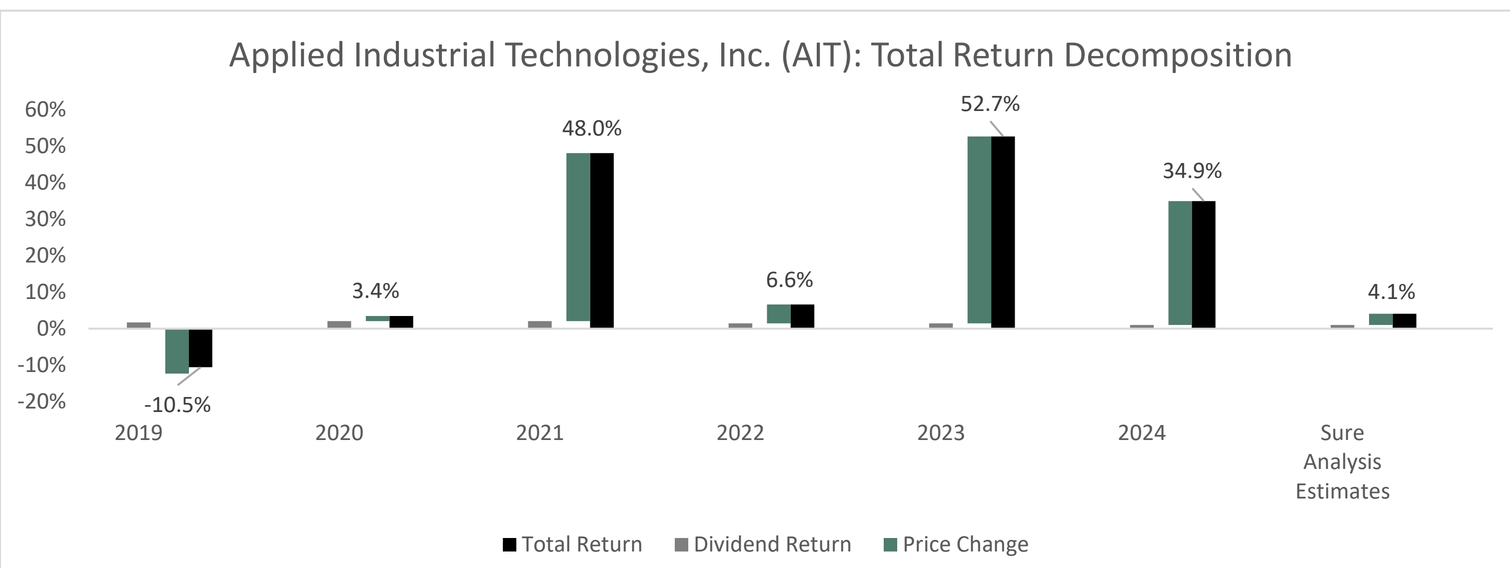
AIT offers customers an extensive portfolio of parts (more than 6 million). That allows the company to meet the needs of customers in a variety of industries. Along with competitive pricing and value-added services, this makes AIT a go-to player in its industry. That has resulted in respectable earnings growth over time.

As of March 31st, 2025, AIT also had a cash and cash equivalents balance of $352.8 million. This is how the company has generated $710,000 in net interest income through the first nine months of FY 2025. AIT's dividend payout ratio is positioned to also be just 18% in FY 2025. That sets it up well to build on its 17-year dividend growth streak for the foreseeable future.

Final Thoughts & Recommendation

AIT's 0.8% dividend yield, 10.0% annual diluted EPS growth prospects, and 6.2% annual valuation multiple contraction potential could deliver 4.1% annual total returns through FY 2030. That's why we're awaiting an entry point much closer to our fair value and issuing a hold rating.

Total Return Breakdown by Year



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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.