

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended MARCH 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number 1-2299

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Ohio 34-0117420
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

One Applied Plaza Cleveland Ohio 44115
(Address of principal executive offices) (Zip Code)
(216) 426-4000
Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, without par value	AIT	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

There were 38,707,000 (no par value) shares of common stock outstanding on April 17, 2020.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I: FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net sales	\$ 830,797	\$ 885,443	\$ 2,520,576	\$ 2,589,996
Cost of sales	594,045	629,884	1,791,130	1,839,724
Gross profit	236,752	255,559	729,446	750,272
Selling, distribution and administrative expense, including depreciation	183,702	189,456	556,485	556,865
Goodwill & intangible impairment	131,000	31,594	131,000	31,594
Operating (loss) income	(77,950)	34,509	41,961	161,813
Interest expense, net	8,805	9,947	28,447	30,001
Other income, net	(1,428)	(1,256)	(1,643)	(549)
(Loss) income before income taxes	(85,327)	25,818	15,157	132,361
Income tax (benefit) expense	(2,550)	9,283	21,104	28,171
Net (loss) income	\$ (82,777)	\$ 16,535	\$ (5,947)	\$ 104,190
Net (loss) income per share - basic	\$ (2.14)	\$ 0.43	\$ (0.15)	\$ 2.69
Net (loss) income per share - diluted	\$ (2.14)	\$ 0.42	\$ (0.15)	\$ 2.66
Weighted average common shares outstanding for basic computation	38,682	38,643	38,647	38,701
Dilutive effect of potential common shares	—	396	—	521
Weighted average common shares outstanding for diluted computation	38,682	39,039	38,647	39,222

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net (loss) income per the condensed statements of consolidated income	\$ (82,777)	\$ 16,535	\$ (5,947)	\$ 104,190
Other comprehensive loss, before tax:				
Foreign currency translation adjustments	(28,767)	2,945	(27,356)	(1,611)
Post-employment benefits:				
Reclassification of net actuarial gains and prior service cost into other income, net and included in net periodic pension costs	(17)	(77)	(50)	(230)
Cumulative effect of adopting accounting standard	—	—	—	(50)
Unrealized loss on cash flow hedge	(13,891)	(6,941)	(14,249)	(6,941)
Reclassification of interest from cash flow hedge into interest expense	1,017	85	2,350	85
Total other comprehensive loss, before tax	(41,658)	(3,988)	(39,305)	(8,747)
Income tax benefit related to items of other comprehensive loss	(3,711)	(1,626)	(3,684)	(1,976)
Other comprehensive loss, net of tax	(37,947)	(2,362)	(35,621)	(6,771)
Comprehensive (loss) income, net of tax	<u>\$ (120,724)</u>	<u>\$ 14,173</u>	<u>\$ (41,568)</u>	<u>\$ 97,419</u>

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	March 31, 2020	June 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 165,464	\$ 108,219
Accounts receivable, net	524,081	540,902
Inventories	421,201	447,555
Other current assets	51,773	51,462
Total current assets	1,162,519	1,148,138
Property, less accumulated depreciation of \$187,292 and \$181,066	123,770	124,303
Operating lease assets, net	86,617	—
Identifiable intangibles, net	352,864	368,866
Goodwill	539,495	661,991
Other assets	24,264	28,399
TOTAL ASSETS	\$ 2,289,529	\$ 2,331,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 214,253	\$ 237,289
Current portion of long-term debt	78,642	49,036
Compensation and related benefits	69,051	67,978
Other current liabilities	85,915	69,491
Total current liabilities	447,861	423,794
Long-term debt	864,758	908,850
Other liabilities	146,350	102,019
TOTAL LIABILITIES	1,458,969	1,434,663
Shareholders' equity		
Preferred stock—no par value; 2,500 shares authorized; none issued or outstanding	—	—
Common stock—no par value; 80,000 shares authorized; 54,213 shares issued	10,000	10,000
Additional paid-in capital	174,830	172,931
Retained earnings	1,195,411	1,229,148
Treasury shares—at cost (15,506 and 15,616 shares, respectively)	(414,174)	(415,159)
Accumulated other comprehensive loss	(135,507)	(99,886)
TOTAL SHAREHOLDERS' EQUITY	830,560	897,034
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,289,529	\$ 2,331,697

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended March 31,	
	2020	2019
Cash Flows from Operating Activities		
Net (loss) income	\$ (5,947)	\$ 104,190
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	15,997	15,045
Amortization of intangibles	31,671	31,823
Goodwill & intangible impairment	131,000	31,594
Unrealized foreign exchange transactions (gain) loss	(2,635)	40
Amortization of stock options and appreciation rights	2,217	1,831
Gain on sale of property	(1,274)	(258)
Other share-based compensation expense	2,046	3,716
Changes in operating assets and liabilities, net of acquisitions	1,406	(106,367)
Other, net	(4,857)	(4,448)
Net Cash provided by Operating Activities	169,624	77,166
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	(37,237)	(37,526)
Property purchases	(16,223)	(11,711)
Proceeds from property sales	1,809	649
Other	—	391
Net Cash used in Investing Activities	(51,651)	(48,197)
Cash Flows from Financing Activities		
Net repayments under revolving credit facility	—	(500)
Long-term debt borrowings	25,000	175,000
Long-term debt repayments	(39,803)	(156,803)
Payment of debt issuance costs	(22)	(775)
Purchases of treasury shares	—	(11,158)
Dividends paid	(36,420)	(35,254)
Acquisition holdback payments	(2,440)	(2,609)
Exercise of stock options and appreciation rights	330	—
Taxes paid for shares withheld for equity awards	(2,604)	(3,371)
Net Cash used in Financing Activities	(55,959)	(35,470)
Effect of Exchange Rate Changes on Cash	(4,769)	(282)
Increase (decrease) in Cash and Cash Equivalents	57,245	(6,783)
Cash and Cash Equivalents at Beginning of Period	108,219	54,150
Cash and Cash Equivalents at End of Period	\$ 165,464	\$ 47,367

See notes to condensed consolidated financial statements.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands)

For the Period Ended March 31, 2020	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2019	38,597	\$ 10,000	\$ 172,931	\$ 1,229,148	\$ (415,159)	\$ (99,886)	\$ 897,034
Net income				38,799			38,799
Other comprehensive loss						(5,247)	(5,247)
Cumulative effect of adopting accounting standards				(3,275)			(3,275)
Cash dividends — \$0.31 per share				(20)			(20)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	5		(177)		61		(116)
Performance share awards	36		(1,540)		362		(1,178)
Restricted stock units	16		(631)		200		(431)
Compensation expense — stock appreciation rights and options			773				773
Other share-based compensation expense			919				919
Other	2		(52)	(4)	23		(33)
Balance at September 30, 2019	38,656	\$ 10,000	\$ 172,223	\$ 1,264,648	\$ (414,513)	\$ (105,133)	\$ 927,225
Net income				38,031			38,031
Other comprehensive income						7,573	7,573
Cash dividends — \$0.31 per share				(12,017)			(12,017)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	22		(185)		(47)		(232)
Compensation expense — stock appreciation rights and options			721				721
Other share-based compensation expense			918				918
Other	—		—	23	(1)		22
Balance at December 31, 2019	38,678	\$ 10,000	\$ 173,677	\$ 1,290,685	\$ (414,561)	\$ (97,560)	\$ 962,241
Net loss				(82,777)			(82,777)
Other comprehensive loss						(37,947)	(37,947)
Cash dividends — \$0.32 per share				(12,423)			(12,423)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	14		(378)		(16)		(394)
Compensation expense — stock appreciation rights and options			723				723
Other share-based compensation expense			209				209
Other	15		599	(74)	403		928
Balance at March 31, 2020	38,707	\$ 10,000	\$ 174,830	\$ 1,195,411	\$ (414,174)	\$ (135,507)	\$ 830,560

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands)

For the Period Ended March 31, 2019	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2018	38,703	\$ 10,000	\$ 169,383	\$ 1,129,678	\$ (403,875)	\$ (90,223)	\$ 814,963
Net income				48,938			48,938
Other comprehensive income						5,347	5,347
Cumulative effect of adopting accounting standards				3,056			3,056
Cash dividends — \$0.30 per share				(13)			(13)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	17		(855)		(210)		(1,065)
Performance share awards	18		(844)		(301)		(1,145)
Restricted stock units	16		(760)		(198)		(958)
Compensation expense — stock appreciation rights and options			651				651
Other share-based compensation expense			1,043				1,043
Other				24	(35)		(11)
Balance at September 30, 2018	38,754	\$ 10,000	\$ 168,618	\$ 1,181,683	\$ (404,619)	\$ (84,876)	\$ 870,806
Net income				38,717			38,717
Other comprehensive loss						(9,756)	(9,756)
Cash dividends — \$0.30 per share				(11,651)			(11,651)
Treasury shares issued for:							
Exercise of stock appreciation rights and options			(7)		1		(6)
Restricted stock units	3		(140)		31		(109)
Compensation expense — stock appreciation rights and options			606				606
Other share-based compensation expense			1,308				1,308
Other				(1)	1		—
Balance at December 31, 2018	38,757	\$ 10,000	\$ 170,385	\$ 1,208,748	\$ (404,586)	\$ (94,632)	\$ 889,915
Net income				16,535			16,535
Other comprehensive loss						(2,362)	(2,362)
Cash dividends — \$0.31 per share				(11,979)			(11,979)
Purchases of common stock for treasury	(192)				(11,158)		(11,158)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	13		(197)		149		(48)
Compensation expense — stock appreciation rights and options			574				574
Other share-based compensation expense			1,365				1,365
Other	15		(393)	10	389		6
Balance at March 31, 2019	38,593	\$ 10,000	\$ 171,734	\$ 1,213,314	\$ (415,206)	\$ (96,994)	\$ 882,848

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position of Applied Industrial Technologies, Inc. (the “Company”, or “Applied”) as of March 31, 2020, and the results of its operations and its cash flows for the nine month periods ended March 31, 2020 and 2019, have been included. The condensed consolidated balance sheet as of June 30, 2019 has been derived from the audited consolidated financial statements at that date. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2019.

Operating results for the nine month period ended March 31, 2020 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2020.

Inventory

The Company uses the LIFO method of valuing U.S. inventories. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory determination.

Recently Adopted Accounting Guidance

Reference Rate Reform

In March 2020, the FASB issued its final standard on the facilitation of the effects of reference rate reform on financial reporting. This standard, issued as ASU 2020-04, provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. This update is effective as of March 12, 2020 through December 31, 2022. The Company adopted the new guidance as it became effective in third quarter of fiscal 2020. The adoption of this guidance did not have a material impact on the Company's financial statements or related disclosures.

Leases

In February 2016, the FASB issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. This update is effective for annual financial statement periods beginning after December 15, 2018, with earlier application permitted. In July 2018, the FASB issued ASU 2018-10 which clarifies the guidance in ASU 2016-02 and ASU 2018-11 which provides entities with an additional transition method option for adopting the new standard. In December 2018 and January 2019, the FASB issued ASU 2018-20 and ASU 2019-01, respectively, which further clarify the guidance. The Company adopted the new guidance effective July 1, 2019 using the optional transition method, which required application of the new guidance to only those leases that existed at the date of adoption. The Company elected the “package of practical expedients,” which permitted the Company to not reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Adoption of the new standard resulted in the recognition of right-of-use (ROU) assets and lease liabilities of \$83,533 and \$89,778, respectively, on July 1, 2019. The difference between the ROU assets and lease liabilities related primarily to the impairment of certain leases in Canada and the United States. In addition, the adoption resulted in an adjustment to opening retained earnings of approximately \$3,275, net of tax, on July 1, 2019 primarily due to the impairment of the leases. The standard did not have a material impact on the Company’s condensed statements of consolidated income or cash flows.

Cash Flows

In August 2016, the FASB issued its final standard on the classification of certain cash receipts and cash payments within the statement of cash flows. This standard, issued as ASU 2016-15, makes a number of changes meant to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. This update is effective for annual and interim financial statement periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the new guidance in the first quarter of fiscal 2020. The adoption of this guidance did not have a material impact on the Company's financial statements or related disclosures.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

Recently Issued Accounting Guidance

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. This update is effective for annual and interim financial statement periods beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. In November 2018, April 2019, May 2019, November 2019, and February 2020, the FASB issued ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-11 and ASU 2020-02, respectively, which clarify the guidance in ASU 2016-13. The Company has not yet determined the impact of these pronouncements on its financial statements and related disclosures.

In December 2019, the FASB issued its final standard on simplifying the accounting for income taxes. This standard, issued as ASU 2019-12, makes a number of changes meant to add or clarify guidance on accounting for income taxes. This update is effective for annual and interim financial statement periods beginning after December 15, 2021, with early adoption permitted in any interim period for which financial statements have not yet been filed. The Company has not yet determined the impact of these pronouncements on its financial statements and related disclosures.

2. REVENUE RECOGNITION

Disaggregation of Revenues

The following tables present the Company's net sales by reportable segment and by geographic areas based on the location of the facility shipping the product for the three and nine months ended March 31, 2020 and 2019. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

Three Months Ended March 31,								
	2020			2019				
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total		
Geographic Areas:								
United States	\$ 473,069	\$ 251,913	\$ 724,982	\$ 520,180	\$ 251,922	\$ 772,102		
Canada	59,912	—	59,912	66,725	—	66,725		
Other countries	41,387	4,516	45,903	43,533	3,083	46,616		
Total	\$ 574,368	\$ 256,429	\$ 830,797	\$ 630,438	\$ 255,005	\$ 885,443		

Nine Months Ended March 31,								
	2020			2019				
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total		
Geographic Areas:								
United States	\$ 1,433,133	\$ 755,175	\$ 2,188,308	\$ 1,490,289	\$ 756,433	\$ 2,246,722		
Canada	193,755	—	193,755	204,401	—	204,401		
Other countries	126,428	12,085	138,513	129,095	9,778	138,873		
Total	\$ 1,753,316	\$ 767,260	\$ 2,520,576	\$ 1,823,785	\$ 766,211	\$ 2,589,996		

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

The following tables present the Company's percentage of revenue by reportable segment and major customer industry for the three and nine months ended March 31, 2020 and 2019:

	Three Months Ended March 31,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	34.8%	39.9%	36.4%	35.8%	41.7%	37.5%
Industrial Machinery	9.9%	24.7%	14.5%	10.2%	24.2%	14.2%
Metals	11.1%	6.5%	9.7%	12.0%	8.6%	11.0%
Food	12.0%	3.1%	9.3%	10.5%	2.5%	8.2%
Forest Products	9.8%	5.7%	8.5%	7.0%	3.6%	6.0%
Chem/Petrochem	3.3%	12.8%	6.2%	2.8%	12.8%	5.7%
Oil & Gas	7.3%	1.3%	5.4%	10.1%	2.3%	7.9%
Cement & Aggregate	7.2%	1.3%	5.4%	6.9%	1.0%	5.2%
Transportation	4.6%	4.7%	4.6%	4.7%	3.3%	4.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	Nine Months Ended March 31,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	34.6%	41.6%	36.7%	35.9%	44.0%	38.2%
Industrial Machinery	9.7%	23.7%	13.9%	9.7%	22.0%	13.3%
Metals	11.3%	7.4%	10.1%	12.2%	8.3%	11.1%
Food	11.6%	2.9%	9.0%	10.4%	2.5%	8.1%
Forest Products	9.0%	3.9%	7.4%	7.6%	3.0%	6.3%
Chem/Petrochem	3.2%	13.3%	6.3%	3.1%	14.1%	6.3%
Oil & Gas	8.7%	1.7%	6.6%	10.0%	2.2%	7.7%
Cement & Aggregate	7.2%	1.1%	5.4%	6.5%	1.0%	4.9%
Transportation	4.7%	4.4%	4.6%	4.6%	2.9%	4.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts) (Unaudited)

The following tables present the Company's percentage of revenue by reportable segment and product line for the three and nine months ended March 31, 2020 and 2019:

	Three Months Ended March 31,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	34.8%	8.5%	26.6%	34.5%	2.3%	25.2%
Fluid Power	13.3%	40.5%	21.7%	13.5%	41.3%	21.5%
General Maintenance; Hose Products	24.0%	12.2%	20.4%	24.7%	4.7%	18.9%
Bearings, Linear & Seals	27.9%	0.3%	19.4%	27.3%	0.4%	19.6%
Specialty Flow Control	—%	38.5%	11.9%	—%	51.3%	14.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	Nine Months Ended March 31,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	34.7%	9.9%	27.2%	33.8%	1.7%	24.3%
Fluid Power	13.3%	38.4%	20.9%	13.7%	39.0%	21.2%
General Maintenance; Hose Products	25.5%	11.1%	21.1%	26.0%	5.0%	19.7%
Bearings, Linear & Seals	26.5%	0.3%	18.6%	26.5%	0.3%	18.8%
Specialty Flow Control	—%	40.3%	12.2%	—%	54.0%	16.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Contract Assets

The Company's contract assets consist of un-billed amounts resulting from contracts for which revenue is recognized over time using the cost-to-cost method, and for which revenue recognized exceeds the amount billed to the customer.

Activity related to contract assets, which are included in other current assets on the condensed consolidated balance sheet, is as follows:

	March 31, 2020	June 30, 2019	\$ Change	% Change
Contract assets	\$ 7,690	\$ 8,920	\$ (1,230)	(13.8)%

The difference between the opening and closing balances of the Company's contract assets primarily results from the timing difference between the Company's performance and when the customer is billed.

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3. BUSINESS COMBINATIONS

The operating results of all acquired entities are included within the consolidated operating results of the Company from the date of each respective acquisition.

Fiscal 2020 Acquisition

On August 21, 2019, the Company acquired 100% of the outstanding shares of Olympus Controls, a Portland, Oregon automation solutions provider - including design, assembly, integration, and distribution - of motion control, machine vision, and robotic technologies. Olympus Controls is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was \$36,642, net tangible assets acquired were \$9,540, and intangible assets including goodwill was \$27,102 based upon estimated fair values at the acquisition date. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

Fiscal 2019 Acquisitions

On March 4, 2019, the Company acquired substantially all of the net assets of MilRoc Distribution (MilRoc) and Woodward Steel (Woodward). MilRoc is an Oklahoma based distributor of oilfield specific products, namely pumps and valves, as well as equipment repair services and industrial parts to the oil & gas industry. Woodward is an Oklahoma based steel supplier to the oil & gas and agriculture industries. MilRoc and Woodward are both included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$35,000, net tangible assets acquired were \$17,788, and intangible assets including goodwill was \$17,212 based upon estimated fair values at the acquisition date. The purchase price includes acquisition holdback payments of \$4,375, of which \$1,666 was paid during the nine months ended March 31, 2020. The remaining balance of \$2,709 is included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of March 31, 2020, and will be paid on the second and third anniversaries of the acquisition date with interest at a fixed rate of 2.0% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

On November 2, 2018, the Company acquired substantially all of the net assets of Fluid Power Sales, Inc. (FPS), a Baldwinsville, New York based manufacturer and distributor of fluid power components, specializing in the engineering and fabrication of manifolds and power units. FPS is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was \$8,066, net tangible assets acquired were \$4,151, and goodwill was \$3,915 based upon estimated fair values at the acquisition date. The purchase price includes \$1,200 of acquisition holdback payments, of which \$600 was paid during the nine months ended March 31, 2020. The remaining balance of \$600 is included in other current liabilities on the condensed consolidated balance sheet as of March 31, 2020, and will be paid on the second anniversary of the acquisition date with interest at a fixed rate of 1.5% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

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4. GOODWILL AND INTANGIBLES

The changes in the carrying amount of goodwill for both the Service Center Based Distribution segment and the Fluid Power & Flow Control segment for the fiscal year ended June 30, 2019 and the nine month period ended March 31, 2020 are as follows:

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Balance at July 1, 2018	\$ 203,084	\$ 443,559	\$ 646,643
Goodwill acquired during the period	9,943	4,798	14,741
Other, primarily currency translation	607	—	607
Balance at June 30, 2019	\$ 213,634	\$ 448,357	\$ 661,991
Goodwill adjusted/acquired during the period	(3,393)	14,667	11,274
Impairment	—	(131,000)	(131,000)
Other, primarily currency translation	(2,770)	—	(2,770)
Balance at March 31, 2020	\$ 207,471	\$ 332,024	\$ 539,495

During the first quarter of fiscal 2020, the Company recorded an adjustment to the preliminary estimated fair value of intangible assets related to the MilRoc/Woodward acquisition. The fair values of the customer relationships, trade name, and non-compete intangible assets were increased by \$1,524, \$1,809, and \$60, respectively, with a corresponding total decrease to goodwill of \$3,393. The changes to the preliminary estimated fair values resulted in an increase to amortization expense of \$303 during the nine months ended March 31, 2020, which is recorded in selling, distribution, and administrative expense on the condensed statements of consolidated income.

During the second quarter of fiscal 2020, the Company recorded an adjustment to the preliminary estimated fair value of intangible assets related to the Olympus Controls acquisition. The trade name and other intangible assets were increased by \$4,260 and \$980, respectively, with a corresponding decrease to the customer relationship intangible asset of \$5,504 and an increase to goodwill of \$264. The changes to the preliminary estimated fair values resulted in a decrease to amortization expense of \$24 during the nine months ended March 31, 2020, which is recorded in selling, distribution, and administrative expense on the condensed statements of consolidated income.

The Company has eight (8) reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2020. The Company concluded that seven (7) of the reporting units' fair value exceeded their carrying amounts by at least 10% as of January 1, 2020. Specifically, the Canada reporting unit's fair value exceeded its carrying value by 12%, and the Mexico reporting unit's fair value exceeded its carrying value by 14%. The Canada and Mexico reporting units have goodwill balances of \$26,328 and \$4,945, respectively, as of March 31, 2020. The carrying value of the final reporting unit, which is comprised of the FCX Performance Inc. (FCX) operations, exceeded the fair value, resulting in goodwill impairment of \$131,000. The non-cash impairment charge is the result of the overall decline in the industrial economy, specifically slower demand in FCX's end markets. This has led to reduced spending by customers and reduced revenue expectations. The remaining goodwill for the FCX reporting unit as of March 31, 2020 is \$309,012. Because the carrying value of the FCX reporting unit approximated fair value of the reporting unit after the impairment was recorded, a future decline in the estimated cash flows could result in an additional impairment loss. A future decline in the estimated cash flows could result from a significant or extended decline in various end markets.

The fair values of the reporting units in accordance with the goodwill impairment test were determined using the income and market approaches. The income approach employs the discounted cash flow method reflecting projected cash flows expected to be generated by market participants and then adjusted for time value of money factors, and requires management to make significant estimates and assumptions related to forecasts of future revenues, operating margins, and discount rates. The market approach utilizes an analysis of comparable publicly traded companies and requires management to make significant estimates and assumptions related to the forecasts of future revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA) and multiples that are applied to management's forecasted revenues and EBITDA estimates.

The techniques used in the Company's impairment test have incorporated a number of assumptions that the Company believes to be reasonable and to reflect known market conditions at the measurement date. Assumptions in estimating future cash flows are subject to a degree of judgment. The Company makes all efforts to forecast future cash flows as

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accurately as possible with the information available at the measurement date. The Company evaluates the appropriateness of its assumptions and overall forecasts by comparing projected results of upcoming years with actual results of preceding years. Key Level 3 based assumptions relate to pricing trends, inventory costs, customer demand, and revenue growth. A number of benchmarks from independent industry and other economic publications were also used.

Changes in future results, assumptions, and estimates after the measurement date may lead to an outcome where additional impairment charges would be required in future periods. Specifically, actual results may vary from the Company's forecasts and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where the conclusions may differ in reflection of prevailing market conditions. Further, continued adverse market conditions could result in the recognition of additional impairment if the Company determines that the fair values of its reporting units have fallen below their carrying values. Certain events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of the Company's reporting units may include such items as: (i) a decrease in expected future cash flows, specifically, a decrease in sales volume driven by a prolonged weakness in customer demand or other pressures adversely affecting our long-term sales trends; (ii) inability to achieve the sales from our strategic growth initiatives.

At March 31, 2020 and June 30, 2019, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$64,794 related to the Service Center Based Distribution segment. At March 31, 2020 and June 30, 2019, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$167,605 and \$36,605, respectively, related to the Fluid Power & Flow Control segment.

The Company's identifiable intangible assets resulting from business combinations are amortized over their estimated period of benefit and consist of the following:

March 31, 2020	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 425,187	\$ 154,683	\$ 270,504
Trade names	111,242	32,666	78,576
Vendor relationships	11,193	8,629	2,564
Other	2,066	846	1,220
Total Identifiable Intangibles	\$ 549,688	\$ 196,824	\$ 352,864

June 30, 2019	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 422,367	\$ 135,879	\$ 286,488
Trade names	105,946	27,232	78,714
Vendor relationships	11,367	8,156	3,211
Other	2,702	2,249	453
Total Identifiable Intangibles	\$ 542,382	\$ 173,516	\$ 368,866

Amounts include the impact of foreign currency translation. Fully amortized amounts are written off.

During the nine month period ended March 31, 2020, the Company acquired identifiable intangible assets with a preliminary acquisition cost allocation and weighted-average life as follows:

	Acquisition Cost Allocation	Weighted-Average Life
Customer relationships	\$ 7,160	20.0
Trade names	4,260	15.0
Other	980	6.8
Total Intangibles Acquired	\$ 12,400	17.2

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Due to a sustained decline in economic conditions in the upstream oil and gas industry in western Canada, management also assessed the long-lived intangible assets related to the Reliance asset group in Canada for impairment during the third quarter of fiscal 2019. The Reliance asset group is located in western Canada and primarily serves customers in the upstream oil and gas industry. The asset group carrying value exceeded the sum of the undiscounted cash flows, indicating impairment. The fair value of the asset group was then determined using the Income approach, and the analysis resulted in the measurement of a full impairment loss of \$31,594, which was recorded in the three months ended March 31, 2019.

Estimated future amortization expense by fiscal year (based on the Company's identifiable intangible assets as of March 31, 2020) for the next five years is as follows: \$10,000 for the remainder of 2020, \$38,200 for 2021, \$36,100 for 2022, \$33,900 for 2023, \$29,700 for 2024 and \$26,200 for 2025.

5. DEBT

Revolving Credit Facility & Term Loan

In January 2018, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a \$780,000 unsecured term loan and a \$250,000 unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At March 31, 2020 and June 30, 2019, the Company had \$599,000 and \$613,625, respectively, outstanding under the term loan. The interest rate on the term loan as of March 31, 2020 and June 30, 2019 was 2.75% and 4.19%, respectively. The Company had no amount outstanding under the revolver at March 31, 2020 or June 30, 2019. Unused lines under this facility, net of outstanding letters of credit of \$1,786 and \$3,215, respectively, to secure certain insurance obligations, totaled \$248,214 and \$246,785 at March 31, 2020 and June 30, 2019, respectively, and were available to fund future acquisitions or other capital and operating requirements.

Additionally, the Company had letters of credit outstanding with separate banks, not associated with the revolving credit agreement, in the amount of \$3,788 and \$2,698 as of March 31, 2020 and June 30, 2019, respectively, in order to secure certain insurance obligations.

Trade Receivable Securitization Facility

In August 2018, the Company established a trade receivable securitization facility (the "AR Securitization Facility") with a termination date of August 31, 2021. The maximum availability under the AR Securitization Facility is \$175,000. Availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and, therefore, at certain times, we may not be able to fully access the \$175,000 of funding available under the AR Securitization Facility. The AR Securitization Facility effectively increases the Company's borrowing capacity by collateralizing a portion of the amount of the Service Center Based Distribution reportable segment's U.S. operations' trade accounts receivable. The Company uses the proceeds from the AR Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs. Borrowings under this facility carry variable interest rates tied to LIBOR and fees on the AR Securitization Facility are 0.90% per year. As of March 31, 2020, and June 30, 2019, the Company borrowed \$175,000 under the AR Securitization Facility. The interest rate on the AR Securitization Facility as of March 31, 2020 and June 30, 2019 was 2.52% and 3.33%, respectively.

Other Long-Term Borrowings

At March 31, 2020 and June 30, 2019, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170,000. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series C" notes have a principal amount of \$120,000, carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of \$50,000 and carry a fixed interest rate of 3.21%. A \$25,000 principal payment was made on the "Series D" notes in October 2019, and the remaining principal balance of \$25,000 is due in October 2023. On October 30, 2019, the Company amended its unsecured shelf facility agreement with Prudential Investment Management to authorize the issuance of "Series E" notes, which have a principal amount of \$25,000, carry a fixed interest rate of 3.08%, and are due October 30, 2024.

In 2014, the Company assumed \$2,359 of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At March 31, 2020 and June 30, 2019, \$1,026 and \$1,204 was outstanding, respectively.

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Unamortized debt issue costs of \$598 and \$577 are included as a reduction of current portion of long-term debt on the condensed consolidated balance sheets as of March 31, 2020 and June 30, 2019, respectively. Unamortized debt issue costs of \$1,028 and \$1,366 are included as a reduction of long-term debt on the condensed consolidated balance sheets as of March 31, 2020 and June 30, 2019, respectively.

6. DERIVATIVES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

In January 2019, the Company entered into an interest rate swap to mitigate variability in forecasted interest payments on \$463,000 of the Company's U.S. dollar-denominated unsecured variable rate debt. The interest rate swap effectively converts a portion of the floating rate interest payment into a fixed rate interest payment. The Company designated the interest rate swap as a pay-fixed, receive-floating interest rate swap instrument and is accounting for this derivative as a cash flow hedge. The interest rate swap converts \$431,000 of variable rate debt to a rate of 4.36% as of March 31, 2020, and as of June 30, 2019 converted \$463,000 of variable rate debt to a rate of 4.36%. The fair value (Level 2 in the fair value hierarchy) of the interest rate cash flow hedge was \$26,102 and \$14,202 as of March 31, 2020 and June 30, 2019, respectively, which is included in other current liabilities and other liabilities in the condensed consolidated balance sheet, respectively. Realized losses related to the interest rate cash flow hedge were not material during the nine months ended March 31, 2020.

7. FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at March 31, 2020 and June 30, 2019 totaled \$10,345 and \$11,246, respectively. The majority of these marketable securities are held in a rabbi trust for a non-qualified deferred compensation plan. The marketable securities are included in other assets on the accompanying condensed consolidated balance sheets and their fair values were determined using quoted market prices (Level 1 in the fair value hierarchy).

As of March 31, 2020 and June 30, 2019, the carrying values of the Company's fixed interest rate debt outstanding under its unsecured shelf facility agreement with Prudential Investment Management approximated fair value (Level 2 in the fair value hierarchy).

The revolving credit facility, the term loan and the AR Securitization Facility contain variable interest rates and their carrying values approximate fair value (Level 2 in the fair value hierarchy).

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8. SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

Changes in the accumulated other comprehensive loss are comprised of the following amounts, shown net of taxes:

Three Months Ended March 31, 2020				
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at January 1, 2020	\$ (84,687)	\$ (2,877)	\$ (9,996)	\$ (97,560)
Other comprehensive income	(28,257)	—	(10,440)	(38,697)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(13)	763	750
Net current-period other comprehensive income (loss)	(28,257)	(13)	(9,677)	(37,947)
Balance at March 31, 2020	<u>\$ (112,944)</u>	<u>\$ (2,890)</u>	<u>\$ (19,673)</u>	<u>\$ (135,507)</u>

Three Months Ended March 31, 2019				
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at January 1, 2019	\$ (92,220)	\$ (2,412)	\$ —	\$ (94,632)
Other comprehensive income	2,767	—	(5,136)	(2,369)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(56)	63	7
Net current-period other comprehensive loss	2,767	(56)	(5,073)	(2,362)
Balance at March 31, 2019	<u>\$ (89,453)</u>	<u>\$ (2,468)</u>	<u>\$ (5,073)</u>	<u>\$ (96,994)</u>

Nine Months Ended March 31, 2020				
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at July 1, 2019	\$ (86,330)	\$ (2,852)	\$ (10,704)	\$ (99,886)
Other comprehensive income (loss)	(26,614)	—	(10,740)	(37,354)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(38)	1,771	1,733
Net current-period other comprehensive income (loss)	(26,614)	(38)	(8,969)	(35,621)
Balance at March 31, 2020	<u>\$ (112,944)</u>	<u>\$ (2,890)</u>	<u>\$ (19,673)</u>	<u>\$ (135,507)</u>

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Nine Months Ended March 31, 2019					
	Foreign currency translation adjustment	Unrealized gain (loss) on securities available for sale	Post- employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at July 1, 2018	\$ (87,974)	\$ 50	\$ (2,299)	\$ —	\$ (90,223)
Other comprehensive loss	(1,479)	—	—	(5,136)	(6,615)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(169)	63	(106)
Cumulative effect of adopting accounting standard	—	(50)	—	—	(50)
Net current-period other comprehensive loss	(1,479)	(50)	(169)	(5,073)	(6,771)
Balance at March 31, 2019	\$ (89,453)	\$ —	\$ (2,468)	\$ (5,073)	\$ (96,994)

Other Comprehensive Loss

Details of other comprehensive loss are as follows:

Three Months Ended March 31,						
	2020			2019		
	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount
Foreign currency translation adjustments	\$ (28,767)	\$ (510)	\$ (28,257)	\$ 2,945	\$ 178	\$ 2,767
Post-employment benefits:						
Reclassification of net actuarial gains and prior service cost into other income, net and included in net periodic pension costs	(17)	(4)	(13)	(77)	(21)	(56)
Unrealized loss on cash flow hedge	(13,891)	(3,451)	(10,440)	(6,941)	(1,805)	(5,136)
Reclassification of interest from cash flow hedge into interest expense	1,017	254	763	85	22	63
Other comprehensive loss	\$ (41,658)	\$ (3,711)	\$ (37,947)	\$ (3,988)	\$ (1,626)	\$ (2,362)

Nine Months Ended March 31,						
	2020			2019		
	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount
Foreign currency translation adjustments	\$ (27,356)	\$ (742)	\$ (26,614)	\$ (1,611)	\$ (132)	\$ (1,479)
Post-employment benefits:						
Reclassification of net actuarial gains and prior service cost into other income, net and included in net periodic pension costs	(50)	(12)	(38)	(230)	(61)	(169)
Cumulative effect of adopting accounting standard	—	—	—	(50)	—	(50)
Unrealized loss on cash flow hedge	(14,249)	(3,509)	(10,740)	(6,941)	(1,805)	(5,136)
Reclassification of interest from cash flow hedge into interest expense	2,350	579	1,771	85	22	63
Other comprehensive loss	\$ (39,305)	\$ (3,684)	\$ (35,621)	\$ (8,747)	\$ (1,976)	\$ (6,771)

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Anti-dilutive Common Stock Equivalents

In the three and nine month periods ended March 31, 2019, stock options and stock appreciation rights related to 467 and 255 shares of common stock, respectively, were not included in the computation of diluted earnings per share for the periods then ended as they were anti-dilutive.

9. LEASES

The Company leases facilities for certain service centers, warehouses, distribution centers and office space. The Company also leases office equipment and vehicles. All leases are classified as operating. The Company's leases expire at various dates through 2031, with terms ranging from 1 year to 15 years.

Many of the Company's real estate leases contain renewal provisions to extend lease terms up to 5 years. The exercise of renewal options is solely at the Company's discretion. The Company's lease agreements do not contain material variable lease payments, residual value guarantees or restrictive covenants.

The Company does not recognize right-of-use assets or lease liabilities for short-term leases with initial terms of 12 months or less. Leased vehicles comprise the majority of the Company's short-term leases.

All other leases are recorded on the balance sheet with right-of-use assets representing the right to use the underlying asset for the lease term and lease liabilities representing lease payment obligations. The Company's leases do not provide implicit rates; therefore the Company uses its incremental borrowing rate as the discount rate for measuring lease liabilities. Non-lease components are accounted for separately from lease components.

The Company's operating lease expense is recognized on a straight-line basis over the lease term and is recorded in selling, distribution and administrative expense on the condensed statements of consolidated income. Operating lease costs and short-term lease costs were \$8,350 and \$2,703 for the three months ended March 31, 2020, respectively, and were \$25,078 and \$8,043 for the nine months ended March 31, 2020, respectively. Variable lease costs and sublease income were not material.

Information related to operating leases is as follows:

	March 31, 2020
Operating lease assets, net	\$ 86,617
Operating lease liabilities	
Other current liabilities	\$ 28,710
Other liabilities	62,850
Total operating lease liabilities	\$ 91,560

	March 31, 2020
Weighted average remaining lease term (years)	4.6
Weighted average incremental borrowing rate	3.40%

	Three Months Ended March 31, 2020	Nine Months Ended March 31, 2020
Cash paid for operating leases	\$ 8,902	\$ 26,186
Right of use assets obtained in exchange for new operating lease liabilities	\$ 9,464	\$ 27,909

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The table below summarizes the aggregate maturities of liabilities pertaining to operating leases with terms greater than one year for each of the next five years:

Fiscal Year	Maturity of Operating Lease Liabilities
2020	\$ 8,310
2021	28,005
2022	21,187
2023	14,899
2024	11,351
Thereafter	14,850
Total lease payments	98,602
Less interest	(7,042)
Present value of lease liabilities	\$ 91,560

The table below summarizes the future minimum annual rental commitments for operating leases accounted for in accordance with Accounting Standards Codification Topic 840, Leases, as of June 30, 2019:

Fiscal Year	Operating Leases
2020	\$ 33,707
2021	23,407
2022	16,420
2023	10,653
2024	7,838
Thereafter	12,135
Total minimum lease payments	\$ 104,160

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10. SEGMENT INFORMATION

The accounting policies of the Company's reportable segments are generally the same as those used to prepare the condensed consolidated financial statements. LIFO expense of \$1,950 and \$3,650 in the three months ended March 31, 2020 and 2019, respectively, and \$4,237 and \$7,997 in the nine months ended March 31, 2020 and 2019, respectively, is recorded in cost of sales in the condensed statements of income, and is included in operating income for the Service Center Based Distribution segment. The Company allocates LIFO expense between the segments in the fourth quarter of its fiscal year. Intercompany sales, primarily from the Fluid Power & Flow Control segment to the Service Center Based Distribution segment, of \$7,685 and \$7,328, in the three months ended March 31, 2020 and 2019, respectively, and \$22,434 and \$21,013 in the nine months ended March 31, 2020 and 2019, respectively, have been eliminated in the Segment Financial Information tables below.

Three Months Ended	Service Center Based Distribution	Fluid Power & Flow Control	Total
March 31, 2020			
Net sales	\$ 574,368	\$ 256,429	\$ 830,797
Operating income for reportable segments	53,014	26,449	79,463
Depreciation and amortization of property	4,373	1,007	5,380
Capital expenditures	3,588	670	4,258

March 31, 2019			
Net sales	\$ 630,438	\$ 255,005	\$ 885,443
Operating income for reportable segments	64,763	25,837	90,600
Depreciation and amortization of property	3,969	1,057	5,026
Capital expenditures	4,024	591	4,615

Nine Months Ended	Service Center Based Distribution	Fluid Power & Flow Control	Total
March 31, 2020			
Net sales	\$ 1,753,316	\$ 767,260	\$ 2,520,576
Operating income for reportable segments	167,279	82,755	250,034
Assets used in business	1,310,754	978,775	2,289,529
Depreciation and amortization of property	12,831	3,166	15,997
Capital expenditures	14,022	2,201	16,223
March 31, 2019			
Net sales	\$ 1,823,785	\$ 766,211	\$ 2,589,996
Operating income for reportable segments	185,889	85,960	271,849
Assets used in business	1,252,161	1,070,649	2,322,810
Depreciation and amortization of property	11,791	3,254	15,045
Capital expenditures	9,724	1,987	11,711

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(Amounts in thousands, except per share amounts) (Unaudited)

A reconciliation of operating income for reportable segments to the condensed consolidated income before income taxes is as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Operating income for reportable segments	\$ 79,463	\$ 90,600	\$ 250,034	\$ 271,849
Adjustment for:				
Intangible amortization—Service Center Based Distribution	3,811	2,794	9,697	10,785
Intangible amortization—Fluid Power & Flow Control	7,291	7,117	21,974	21,038
Intangible impairment—Service Center Based Distribution	—	31,594	—	31,594
Goodwill Impairment—Fluid Power & Flow Control	131,000	—	131,000	—
Corporate and other expense, net	15,311	14,586	45,402	46,619
Total operating (loss) income	(77,950)	34,509	41,961	161,813
Interest expense, net	8,805	9,947	28,447	30,001
Other income, net	(1,428)	(1,256)	(1,643)	(549)
(Loss) income before income taxes	\$ (85,327)	\$ 25,818	\$ 15,157	\$ 132,361

The change in corporate and other expense, net is due to changes in corporate expenses, as well as in the amounts and levels of certain expenses being allocated to the segments. The expenses being allocated include corporate charges for working capital, logistics support and other items.

11. OTHER INCOME, NET

Other income, net consists of the following:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Unrealized loss (gain) on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ 2,182	\$ (1,075)	\$ 1,361	\$ (238)
Foreign currency transactions (gain) loss	(3,501)	63	(3,167)	97
Net other periodic post-employment benefits	(30)	(22)	(90)	(66)
Life insurance (income) expense, net	(194)	(187)	165	(380)
Other, net	115	(35)	88	38
Total other income, net	\$ (1,428)	\$ (1,256)	\$ (1,643)	\$ (549)

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With approximately 6,500 employees across North America, Australia, New Zealand, and Singapore, Applied Industrial Technologies ("Applied," the "Company," "We," "Us" or "Our") is a leading value-added distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, automation technologies, and other industrial supplies, serving MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial, fluid power, and flow control applications, as well as customized mechanical, fabricated rubber, fluid power, and flow control shop services. Applied also offers storeroom services and inventory management solutions that provide added value to its customers. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. During the second quarter of fiscal 2020, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from 599 facilities.

The following is Management's Discussion and Analysis of significant factors which have affected our financial condition, results of operations and cash flows during the periods included in the accompanying condensed consolidated balance sheets, statements of consolidated income, consolidated comprehensive income and consolidated cash flows. When reviewing the discussion and analysis set forth below, please note that the majority of SKUs (Stock Keeping Units) we sell in any given period were not necessarily sold in the comparable period of the prior year, resulting in the inability to quantify certain commonly used comparative metrics analyzing sales, such as changes in product mix and volume.

Overview

Consolidated sales for the quarter ended March 31, 2020 decreased \$54.6 million or 6.2% compared to the prior year quarter, with acquisitions increasing sales by \$17.1 million or 1.9% and unfavorable foreign currency translation of \$2.0 million decreasing sales by 0.2%. The Company incurred an operating loss of \$78.0 million, or a negative operating margin of 9.4% of sales, during the quarter ended March 31, 2020, compared to operating income of \$34.5 million, or operating margin of 3.9% of sales for the same quarter in the prior year. The reduction in operating margin is primarily due to a \$131.0 million non-cash goodwill impairment charge recorded during the quarter ended March 31, 2020, related to the goodwill associated with the Company's FCX Performance Inc. (FCX) operations within the Fluid Power & Flow Control segment. The prior year quarter included a non-cash intangible impairment charge totaling \$31.6 million related to the long-lived intangible assets associated with the Company's Canadian operations within the Service Center Based Distribution segment. The quarter ended March 31, 2020 had a net loss of \$82.8 million compared to net income of \$16.5 million in the prior year quarter. The current ratio was 2.6 to 1 at March 31, 2020 and 2.7 to 1 at June 30, 2019.

During the quarter ended March 31, 2020, the Company recorded non-routine expenses of \$6.0 million related to consolidating locations and reducing headcount within the Company's U.S. Service Center Based Distribution segment. Of the total, \$3.9 million related to inventory reserves for excess and obsolete inventory recorded within cost of sales, and \$2.1 million related to severance and facility consolidation recorded within selling, distribution and administrative expense. Also, the Company recorded a \$1.0 million tax benefit related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) within income tax (benefit) expense. Total non-routine charges reduced gross profit by \$3.9 million, increased the operating loss by \$6.0 million, and increased the current quarter net loss by \$3.6 million.

During the quarter it became clear that the COVID-19 pandemic was significantly impacting the business. We are classified as critical infrastructure and our facilities remain open and operational as they adhere to health and safety policies. We experienced mid-teen year-over-year organic sales declines on a days adjusted basis during March 2020 and high-teen declines month-to-date in April 2020. We are continuing to monitor the impact of the COVID-19 pandemic and continue to take appropriate cost actions. Cost measures implemented to date include reduced discretionary spend, staff realignments, temporary furloughs and pay reductions, suspension of 401(k) company match, and other expense reduction actions.

Applied monitors several economic indices that have been key indicators for industrial economic activity in the United States. These include the Industrial Production (IP) and Manufacturing Capacity Utilization (MCU) indices published by the Federal Reserve Board and the Purchasing Managers Index (PMI) published by the Institute for Supply Management (ISM). Historically, our performance correlates well with the MCU, which measures productivity and calculates a ratio of actual manufacturing output versus potential full capacity output. When manufacturing plants are running at a high rate of capacity, they tend to wear out machinery and require replacement parts.

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The MCU (total industry) and IP indices have declined since June 2019 and December 2019. The MCU for March 2020 was 72.7 which is down from both the December 2019 and June 2019 revised readings of 77.1 and 77.7, respectively. The ISM PMI registered 49.1 in March, up from the December 2019 revised reading of 47.8, but down from June 2019 revised reading of 51.6, and remaining below 50 (its expansionary threshold). The indices for the months during the current quarter were as follows:

Month	Index Reading		
	MCU	PMI	IP
March 2020	72.7	49.1	98.3
February 2020	77.0	50.1	104.9
January 2020	76.7	50.9	104.9

The number of Company employees was 6,471 at March 31, 2020, 6,650 at June 30, 2019, and 6,660 at March 31, 2019. The number of operating facilities totaled 599 at March 31, 2020, 600 at June 30, 2019 and 607 at March 31, 2019.

Results of Operations

Three months Ended March 31, 2020 and 2019

The following table is included to aid in review of Applied's condensed statements of consolidated income.

	Three Months Ended March 31,		Change in \$'s Versus Prior Period - % Decrease
	As a Percent of Net Sales		
	2020	2019	
Net sales	100.0 %	100.0%	(6.2)%
Gross profit	28.5 %	28.9%	(7.4)%
Selling, distribution & administrative expense	22.1 %	21.4%	(3.0)%
Operating income	(9.4)%	3.9%	(325.9)%
Net income	(10.0)%	1.9%	(600.6)%

During the quarter ended March 31, 2020, sales decreased \$54.6 million or 6.2% compared to the prior year quarter, with sales from acquisitions adding \$17.1 million or 1.9% and unfavorable foreign currency translation accounting for a decrease of \$2.0 million or 0.2%. There were 64 selling days in the quarter ended March 31, 2020 and 63 in the quarter ended March 31, 2019. Excluding the impact of businesses acquired, sales were down \$69.7 million or 7.9% during the quarter, driven by a 9.5% decrease from operations due to weak demand across key end markets, offset by an increase of 1.6% due to one additional sales day.

The following table shows changes in sales by reportable segment.

Sales by Reportable Segment	Three Months Ended March 31,		Sales (Decrease) Increase	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	\$ 574.4	\$ 630.4	\$ (56.0)	\$ 4.4	\$ (2.0)	\$ (58.4)
Fluid Power & Flow Control	256.4	255.0	1.4	12.7	—	(11.3)
Total	\$ 830.8	\$ 885.4	\$ (54.6)	\$ 17.1	\$ (2.0)	\$ (69.7)

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased \$56.0 million or 8.9%. The acquisition within this segment increased sales by \$4.4 million or 0.7% while unfavorable foreign currency translation decreased sales by \$2.0 million or 0.3%. Excluding the impact of businesses acquired and foreign currency translation, sales decreased \$58.4 million or 9.3%, driven by a 10.9% decrease from operations due to slower manufacturing activity and customer spending discipline across the Company's primary end markets, offset by an increase of 1.6% due to one additional sales day.

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Sales from our Fluid Power & Flow Control segment increased \$1.4 million or 0.6%. The acquisition within this segment increased sales by \$12.7 million or 5.0%. Excluding the impact of businesses acquired, sales decreased \$11.3 million or 4.4%, driven by a 6.0% decrease from operations, offset by an increase 1.6% due to on additional sales day. The decrease from operations is primarily due to slower demand in our flow control operations and weaker activity across our industrial OEM customer base.

The following table shows changes in sales by geographic area. Other countries includes Mexico, Australia, New Zealand, and Singapore.

Sales by Geographic Area	Three Months Ended March 31,		Sales Decrease	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
United States	\$ 725.0	\$ 772.1	\$ (47.1)	\$ 17.1	\$ —	\$ (64.2)
Canada	59.9	66.7	(6.8)	—	(0.3)	(6.5)
Other countries	45.9	46.6	(0.7)	—	(1.7)	1.0
Total	\$ 830.8	\$ 885.4	\$ (54.6)	\$ 17.1	\$ (2.0)	\$ (69.7)

Sales in our U.S. operations were down \$47.1 million or 6.1%, as acquisitions added \$17.1 million or 2.2%. Excluding the impact of businesses acquired, U.S. sales were down \$64.2 million or 8.3%, driven by a decrease of 9.9% from operations, offset by an increase of 1.6% due to one additional sales day. Sales from our Canadian operations decreased \$6.8 million or 10.2%. Unfavorable foreign currency translation decreased Canadian sales by \$0.3 million or 0.5%. Excluding the impact of foreign currency translation, Canadian sales were down \$6.5 million or 9.7%, driven by a decrease of 11.3% from operations, offset by an increase of 1.6% due to one additional sales day. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, decreased \$0.7 million or 1.5% from the prior year. Unfavorable foreign currency translation decreased other country sales by \$1.7 million or 3.7%. Excluding the impact of currency translation, other country sales were up \$1.0 million, or 2.2% during the quarter, driven by an increase of 2.6% due to one additional sales day, offset by a decrease of 0.4% from operations.

Our gross profit margin was 28.5% in the quarter ended March 31, 2020 compared to 28.9% in the prior period. The gross profit margin for the current quarter was negatively impacted by 47 basis points for \$3.9 million of non-routine expense recorded within cost of sales related to inventory reserves for excess and obsolete inventory within the U.S. Service Center Based Distribution segment.

The following table shows the changes in selling, distribution and administrative expense (SD&A).

SD&A	Three Months Ended March 31,		SD&A Decrease	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 183.7	\$ 189.5	\$ (5.8)	\$ 5.1	\$ (0.1)	\$ (10.8)

SD&A consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management and providing marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, insurance, legal, and facility related expenses. SD&A was 22.1% of sales in the quarter ended March 31, 2020 compared to 21.4% in the prior year quarter. SD&A decreased \$5.8 million or 3.0% compared to the prior year quarter. Changes in foreign currency exchange rates had the effect of decreasing SD&A during the quarter ended March 31, 2020 by \$0.1 million compared to the prior year quarter. SD&A from businesses acquired added \$5.1 million or 2.7% of SD&A expenses, including \$0.5 million of intangibles amortization related to acquisitions. Excluding the impact of businesses acquired and the favorable currency translation impact, SD&A decreased \$10.8 million or 5.7% during the quarter ended March 31, 2020 compared to the prior year quarter. The Company incurred \$2.1 million of non-routine expenses related to severance and facility consolidation for the U.S. Service Center Based Distribution segment during the quarter ended March 31, 2020, compared to \$1.6 million of restructuring expenses incurred during the prior year quarter. Excluding the impact of acquisitions, total compensation excluding severance decreased \$10.1 million during the quarter ended March 31, 2020, primarily due to the headcount reductions made by the Company during the first half of fiscal 2020. All other expenses within SD&A were down \$1.2 million.

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During the quarter ended March 31, 2020, the Company performed its annual goodwill impairment test. As a result of this test, the Company recorded a \$131.0 million non-cash goodwill impairment charge related to the Company's FCX operations in the Fluid Power & Flow Control segment, primarily due to the overall decline in the industrial economy, specifically slower demand in FCX's end markets. The non-cash goodwill impairment charge decreased net income by \$118.8 million and earnings per share by \$3.07 per share for the quarter ended March 31, 2020. In the prior year quarter, the Company recognized a non-cash impairment charge of \$31.6 million for intangible assets related to the Company's Canadian operations within the Service Center Based Distribution segment, which decreased net income by \$23.1 million and earnings per share by \$0.60 per share for the quarter ended March 31, 2019.

The Company had an operating loss of \$78.0 million during the quarter ended March 31, 2020, which was a decrease of \$112.5 million from operating income of \$34.5 million in the prior year quarter, primarily due to goodwill impairment charges of \$131.0 million.

Operating income, before intangible impairment charges, as a percentage of sales for the Service Center Based Distribution segment decreased to 9.2% in the current year quarter from 10.3% in the prior year quarter. Operating income, before goodwill impairment charges, as a percentage of sales for the Fluid Power & Flow Control segment increased to 10.3% in the current year quarter from 10.1% in the prior year quarter.

Other income, net was income of \$1.4 million for the quarter, which included unrealized losses on investments held by non-qualified deferred compensation trusts of \$2.2 million, offset by net favorable foreign currency transaction gains of \$3.5 million and \$0.1 million of income from other items. During the prior year quarter, other income, net was income of \$1.3 million, which included unrealized gains on investments held by non-qualified deferred compensation trusts of \$1.1 million, and \$0.2 million of income from other items.

The effective income tax rate was 3.0% for the quarter ended March 31, 2020 compared to 36.0% for the quarter ended March 31, 2019. The goodwill impairment decreased the effective tax rate for the quarter ended March 31, 2020 by 21.6%. The Company also recorded a \$1.0 million tax benefit related to the CARES Act during the current year quarter, which favorably impacted the effective tax rate by 1.2% for the quarter ended March 31, 2020. In the prior year quarter, the effective tax rate was increased by 14.7% due to the Company recording a valuation allowance of \$3.8 million related to certain deferred tax assets in Canada due to the uncertainty in realizing these net deferred tax assets.

As a result of the factors addressed above, the Company incurred a net loss of \$82.8 million during the quarter ended March 31, 2020, a decrease of \$99.3 million compared to net income of \$16.5 million in the prior year quarter. Net loss per share was \$2.14 per share for the quarter ended March 31, 2020, compared to net income per share of \$0.42 per share in the prior year quarter.

Results of Operations

Nine months Ended March 31, 2020 and 2019

The following table is included to aid in review of Applied's condensed statements of consolidated income.

	Nine Months Ended March 31,		Change in \$'s Versus Prior Period - % Decrease
	As a Percent of Net Sales		
	2020	2019	
Net sales	100.0 %	100.0%	(2.7)%
Gross profit	28.9 %	29.0%	(2.8)%
Selling, distribution & administrative expense	22.1 %	21.5%	(0.1)%
Operating income	1.7 %	6.2%	(74.1)%
Net income	(0.2)%	4.0%	(105.7)%

During the nine months ended March 31, 2020, sales decreased \$69.4 million or 2.7% compared to the prior year, with sales from acquisitions adding \$67.9 million or 2.6% and unfavorable foreign currency translation accounting for a decrease of \$3.9 million or 0.1%. There were 190 selling days in the nine months ended March 31, 2020 and 188 selling days in the nine months ended March 31, 2019. Excluding the impact of businesses acquired and foreign currency translation, sales were down \$133.4 million or 5.2% during the period, driven by a 6.2% decrease from operations, offset by an increase of 1.0% due to two additional sales days.

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The following table shows changes in sales by reportable segment.

Sales by Reportable Segment	Nine Months Ended March 31,		Sales (Decrease) Increase	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	\$ 1,753.3	\$ 1,823.8	\$ (70.5)	\$ 23.8	\$ (3.9)	\$ (90.4)
Fluid Power & Flow Control	767.3	766.2	1.1	44.1	—	(43.0)
Total	\$ 2,520.6	\$ 2,590.0	\$ (69.4)	\$ 67.9	\$ (3.9)	\$ (133.4)

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased \$70.5 million or 3.9%. The acquisition within this segment increased sales by \$23.8 million or 1.3% while unfavorable foreign currency translation decreased sales by \$3.9 million or 0.2%. Excluding the impact of businesses acquired and foreign currency translation, sales decreased \$90.4 million or 5.0%, driven by a 6.0% decrease from operations due to slower manufacturing activity and customer spending discipline across the Company's primary end markets, offset by an increase of 1.0% due to two additional sales day.

Sales from our Fluid Power & Flow Control segment increased \$1.1 million or 0.1%. The acquisitions within this segment increased sales by \$44.1 million or 5.8%. Excluding the impact of businesses acquired, sales decreased \$43.0 million or 5.7%, due to a 6.7% decrease from operations offset by an increase of 1.0% due to two additional sales days. The decrease from operations is primarily due to slower demand in our flow control operations and weaker activity across our industrial OEM customer base.

The following table shows changes in sales by geographic area. Other countries includes Mexico, Australia, New Zealand, and Singapore.

Sales by Geographic Area	Nine Months Ended March 31,		Sales Decrease	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
United States	\$ 2,188.3	\$ 2,246.7	\$ (58.4)	\$ 67.9	\$ —	\$ (126.3)
Canada	193.8	204.4	(10.6)	—	(0.7)	(9.9)
Other countries	138.5	138.9	(0.4)	—	(3.2)	2.8
Total	\$ 2,520.6	\$ 2,590.0	\$ (69.4)	\$ 67.9	\$ (3.9)	\$ (133.4)

Sales in our U.S. operations were down \$58.4 million or 2.6%, as acquisitions added \$67.9 million or 3.0%. Excluding the impact of businesses acquired, U.S. sales were down \$126.3 million or 5.6%, driven by a decrease of 6.7% from operations, offset by an increase of 1.1% due to two additional sales days. Sales from our Canadian operations decreased \$10.6 million or 5.2%, and unfavorable foreign currency translation decreased Canadian sales by \$0.7 million or 0.3%. Excluding the impact of foreign currency translation, Canadian sales were down \$9.9 million or 4.9%, driven by a decrease of 6.0% from operations, offset by an increase of 1.1% due to two additional sales days. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, decreased \$0.4 million or 0.3% from the prior year. Unfavorable foreign currency translation decreased other country sales by \$3.2 million or 2.3%. Excluding the impact of currency translation, other country sales were up \$2.8 million, or 2.0% during the quarter, due to an increase of 1.0% from operations and an increase of 1.0% due to two additional sales days.

Our gross profit margin was 28.9% in the nine months ended March 31, 2020 compared to 29.0% in the prior year period. The gross profit margin for the current year period was negatively impacted by 15 basis points for \$3.9 million of non-routine expense recorded within cost of sales related to inventory reserves for excess and obsolete inventory within the U.S. Service Center Based Distribution segment.

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The following table shows the changes in selling, distribution and administrative expense (SD&A).

	Nine Months Ended March 31,		SD&A Decrease	Amount of change due to		
	2020	2019		Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 556.5	\$ 556.9	\$ (0.4)	\$ 17.5	\$ (0.4)	\$ (17.5)

SD&A consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management and providing marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, insurance, legal, and facility related expenses. SD&A was 22.1% of sales in the nine months ended March 31, 2020 compared to 21.5% in the prior year period. SD&A decreased \$0.4 million or 0.1% compared to the prior year period. Changes in foreign currency exchange rates had the effect of decreasing SD&A during the nine months ended March 31, 2020 by \$0.4 million or 0.1% compared to the prior year period. SD&A from businesses acquired added \$17.5 million or 3.1% of SD&A expenses, including \$1.7 million of intangibles amortization related to acquisitions. Excluding the impact of businesses acquired and the unfavorable currency translation impact, SD&A decreased \$17.5 million or 3.1% during the nine months ended March 31, 2020 compared to the prior year period. The Company incurred \$3.6 million of non-routine expenses related to severance and facility consolidation within the U.S. Service Center Based Distribution segment during the nine months ended March 31, 2020, compared to \$1.6 million of restructuring expenses incurred during the the prior year period. Excluding the impact of acquisitions, total compensation excluding severance decreased \$15.6 million during the nine months ended March 31, 2020, primarily due to the headcount reductions made by the Company during fiscal 2020. All other expenses within SD&A were down \$3.9 million.

During the nine months ended March 31, 2020, the Company performed its annual goodwill impairment test. As a result of this test, the Company recorded a \$131.0 million non-cash goodwill impairment charge related to the Company's FCX operations in the Fluid Power & Flow Control segment, primarily due to the overall decline in the industrial economy, specifically slower demand in FCX's end markets. The non-cash goodwill impairment charge decreased net income by \$118.8 million and earnings per share by \$3.07 million for the nine months ended March 31, 2020. In the prior year period, the Company recognized a non-cash impairment charge of \$31.6 million for intangible assets related to the Company's Canadian operations within the Service Center Based Distribution segment, which decreased net income by \$23.1 million and earnings per share by \$0.59 per share for the nine months ended March 31, 2019.

Operating income decreased \$119.9 million or 74.1%, primarily due to goodwill impairment charges of \$131.0 million, and as a percent of sales decreased to 1.7% from 6.2% during the prior year period.

Operating income, before impairment charges, as a percentage of sales for the Service Center Based Distribution segment decreased to 9.5% in the current year period from 10.2% in the prior year period. Operating income, before impairment charges, as a percentage of sales for the Fluid Power & Flow Control segment decreased to 10.8% in the current year period from 11.2% in the prior year period.

Other income, net was \$1.6 million in the nine months ended March 31, 2020, which included net favorable foreign currency transaction gains of \$3.2 million, offset by unrealized losses on investments held by non-qualified deferred compensation trusts of \$1.4 million and life insurance expense of \$0.2 million. During the prior year period, other income, net was income of \$0.5 million, which included unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.2 million and life insurance income of \$0.4 million, offset by \$0.1 million of expense from other items.

The effective income tax rate was 139.2% for the nine months ended March 31, 2020 compared to 21.3% for the nine months ended March 31, 2019. The goodwill impairment increased the effective tax rate for the nine months ended March 31, 2020 by 121.3%. The Company also recorded a \$1.0 million tax benefit related to the CARES Act during the current year period, which decreased the effective tax rate by 6.7% for the nine months ended March 31, 2020. In the prior year period, the effective tax rate was increased by 2.9% due to the Company recording a valuation allowance of \$3.8 million related to certain deferred tax assets in Canada due to the uncertainty in realizing these net deferred tax assets, in addition to recording a \$3.5 million favorable adjustment related to the Tax Cuts and Jobs Act in the nine months ended March 31, 2019, which favorably impacted the effective income tax rate by 2.6% in the prior year period.

As a result of the factors addressed above, the Company incurred a net loss of \$5.9 million in the nine months ended March 31, 2020, a decrease of \$110.1 million compared to net income of \$104.2 million in the prior year period. Net loss per share was \$0.15 per share for the nine months ended March 31, 2020, compared to net income per share of \$2.66 per share in the prior year period.

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Liquidity and Capital Resources

Our primary source of capital is cash flow from operations, supplemented as necessary by bank borrowings or other sources of debt. At March 31, 2020, we had \$945.0 million in outstanding borrowings. At June 30, 2019, we had \$959.8 million in outstanding borrowings. Management expects that our existing cash, cash equivalents, funds available under the revolving credit facility, and cash provided from operations, will be sufficient to finance normal working capital needs in each of the countries in which we operate, payment of dividends, acquisitions, investments in properties, facilities and equipment, debt service, and the purchase of additional Company common stock. Management also believes that additional long-term debt and line of credit financing could be obtained based on the Company's credit standing and financial strength.

The Company's working capital at March 31, 2020 was \$714.7 million, compared to \$724.3 million at June 30, 2019. The current ratio was 2.6 to 1 at March 31, 2020 and 2.7 to 1 at June 30, 2019.

Net Cash Flows

The following table is included to aid in review of Applied's condensed statements of consolidated cash flows; all amounts are in thousands.

Net Cash Provided by (Used in):	Nine Months Ended March 31,	
	2020	2019
Operating Activities	\$ 169,624	\$ 77,166
Investing Activities	(51,651)	(48,197)
Financing Activities	(55,959)	(35,470)
Exchange Rate Effect	(4,769)	(282)
Increase in Cash and Cash Equivalents	\$ 57,245	\$ (6,783)

Net cash provided by operating activities was \$169.6 million for the nine months ended March 31, 2020 compared to \$77.2 million provided by operating activities in the prior period. The increase in cash provided by operating activities during the nine months ended March 31, 2020 is related to working capital improvements.

Net cash used in investing activities during the nine months ended March 31, 2020 increased from the prior period primarily due to \$16.2 million used for purchases of property in the current year period compared to \$11.7 million in the prior year period.

Net cash used in financing activities during the nine months ended March 31, 2020 increased from the prior period primarily due to a change in net debt activity, as there was \$14.8 million of net debt payments in the current year period compared to \$17.7 million of net debt borrowings in the prior year period. This change was offset by \$11.2 million of cash used for the purchase of treasury stock in the prior year period, while no treasury shares were purchased in the current year period.

Share Repurchases

The Board of Directors has authorized the repurchase of shares of the Company's common stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions. During the nine months ended March 31, 2020, the Company did not acquire any shares of treasury stock on the open market. At March 31, 2020, we had authorization to repurchase 864,618 shares. During the nine months ended March 31, 2019, we acquired 192,082 shares of treasury stock on the open market for \$11.2 million.

Borrowing Arrangements

In January 2018, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a \$780.0 million unsecured term loan and a \$250.0 million unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At March 31, 2020 and June 30, 2019, the Company had \$599.0 million and \$613.6 million, respectively, outstanding under the term loan. The interest rate on the term loan as of March 31, 2020 and June 30, 2019 was 2.75% and 4.19%, respectively. The Company had no amount outstanding under the revolver at March 31, 2020 or June 30, 2019. Unused lines under this facility, net of outstanding letters of credit of \$1.8 million and \$3.2 million, respectively, to secure certain insurance obligations, totaled \$248.2 million and \$246.8 million at March 31, 2020 and June 30, 2019, respectively, and were available to fund future acquisitions or other capital and operating requirements.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$3.8 million and \$2.7 million as of March 31, 2020 and June 30, 2019, respectively, in order to secure certain insurance obligations.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

In August 2018, the Company established a trade receivable securitization facility (the "AR Securitization Facility") with a termination date of August 31, 2021. The maximum availability under the AR Securitization Facility is \$175.0 million. Availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and, therefore, at certain times, we may not be able to fully access the \$175.0 million of funding available under the AR Securitization Facility. The AR Securitization Facility effectively increases the Company's borrowing capacity by collateralizing a portion of the amount of the Service Center Based Distribution reportable segment's U.S. operations' trade accounts receivable. The Company uses the proceeds from the AR Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs. Borrowings under this facility carry variable interest rates tied to LIBOR and fees on the AR Securitization Facility are 0.90% per year. As of March 31, 2020 and June 30, 2019, the Company borrowed \$175.0 million under the AR Securitization Facility. The interest rate on the AR Securitization Facility as of March 31, 2020 and June 30, 2019 was 2.52% and 3.33%, respectively.

At March 31, 2020 and June 30, 2019, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170.0 million. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series C" notes have a principal amount of \$120.0 million, carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of \$50.0 million and carry a fixed interest rate of 3.21%. A \$25.0 million principal payment was made on the "Series D" notes in October 2019, and the remaining principal is due in October 2023. On October 30, 2019, the Company amended its unsecured shelf facility agreement with Prudential Investment Management to authorize the issuance of "Series E" notes, which have a principal amount of \$25.0 million, carry a fixed interest rate of 3.08%, and are due October 30, 2024.

In 2014, the Company assumed \$2.4 million of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At March 31, 2020 and June 30, 2019, \$1.0 million and \$1.2 million was outstanding, respectively.

The new credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At March 31, 2020, the most restrictive of these covenants required that the Company have net indebtedness less than 3.75 times consolidated income before interest, taxes, depreciation and amortization (as defined). At March 31, 2020, the Company's net indebtedness was less than 3.0 times consolidated income before interest, taxes, depreciation and amortization (as defined). The Company was in compliance with all financial covenants at March 31, 2020.

Accounts Receivable Analysis

The following table is included to aid in analysis of accounts receivable and the associated provision for losses on accounts receivable:

	March 31, 2020		June 30, 2019	
Accounts receivable, gross	\$	537,361	\$	551,400
Allowance for doubtful accounts		13,280		10,498
Accounts receivable, net	\$	524,081	\$	540,902
Allowance for doubtful accounts, % of gross receivables		2.5%		1.9%

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Provision for losses on accounts receivable	\$	5,296	\$	9,988
Provision as a % of net sales		0.64%		0.40%

Accounts receivable are reported at net realizable value and consist of trade receivables from customers. Management monitors accounts receivable by reviewing Days Sales Outstanding (DSO) and the aging of receivables for each of the Company's locations.

On a consolidated basis, DSO was 56.8 at March 31, 2020 compared to 55.2 at June 30, 2019.

Approximately 4.2% of our accounts receivable balances are more than 90 days past due, compared to 3.0% at June 30, 2019. On an overall basis, our provision for losses from uncollected receivables represents 0.40% of our sales in the nine months ended March 31, 2020, compared to 0.08% of sales for the nine months ended March 31, 2019. The increase primarily relates to provisions recorded in the current year for customer credit deterioration and bankruptcies primarily in the U.S. operations of

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the Service Center Based Distribution segment. Historically, this percentage is around 0.10% to 0.15%. Management believes the overall receivables aging and provision for losses on uncollected receivables are at reasonable levels.

Inventory Analysis

Inventories are valued using the last-in, first-out (LIFO) method for U.S. inventories and the average cost method for foreign inventories. Management uses an inventory turnover ratio to monitor and evaluate inventory. Management calculates this ratio on an annual as well as a quarterly basis, and believes that using average costs to determine the inventory turnover ratio instead of LIFO costs provides a more useful analysis. The annualized inventory turnover based on average costs for the period ended March 31, 2020 was 4.0 compared to 4.2 at June 30, 2019. We believe our inventory turnover ratio at the end of the year will be similar or slightly better than the ratio at March 31, 2020.

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Cautionary Statement Under Private Securities Litigation Reform Act

Management's Discussion and Analysis contains statements that are forward-looking based on management's current expectations about the future. Forward-looking statements are often identified by qualifiers, such as "guidance", "expect", "believe", "plan", "intend", "will", "should", "could", "would", "anticipate", "estimate", "forecast", "may", "optimistic" and derivative or similar words or expressions. Similarly, descriptions of objectives, strategies, plans, or goals are also forward-looking statements. These statements may discuss, among other things, expected growth, future sales, future cash flows, future capital expenditures, future performance, and the anticipation and expectations of the Company and its management as to future occurrences and trends. The Company intends that the forward-looking statements be subject to the safe harbors established in the Private Securities Litigation Reform Act of 1995 and by the Securities and Exchange Commission in its rules, regulations and releases.

Readers are cautioned not to place undue reliance on any forward-looking statements. All forward-looking statements are based on current expectations regarding important risk factors, many of which are outside the Company's control. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of those statements should not be regarded as a representation by the Company or any other person that the results expressed in the statements will be achieved. In addition, the Company assumes no obligation publicly to update or revise any forward-looking statements, whether because of new information or events, or otherwise, except as may be required by law.

Important risk factors include, but are not limited to, the following: risks relating to the operations levels of our customers and the economic factors that affect them; changes in the prices for products and services relative to the cost of providing them; reduction in supplier inventory purchase incentives; loss of key supplier authorizations, lack of product availability, or changes in supplier distribution programs; the cost of products and energy and other operating costs; changes in customer preferences for products and services of the nature and brands sold by us; changes in customer procurement policies and practices; competitive pressures; our reliance on information systems and risks relating to their proper functioning, the security of those systems, and the data stored in or transmitted through them; the impact of economic conditions on the collectability of trade receivables; reduced demand for our products in targeted markets due to reasons including consolidation in customer industries; our ability to retain and attract qualified sales and customer service personnel and other skilled executives, managers and professionals; our ability to identify and complete acquisitions, integrate them effectively, and realize their anticipated benefits; the variability, timing and nature of new business opportunities including acquisitions, alliances, customer relationships, and supplier authorizations; the incurrence of debt and contingent liabilities in connection with acquisitions; our ability to access capital markets as needed on reasonable terms; disruption of operations at our headquarters or distribution centers; risks and uncertainties associated with our foreign operations, including volatile economic conditions, political instability, cultural and legal differences, and currency exchange fluctuations; the potential for goodwill and intangible asset impairment; changes in accounting policies and practices; our ability to maintain effective internal control over financial reporting; organizational changes within the Company; risks related to legal proceedings to which we are a party; potentially adverse government regulation, legislation, or policies, both enacted and under consideration, including with respect to federal tax policy, and international trade, such as recent tariffs and proposed tariffs on imports; and the occurrence of extraordinary events (including prolonged labor disputes, power outages, telecommunication outages, terrorist acts, earthquakes, extreme weather events, other natural disasters, fires, floods, and accidents). Other factors and unanticipated events could also adversely affect our business, financial condition or results of operations.

In addition, please review the various risk factors relating to the COVID-19 pandemic discussed in Part II, Item 1A of this Form 10-Q. We discuss certain of these matters and other risk factors more fully throughout this Form 10-Q as well as other of our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended June 30, 2019.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, see Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the year ended June 30, 2019.

Evaluation of Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As a result of the COVID-19 pandemic, the majority of our workforce began working remotely in March 2020. These changes to the working environment did not have a material effect on our internal controls over financial reporting during the most recent quarter. We are continually monitoring and assessing the COVID-19 pandemic on our internal controls to minimize the impact on their design and operating effectiveness.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is a party to pending legal proceedings with respect to various product liability, commercial, and other matters. Although it is not possible to predict the outcome of these proceedings or the range of reasonably possible loss, the Company believes, based on circumstances currently known, that the likelihood is remote that the ultimate resolution of any of these proceedings will have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

ITEM 1A. Risk Factors

In addition to other information set forth in this report, you should carefully consider the following factor that could materially affect our business, financial condition, or results of operations. The factor below should be read in conjunction with those factors described in the Company's Annual Report on Form 10-K for the year ended June 30, 2019, which information is incorporated here by reference.

The extent to which the COVID-19 pandemic and measures taken in response thereto continue to impact our results of operations and financial condition will depend on future developments, which are uncertain and cannot be predicted. The COVID-19 pandemic has created significant volatility, uncertainty, and economic disruption. The extent to which the pandemic impacts our results of operations and financial condition will depend on evolving factors that are uncertain and cannot be predicted, including the following: the duration, spread, and severity of the pandemic in the countries in which we operate; responsive measures taken by governmental authorities, businesses, and individuals; the effect on our customers and their demand for our products and services; the effect on our suppliers and disruptions to the global supply chain; our ability to sell and provide our products and services and otherwise operate effectively, including as a result of travel restrictions and associates working from home; disruptions to our operations resulting from associate illness; restrictions or disruptions to, or reduced availability of, transportation; customers' ability to pay for our services and products; closures of our facilities or those of our customers or suppliers; the impact of reduced customer demand on purchasing incentives we earn from suppliers; and how quickly and to what extent normal economic and operating conditions can resume. The effects of the COVID-19 pandemic have resulted and will result in lost or delayed sales to us, and we have experienced business disruptions as we have modified our business practices (including travel, work locations, and cancellation of physical participation in meetings). In addition, the pandemic's impact on the economy may affect the proper functioning of financial and capital markets, foreign currency exchange rates, product and energy costs, and interest rates. Even after the pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future. The pandemic's effects could also amplify the other risks and uncertainties described in our Annual Report on Form 10-K for the fiscal year ended June 30, 2019, and could materially and adversely affect our business, financial condition, results of operations, and/or stock price.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of common stock in the quarter ended March 31, 2020 were as follows:

Period	(a) Total Number of Shares	(b) Average Price Paid per Share (\$)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
January 1, 2020 to January 31, 2020	0	\$0.00	0	864,618
February 1, 2020 to February 29, 2020	0	\$0.00	0	864,618
March 1, 2020 to March 31, 2020	0	\$0.00	0	864,618
Total	0	\$0.00	0	864,618

- (1) On October 24, 2016, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock, replacing the prior authorization. We publicly announced the new authorization on October 26, 2016. Purchases can be made in the open market or in privately negotiated transactions.
The authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

ITEM 4. Mine Safety Disclosures.

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of the SEC Regulation S-K is included in Exhibit 95 to this quarterly report on Form 10-Q.

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ITEM 6. [Exhibits](#)

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to the Company's Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to the Company's Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) (now named Applied Industrial Technologies, Inc.) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to the Company's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Amended and Restated Note Purchase and Private Shelf Agreement dated as of October 30, 2019, between Applied and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), and certain of its affiliates (filed as Exhibit 10.1 to the Company's Form 8-K filed November 5, 2019, SEC File No. 1-2299, and incorporated here by reference).
4.3	Request for Purchase dated May 30, 2014 and 3.19% Series C Notes dated July 1, 2014, under Amended and Restated Note Purchase and Private Shelf Agreement, between Applied Industrial Technologies, Inc. and PGIM, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed July 2, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.4	Request for Purchase dated October 22, 2014 and 3.21% Series D Notes dated October 30, 2014, under Amended and Restated Note Purchase and Private Shelf Agreement between Applied Industrial Technologies, Inc. and PGIM, Inc. (filed as Exhibit 4.5 to the Company's Form 10-Q for the quarter ended September 30, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.5	Credit Agreement dated as of January 31, 2018, among Applied Industrial Technologies, Inc., KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 10.1 to the Company's Form 8-K filed February 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
4.6	Receivables Financing Agreement dated as of August 31, 2018 among AIT Receivables LLC, as borrower, PNC Bank, National Association, as administrative agent, Applied Industrial Technologies, Inc., as initial servicer, PNC Capital Markets LLC, as structuring agent and the additional persons from time to time party thereto, as lenders (filed as Exhibit 10.1 to the Company's Form 8-K filed September 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
10.1	Restricted Stock Award Terms and Conditions (Directors)
31	Rule 13a-14(a)/15d-14(a) certifications
32	Section 1350 certifications
95	Mine safety and health disclosures
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

The Company will furnish a copy of any exhibit described above and not contained herein upon payment of a specified reasonable fee which shall be limited to the Company's reasonable expenses in furnishing the exhibit.

Certain instruments with respect to long-term debt have not been filed as exhibits because the total amount of securities authorized under any one of the instruments does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish to the Securities and Exchange Commission, upon request, a copy of each such instrument.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Company)

Date: May 1, 2020

By: /s/ Neil A. Schrimsher
Neil A. Schrimsher
President & Chief Executive Officer

Date: May 1, 2020

By: /s/ David K. Wells
David K. Wells
Vice President-Chief Financial Officer & Treasurer

RESTRICTED STOCK AWARD TERMS

1. **Award of Restricted Stock.** The Corporate Governance Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”) has awarded you shares of Applied common stock, which shares are subject to the restrictions, terms, and conditions and to the risk of forfeiture set forth in the 2019 Long-Term Performance Plan (the “Plan”), in these terms, and in policies that may be adopted from time to time by the Committee. Unless otherwise provided herein, capitalized words in these terms shall have the same meanings as set forth in the Plan.

2. **Rights During Restriction Period.** Until the expiration of the corresponding Restriction Period (as defined in Section 3 hereof), the shares shall be subject to forfeiture and Applied’s Treasurer or his designee will hold the certificate representing the shares. During the Restriction Period, you will not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise dispose of forfeitable shares. Notwithstanding any restrictions or risks of forfeiture, during the Restriction Period and so long as no forfeiture has occurred, you shall be entitled to exercise all voting rights. Dividends will accrue during the Restriction Period and be paid upon vesting in the shares as of the end of the Restriction Period.

3. **Restriction Period.** The term “Restriction Period” means the period during which shares are subject to forfeiture. In each case assuming that you have remained continuously a member of Applied’s Board of Directors since the grant date, the Restriction Period will expire with respect to the shares on the earlier of (a) the first anniversary of the grant date, and (b) the expiration of your term as a director if you do not thereafter remain in office, including retirement pursuant to the Board’s mandatory retirement policy.

Subject to the terms hereof, after the Restriction Period expires, the corresponding shares will no longer be subject to forfeiture and Applied shall release to you the certificate representing the non-forfeitable shares.

4. **Payment of Taxes.** Upon vesting of the shares, you must take such actions (if any), including the payment of cash and/or stock, as Applied deems necessary pursuant to federal, state or local tax laws, including withholding requirements.

5. **Change in Control.** Notwithstanding Section 3, if you experience a Separation from Service following any Change in Control (as defined under Section 409A), the Restriction Period shall be deemed to have expired with respect to all of the remaining forfeitable shares and those shares shall no longer be subject to forfeiture. For purposes of this section, a Separation from Service shall include any termination of your service as a member of the Board of Directors of Applied (including a failure of the Board of Directors or a duly authorized committee of the Board to nominate you as a director), other than due to (i) death, (ii) Disability, or your resignation or refusal to stand for re-election as a director.

6. **Death or Disability.** If you cease to be a director of Applied due to death or Disability (as defined under Section 409A) prior to the expiration of the Restriction Period, the Restriction Period shall be deemed to have expired with respect to all of the remaining forfeitable shares and those shares shall no longer be subject to forfeiture.

7. Other Terminations. If you cease to be a director of Applied during the Restriction Period for any reason other than those specifically set forth in Sections 5 and 6 above, you shall, for no consideration, forfeit to Applied, and have no further interest in, all of the remaining forfeitable shares.

8. Adjustment of Shares for Certain Events. In the event of a stock split, stock dividend, combination, reclassification, recapitalization, merger, consolidation, exchange, spin-off, spin-out, or other distribution of assets to shareholders, or other similar event or change in capitalization such that shares of Applied common stock are changed into or become exchangeable for a different number of shares, thereafter the number of shares shall be increased or decreased, as the case may be, in direct proportion to the increase or decrease in the number of shares of common stock by reason of such change in corporate structure; provided, however, that the number of shares shall always be a whole number. If there occurs any other change in the number or kind of outstanding shares of common stock or other Applied securities, or of any shares of stock or other securities into which such shares of common stock shall have been changed or for which they shall have been exchanged, then Applied may adjust the number or kind of shares of stock or other securities granted hereunder, as the Committee, in its sole discretion, may determine is equitable, and such adjustment so made shall be effective and binding for all purposes.

9. Securities Laws Requirements. The Restriction Period shall not be deemed to expire if such lapse of restrictions would violate:

- (a) any applicable state securities law;
- (b) any applicable registration or other requirements under the Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended, or the listing requirements of any exchange on which the shares are traded; or
- (c) any similar legal requirement of any governmental authority regulating the Applied’s issuance of shares.

Applied may require you to represent and warrant to Applied that at the grant date and at the expiration of the Restriction Period, it is your intention to acquire the common stock for your own account for investment only and not with a view to, or for resale in connection with, the distribution thereof other than in a transaction that does not require registration under the Securities Act (which may, but will not be required to, be conclusively determined for the purposes of these terms based on written advice of counsel for Applied or you); that you understand the shares may be “restricted securities” as defined in Rule 144 of the Securities and Exchange Commission; and that any resale, transfer or other disposition of the shares will be accomplished only in compliance with Rule 144, the Securities Act, or other or subsequent rules and regulations thereunder. In such circumstances except as otherwise provided herein, Applied may place on the stock certificate(s) a legend reflecting such commitment and Applied may refuse to permit transfer of such certificates until it has been furnished evidence satisfactory to it that no violation of the Securities Act or the rules and regulations thereunder would be involved in such transfer.

10. Administration of the Plan. The Committee shall have conclusive authority, subject to the express provisions of the Plan as in effect from time to time and these terms, to construe these terms and the Plan, and to establish, amend, and rescind rules and regulations for the Plan’s administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in these terms in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency. Applied’s Board of Directors may from time to time grant to the Committee such further powers and authority as the Board shall determine to be necessary or desirable.

Notwithstanding any other provision of these terms, any amendment, construction, establishment, rescission or correction of the type referred to above which is made or adopted following a Change in Control, and which amendment, construction, establishment or correction adversely affects your rights hereunder, shall be in writing and shall be effective only with your express and prior written consent.

11. Relationship to the Plan. This Agreement is subject to the terms of the Plan and any administrative policies adopted by the Committee. If there is any inconsistency between these terms and the Plan or such policies, the Plan and the policies, in that order, shall govern. References in these terms to Applied shall include Applied's subsidiaries.

(January 2020)

Certifications of Disclosure in Quarterly Report on Form 10-Q

I, Neil A. Schrimsher, President & Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Industrial Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2020

By: /s/ Neil A. Schrimsher

Neil A. Schrimsher

President & Chief Executive Officer

I, David K. Wells, Vice President-Chief Financial Officer & Treasurer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Industrial Technologies, Inc.;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2020

By: /s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer & Treasurer

[The following certification accompanies Applied Industrial Technologies' Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and is not filed, as provided in applicable SEC releases.]

**Certification of Principal Executive Officer and
Principal Financial Officer Pursuant to
18 U.S.C. 1350**

In connection with the Form 10-Q (the "Report") of Applied Industrial Technologies, Inc. (the "Company") for the period ending March 31, 2020, we, Neil A. Schrimsher, President & Chief Executive Officer, and David K. Wells, Vice President-Chief Financial Officer & Treasurer of the Company, certify that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Neil A. Schrimsher

Neil A. Schrimsher

President & Chief Executive Officer

/s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer & Treasurer

Date: May 1, 2020

[A signed original of this written statement required by Section 906 has been provided to Applied Industrial Technologies, Inc. and will be retained by Applied Industrial Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

Mine Safety and Health Disclosure
Mine Safety and Health Administration Contractor Identification Number 9EI

The operation of domestic mines is subject to regulation by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). Under the Mine Act, an “independent contractor” who provides onsite services to the mine industry is deemed to be a “mine operator.” Applied supplies MRO parts and related services to mine operators, and as such we are providing this report pursuant to section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of SEC Regulation S-K.

MSHA inspects mines on a regular basis and issues citations and orders when it believes a violation has occurred under the Mine Act. The table below sets forth, by mining complex, the total number of citations and/or orders issued, that required disclosure, to Applied during the quarter ended March 31, 2020 by MSHA under the indicated provisions of the Mine Act, together with the total dollar value of proposed MSHA assessments.

Mine or Operating Name / MSHA Identification Number	(#) Section 104 S&S Citations	(#) Section 104(b) Orders	(#) Section 104(d) Citations and Orders	(#) Section 110(b)(2) Violations	(#) Section 107(a) Orders	(\$ Total Dollar Value of MSHA Assessments Proposed	(#) Total Number of Mining Related Fatalities	(yes/no) Received Notice of Pattern of Violations Under Section 104(e)	(yes/no) Received Notice of Potential to Have Pattern Under Section 104(e)	(#) Legal Actions Pending as of 3/31/2020	(#) Legal Actions Initiated During Period	(#) Legal Actions Resolved During the Period
(1)	(2)	(3)	(4)	(5)	(6)							
Stillwater Mine #2401490	1	0	1	0	1	3,573	0	No	No	0	0	0
A R Wilson Quarry #0400119	2	0	0	0	0	0	0	No	No	0	0	0

In evaluating this information, note that citations and orders can be contested and appealed, and in that process, are often reduced in severity and amount, and are sometimes dismissed.

- (1) United States mines.
- (2) Total number of citations received from MSHA under section 104 of the Mine Act for health or safety standards that could significantly and substantially contribute to a serious injury if left unabated.
- (3) Total number of orders under section 104(b) of the Mine Act, which represents a failure to abate a citation under section 104(a) within the period of time prescribed by MSHA.
- (4) Total number of citations and orders for unwarrantable failure to comply with mandatory health or safety standards under section 104(d) of the Mine Act.
- (5) Total number of flagrant violations under section 110(b)(2) of the Mine Act.
- (6) Total number of imminent danger orders issued under section 107(a) of the Mine Act.