

**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 SEPTEMBER 30, 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
(State or other jurisdiction of
incorporation or organization)

34-0117420
(I.R.S. Employer
Identification Number)

One Applied Plaza
(Address of principal executive offices)

Cleveland

Ohio

44115
(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 38,759,994 (no par value) shares of common stock outstanding on October 16, 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 September 30,	
	2020	2019
Net sales	\$ 747,807	\$ 856,404
Cost of sales	532,026	604,944
Gross profit	215,781	251,460
Selling, distribution and administrative expense, including depreciation	163,473	190,294
Operating income	52,308	61,166
Interest expense, net	7,653	10,059
Other income, net	(177)	—
Income before income taxes	44,832	51,107
Income tax expense	10,048	12,308
Net income	\$ 34,784	\$ 38,799
Net income per share - basic	\$ 0.90	\$ 1.00
Net income per share - diluted	\$ 0.89	\$ 1.00
Weighted average common shares outstanding for basic computation	38,722	38,611
Dilutive effect of potential common shares	366	350
Weighted average common shares outstanding for diluted computation	39,088	38,961

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 September 30,	
	2020	2019
Net income per the condensed statements of consolidated income	\$ 34,784	\$ 38,799
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	5,554	(4,034)
Post-employment benefits:		
Reclassification of net actuarial losses (gains) and prior service cost into other income, net and included in net periodic pension costs	68	(17)
Unrealized loss on cash flow hedge	(17)	(2,180)
Reclassification of interest from cash flow hedge into interest expense	2,690	427
Total other comprehensive income (loss), before tax	8,295	(5,804)
Income tax expense (benefit) related to items of other comprehensive loss	786	(557)
Other comprehensive income (loss), net of tax	7,509	(5,247)
Comprehensive income, net of tax	\$ 42,293	\$ 33,552

See notes to condensed consolidated financial statements.

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

	September 30, 2020	June 30, 2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 271,060	\$ 268,551
Accounts receivable, net	447,032	449,998
Inventories	365,355	389,150
Other current assets	52,887	52,070
Total current assets	1,136,334	1,159,769
Property, less accumulated depreciation of \$197,143 and \$192,054	120,285	121,901
Operating lease assets, net	89,622	90,636
Identifiable intangibles, net	333,613	343,215
Goodwill	541,357	540,594
Other assets	28,042	27,436
TOTAL ASSETS	\$ 2,249,253	\$ 2,283,551
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 181,627	\$ 186,270
Current portion of long-term debt	78,651	78,646
Compensation and related benefits	65,168	61,887
Other current liabilities	88,605	99,280
Total current liabilities	414,051	426,083
Long-term debt	792,827	855,143
Other liabilities	156,969	158,783
TOTAL LIABILITIES	1,363,847	1,440,009
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	176,007	176,492
Retained earnings	1,235,351	1,200,570
Treasury shares—at cost (15,453 and 15,503 shares, respectively)	(414,031)	(414,090)
Accumulated other comprehensive loss	(121,921)	(129,430)
TOTAL SHAREHOLDERS' EQUITY	885,406	843,542
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,249,253	\$ 2,283,551

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2020	2019
Cash Flows from Operating Activities		
Net income	\$ 34,784	\$ 38,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	5,352	5,223
Amortization of intangibles	9,726	10,374
Amortization of stock options and appreciation rights	693	773
Other share-based compensation expense	677	919
Changes in operating assets and liabilities, net of acquisitions	24,559	(8,682)
Other, net	6,051	2,612
Net Cash provided by Operating Activities	81,842	50,018
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	—	(35,703)
Property purchases	(3,597)	(4,946)
Proceeds from property sales	193	88
Net Cash used in Investing Activities	(3,404)	(40,561)
Cash Flows from Financing Activities		
Long-term debt repayments	(62,450)	(4,934)
Dividends paid	(12,415)	(11,985)
Acquisition holdback payments	(521)	(201)
Taxes paid for shares withheld for equity awards	(1,797)	(1,754)
Net Cash used in Financing Activities	(77,183)	(18,874)
Effect of Exchange Rate Changes on Cash	1,254	(598)
Increase (decrease) in Cash and Cash Equivalents	2,509	(10,015)
Cash and Cash Equivalents at Beginning of Period	268,551	108,219
Cash and Cash Equivalents at End of Period	\$ 271,060	\$ 98,204

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 September 30, 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 June 30, 2020	38,710	\$ 10,000	\$ 176,492	\$ 1,200,570	\$ (414,090)	\$ (129,430)	\$ 843,542
Net income				34,784			34,784
Other comprehensive income						7,509	7,509
Cash dividends — \$0.32 per share				(18)			(18)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	13		(277)		12		(265)
Performance share awards	22		(985)		(20)		(1,005)
Restricted stock units	15		(593)		96		(497)
Compensation expense — stock appreciation rights and options			693				693
Other share-based compensation expense			677				677
Other				15	(29)		(14)
Balance at September 30, 2020	38,760	\$ 10,000	\$ 176,007	\$ 1,235,351	\$ (414,031)	\$ (121,921)	\$ 885,406

For the Period Ended September 30, 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 June 30, 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

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 September 30, 2020, and the results of its operations and its cash flows for the three month periods ended September 30, 2020 and 2019, have been included. The condensed consolidated balance sheet as of June 30, 2020 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, 2020.

Operating results for the three month period ended September 30, 2020 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2021.

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

Accounting for current expected credit losses

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 adopted the new guidance in the first quarter of fiscal 2021. The adoption of this guidance did not have a material impact on the Company's financial statements or related disclosures.

Recently Issued Accounting Guidance

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, 2020, 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 this pronouncement on its financial statements and related disclosures.

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

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 months ended September 30, 2020 and 2019. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

	Three Months Ended September 30,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
Geographic Areas:						
United States	\$ 415,242	\$ 228,815	\$ 644,057	\$ 492,873	\$ 250,113	\$ 742,986
Canada	56,896	—	56,896	65,946	—	65,946
Other countries	41,146	5,708	46,854	44,341	3,131	47,472
Total	\$ 513,284	\$ 234,523	\$ 747,807	\$ 603,160	\$ 253,244	\$ 856,404

The following tables present the Company's percentage of revenue by reportable segment and major customer industry for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	36.0 %	39.4 %	37.0 %	34.8 %	43.7 %	37.5 %
Industrial Machinery	9.4 %	26.7 %	14.9 %	10.2 %	22.1 %	13.7 %
Food	14.1 %	3.0 %	10.7 %	11.1 %	2.7 %	8.6 %
Metals	10.2 %	7.0 %	9.2 %	12.4 %	8.2 %	11.1 %
Forest Products	10.8 %	2.9 %	8.3 %	7.7 %	3.1 %	6.4 %
Chem/Petrochem	3.5 %	13.3 %	6.6 %	2.8 %	12.7 %	5.7 %
Cement & Aggregate	7.7 %	1.1 %	5.6 %	6.8 %	1.0 %	5.1 %
Transportation	4.7 %	5.4 %	4.9 %	4.9 %	4.6 %	4.8 %
Oil & Gas	3.6 %	1.2 %	2.8 %	9.3 %	1.9 %	7.1 %
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 months ended September 30, 2020 and 2019:

	Three Months Ended September 30,					
	2020			2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	37.7 %	7.6 %	28.3 %	34.5 %	9.3 %	27.1 %
Fluid Power	13.1 %	39.1 %	21.3 %	13.3 %	39.7 %	21.1 %
Bearings, Linear & Seals	29.0 %	0.4 %	20.0 %	25.9 %	0.3 %	18.3 %
General Maintenance; Hose Products	20.2 %	13.8 %	18.1 %	26.3 %	8.0 %	20.9 %
Specialty Flow Control	— %	39.1 %	12.3 %	— %	42.7 %	12.6 %
Total	100 %	100 %	100 %	100 %	100 %	100 %

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:

	September 30, 2020	June 30, 2020	\$ Change	% Change
Contract assets	\$ 9,536	\$ 8,435	\$ 1,101	13.1 %

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.

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 (Olympus), a Portland, Oregon automation solutions provider - including design, assembly, integration, and distribution - of motion control, machine vision, and robotic technologies. Olympus 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.

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

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, 2020 and the three month period ended September 30, 2020 are as follows:

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Balance at June 30, 2019	\$ 213,634	\$ 448,357	\$ 661,991
Goodwill acquired during the period	(3,393)	14,667	11,274
Impairment	—	(131,000)	(131,000)
Other, primarily currency translation	(1,671)	—	(1,671)
Balance at June 30, 2020	\$ 208,570	\$ 332,024	\$ 540,594
Other, primarily currency translation	763	—	763
Balance at September 30, 2020	\$ 209,333	\$ 332,024	\$ 541,357

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. Among these, 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 \$27,770 and \$5,365, respectively, as of September 30, 2020. As of January 1, 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 September 30, 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, earnings before interest, taxes, depreciation, and amortization (EBITDA), 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, 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 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 assumptions (Level 3 in the fair value hierarchy) 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

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

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 September 30, 2020 and June 30, 2020, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$64,794 related to the Service Center Based Distribution segment. At September 30, 2020 and June 30, 2020, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$167,605 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:

September 30, 2020	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 426,471	\$ 170,805	\$ 255,666
Trade names	111,488	36,794	74,694
Vendor relationships	11,376	9,170	2,206
Other	2,078	1,031	1,047
Total Identifiable Intangibles	<u>\$ 551,413</u>	<u>\$ 217,800</u>	<u>\$ 333,613</u>

June 30, 2020	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 426,017	\$ 162,965	\$ 263,052
Trade names	111,453	34,815	76,638
Vendor relationships	11,329	8,934	2,395
Other	2,078	948	1,130
Total Identifiable Intangibles	<u>\$ 550,877</u>	<u>\$ 207,662</u>	<u>\$ 343,215</u>

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

Identifiable intangible assets with finite lives are reviewed for impairment when changes in conditions indicate carrying value may not be recoverable. Sustained significant softness in certain end market concentrations could result in impairment of certain intangible assets in future periods.

Estimated future amortization expense by fiscal year (based on the Company's identifiable intangible assets as of September 30, 2020) for the next five years is as follows: \$28,600 for the remainder of 2021, \$36,200 for 2022, \$34,000 for 2023, \$29,800 for 2024, \$26,800 for 2025 and \$24,800 for 2026.

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

5. DEBT

A summary of long-term debt, including the current portion, follows:

	September 30, 2020	June 30, 2020
Term Loan	\$ 579,500	\$ 589,250
Trade receivable securitization facility	162,300	175,000
Series C notes	80,000	120,000
Series D notes	25,000	25,000
Series E notes	25,000	25,000
Other	1,026	1,026
Total debt	\$ 872,826	\$ 935,276
Less: unamortized debt issuance costs	1,348	1,487
	<u>\$ 871,478</u>	<u>\$ 933,789</u>

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. The Company had no amount outstanding under the revolver at September 30, 2020 or June 30, 2020. Unused lines under this facility, net of outstanding letters of credit of \$731 and \$1,873, respectively, to secure certain insurance obligations, totaled \$249,269 and \$248,127 at September 30, 2020 and June 30, 2020, respectively, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan was 1.94% as of September 30, 2020 and June 30, 2020.

Additionally, the Company had letters of credit outstanding with separate banks, not associated with the revolving credit agreement, in the amount of \$4,499 and \$4,475 as of September 30, 2020 and June 30, 2020, 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. The interest rate on the AR Securitization Facility was 1.07% as of September 30, 2020 and June 30, 2020. The Company classified the AR Securitization Facility as long-term debt as it has the ability and intent to extend or refinance this amount on a long-term basis.

Other Long-Term Borrowings

At September 30, 2020 and June 30, 2020, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$130,000 and \$170,000, respectively. 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, which had an original principal amount of \$120,000, carry a fixed interest rate of 3.19%. A \$40,000 principal payment was made on the "Series C" notes in July 2020, and the remaining principal balance of \$80,000 is due in equal payments in July 2021 and 2022. The "Series D" notes have a remaining principal balance of \$25,000, carry a fixed interest rate of 3.21%, and are due in October 2023. The "Series E" notes have a principal amount of \$25,000, carry a fixed interest rate of 3.08%, and are due in October 2024.

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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, and matures in May 2024.

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 September 30, 2020 and June 30, 2020, respectively. The fair value (Level 2 in the fair value hierarchy) of the interest rate cash flow hedge was \$23,505 and \$26,179 as of September 30, 2020 and June 30, 2020, respectively, which is included in other current liabilities and other liabilities in the condensed consolidated balance sheet. Realized losses related to the interest rate cash flow hedge were not material during the three months ended September 30, 2020 and 2019.

7. FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at September 30, 2020 and June 30, 2020 totaled \$13,533 and \$12,259, 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 September 30, 2020 and June 30, 2020, 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 September 30, 2020			
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at June 30, 2020	\$ (105,094)	\$ (4,564)	\$ (19,772)	\$ (129,430)
Other comprehensive income (loss)	5,439	—	(13)	5,426
Amounts reclassified from accumulated other comprehensive (loss) income	—	51	2,032	2,083
Net current-period other comprehensive income	5,439	51	2,019	7,509
Balance at September 30 2020	<u>\$ (99,655)</u>	<u>\$ (4,513)</u>	<u>\$ (17,753)</u>	<u>\$ (121,921)</u>

	Three Months Ended September 30, 2019			
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at June 30, 2019	\$ (86,330)	\$ (2,852)	\$ (10,704)	\$ (99,886)
Other comprehensive loss	(3,913)	—	(1,643)	(5,556)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(13)	322	309
Net current-period other comprehensive loss	(3,913)	(13)	(1,321)	(5,247)
Balance at September 30, 2019	<u>\$ (90,243)</u>	<u>\$ (2,865)</u>	<u>\$ (12,025)</u>	<u>\$ (105,133)</u>

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Other Comprehensive Income (Loss)

Details of other comprehensive income (loss) are as follows:

	Three Months Ended September 30,					
	2020			2019		
	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount
Foreign currency translation adjustments	\$ 5,554	\$ 115	\$ 5,439	\$ (4,034)	\$ (121)	\$ (3,913)
Post-employment benefits:						
Reclassification of net actuarial losses (gains) and prior service cost into other income, net and included in net periodic pension costs	68	17	51	(17)	(4)	(13)
Unrealized loss on cash flow hedge	(17)	(4)	(13)	(2,180)	(537)	(1,643)
Reclassification of interest from cash flow hedge into interest expense	2,690	658	2,032	427	105	322
Other comprehensive income (loss)	<u>\$ 8,295</u>	<u>\$ 786</u>	<u>\$ 7,509</u>	<u>\$ (5,804)</u>	<u>\$ (557)</u>	<u>\$ (5,247)</u>

Anti-dilutive Common Stock Equivalents

In the three month periods ended September 30, 2020 and September 30, 2019, stock options and stock appreciation rights related to 578 and 740 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.

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9. 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 \$1,133 and \$358 in the three months ended September 30, 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 \$7,496 and \$7,313, in the three months ended September 30, 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
September 30, 2020			
Net sales	\$ 513,284	\$ 234,523	\$ 747,807
Operating income for reportable segments	49,901	25,861	75,762
Assets used in business	1,283,031	966,222	2,249,253
Depreciation and amortization of property	4,395	957	5,352
Capital expenditures	3,088	509	3,597
September 30, 2019			
Net sales	\$ 603,160	\$ 253,244	\$ 856,404
Operating income for reportable segments	60,360	26,857	87,217
Assets used in business	1,289,592	1,140,140	2,429,732
Depreciation and amortization of property	4,178	1,045	5,223
Capital expenditures	4,195	751	4,946

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

	Three Months Ended September 30,	
	2020	2019
Operating income for reportable segments	\$ 75,762	\$ 87,217
Adjustment for:		
Intangible amortization—Service Center Based Distribution	2,581	3,054
Intangible amortization—Fluid Power & Flow Control	7,145	7,320
Corporate and other expense, net	13,728	15,677
Total operating income	52,308	61,166
Interest expense, net	7,653	10,059
Other income, net	(177)	—
Income before income taxes	\$ 44,832	\$ 51,107

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.

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10. OTHER INCOME, NET

Other income, net consists of the following:

	Three Months Ended September 30,	
	2020	2019
Unrealized gain on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ (819)	\$ (55)
Foreign currency transactions loss (gain)	416	(222)
Net other periodic post-employment benefits	71	(30)
Life insurance expense, net	177	300
Other, net	(22)	7
Total other income, net	<u>\$ (177)</u>	<u>\$ —</u>

11. SUBSEQUENT EVENTS

We have evaluated events and transactions occurring subsequent to September 30, 2019 through the date the financial statements were issued.

On October 5, 2020, the Company acquired substantially all of the net assets of Advanced Control Solutions, which operates four locations in Georgia, Tennessee and Alabama. As a provider of automation products, services, and engineered solutions focused on machine vision equipment and software, mobile and collaborative robotic solutions, intelligent sensors, logic controllers, and other related equipment, this business will be included in the Fluid Power & Flow Control segment.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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With more than 6,100 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 and technical solutions provider of industrial motion, fluid power, flow control, automation technologies, and related maintenance supplies. Our leading brands, specialized services, and comprehensive knowledge serve MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) end users in virtually all industrial markets through our multi-channel capabilities that provide choice, convenience, and expertise. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. During the first quarter of fiscal 2021, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from 583 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 September 30, 2020 decreased \$108.6 million or 12.7% compared to the prior year quarter, with acquisitions increasing sales by \$9.7 million or 1.1% and unfavorable foreign currency translation of \$3.1 million decreasing sales by 0.4%. Operating margin was 7.0% of sales for the quarter ended September 30, 2020 compared to 7.1% of sales for the same quarter in the prior year. Net income of \$34.8 million decreased 10.3% compared to the prior year quarter. The current ratio was 2.7 to 1 at September 30, 2020 and June 30, 2020.

We continued to face challenges during the quarter from the COVID-19 pandemic. We are classified as critical infrastructure and our facilities remain open and operational as they adhere to health and safety policies. We have experienced mid-teen year-over-year organic sales percentage declines month-to-date in October 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.

The MCU (total industry) and IP indices have increased since June 2020. The MCU for September 2020 was 71.5, which is up from the June 2020 revised readings of 68.7. The ISM PMI registered 55.4 in September, up from the June 2020 reading of 52.6. The indices for the months during the current quarter were as follows:

Month	Index Reading		
	MCU	PMI	IP
September 2020	71.5	55.4	98.3
August 2020	72.0	56.0	98.5
July 2020	71.6	54.2	97.4

The number of Company employees was 6,141 at September 30, 2020, 6,289 at June 30, 2020, and 6,753 at September 30, 2019. The number of operating facilities totaled 583 at September 30, 2020, 584 at June 30, 2020 and 604 at September 30, 2019.

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Results of Operations

Three months Ended September 30, 2020 and 2019

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

	Three Months Ended September 30,		Change in \$'s Versus Prior Period - % Decrease
	As a Percent of Net Sales		
	2020	2019	
Net sales	100.0 %	100.0 %	(12.7) %
Gross profit	28.9 %	29.4 %	(14.2) %
Selling, distribution & administrative expense	21.9 %	22.2 %	(14.1) %
Operating income	7.0 %	7.1 %	(14.5) %
Net income	4.7 %	4.5 %	(10.3) %

During the quarter ended September 30, 2020, sales decreased \$108.6 million or 12.7% compared to the prior year quarter, with sales from acquisitions adding \$9.7 million or 1.1% and unfavorable foreign currency translation accounting for a decrease of \$3.1 million or 0.4%. There were 64 selling days in both the quarter ended September 30, 2020 and September 30, 2019. Excluding the impact of businesses acquired, sales were down \$115.2 million or 13.4% during the quarter, due to weak demand across key end markets.

The following table shows changes in sales by reportable segment.

Sales by Reportable Segment	Three Months Ended September 30,		Amount of change due to			
	2020	2019	Sales Decrease	Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	\$ 513.3	\$ 603.2	\$ (89.9)	\$ —	\$ (3.1)	\$ (86.8)
Fluid Power & Flow Control	234.5	253.2	(18.7)	9.7	—	(28.4)
Total	\$ 747.8	\$ 856.4	\$ (108.6)	\$ 9.7	\$ (3.1)	\$ (115.2)

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased \$89.9 million or 14.9%. Unfavorable foreign currency translation decreased sales by \$3.1 million or 0.5%. Excluding the impact of foreign currency translation, sales decreased \$86.8 million or 14.4%, reflecting weaker industrial end-market demand from the impact of the COVID-19 pandemic, although sales improved as the quarter progressed. Weakness remains the greatest within heavy industries but is stabilizing, with positive momentum across the food and beverage, pulp and paper, aggregates, and forestry end markets.

Sales from our Fluid Power & Flow Control segment decreased \$18.7 million or 7.4%. The acquisition within this segment increased sales by \$9.7 million or 3.8%. Excluding the impact of businesses acquired, sales decreased \$28.4 million or 11.2%, driven by a decrease from operations due to ongoing soft demand across industrial, off-highway mobile, and process-related end markets; partially offset by growth within technology, life sciences, and food and beverage end markets, as well as internal growth initiatives and automation-related sales.

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 September 30,		Amount of change due to			
	2020	2019	Sales Decrease	Acquisitions	Foreign Currency	Organic Change
United States	\$ 644.1	\$ 743.0	\$ (98.9)	\$ 9.7	\$ —	\$ (108.6)
Canada	56.9	65.9	(9.0)	—	(0.6)	(8.4)
Other countries	46.8	47.5	(0.7)	—	(2.5)	1.8
Total	\$ 747.8	\$ 856.4	\$ (108.6)	\$ 9.7	\$ (3.1)	\$ (115.2)

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Sales in our U.S. operations were down \$98.9 million or 13.3%, as acquisitions added \$9.7 million or 1.3%. Excluding the impact of businesses acquired, U.S. sales were down \$108.6 million or 14.6%. Sales from our Canadian operations decreased \$9.0 million or 13.7%. Unfavorable foreign currency translation decreased Canadian sales by \$0.6 million or 1.0%. Excluding the impact of foreign currency translation, Canadian sales were down \$8.4 million or 12.7%. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, decreased \$0.7 million or 1.3% from the prior year. Unfavorable foreign currency translation decreased other country sales by \$2.5 million or 5.2%. Excluding the impact of currency translation, other country sales were up \$1.8 million, or 3.9% during the quarter.

Our gross profit margin was 28.9% in the quarter ended September 30, 2020 compared to 29.4% in the prior period. The gross profit margin for the current quarter was negatively impacted by 10 basis points due to a \$0.7 million increase in LIFO expense between quarters. The remaining change is attributable to a lower mix of local account business and the organic sales decline coupled with subdued pricing opportunities given the softer demand environment.

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

	Three Months Ended September 30,		Amount of change due to			
	2020	2019	SD&A Decrease	Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 163.5	\$ 190.3	\$ (26.8)	\$ 2.2	\$ (0.4)	\$ (28.6)

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 21.9% of sales in the quarter ended September 30, 2020 compared to 22.2% in the prior year quarter. SD&A decreased \$26.8 million or 14.1% compared to the prior year quarter. Changes in foreign currency exchange rates had the effect of decreasing SD&A during the quarter ended September 30, 2020 by \$0.4 million or 0.2% compared to the prior year quarter. SD&A from businesses acquired added \$2.2 million or 1.1% of SD&A expenses, including \$0.2 million of intangibles amortization related to acquisitions. Excluding the impact of businesses acquired and the favorable currency translation impact, SD&A decreased \$28.6 million or 15.0% during the quarter ended September 30, 2020 compared to the prior year quarter. The Company incurred \$1.5 million of non-routine expenses related to severance during the quarter ended September 30, 2019. Excluding the impact of acquisitions and severance, total compensation decreased \$22.3 million during the quarter ended September 30, 2020, primarily due to cost reduction actions taken by the Company in response to the COVID-19 pandemic, including headcount reductions, temporary furloughs and pay reductions, and suspension of the 401(k) company match. Further, travel & entertainment expense decreased \$3.5 million during the quarter ended September 30, 2020 primarily due to reduced travel activity related to COVID-19. All other expenses within SD&A were down \$1.3 million.

Operating income decreased \$8.9 million or 14.5%, and as a percent of sales decreased to 7.0% from 7.1% during the prior year quarter.

Operating income, as a percentage of sales for the Service Center Based Distribution segment decreased to 9.7% in the current year quarter from 10.0% in the prior year quarter. Operating income as a percentage of sales for the Fluid Power & Flow Control segment increased to 11.0% in the current year quarter from 10.6% in the prior year quarter.

Other income, net was income of \$0.2 million for the quarter, which included unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.8 million, offset by net unfavorable foreign currency transaction losses of \$0.4 million and \$0.2 million of expense from other items. During the prior year quarter, other income, net consisted of net favorable foreign currency transaction gains of \$0.2 million and unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.1 million, offset by life insurance expense of \$0.3 million.

The effective income tax rate was 22.4% for the quarter ended September 30, 2020 compared to 24.1% for the quarter ended September 30, 2019. The decrease in the effective tax rate over the prior year is due to changes in discrete items and a reduction in non-deductible expenses associated with travel due to the COVID-19 pandemic during the quarter ended September 30, 2020 compared to the prior year quarter. We expect our full year tax rate for fiscal 2021 to be in the 23.0% to 25.0% range.

As a result of the factors addressed above, net income for the quarter ended September 30, 2020 decreased \$4.0 million or 10.3% compared to the prior year quarter. Net income was \$0.89 per share for the quarter ended September 30, 2020 compared to \$1.00 per share in the prior year quarter, a decrease of 11.0%.

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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 September 30, 2020, we had total debt obligations outstanding of \$872.8 million compared to \$935.3 million at June 30, 2020. 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 September 30, 2020 was \$722.3 million, compared to \$733.7 million at June 30, 2020. The current ratio was 2.7 to 1 at September 30, 2020 and June 30, 2020, respectively.

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):	Three Months Ended September 30,	
	2020	2019
Operating Activities	\$ 81,842	\$ 50,018
Investing Activities	(3,404)	(40,561)
Financing Activities	(77,183)	(18,874)
Exchange Rate Effect	1,254	(598)
Increase in Cash and Cash Equivalents	<u>\$ 2,509</u>	<u>\$ (10,015)</u>

Net cash provided by operating activities was \$81.8 million for the three months ended September 30, 2020 compared to \$50.0 million provided by operating activities in the prior period. The increase in cash provided by operating activities during the three months ended September 30, 2020 is related to working capital improvements.

Net cash used in investing activities during the three months ended September 30, 2020 decreased from the prior period primarily due to \$35.7 million used for the acquisition of Olympus Controls in the prior year period.

Net cash used in financing activities during the three months ended September 30, 2020 increased from the prior period primarily due to a change in net debt activity, as there was \$62.5 million of debt payments in the current year period compared to \$4.9 million of debt payments in the prior 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 three months ended September 30, 2020 and 2019, the Company did not acquire any shares of treasury stock on the open market. At September 30, 2020, we had authorization to repurchase 864,618 shares.

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Borrowing Arrangements

A summary of long-term debt, including the current portion, follows (amounts in thousands):

	September 30, 2020	June 30, 2020
Unsecured credit facility	\$ 579,500	\$ 589,250
Trade receivable securitization facility	162,300	175,000
Series C notes	80,000	120,000
Series D notes	25,000	25,000
Series E notes	25,000	25,000
Other	1,026	1,026
Total debt	\$ 872,826	\$ 935,276
Less: unamortized debt issuance costs	1,348	1,487
	\$ 871,478	\$ 933,789

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 \$780.0 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. The Company had no amount outstanding under the revolver at September 30, 2020 or June 30, 2020. Unused lines under this facility, net of outstanding letters of credit of \$0.7 million and \$1.9 million, respectively, to secure certain insurance obligations, totaled \$249.3 million and \$248.1 million at September 30, 2020 and June 30, 2020, respectively, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan was 1.94% as of September 30, 2020 and June 30, 2020.

Additionally, the Company had letters of credit outstanding with separate banks, not associated with the revolving credit agreement, in the amount of \$4.5 million as of September 30, 2020 and June 30, 2020, 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 \$175.0 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. The interest rate on the AR Securitization Facility was 1.07% as of September 30, 2020 and June 30, 2020. The Company classified the AR Securitization Facility as long-term debt as it has the ability and intent to extend or refinance this amount on a long-term basis.

Other Long-Term Borrowings

At September 30, 2020 and June 30, 2020, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$130.0 million and \$170.0 million, respectively. 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, which had an original principal amount of \$120.0 million, carry a fixed interest rate of 3.19%. A \$40.0 million principal payment was made on the "Series C" notes in July 2020, and the remaining principal balance of \$80.0 million is due in equal payments in July 2021 and 2022. The "Series D" notes have a remaining principal balance of \$25.0 million, carry a fixed interest rate of 3.21%, and are due in October 2023. The "Series E" notes have a principal amount of \$25.0 million, carry a fixed interest rate of 3.08%, and are due in October 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, and matures in May 2024.

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

The Company entered into an interest rate swap which mitigates variability in forecasted interest payments on \$431.0 million of the Company's U.S. dollar-denominated unsecured variable rate debt. For more information, see note 6, Derivatives, to the consolidated financial statements, included in Item 1 under the caption "Notes to Condensed Consolidated Financial Statements."

The credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At September 30, 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 September 30, 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 September 30, 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:

	September 30, 2020	June 30, 2020
Accounts receivable, gross	\$ 463,540	\$ 463,659
Allowance for doubtful accounts	16,508	13,661
Accounts receivable, net	\$ 447,032	\$ 449,998
Allowance for doubtful accounts, % of gross receivables	3.6 %	2.9 %

	Three Months Ended September 30, 2020	2019
Provision for losses on accounts receivable	\$ 5,098	\$ 2,175
Provision as a % of net sales	0.68 %	0.25 %

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 53.8 at September 30, 2020 compared to 55.9 at June 30, 2020.

As of September 30, 2020, approximately 3.6% of our accounts receivable balances are more than 90 days past due, compared to 4.6% at June 30, 2020. On an overall basis, our provision for losses from uncollected receivables represents 0.68% of our sales in the three months ended September 30, 2020, compared to 0.25% of sales for the three months ended September 30, 2019. The increase primarily relates to provisions recorded in the current year for customer credit deterioration and bankruptcies primarily in the U.S. and Mexican operations of 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 was 3.8 for the periods ended September 30, 2020 and June 30, 2020, respectively. We believe our inventory turnover ratio at the end of the year will be similar or slightly better than the ratio at September 30, 2020.

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

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; risks relating to the effects of the COVID-19 pandemic; 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, changes in supplier distribution programs, inability of suppliers to perform, and transportation disruptions; 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, international trade, data privacy and security, and government contracting; and the occurrence of extraordinary events (including prolonged labor disputes, power outages, telecommunication outages, terrorist acts, public health emergency, 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.

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, 2020.

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, 2020.

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 September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. While a significant portion of our workforce began working remotely in March 2020 due to COVID-19, most have returned to working in the office during the first quarter of fiscal 2021. 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, personal injury, employment, and other matters. Although it is not possible to predict the outcome of these proceedings or the range of reasonably possible loss, the Company does not expect, based on circumstances currently known, 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of common stock in the quarter ended September 30, 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)
July 1, 2020 to July 31, 2020	502	\$59.73	0	864,618
August 1, 2020 to August 31, 2020	0	\$0.00	0	864,618
September 1, 2020 to September 30, 2020	0	\$0.00	0	864,618
Total	0	\$0.00	0	864,618

- (1) During the quarter the Company purchased 502 shares in connection with the Deferred Compensation Plan.
- (2) 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 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	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).
4.5	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	Management Incentive Plan General Terms
10.2	Performance Shares Terms and Conditions
10.3	Restricted Stock Units Terms and Conditions
10.4	Stock Appreciation Rights Award Terms and Conditions
10.5	First Amendment to Supplemental Defined Contribution Plan (Post - 2004 Terms)
31	Rule 13a-14(a)/15d-14(a) certifications
32	Section 1350 certifications
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: October 29, 2020

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

Date: October 29, 2020

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

Management Incentive Plan General Terms

Authority

The annual Management Incentive Plan (the “Plan”) is established by the Board’s Executive Organization & Compensation Committee (the “Committee”) under the 2019 Long-Term Performance Plan (the “2019 LTPP”).

Objective

The Plan’s objective is to reward eligible participants for their contributions toward the achievement of the fiscal year business goals for Applied Industrial Technologies, Inc. (“Applied”; together with its subsidiaries and affiliates, the “Company”).

Participation

The Plan’s participants are those key employees of the Company who are designated as Plan participants by the Committee.

Plan Goals

The Committee shall establish the Plan’s goals. Notwithstanding the foregoing, in the event of (i) a merger, a consolidation, an acquisition or divestiture, the issuance or repurchase of a substantial amount of capital stock, a reorganization or restructuring, or any other transaction or series of transactions, or (ii) asset write-downs, or litigation or claim judgments or settlements, or foreign exchange gains or losses, or (iii) changes in tax laws, accounting principles, or other laws or provisions affecting reported results, or (iv) other items of an unusual nature or infrequent occurrence or non-recurring items, then the Committee, in its sole discretion, may adjust the Plan goals or actual performance, in order to prevent diminution or enlargement of the benefits intended to be conferred, in such manner as the Committee determines is equitably required by the changes or events.

Eligibility for Awards

If Plan goals are met, to be eligible for an award under the Plan, a participant must comply with the 2019 LTPP. In addition, except as provided in the 2019 LTPP, the participant must be actively employed by the Company on the last day of the fiscal year, except that,

- Participants who Retire shall be eligible for a prorated award based on date of Retirement (calculated using number of days' participation in the Plan).
- Participants who incur a Separation from Service due to death or disability shall be eligible for a prorated award based on date of Separation from Service (calculated using number of days' participation in the Plan).

Plan awards are intended to create an incentive for participants to act in the Company's best interests. Notwithstanding anything in these terms to the contrary,

- An award may be terminated or rescinded, and, if applicable, the participant may be required immediately to repay an award issued within the previous twelve months, if the Committee determines, in good faith, that during the participant's employment with the Company or during the period ending twelve months following the participant's Separation from Service, the participant has committed an act inimical to the Company's interests. Acts inimical to the Company's interests shall include willful inattention to duty; willful violation of the Company's published policies; acts of fraud or dishonesty involving the Company's business; solicitation of the Company's employees, customers or vendors to terminate or alter their relationship with Applied to the Company's detriment; unauthorized use or disclosure of information regarding the Company's business, employees, customers, or vendors; and competition with the Company. All determinations by the Committee shall be effective at the time of the participant's act.
- The Committee may, in its sole discretion, require a participant immediately to repay cash issued pursuant to the award within the previous 36 months (or any proceeds thereof) if (1) Applied restates its historical consolidated financial statements and (2) the Committee determines, in good faith, that (a) the restatement is a result of the participant's, or another executive officer's, willful misconduct that is unethical or illegal, and (b) the participant's earnings pursuant to the award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

The provisions of this section are fundamental terms of the award.

Change in Control

Notwithstanding the foregoing, in the event the participant's employment with Applied is terminated during the fiscal year, following any Change in Control of Applied, either by the participant for Good Reason or by Applied without Cause, then the award shall be deemed to be fully earned at the target incentive value.

In addition, following a Change in Control of Applied, no provision hereof shall operate to limit any economic benefit to which the participant is entitled under this award or the Plan.

Other

These General Terms, together with the 2019 LTPP, govern the Plan. The Committee has the authority to construe the Plan, to establish, amend, and rescind rules and regulations relating to the Plan, and to make all other determinations, in the Committee's judgment, necessary or desirable for the Plan's administration. Except as specifically provided in these General Terms, in the event of any conflict between the provisions of the 2019 LTPP and the General Terms, the provisions of the 2019 LTPP shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in these General Terms shall have the same meanings as set forth in the 2019 LTPP.

The Committee may correct any defect or supply any omission or reconcile any inconsistency with respect to the Plan in the manner and to the extent it shall deem expedient to carry the Plan into effect. All Committee action under these provisions shall be conclusive for all purposes.

The provisions of these terms and conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

The validity, construction, interpretation, and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

Applied has made no warranties or representations to the participant with respect to the tax consequences (including but not limited to income tax consequences) related to the Plan, and the participant has been advised to consult with the participant's attorney, accountant and/or tax advisor regarding the Plan. Moreover, the participant acknowledges that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for the participant.

Performance Shares Terms and Conditions

- 1. Award of Performance Shares.** The Executive Organization & Compensation Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”; together with its subsidiaries and affiliates, the “Company”) may award Performance Shares (the “Award”) to key senior officers of Applied who have broad policy-making functions and who directly contribute to the long-term success and profitability of the Company. The Committee has awarded you an Award with an Effective Date. The terms and conditions are set forth herein (the “Terms”) and together with the Applied Industrial Technologies, Inc. 2019 Long-Term Performance Plan (the “Plan”) govern your rights with respect to the Award. Notwithstanding the foregoing, however, in the event of any conflict between the provisions of the Plan and the Terms, the provisions of the Plan shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in the Terms shall have the same meanings as set forth in the Plan.
 - 2. Rights during Performance Period.** You shall not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise encumber your Award until all conditions with respect to vesting and distribution have been met. Until the issuance of shares of Applied common stock (“Shares”) to you in settlement of your Award has occurred, you shall not be treated as a shareholder with respect to the Shares.
 - 3. Performance Period.** The term “Performance Period” shall mean, for purposes of the Terms, the period from the Effective Date until the third year anniversary of the Effective Date.
 - 4. Vesting.** Subject to the provisions of Sections 5 and 6, your Award will be 100% vested at the end of the Performance Period, in whole or in part based upon the achievement of the performance goals set by the Committee.
 - 5. Separation from Service or Termination of Officer Status.** If, during the Performance Period, you incur a Separation from Service from the Company due to death or Disability (as defined in Section 409A), or due to Retirement, then promptly following the availability of audited financial statements for the final year of the Performance Period, you (or your beneficiary whom you have designated to Applied in writing) shall be entitled to vesting of a portion of the Award (partial years shall be prorated by days) based on Applied’s actual performance relative to the performance goals for the individual years in the Performance Period that elapsed prior to your Separation from Service. In the event, however, that during the Performance Period, you incur a Separation from Service from the Company for any reason other than those specifically set forth above or in Section 6 hereof, then your Award will be forfeited and no amount shall be due or payable to you pursuant to the Award. In addition, if, during the Performance Period, you cease to be an officer of Applied (but remain an employee
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of the Company)), then your Award shall be forfeited and no amount shall be due or payable to you pursuant to the Award.

Because Awards are intended to create an incentive for recipients to act in the Company's best interests, notwithstanding anything in the Terms to the contrary:

(a) Your Award may be terminated or rescinded, and if applicable, you may be required immediately to repay all Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with the Company or during the period ending twelve months following your Separation from Service, you have committed an act inimical to the Company's interests. Acts inimical to the Company's interests shall include willful inattention to duty; willful violation of the Company's published policies; acts of fraud or dishonesty involving the Company's business; solicitation of the Company's employees, customers or vendors to terminate or alter their relationship with Applied to the Company's detriment; unauthorized use or disclosure of information regarding the Company's business, employees, customers, and vendors; and competition with the Company. All determinations by the Committee shall be effective at the time of your act.

(b) The Committee may, in its sole discretion, require you immediately to repay Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous 36 months (or any proceeds thereof) if (I) Applied restates its historical consolidated financial statements and (II) the Committee determines, in good faith, that (x) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (y) your earnings pursuant to the Award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

6. Change in Control. Notwithstanding the provisions of Section 5, in the event your employment with the Company is terminated during the Performance Period and within one year following any Change in Control of Applied either by you for Good Reason or by the Company without Cause, then you shall be entitled to vesting of a portion of the Award based on Applied's actual performance relative to the performance goals for the individual years (partial years shall be prorated by days) in the Performance Period that elapsed prior to your Separation from Service.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled under this Award or the Plan.

7. Settlement of Award. Your Award shall be settled, based upon achieved performance goals, in Shares. Except as specifically provided otherwise in this Section 7, any Shares payable with respect to your Award shall be settled within the 75-day period

after the end of the Performance Period. Notwithstanding the foregoing, in the event that your Award becomes vested due to a Change in Control, your Award shall be settled in Shares within the 75-day period after such vesting. In the event that any such 75-day period begins in one calendar year and ends in another, you shall not have the right to designate the calendar year of payment. Moreover, notwithstanding the foregoing, if you are a Specified Employee, a distribution of Shares, but only to the extent that such distribution is deemed to be deferred compensation under Section 409A, may not be made until within the 30-day period commencing with the first day of the seventh month following the month of any Separation from Service for reasons other than Change in Control, or if earlier, your death, except as may be otherwise permitted under Section 409A.

8. Payments of Taxes. Upon the vesting of the Award, Applied shall withhold Shares from your award for any federal, state or local taxes of any kind required by law to be withheld by the Company attributable to the Award.

9. Discretionary Adjustment Following Certain Events. In the event, during the Performance Period, of (i) a merger, a consolidation, an acquisition or divestiture, the issuance or repurchase of a substantial amount of capital stock, a reorganization or restructuring, or any other transaction or series of transactions, or (ii) asset write-downs, or litigation or claim judgments or settlements, or foreign exchange gains or losses, or (iii) changes in tax laws, accounting principles, or other laws or provisions affecting reported results, or (iv) other items of an unusual nature or infrequent occurrence or non-recurring items, then the Committee, in its sole discretion, may adjust the performance goals upon which the vesting of an Award is conditioned, in order to prevent diminution or enlargement of the benefits intended to be conferred by the Award in such manner as the Committee may determine is equitably required by the changes or events. In the event (a) of a stock dividend or stock split or (b) Shares are changed into or exchanged for a different number or kind of securities of Applied or another entity, then the target Award opportunity shall be equitably adjusted. In the event other changes or events relating to the Shares fundamentally change the value of the Shares, then the Committee may make, in its sole discretion, such adjustments in the terms of the Award as the Committee may determine is equitably required by the change or event.

10. Limitation on Rights. The Award shall not confer upon you any rights whatsoever other than those expressly set forth herein, in the Plan or in policies adopted by the Committee, including without limitation any rights as a shareholder in respect of Shares that may become issuable pursuant to the Award until and unless Applied has issued a certificate or certificates for the Shares. Nothing in the Terms shall (i) interfere with or limit in any way Applied's right to terminate your employment at any time, (ii) confer upon you any right to continued employment with Applied, or (iii) create any contractual or other right to receive additional awards or other Plan benefits in the future.

11. Nonassignability. The Award and the rights granted thereunder are not assignable or transferable, in whole or in part, and may not be otherwise disposed of by you, other than by will or by the laws of descent and distribution.

12. Section 409A Compliance. It is intended that payments under the Award are “short-term deferrals” (as is defined under Section 409A) and, therefore, exempted from coverage under Section 409A, and any interpretations of these Terms shall be consistent with this intent. Notwithstanding such intention, in the event that the Terms, or any portion thereof, and the Award, or any portion thereof, shall be deemed to be governed by Section 409A, such Terms and Award, or portion thereof, shall be interpreted, to the extent applicable, as complying with the provisions of Section 409A.

13. Committee Authority. The Committee shall have conclusive authority, subject to the express provisions of the Plan as in effect from time to time and the Terms, to construe the Terms and the Plan, to establish, amend and rescind rules and regulations relating to the Plan, and to make all other determinations in the Committee’s judgment necessary or desirable for the Plan’s administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or the Terms in the manner and to the extent it deems expedient to carry the Plan into effect. Except as specifically provided herein, the Terms and the Award shall be subject to all of the Plan’s provisions in effect from time to time, which are incorporated herein by reference.

14. Relationship to the Plan. The Terms are subject to the provisions of the Plan and any administrative policies adopted by the Committee. If there is any inconsistency between the Terms and the Plan or such policies, the Plan and the policies, in that order, shall govern.

15. Severability. The provisions of the Terms are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

16. Requirements of Law. The granting of the Award hereunder shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agency, national securities exchange, or automated quotation system as may be required. Notwithstanding any other provision of the Plan or the Terms, Applied shall not be obligated to issue, deliver or transfer any Shares, make any distribution of benefits under the Plan or the Terms, or take any other action, unless such delivery, distribution, or action, unless such delivery, distribution, or action is in compliance with all applicable laws, rules and regulations (including, but not limited to, the requirements of the Securities Act and Section 409A).

17. Successors. All obligations of Applied under the Terms with respect to the Award shall be binding upon any successor to Applied, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all, or substantially all, of the business and/or assets of Applied. Notwithstanding the provisions of Section 4, in the event any such successor does not

agree to be bound by the Terms, the Award granted hereunder shall immediately become vested.

18. Applicable Law. The validity, construction, interpretation and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

19. Tax Matters. Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the Award or the issuance, transfer or disposition of Shares pursuant to the Award, and you have been advised to consult with your attorney, accountant and/or tax advisor regarding this Award. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

Restricted Stock Units Terms and Conditions

1. Award of Restricted Stock Units. The Executive Organization & Compensation Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”) on the Grant Date awarded you a certain number of restricted stock units (the “RSUs”). Such award represents your right to receive an equal number of shares of Applied common stock (“Shares”), issuable from Applied’s available treasury shares, upon the expiration of the Restriction Period (as defined in Section 3 hereof). The terms and conditions of the RSUs as set forth herein (the “Terms”) together with the Applied Industrial Technologies, Inc. 2019 Long-Term Performance Plan (the “Plan”) govern your rights with respect to the RSUs. Notwithstanding the foregoing, however, in the event of any conflict between the provisions of the Plan and the Terms, the provisions of the Plan shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in the Terms shall have the same meanings as set forth in the Plan.

2. Rights during Restriction Period. You shall not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise encumber or dispose of the RSUs until all conditions with respect to vesting and distribution have been met. Upon vesting in the RSUs as of the end of the Restriction Period, subject to applicable tax withholding, you shall be entitled to receive a cash payment equal to the dividends and cash distributions paid on Shares underlying the RSUs during the Restriction Period, without interest (“Dividend Equivalents”); provided, however, that no Dividend Equivalents shall be payable to you with respect to dividends or distributions the record date for which occurs on or after (i) the date on which the Restriction Period has expired, or (ii) the date on which issuance of Shares to you has occurred. You shall not have voting rights with respect to the RSUs and, until the issuance of Shares in settlement of the RSUs, you shall not be treated as a shareholder with respect to the Shares.

3. Restriction Period. The term “Restriction Period” means the period from the Grant Date until the 3rd anniversary of the Grant Date.

4. Vesting. Except as specifically provided otherwise in Sections 5 and 6, you will be 100% vested in the RSUs as of the end of the Restriction Period; provided, however, that in the event you Retire during the Restriction Period, you will be vested at the end of the Restriction Period in a pro rata portion of the RSUs equal to a fraction the numerator of which is the number of days elapsed in the Restriction Period prior to the date of such Separation from Service and the denominator of which is the full number of days in the Restriction Period.

5. Separation from Service. Notwithstanding the provisions of Section 4, but subject to the provisions of paragraphs (a) and (b) hereunder, if, during the Restriction Period, you incur a Separation from Service (as defined in Section 409A) from Applied due to death or Disability (as defined under Section 409A) then (i) you (or your beneficiary designated to Applied in writing) shall be vested in a pro rata portion of the RSUs equal to a fraction the numerator of which is the number of days elapsed in the Restriction Period prior to the date of such Separation from Service and the denominator of which is the full number of days in the Restriction Period, and (ii) the remaining RSUs shall be deemed forfeited. In the event, however, that you, during the Restriction Period, incur a Separation from Service from Applied for any reason other than (i) those specifically set forth above or in Section 6, or (ii) Retirement, then the entire award of RSUs shall be forfeited and no amount shall be due or payable to you under the Terms.

Because awards of RSUs are intended to create an incentive for recipients to act in Applied's best interests, notwithstanding anything in the Terms to the contrary:

(a) Your award of RSUs may be terminated or rescinded, and if applicable, you may be required immediately to repay all Shares (and any dividends, distributions, and Dividend Equivalents thereon) issued pursuant to the award of RSUs hereunder within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with Applied or during the period ending twelve months following your Separation from Service, you committed an act inimical to Applied's interests. Acts inimical to Applied's interest shall include willful inattention to duty; willful violation of Applied's published policies; acts of fraud or dishonesty involving Applied's business; solicitation of Applied's employees, customers, or vendors to terminate or alter their relationship with Applied to Applied's detriment; unauthorized use or disclosure of information regarding Applied's business, employees, customers, or vendors; and competition with Applied. All determinations by the Committee shall be effective as of the time of your act.

(b) The Committee may, in its sole discretion, require you immediately to repay all Shares (and any dividends, distributions, and Dividend Equivalents thereon) issued pursuant to the award of RSUs hereunder within the previous 36 months (or any proceeds thereof) if (I) Applied restates its historical consolidated financial statements and (II) the Committee determines, in good faith, that (x) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (y) your earnings pursuant to the award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

6. Change in Control. Notwithstanding the provisions of Sections 4 and 5, in the event your employment with Applied is terminated during the Restriction Period and within the one-year period immediately following any Change in Control of Applied either by you for Good Reason or by Applied without Cause, then all of the RSUs awarded hereunder to you shall be 100% vested.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled with respect to the RSUs or under the Plan.

7. Adjustment of RSUs 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 RSUs will 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 RSUs 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 RSUs or other securities into which the RSUs may be settled, as the Committee, in its sole discretion, may determine is equitable, and such adjustment so made shall be effective and binding for all purposes.

8. Settlement of Award and Distribution of Shares. Your award of RSUs hereunder shall be settled in whole Shares. Fractional Shares shall not be issuable hereunder and any fractional Share shall be disregarded. Except as specifically provided otherwise in this Section 8, Shares subject to

an award of RSUs hereunder shall only be issued and distributed to you in a single sum of whole Shares within the 75-day period after the end of the Restriction Period. Notwithstanding the foregoing, in the event that your RSUs become vested due to death, Disability or a Change in Control, the award of RSUs hereunder shall be settled in a single sum of whole Shares within the 75-day period after such vesting. In the event that any such 75-day period begins in one calendar year and ends in another, you (or your beneficiary as the case may be) shall not have the right to designate the calendar year of payment. Moreover, notwithstanding the foregoing, if you are a Specified Employee, a distribution of Shares may not be made until within the 30-day period commencing with the first day of the seventh month following the month of any Separation from Service for reasons other than Disability or a Change in Control, or, if earlier, your death, except as maybe otherwise permitted under Section 409A.

9. Payment of Taxes. Upon the vesting of the RSUs, Applied shall withhold, in its sole discretion, from (i) any cash payment to be made to you from your award (including on account of any Dividend Equivalents, dividends, and cash distributions) or (ii) any Shares issuable from your award (or both (i) and (ii)), for any federal, state or local taxes of any kind required by law to be withheld by the Company attributable to the award.

10. Section 409A Compliance. To the extent applicable, it is intended the Terms and the award of RSUs shall comply with or be exempt from the provisions of Section 409A and any interpretations of these terms shall be consistent with such intent.

11. 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 the Terms, to construe the 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 the 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 (the "Board") 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 .

12. Relationship to the Plan. The Terms are subject to the provisions of the Plan and any administrative policies adopted by the Committee. If there is any inconsistency between the Terms and the Plan or such policies, the Plan and the policies, in that order, shall govern. References in the Terms to Applied shall include Applied's subsidiaries.

13. Severability. The provisions of the Terms are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

14. No Guarantee of Employment. The Terms and your award shall not confer upon you any rights whatsoever other than those expressly set forth herein, in the Plan or in policies adopted by the Committee. Nothing in the Terms shall (i) interfere with or limit in any way Applied's right to terminate your employment at any time, (ii) confer upon you any right to continued employment with Applied, or (iii) create any contractual or other right to receive additional awards or other Plan benefits in the future.

15. Requirements of Law. The granting of the RSUs hereunder shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agency, national securities exchange, or automated quotation system may be required. Notwithstanding any other provision of the Plan or the Terms, Applied shall not be obligated to issue, deliver or transfer any Shares, make any distribution of benefits under the Plan or the Terms, or take any other action, unless such delivery, distribution, or action, unless such delivery, distribution, or action is in compliance with all applicable laws, rules and regulations (including, but not limited to, the requirements of the Securities Act and Section 409A).

16. Successors. All obligations of Applied under the Terms with respect to the RSUs shall be binding upon any successor to Applied, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all, or substantially all, of the business and/or assets of Applied. Notwithstanding the provisions of Section 4, in the event any such successor does not agree to be bound by the Terms, the RSUs granted hereunder shall immediately become vested.

17. Applicable Law. The validity, construction, interpretation and enforceability of these Terms shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

18. Tax Matters. Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the RSUs or the issuance, transfer or disposition of Shares pursuant to the RSUs, and you have been advised to consult with your attorney, accountant and/or tax advisor regarding the RSUs. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

Stock Appreciation Rights Award Terms and Conditions

Your Stock Appreciation Rights Award (the “SARs” or the “Award”) is made by Applied Industrial Technologies, Inc., an Ohio corporation (“Applied”). For purposes of these terms and conditions, employment by a parent, subsidiary, or an affiliate of Applied shall be considered employment by Applied.

1. Grant of SARs; Exercisability. The Award is governed by Applied’s 2019 Long-Term Performance Plan (the “Plan”), including the policies adopted by the Executive Organization & Compensation Committee of Applied’s Board of Directors (the “Committee”) under the Plan, and these terms and conditions. Upon valid exercise, the Award entitles you to receive such number of shares of Applied common stock (“Shares”) that have a fair market value equal to the difference (if positive) between the fair market value of (a) a Share on the date of exercise over (b) the Base Price, multiplied by (c) the number of Shares with respect to which the Award is exercised, subject to the following conditions:

(a) Except as otherwise provided in Sections 2 and 7, below, your Award will be exercisable only if and after you have remained in Applied’s continuous employ from the Award’s grant date (the “Grant Date”) to the vesting date of all or the specified portion of your Award. Your Award vests with respect to only 25% of the aggregate number of Shares to which it relates after one year of continuous employment from the Grant Date, which percentage increases to 50% after two years, to 75% after three years, and to 100% after four years of continuous employment from the Grant Date.

(b) Except as otherwise provided, your Award shall expire at the end of the 10-year period commencing with the Grant Date (the “Term”), or upon such earlier expiration or your Separation from Service date as may be provided by Sections 2 and 7 below. The SARs shall not be exercisable thereafter.

2. Termination of SARs. If, during the Term, you incur a Separation from Service from Applied for any reason, you may exercise your SARs, to the extent you were entitled to exercise them immediately prior to your Separation from Service, at any time within three months after your Separation from Service (but only during the Term); *provided, however*, that (i) if you Retire, then the SARs shall become fully exercisable and, at any time within three years after your Retirement (but only during the Term), you may exercise the SARs; (ii) if you incur a Separation from Service due to your permanent and total disability, then the SARs shall become fully exercisable and, at any time within one year after your Separation from Service (but only during the Term), you may exercise the SARs; and (iii) if you die while employed by Applied, then the SARs shall become fully exercisable and, at any time within one year after your death (but only during the Term), the person entitled by will or applicable law to exercise the SARs may do so.

Awards are intended to create an incentive for recipients to act in Applied’s best interests.

Notwithstanding anything in these terms to the contrary,

(a) Your Award may be terminated or rescinded, and if applicable, you may be required to immediately repay all Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous twelve months (or any proceeds thereof), if the Committee determines, in good faith, that during your employment with Applied or during the period ending twelve months following your Separation from Service, you have committed an act inimical to Applied’s interests. Acts inimical to Applied’s interest shall include willful inattention to duty; willful violation of Applied’s published policies; acts of fraud or dishonesty involving Applied’s business; solicitation of Applied’s employees, customers or vendors to terminate or alter their relationship with Applied to Applied’s detriment; unauthorized use or disclosure of

information regarding Applied's business, employees, customers, or vendors; and competition with Applied. All determinations by the Committee shall be effective at the time of your act.

(b) The Committee may, in its sole discretion, require you immediately to repay Shares (and any dividends and distributions thereon) issued pursuant to the Award within the previous 36 months (or any proceeds thereof) if (x) Applied restates its historical consolidated financial statements and (y) the Committee determines, in good faith, that (I) the restatement is a result of your, or another executive officer's, willful misconduct that is unethical or illegal, and (II) your earnings pursuant to the Award were based on materially inaccurate financial statements or materially inaccurate performance metrics that were invalidated by the restatement.

The provisions of this section are a fundamental term of the Award.

3. Method of Exercise; Rights of Holder. During your life, your Award may be exercised only by you, your guardian, or legal representative. Upon your death, your Award may be exercised by the person entitled by will or by the laws of descent and distribution.

Your SARs may be exercised by delivering to Applied at its principal executive offices (directed to the attention of the Chief Financial Officer or Corporate Secretary) a written notice (which may include facsimile transmission or electronic mail), signed by you or such other person entitled to exercise the SARs, of the election to exercise the SARs and stating the number of Shares as to which the SARs are being exercised. The SARs shall be deemed exercised as of the date Applied receives the notice. If the SARs are exercised, as provided herein, by any person other than you, the notice shall be accompanied by appropriate evidence of that person's right to exercise the SARs. As a condition to your valid exercise of the SARs, you hereby consent to Applied withholding from the Shares issuable upon exercise (if any), such number of Shares the fair market value of which Applied determines to be equal to the amount required to be withheld pursuant to applicable federal, state or local law, including tax withholding requirements. Promptly following the proper exercise of the SARs, Applied shall issue in the name of the person exercising the SARs, a certificate representing the Shares due hereunder. Your SARs may be exercised only with respect to a whole number of Shares, and may not be exercised in fractional amounts.

Notwithstanding the foregoing and the restrictions on exercise contained in Section 2, if, in the event your employment with Applied is terminated within the one-year period immediately following any Change in Control of Applied either by you for Good Reason or by Applied without Cause, then your SARs then outstanding shall become fully exercisable as of the date immediately prior to the date of termination of your employment.

In addition, following a Change in Control of Applied, no provision hereof shall operate to reduce any time frame or to limit any economic benefit to which you are entitled under this Award or the Plan, including the occurrence of any of the transactions described in Section 7(a) through (c) below. In the event of the occurrence of any of the transactions described in Section 7(a) through (c), the provisions in Section 7 purporting to terminate your SARs shall not apply and you shall have the option either to exercise your rights under Section 7 or to deem the SARs assumed by the successor within the meaning of Section 424(a) of the Internal Revenue Code, whichever is more favorable to you.

As an SAR holder, you shall have absolutely no rights as a shareholder, whether before or after vesting of all or any portion of your Award.

4. Limitations on Exercise. Your SARs shall not be exercisable if such exercise or the issuance of Shares pursuant to your Award would violate:

- (a) Any state securities law;
- (b) Any registration or other requirements under the Securities Act of 1933, as amended (the “Act”), the Securities Exchange Act of 1934, as amended, or any stock exchange’s listing requirements; or
- (c) Any other legal requirement of any governmental authority.

If your exercise of SARs is prevented by the terms of any of the foregoing subsections, and the Term of the SARs expires, then you may, within 30 days after Applied notifies you that your exercise is no longer prevented by this Section 4, exercise the SARs to the extent they would have been exercisable but for the operation of this Section 4.

Furthermore, if a registration statement with respect to Shares issuable upon exercise of the SARs is not in effect or if Applied’s counsel otherwise deems it necessary or desirable in order to avoid possible violations of the Act, Applied may require, as a condition to its issuance and delivery of certificates for the Shares, the delivery to Applied of a commitment in writing by the person exercising the SARs that (i) at the time of the exercise it is his intention to acquire the Shares for his own account for investment only and not with a view to, or for resale in connection with, the distribution thereof; (ii) the person understands that the Shares may be “restricted securities” as defined in Rule 144 issued under the Act; and (iii) any resale, transfer or other disposition of the Shares will be accomplished only in compliance with Rule 144, the Act, or other or subsequent rules and regulations thereunder. Applied may place on the certificates representing the Shares a legend reflecting that commitment and Applied may refuse to permit transfer of the Shares until it has been furnished evidence satisfactory to it that no violation of the Act or the rules and regulations thereunder would be involved in the transfer.

5. No Guaranty of Employment. The Award is not a guaranty of employment or commitment by Applied of continued employment. Nothing in the Award or these terms and conditions alters, limits or restricts any right Applied would otherwise have to terminate or modify the terms of your employment.

6. Nonassignability. The Award is not assignable or transferable, in whole or in part, and may not be otherwise disposed of by you, other than by will or by the laws of descent and distribution or with the prior written consent of Applied.

7. Liquidation, Dissolution, Merger, Sale of Substantially All Assets. If (a) Applied is to be merged, consolidated or reorganized into or with another entity so that Applied is not the surviving corporation and, immediately after such event, the holders of Shares immediately prior to the event hold, in the aggregate, less than a majority of the combined voting power of the then outstanding securities of the new entity, (b) Applied is to be dissolved or liquidated, or (c) substantially all of Applied’s assets are to be sold, then the Committee shall give you 30 days’ prior written notice. Upon the giving of that notice, if you are employed by Applied, then the SARs shall become fully vested and exercisable. Within the 30-day period (but only during the Term), you shall have the right to exercise your SARs. Thereafter, notwithstanding any other provision of these terms and conditions, the SARs shall expire, unless “assumed” by another corporation within the meaning of Section 424(a) of the Code.

8. Adjustments. In the event (a) of a stock dividend or stock split or (b) the Shares are changed into or exchanged for a different number or kind of securities of Applied or another entity, then the Shares purchasable or the Base Price hereunder shall be equitably adjusted so that the SARs represent the right to acquire Shares or the number and kind of other securities that are economically equivalent to what the Shares would have represented had the SARs been fully exercised immediately preceding such event.

In the event other changes or events relating to the Shares fundamentally change the value of the Shares or securities for which the SARs are exercisable, then the Committee may make, in its sole discretion, such adjustments in the terms of the SARs as the Committee may determine is equitably required by the change or event.

9. Committee Authority. The Committee shall have authority, subject to the Plan's express provisions, to construe these terms and conditions and the Plan, to establish, amend and rescind rules and regulations relating to the Plan, and to make all other determinations in the Committee's judgment necessary or desirable for the Plan's administration. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or these terms and conditions in the manner and to the extent it shall deem expedient to carry the Plan into effect. All Committee action under this Section shall be conclusive for all purposes.

10. Relationship to the Plan. In the event of any inconsistency between these terms and conditions and any provision of the Plan or the Committee's policies, the Plan or the policies shall govern. Terms used but not otherwise defined in these terms and conditions shall have the meaning ascribed them in the Plan. Notwithstanding any provisions hereof, these terms and conditions and the SARs granted shall be subject to all of the Plan's provisions in effect from time to time, which are incorporated herein by reference.

11. Severability. The provisions of these terms and conditions are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

12. Applicable Law. The validity, construction, interpretation and enforceability of these terms and conditions shall be determined and governed by the laws of the State of Ohio without giving effect to the principles of conflicts of law.

13. Tax Matters. Applied has made no warranties or representations to you with respect to the tax consequences (including but not limited to income tax consequences) related to the Award or the issuance, transfer or disposition of Shares pursuant to the Award, and you have been advised to consult with your attorney, accountant and/or tax advisor regarding this Award. Moreover, you acknowledge that Applied has no responsibility to take or refrain from taking any actions in order to achieve a certain tax result for you.

**APPLIED INDUSTRIAL TECHNOLOGIES, INC.
SUPPLEMENTAL DEFINED CONTRIBUTION PLAN**

AMENDMENT NUMBER ONE

WHEREAS, Applied Industrial Technologies, Inc. (the “Company”) maintains the Applied Industrial Technologies, Inc. Supplemental Defined Contribution Plan (the “Plan”) for a select group of its management employees;

WHEREAS, the Company desires to amend the Plan to include automatic pour-over supplemental contributions;

NOW, THEREFORE, pursuant to the power and authority reserved to the Company under Article VIII of the Plan, effective January 1, 2021, the Plan is amended as set forth herein.

1. A new Section 3.4 of the Plan is hereby added to be and read as follows:

“3.4 Automatic Pour-Over Supplemental 401(k) Contributions

A Participant may elect, prior to the commencement of a calendar year, to have Supplemental 401(k) Contributions made to the Plan through reduction of their Compensation for the following calendar year by completing an election form authorizing the Company to continue in place for this Plan the contribution election the Participant made under the Retirement Savings Plan (“RSP”) for the calendar year once contributions to the RSP meet the limit under Internal Revenue Code (“Code”) Section 402(g); provided, however that (i) additional Supplemental 401(k) Contributions made to the Plan under this provision shall not exceed the applicable limit under Code Section 402(g), and (ii) a Participant may not start, change, or stop this contribution election mid-year except as permitted by Code Section 409A.”

2. In all other respects, the Plan shall remain unchanged.

Executed at Cleveland, Ohio, this 26 day of August, 2020.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

By: /s/ Kurt W. Loring

VP - Chief Human Resource Officer

By: /s/ David K. Wells

VP – Chief Financial Officer & Treasurer

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: October 29, 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: October 29, 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 September 30, 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 September 30, 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: October 29, 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.]