

**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, 2023

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 **Cleveland** **Ohio**
(Address of principal executive offices)

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 38,760,009 (no par value) shares of common stock outstanding on October 20, 2023.

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,	
	2023	2022
Net sales	\$ 1,095,188	\$ 1,062,405
Cost of sales	770,106	755,622
Gross profit	325,082	306,783
Selling, distribution and administrative expense, including depreciation	204,402	200,251
Operating income	120,680	106,532
Interest expense, net	1,320	6,480
Other expense, net	431	1,008
Income before income taxes	118,929	99,044
Income tax expense	25,103	22,164
Net income	\$ 93,826	\$ 76,880
Net income per share - basic	\$ 2.42	\$ 2.00
Net income per share - diluted	\$ 2.39	\$ 1.97
Weighted average common shares outstanding for basic computation	38,700	38,526
Dilutive effect of potential common shares	610	585
Weighted average common shares outstanding for diluted computation	39,310	39,111

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,	
	2023	2022
Net income per the condensed statements of consolidated income	\$ 93,826	\$ 76,880
Other comprehensive (loss) income, before tax:		
Foreign currency translation adjustments	(6,270)	(11,437)
Post-employment benefits:		
Reclassification of net actuarial (gains) losses and prior service cost into other expense, net and included in net periodic pension costs	(30)	8
Unrealized gain on cash flow hedge	3,634	12,310
Reclassification of interest from cash flow hedge into interest expense, net	(4,638)	796
Total other comprehensive (loss) income, before tax	(7,304)	1,677
Income tax expense related to items of other comprehensive (loss) income	(230)	3,312
Other comprehensive loss, net of tax	(7,074)	(1,635)
Comprehensive income, net of tax	<u>\$ 86,752</u>	<u>\$ 75,245</u>

See notes to condensed consolidated financial statements.

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

	September 30, 2023	June 30, 2023
ASSETS		
Current assets		
Cash and cash equivalents	\$ 360,415	\$ 344,036
Accounts receivable, net	694,922	708,395
Inventories	507,641	501,184
Other current assets	81,287	93,192
Total current assets	1,644,265	1,646,807
Property, less accumulated depreciation of \$233,340 and \$229,041	113,704	115,041
Operating lease assets, net	102,144	100,677
Identifiable intangibles, net	237,102	235,549
Goodwill	586,478	578,418
Other assets	66,818	66,840
TOTAL ASSETS	\$ 2,750,511	\$ 2,743,332
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 259,790	\$ 301,685
Current portion of long-term debt	25,171	25,170
Compensation and related benefits	62,448	98,740
Other current liabilities	119,149	114,749
Total current liabilities	466,558	540,344
Long-term debt	596,883	596,926
Other liabilities	150,954	147,625
TOTAL LIABILITIES	1,214,395	1,284,895
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	185,986	188,646
Retained earnings	1,886,432	1,792,632
Treasury shares—at cost (15,458 and 15,556 shares, respectively)	(483,932)	(477,545)
Accumulated other comprehensive loss	(62,370)	(55,296)
TOTAL SHAREHOLDERS' EQUITY	1,536,116	1,458,437
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,750,511	\$ 2,743,332

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,	
	2023	2022
Cash Flows from Operating Activities		
Net income	\$ 93,826	\$ 76,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	5,717	5,481
Amortization of intangibles	7,393	7,705
Provision for losses on accounts receivable	867	3,994
Amortization of stock appreciation rights and options	844	1,424
Other share-based compensation expense	1,976	1,939
Changes in operating assets and liabilities, net of acquisitions	(45,245)	(72,071)
Other, net	831	591
Net Cash provided by Operating Activities	66,209	25,943
Cash Flows from Investing Activities		
Net cash paid for acquisitions, net of cash acquired	(21,440)	—
Capital expenditures	(4,340)	(5,554)
Proceeds from property sales	123	56
Net Cash used in Investing Activities	(25,657)	(5,498)
Cash Flows from Financing Activities		
Long-term debt repayments	(62)	(40,061)
Purchases of treasury shares	—	(716)
Interest rate swap settlement receipts	3,558	294
Dividends paid	(13,551)	(13,100)
Acquisition holdback payments	(562)	(660)
Exercise of stock appreciation rights and options	—	126
Taxes paid for shares withheld for equity awards	(11,866)	(1,401)
Net Cash used in Financing Activities	(22,483)	(55,518)
Effect of Exchange Rate Changes on Cash	(1,690)	(1,826)
Increase (decrease) in Cash and Cash Equivalents	16,379	(36,899)
Cash and Cash Equivalents at Beginning of Period	344,036	184,474
Cash and Cash Equivalents at End of Period	\$ 360,415	\$ 147,575

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, 2023	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at June 30, 2023	38,657	\$ 10,000	\$ 188,646	\$ 1,792,632	\$ (477,545)	\$ (55,296)	\$ 1,458,437
Net income				93,826			93,826
Other comprehensive loss						(7,074)	(7,074)
Cash dividends — \$0.35 per share				(23)			(23)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	32		(1,681)		(1,912)		(3,593)
Performance share awards	54		(3,072)		(3,487)		(6,559)
Restricted stock units	13		(726)		(910)		(1,636)
Compensation expense — stock appreciation rights and options			844				844
Other share-based compensation expense			1,976				1,976
Other	(1)		(1)	(3)	(78)		(82)
Balance at September 30, 2023	38,755	\$ 10,000	\$ 185,986	\$ 1,886,432	\$ (483,932)	\$ (62,370)	\$ 1,536,116

For the Period Ended September 30, 2022	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at June 30, 2022	38,499	\$ 10,000	\$ 183,822	\$ 1,499,676	\$ (471,848)	\$ (72,295)	\$ 1,149,355
Net income				76,880			76,880
Other comprehensive loss						(1,635)	(1,635)
Cash dividends — \$0.34 per share							
Purchases of common stock for treasury	(8)				(716)		(716)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	21		(860)		(366)		(1,226)
Performance share awards	23		(1,290)		(758)		(2,048)
Restricted stock units	33		(1,668)		(902)		(2,570)
Compensation expense — stock appreciation rights and options			1,424				1,424
Other share-based compensation expense			1,939				1,939
Other	3		(19)	(5)	61		37
Balance at September 30, 2022	38,571	\$ 10,000	\$ 183,348	\$ 1,576,551	\$ (474,529)	\$ (73,930)	\$ 1,221,440

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, 2023, and the results of its operations and its cash flows for the three month periods ended September 30, 2023 and 2022, have been included. The condensed consolidated balance sheet as of June 30, 2023 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, 2023.

Operating results for the three month period ended September 30, 2023 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2024.

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. LIFO expense of \$4,591 and \$9,060 in the three months ended September 30, 2023 and 2022, respectively, is recorded in cost of sales in the condensed statements of consolidated income.

Recently Issued Accounting Guidance

In July 2023, the SEC issued a final rule to require registrants to provide enhanced and standardized disclosures regarding cybersecurity risk management, strategy, governance, and incidents. The final rule establishes new requirements related to material cybersecurity incidents, which would need to be disclosed on Form 8-K within four business days of their being deemed material, and annual disclosures in Form 10-K pertaining to (1) cybersecurity risk management and strategy, (2) management's role in assessing and managing material risks from cybersecurity threats, and (3) the board of directors' oversight of cybersecurity risks. The Form 10-K disclosures will be due beginning with annual reports for fiscal years ending on or after December 15, 2023, and the Form 8-K disclosures will be due beginning December 18, 2023. The Company will comply with the disclosure requirements set forth in the final rule as each becomes effective.

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, 2023 and 2022. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

	Three Months Ended September 30,					
	2023			2022		
	Service Center Based Distribution	Engineered Solutions	Total	Service Center Based Distribution	Engineered Solutions	Total
Geographic Areas:						
United States	\$ 617,262	\$ 342,096	\$ 959,358	\$ 584,880	\$ 336,609	\$ 921,489
Canada	75,300	—	75,300	79,770	—	79,770
Other countries	53,971	6,559	60,530	53,338	7,808	61,146
Total	\$ 746,533	\$ 348,655	\$ 1,095,188	\$ 717,988	\$ 344,417	\$ 1,062,405

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

The following tables present the Company's percentage of revenue by reportable segment and major customer industry for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,					
	2023			2022		
	Service Center Based Distribution	Engineered Solutions	Total	Service Center Based Distribution	Engineered Solutions	Total
General Industry	34.7 %	37.4 %	35.5 %	34.4 %	39.9 %	36.1 %
Industrial Machinery	8.9 %	25.2 %	14.1 %	9.9 %	27.1 %	15.5 %
Food	13.7 %	3.0 %	10.3 %	12.8 %	2.8 %	9.6 %
Metals	10.7 %	8.1 %	9.9 %	11.0 %	7.9 %	10.0 %
Forest Products	12.5 %	3.8 %	9.7 %	11.4 %	2.6 %	8.6 %
Chem/Petrochem	2.7 %	16.1 %	7.0 %	3.0 %	13.8 %	6.5 %
Cement & Aggregate	7.1 %	1.2 %	5.2 %	7.8 %	1.5 %	5.7 %
Oil & Gas	6.0 %	1.6 %	4.6 %	5.7 %	1.3 %	4.3 %
Transportation	3.7 %	3.6 %	3.7 %	4.0 %	3.1 %	3.7 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

The following tables present the Company's percentage of revenue by reportable segment and product line for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30,					
	2023			2022		
	Service Center Based Distribution	Engineered Solutions	Total	Service Center Based Distribution	Engineered Solutions	Total
Power Transmission	37.6 %	10.1 %	28.9 %	37.4 %	10.1 %	28.6 %
Fluid Power	14.1 %	38.7 %	21.9 %	12.9 %	35.5 %	20.2 %
General Maintenance, Hose Products & Other	21.3 %	16.3 %	19.8 %	21.6 %	15.3 %	19.5 %
Bearings, Linear & Seals	27.0 %	0.5 %	18.5 %	28.1 %	0.3 %	19.1 %
Specialty Flow Control	— %	34.4 %	10.9 %	— %	38.8 %	12.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Contract Assets

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

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

	September 30, 2023	June 30, 2023	\$ Change	% Change
Contract assets	\$ 13,085	\$ 17,911	(4,826)	(26.9)%

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.

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

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 2024 Acquisitions

On September 1, 2023, the Company acquired substantially all of the net assets of Bearing Distributors, Inc. (BDI), a Columbia, South Carolina based provider of bearings, power transmission, industrial motion, and related service and repair capabilities. BDI is included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$18,000, net tangible assets acquired were \$4,327, and intangible assets including goodwill were \$13,673 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase price includes \$1,800 of acquisition holdback payments, which are included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of September 30, 2023, and which will be paid on the first and second anniversaries of the acquisition date with interest at a fixed rate of 3.0% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

On August 1, 2023, the Company acquired substantially all of the net assets of Cangro Industries, Inc. (Cangro), a Farmingdale, New York based provider of bearings, power transmission, industrial motion, and related service and repair capabilities. Cangro is included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$6,219, net tangible assets acquired were \$2,175, and intangible assets including goodwill were \$4,044 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase price includes \$930 of acquisition holdback payments, which are included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of September 30, 2023, and which will be paid on the first, second, and third anniversaries of the acquisition date with interest at a fixed rate of 1.0% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

Fiscal 2023 Acquisitions

On March 31, 2023, the Company acquired substantially all of the net assets of Advanced Motion Systems Inc. (AMS), a western New York based provider of automation products, services, and engineered solutions focused on a full range of machine vision, robotics, and motion control products and technologies. AMS is included in the Engineered Solutions segment. The purchase price for the acquisition was \$10,118, net tangible assets acquired were \$1,768, and intangible assets including goodwill were \$8,350 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

On November 1, 2022, the Company acquired substantially all of the net assets of Automation, Inc., a Minneapolis, Minnesota based provider of automation products, services, and engineered solutions focused on machine vision, collaborative and mobile robotics, motion control, intelligent sensors, pneumatics, and other related products and solutions. Automation, Inc. is included in the Engineered Solutions segment. The purchase price for the acquisition was \$25,617, net tangible assets acquired were \$3,639, and intangible assets including goodwill were \$21,978 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. 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 Engineered Solutions segment for the fiscal year ended June 30, 2023 and the three month period ended September 30, 2023 are as follows:

	Service Center Based Distribution	Engineered Solutions	Total
Balance at June 30, 2022	\$ 211,010	\$ 352,195	\$ 563,205
Goodwill acquired during the year	—	14,517	14,517
Other, primarily currency translation	221	475	696
Balance at June 30, 2023	211,231	367,187	578,418
Goodwill acquired/adjusted during the period	7,486	1,249	8,735
Other, primarily currency translation	(675)	—	(675)
Balance at September 30, 2023	\$ 218,042	\$ 368,436	\$ 586,478

During the first quarter of fiscal 2024, the Company recorded an adjustment to the preliminary estimated fair value of intangible assets related to the AMS acquisition. The fair value of the trade name was reduced by \$1,249, with a corresponding increase to goodwill of \$1,249.

The Company has eight (8) reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2023. The Company concluded that all of the reporting units' fair values exceeded their carrying amounts by at least 20% as of January 1, 2023.

At September 30, 2023 and June 30, 2023, accumulated goodwill impairment losses subsequent to fiscal year 2002 totaled \$64,794 related to the Service Center Based Distribution segment and \$167,605 related to the Engineered Solutions 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, 2023	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 371,613	\$ 193,915	\$ 177,698
Trade names	91,006	33,764	57,242
Vendor relationships	1,931	1,926	5
Other	3,446	1,289	2,157
Total Identifiable Intangibles	\$ 467,996	\$ 230,894	\$ 237,102

June 30, 2023	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 364,572	\$ 188,804	\$ 175,768
Trade names	108,301	50,823	57,478
Vendor relationships	9,861	9,744	117
Other	3,347	1,161	2,186
Total Identifiable Intangibles	\$ 486,081	\$ 250,532	\$ 235,549

Fully amortized amounts are written off.

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

During the three month period ended September 30, 2023, the Company acquired identifiable intangible assets with a preliminary acquisition cost allocation and weighted-average life as follows:

	Acquisition Cost Allocation	Weighted-Average life
Customer relationships	\$ 7,471	20.0
Trade names	2,660	15.0
Other	100	5.0
Total Identifiable Intangibles	<u>\$ 10,231</u>	<u>18.5</u>

Identifiable intangible assets with finite lives are reviewed for impairment when changes in conditions indicate carrying value may not be recoverable.

Estimated future amortization expense by fiscal year (based on the Company's identifiable intangible assets as of September 30, 2023) for the next five years is as follows: \$20,500 for the remainder of 2024, \$25,900 for 2025, \$24,100 for 2026, \$22,400 for 2027, \$20,700 for 2028 and \$19,300 for 2029.

5. DEBT

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

	September 30, 2023	June 30, 2023
Revolving credit facility	\$ 383,592	\$ 383,592
Trade receivable securitization facility	188,300	188,300
Series D notes	25,000	25,000
Series E notes	25,000	25,000
Other	294	356
Total debt	\$ 622,186	\$ 622,248
Less: unamortized debt issuance costs	132	152
	<u>\$ 622,054</u>	<u>\$ 622,096</u>

Revolving Credit Facility & Term Loan

In December 2021, the Company entered into a new revolving credit facility with a group of banks to refinance the existing credit facility as well as provide funds for ongoing working capital and other general corporate purposes. The revolving credit facility provides a \$900,000 unsecured revolving credit facility and an uncommitted accordion feature which allows the Company to request an increase in the borrowing commitments, or incremental term loans, under the credit facility in aggregate principal amounts of up to \$500,000. In May 2023, the Company and the administrative agent entered into an amendment to the credit facility to replace LIBOR as a reference rate available for use in the computation of interest and replace it with SOFR. Borrowings under this agreement bear interest, at the Company's election, at either the base rate plus a margin that ranges from 0 to 55 basis points based on net leverage ratio or SOFR plus a margin that ranges from 80 to 155 basis points based on the net leverage ratio. Unused lines under this facility, net of outstanding letters of credit of \$200 to secure certain insurance obligations, totaled \$516,208 at September 30, 2023 and June 30, 2023, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the revolving credit facility was 6.33% and 6.11% as of September 30, 2023 and June 30, 2023, respectively.

Additionally, the Company had letters of credit outstanding with separate banks, not associated with the revolving credit agreement, in the amount of \$4,046 as of September 30, 2023 and June 30, 2023 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"). On March 26, 2021, the Company amended the AR Securitization Facility to expand the eligible receivables, which increased the maximum availability to \$250,000 and increased the drawn fees on the AR Securitization Facility to 0.98% per year. On August 4, 2023, the Company amended the AR Securitization Facility, extended the term to August 4, 2026, and reduced the drawn fees to 0.90% per year. Availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being

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transferred and, therefore, at certain times, we may not be able to fully access the \$250,000 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 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. In May 2023, the Company entered into an amendment to the AR Securitization Facility to replace LIBOR as a reference rate available for use in the computation of interest and replace it with SOFR, therefore borrowings under this facility carry variable interest rates tied to SOFR. The interest rate on the AR Securitization Facility as of September 30, 2023 and June 30, 2023 was 6.32% and 6.16%, respectively.

Unsecured Shelf Facility

At September 30, 2023 and June 30, 2023, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$50,000. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series D" notes have a remaining principal amount of \$25,000, carry a fixed interest rate of 3.21%, and are due on October 31, 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.

Other Long-Term Borrowing

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 November 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 notional amount declines over time. 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. During the quarter ended December 31, 2020, the Company completed a transaction to amend and extend the interest rate swap agreement which resulted in an extension of the maturity date by an additional three years and a decrease of the weighted average fixed pay rate from 2.61% to 1.63%. The pay-fixed interest rate swap is considered a hybrid instrument with a financing component and an embedded at-market derivative that was designated as a cash flow hedge. In May 2023, the Company entered into bilateral agreements with its swap counterparties to transition its interest rate swap agreements to SOFR, and further decreased the weighted average fixed pay rate to 1.58%. The Company made various Accounting Standards Codification Topic 848 elections related to changes in critical terms of the hedging relationship due to reference rate

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reform to not result in a dedesignation of the hedging relationship. As of May 31, 2023, the Company's interest rate swap agreement was indexed to SOFR.

The interest rate swap converted \$384,000 of variable rate debt to a rate of 2.59% as of September 30, 2023 and June 30, 2023. The fair value (Level 2 in the fair value hierarchy) of the interest rate cash flow hedge was \$26,979 and \$27,044 as of September 30, 2023 and June 30, 2023, respectively, which is included in other current assets and other assets in the condensed consolidated balance sheet. Amounts reclassified from other comprehensive income, before tax, to interest expense, net totaled \$(4,638) and \$796 for the three months ended September 30, 2023 and 2022, respectively.

7. FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at September 30, 2023 and June 30, 2023 totaled \$18,732 and \$18,637, 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, 2023 and June 30, 2023, 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 and the AR Securitization Facility contain variable interest rates and their carrying values approximate fair value (Level 2 in the fair value hierarchy).

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, 2023			
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at June 30, 2023	\$ (83,099)	\$ (197)	\$ 28,000	\$ (55,296)
Other comprehensive (loss) income	(6,292)	—	2,744	(3,548)
Amounts reclassified from accumulated other comprehensive (loss) income	—	(24)	(3,502)	(3,526)
Net current-period other comprehensive (loss) income	(6,292)	(24)	(758)	(7,074)
Balance at September 30, 2023	<u>\$ (89,391)</u>	<u>\$ (221)</u>	<u>\$ 27,242</u>	<u>\$ (62,370)</u>

	Three Months Ended September 30, 2022			
	Foreign currency translation adjustment	Post-employment benefits	Cash flow hedge	Total Accumulated other comprehensive (loss) income
Balance at June 30, 2022	\$ (90,738)	\$ (1,303)	\$ 19,746	\$ (72,295)
Other comprehensive (loss) income	(11,521)	—	9,280	(2,241)
Amounts reclassified from accumulated other comprehensive (loss) income	—	6	600	606
Net current-period other comprehensive (loss) income	(11,521)	6	9,880	(1,635)
Balance at September 30, 2022	<u>\$ (102,259)</u>	<u>\$ (1,297)</u>	<u>\$ 29,626</u>	<u>\$ (73,930)</u>

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Other Comprehensive Loss

Details of other comprehensive loss are as follows:

	Three Months Ended September 30,					
	2023			2022		
	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount	Pre-Tax Amount	Tax Expense	Net Amount
Foreign currency translation adjustments	\$ (6,270)	\$ 22	\$ (6,292)	\$ (11,437)	\$ 84	\$ (11,521)
Post-employment benefits:						
Reclassification of net actuarial (gains) losses and prior service cost into other expense, net and included in net periodic pension costs	(30)	(6)	(24)	8	2	6
Unrealized gain on cash flow hedge	3,634	890	2,744	12,310	3,030	9,280
Reclassification of interest from cash flow hedge into interest expense, net	(4,638)	(1,136)	(3,502)	796	196	600
Other comprehensive loss	<u>\$ (7,304)</u>	<u>\$ (230)</u>	<u>\$ (7,074)</u>	<u>\$ 1,677</u>	<u>\$ 3,312</u>	<u>\$ (1,635)</u>

Anti-dilutive Common Stock Equivalents

In the three month periods ended September 30, 2023 and September 30, 2022, stock options and stock appreciation rights related to 96 and 185 shares of common stock, respectively, were not included in the computation of diluted earnings per share for the periods then ended as they were anti-dilutive.

9. 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 \$4,591 and \$9,060 in the three months ended September 30, 2023 and 2022, respectively, is recorded in cost of sales in the condensed statements of income, and is included in operating income for the related reportable segment, as the Company allocates LIFO expense between the segments. Intercompany sales, primarily from the Engineered Solutions segment to the Service Center Based Distribution segment, of \$12,318 and \$10,518, in the three months ended September 30, 2023 and 2022, respectively, have been eliminated in the Segment Financial Information tables below.

Three Months Ended	Service Center Based Distribution	Engineered Solutions	Total
September 30, 2023			
Net sales	\$ 746,533	\$ 348,655	\$ 1,095,188
Operating income for reportable segments	96,881	49,595	146,476
Assets used in business	1,749,309	1,001,202	2,750,511
Depreciation and amortization of property	4,436	1,281	5,717
Capital expenditures	3,634	706	4,340
September 30, 2022			
Net sales	\$ 717,988	\$ 344,417	\$ 1,062,405
Operating income for reportable segments	88,809	45,534	134,343
Assets used in business	1,460,896	1,013,278	2,474,174
Depreciation and amortization of property	4,449	1,032	5,481
Capital expenditures	3,565	1,989	5,554

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

	Three Months Ended September 30,	
	2023	2022
Operating income for reportable segments	\$ 146,476	\$ 134,343
Adjustment for:		
Intangible amortization—Service Center Based Distribution	677	758
Intangible amortization—Engineered Solutions	6,716	6,947
Corporate and other expense, net	18,403	20,106
Total operating income	120,680	106,532
Interest expense, net	1,320	6,480
Other expense, net	431	1,008
Income before income taxes	\$ 118,929	\$ 99,044

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.

10. OTHER EXPENSE, NET

Other expense, net consists of the following:

	Three Months Ended September 30,	
	2023	2022
Unrealized loss on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ 553	\$ 827
Foreign currency transactions (gain) loss	(71)	228
Net other periodic post-employment costs	26	143
Life insurance income, net	(137)	(111)
Other, net	60	(79)
Total other expense, net	\$ 431	\$ 1,008

11. SUBSEQUENT EVENTS

We have evaluated events and transactions occurring subsequent to September 30, 2023 through the date the financial statements were issued.

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With more than 6,300 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 2024, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from approximately 589 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, 2023 increased \$32.8 million or 3.1% compared to the prior year quarter, with acquisitions increasing sales by \$11.6 million or 1.1% and favorable foreign currency translation of \$2.5 million increasing sales by 0.2%. Operating margin was 11.0% of sales for the quarter ended September 30, 2023 compared to 10.0% of sales for the same quarter in the prior year. Net income of \$93.8 million increased 22.0% compared to the prior year quarter. The current ratio was 3.5 to 1 at September 30, 2023 and 3.0 to 1 at June 30, 2023.

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 increased since June 2023. The ISM PMI registered 49.0 in September, up from the June 2023 reading of 46.0. The indices for the months during the current quarter, along with the indices for the prior fiscal year end, were as follows:

Month	Index Reading		
	MCU	PMI	IP
September 2023	79.7	49.0	99.8
August 2023	79.5	47.6	99.4
July 2023	79.6	46.4	99.5
June 2023	78.9	46.0	99.1

The number of Company employees was 6,359 at September 30, 2023, 6,223 at June 30, 2023, and 6,067 at September 30, 2022. The number of operating facilities totaled 589 at September 30, 2023, 577 at June 30, 2023 and 567 at September 30, 2022.

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Results of Operations

Three Months Ended September 30, 2023 and 2022

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

	Three Months Ended September 30, As a Percent of Net Sales		Change in \$'s Versus Prior Period - % Increase
	2023	2022	
Net sales	100.0 %	100.0 %	3.1 %
Gross profit	29.7 %	28.9 %	6.0 %
Selling, distribution & administrative expense	18.7 %	18.8 %	2.1 %
Operating income	11.0 %	10.0 %	13.3 %
Net income	8.6 %	7.2 %	22.0 %

During the quarter ended September 30, 2023, sales increased \$32.8 million or 3.1% compared to the prior year quarter, with sales from acquisitions adding \$11.6 million or 1.1% and favorable foreign currency translation accounting for an increase of \$2.5 million or 0.2%. There were 63 selling days in the quarter ended September 30, 2023 and 64 selling days in the quarter ended September 30, 2022. Excluding the impact of businesses acquired and foreign currency translation, sales were up \$18.7 million or 1.8% during the quarter, driven by an increase from operations of 3.4% reflecting steady underlying demand against more difficult comparisons and normalizing customer production activity industry wide, offset by 1.6% due to one less sales day.

The following table shows changes in sales by reportable segment (amounts in millions).

Sales by Reportable Segment	Three Months Ended September 30,		Sales Increase	Amount of change due to		
	2023	2022		Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	\$ 746.5	\$ 718.0	\$ 28.5	\$ 3.9	\$ 2.5	\$ 22.1
Engineered Solutions	348.7	344.4	4.3	7.7	—	(3.4)
Total	\$ 1,095.2	\$ 1,062.4	\$ 32.8	\$ 11.6	\$ 2.5	\$ 18.7

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, increased \$28.5 million or 4.0%. Acquisitions within this segment increased sales by \$3.9 million or 0.6%. Favorable foreign currency translation increased sales by \$2.5 million or 0.3%. Excluding the impact of businesses acquired and foreign currency translation, sales increased \$22.1 million or 3.1%, driven by an increase from operations of 4.7% due to ongoing benefits from market position, sales process initiatives, solid growth across national strategic accounts, as well as benefits from cross-selling actions, offset by 1.6% due to one less sales day.

Sales from our Engineered Solutions segment increased \$4.3 million or 1.2%. Acquisitions within this segment increased sales by \$7.7 million or 2.2%. Excluding the impact of businesses acquired, sales decreased \$3.4 million or 1.0%, driven by a 1.6% decrease due to one less sales day, offset by a 0.6% increase from operations reflecting positive underlying segment demand with support from engineering capabilities, backlog, and a diverse end-market mix despite reduced activity across the technology sector and ongoing supply chain constraints.

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

Sales by Geographic Area	Three Months Ended September 30,		Sales Increase	Amount of change due to		
	2023	2022		Acquisitions	Foreign Currency	Organic Change
United States	\$ 959.4	\$ 921.5	\$ 37.9	\$ 11.6	\$ —	\$ 26.3
Canada	75.3	79.8	(4.5)	—	(2.2)	(2.3)
Other countries	60.5	61.1	(0.6)	—	4.7	(5.3)
Total	\$ 1,095.2	\$ 1,062.4	\$ 32.8	\$ 11.6	\$ 2.5	\$ 18.7

Sales in our U.S. operations were up \$37.9 million or 4.1%, as acquisitions added \$11.6 million or 1.3%. Excluding the impact of businesses acquired, U.S. sales were up \$26.3 million or 2.8%, driven by a 4.4% increase in operations, offset by 1.6% due to one less sales day. Sales from our Canadian operations decreased \$4.5 million or 5.6%. Unfavorable foreign currency translation decreased Canadian sales by \$2.2 million or 2.8%. Excluding the impact of foreign currency translation, Canadian sales were down \$2.3 million or 2.8%, driven by a 1.6% decrease due to one less sales day and a 1.2% decrease from operations. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, decreased \$0.6 million or 1.0% from the prior year. Favorable foreign currency translation increased other country sales by \$4.7 million or 7.6%. Excluding the impact of currency translation, other country sales were down \$5.3 million, or 8.6% during the quarter.

Our gross profit margin was 29.7% in the quarter ended September 30, 2023 compared to 28.9% in the prior period. Gross profit margin expanded year over year primarily reflecting broad-based execution across the business and countermeasures in response to ongoing inflation and supply chain dynamics. The gross profit margin for the current quarter was positively impacted by 41 basis points due to a \$4.5 million decrease in LIFO expense.

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

SD&A	Three Months Ended September 30,		SD&A Increase	Amount of change due to		
	2023	2022		Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 204.4	\$ 200.3	\$ 4.1	\$ 3.3	\$ 0.2	\$ 0.6

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 18.7% of sales in the quarter ended September 30, 2023 compared to 18.8% in the prior year quarter. SD&A increased \$4.1 million or 2.1% compared to the prior year quarter. Changes in foreign currency exchange rates had the effect of increasing SD&A during the quarter ended September 30, 2023 by \$0.2 million or 0.1% compared to the prior year quarter. SD&A from businesses acquired added \$3.3 million or 1.7% of SD&A expenses, including \$0.4 million of intangibles amortization related to acquisitions. Excluding the impact of businesses acquired and the unfavorable currency translation impact, SD&A increased \$0.6 million or 0.3% during the quarter ended September 30, 2023 compared to the prior year quarter.

Operating income increased \$14.1 million or 13.3%, and as a percent of sales increased to 11.0% from 10.0% during the prior year quarter.

Operating income, as a percentage of sales for the Service Center Based Distribution segment increased to 13.0% in the current year quarter from 12.4% in the prior year quarter. Operating income as a percentage of sales for the Engineered Solutions segment increased to 14.2% in the current year quarter from 13.2% in the prior year quarter.

The effective income tax rate was 21.1% for the quarter ended September 30, 2023 compared to 22.4% for the quarter ended September 30, 2022. The decrease in the effective tax rate over the prior year is primarily due to compensation-related deductions during the quarter ended September 30, 2023. We expect our full year tax rate for fiscal 2024 to be in the 23.0% to 24.0% range.

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As a result of the factors addressed above, net income for the quarter ended September 30, 2023 increased \$16.9 million or 22.0% compared to the prior year quarter. Diluted net income per share was \$2.39 per share for the quarter ended September 30, 2023 compared to \$1.97 per share in the prior year quarter, an increase of 21.3%.

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. We had total debt obligations outstanding of \$622.2 million at September 30, 2023 and June 30, 2023. 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, 2023 was \$1,177.7 million, compared to \$1,106.5 million at June 30, 2023. The current ratio was 3.5 to 1 at September 30, 2023 and 3.0 to 1 at June 30, 2023.

Net Cash Flows

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

	Three Months Ended September 30,	
	2023	2022
Net Cash Provided by (Used in):		
Operating Activities	\$ 66,209	\$ 25,943
Investing Activities	(25,657)	(5,498)
Financing Activities	(22,483)	(55,518)
Exchange Rate Effect	(1,690)	(1,826)
Increase (Decrease) in Cash and Cash Equivalents	\$ 16,379	\$ (36,899)

The increase in cash provided by operating activities during the three months ended September 30, 2023 from the prior period is driven by an increase operating results and changes in working capital for the period. Changes in working capital between periods caused a \$26.8 million increase in cash provided by operating activities, driven by (amounts in thousands):

	Three Months Ended September 30,	
	2023	2022
Accounts receivable	\$ 16,142	\$ (25,692)
Inventory	(7,254)	(45,913)
Accounts payable	(43,008)	19,273

Net cash used in investing activities during the three months ended September 30, 2023 increased from the prior period primarily due to \$21.4 million used for the acquisitions of Cangro and BDI in the current year.

Net cash used in financing activities during the three months ended September 30, 2023 decreased from the prior period primarily due to a change in net debt activity, as there was \$0.1 million of debt payments in the current year period compared to \$40.1 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, 2023, the Company did not acquire any shares of treasury stock on the open market. During the three months ended September 30, 2022, the Company acquired 8,000 shares of treasury stock on the open market for \$0.7 million. At September 30, 2023, we had authorization to repurchase 1,500,000 shares.

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Borrowing Arrangements

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

	September 30, 2023	June 30, 2023
Revolving credit facility	\$ 383,592	\$ 383,592
Trade receivable securitization facility	188,300	188,300
Series D notes	25,000	25,000
Series E notes	25,000	25,000
Other	294	356
Total debt	\$ 622,186	\$ 622,248
Less: unamortized debt issuance costs	132	152
	<u>\$ 622,054</u>	<u>\$ 622,096</u>

Revolving Credit Facility & Term Loan

In December 2021, the Company entered into a new revolving credit facility with a group of banks to refinance the existing credit facility as well as provide funds for ongoing working capital and other general corporate purposes. The revolving credit facility provides a \$900.0 million unsecured revolving credit facility and an uncommitted accordion feature which allows the Company to request an increase in the borrowing commitments, or incremental term loans, under the credit facility in aggregate principal amounts of up to \$500.0 million. In May 2023, the Company and the administrative agent entered into an amendment to the credit facility to replace LIBOR as a reference rate available for use in the computation of interest and replace it with SOFR. Borrowings under this agreement bear interest, at the Company's election, at either the base rate plus a margin that ranges from 0 to 55 basis points based on net leverage ratio or SOFR plus a margin that ranges from 80 to 155 basis points based on the net leverage ratio. Unused lines under this facility, net of outstanding letters of credit of \$0.2 million to secure certain insurance obligations, totaled \$516.2 million at September 30, 2023 and June 30, 2023, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the revolving credit facility was 6.33% and 6.11% as of September 30, 2023 and June 30, 2023, respectively.

Additionally, the Company had letters of credit outstanding with separate banks, not associated with the revolving credit agreement, in the amount of \$4.0 million as of September 30, 2023 and June 30, 2023 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"). On March 26, 2021, the Company amended the AR Securitization Facility to expand the eligible receivables, which increased the maximum availability to \$250.0 million and increased the drawn fees on the AR Securitization Facility to 0.98% per year. On August 4, 2023, the Company amended the AR Securitization Facility, extended the term to August 4, 2026, and reduced the drawn fees to 0.90% per year. 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 \$250.0 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 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. In May 2023, the Company entered into an amendment to the AR Securitization Facility to replace LIBOR as a reference rate available for use in the computation of interest and replace it with SOFR, therefore borrowings under this facility carry variable interest rates tied to SOFR. The interest rate on the AR Securitization Facility as of September 30, 2023 and June 30, 2023 was 6.32% and 6.16%, respectively.

Unsecured Shelf Facility

At September 30, 2023 and June 30, 2023, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$50.0 million. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series D" notes have a remaining principal amount of \$25.0 million, carry a fixed interest rate of 3.21%, and are due on October 31, 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.

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

Other Long-Term Borrowing

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 November 2024.

The Company entered into an interest rate swap which mitigates variability in forecasted interest payments on \$384.0 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, 2023, 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, 2023, the Company's net indebtedness was less than 0.6 times consolidated income before interest, taxes, depreciation and amortization (as defined). The Company was in compliance with all financial covenants at September 30, 2023.

Accounts Receivable Analysis

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

	September 30, 2023	June 30, 2023
Accounts receivable, gross	\$ 717,619	\$ 730,729
Allowance for doubtful accounts	22,697	22,334
Accounts receivable, net	\$ 694,922	\$ 708,395
Allowance for doubtful accounts, % of gross receivables	3.2 %	3.1 %

	Three Months Ended September 30, 2023	2022
Provision for losses on accounts receivable	\$ 867	\$ 3,994
Provision as a % of net sales	0.08 %	0.38 %

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 57.1 at September 30, 2023 compared to 55.1 at June 30, 2023. As of September 30, 2023, approximately 2.9% of our accounts receivable balances are more than 90 days past due, compared to 2.5% at June 30, 2023. On an overall basis, our provision for losses from uncollected receivables represents 0.08% of our sales in the three months ended September 30, 2023, compared to 0.38% of sales for the three months ended September 30, 2022. The decrease primarily relates to provisions recorded in the prior year for customer credit deterioration and bankruptcies primarily in the U.S. 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 for the period ended September 30, 2023 was 4.3 versus 4.4 for the period ended June 30, 2023.

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; continuing risks relating to the effects of the COVID-19 pandemic; inflationary or deflationary trends in the cost of products, energy, labor and other operating costs, and 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 (such as due to supply chain strains), changes in supplier distribution programs, inability of suppliers to perform, and transportation disruptions; 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, war, 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. Risks can also change over time. Further, the disclosure of a risk should not be interpreted to imply that the risk has not already materialized.

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, 2023.

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, 2023.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 4: CONTROLS AND PROCEDURES

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 three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2023 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) (2)
July 1, 2023 to July 31, 2023	524	\$148.26	0	1,500,000
August 1, 2023 to August 31, 2023	0	\$0.00	0	1,500,000
September 1, 2023 to September 30, 2023	0	\$0.00	0	1,500,000
Total	524	\$0.00	0	1,500,000

- (1) During the quarter the Company purchased 524 shares in connection with the Deferred Compensation Plan.
- (2) On August 9, 2022, 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 August 11, 2022. 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	Amendment No. 1 to Amended and Restated Note Purchase and Private Shelf Agreement dated as of March 26, 2021 between Applied Industrial Technologies, Inc. and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), and certain of its affiliates (filed as Exhibit 4.3 to Applied's Form 10-Q for the quarter ended March 31, 2021, SEC File No. 1-2299, and incorporated here by reference).

4.4	Amendment No. 2 to Amended and Restated Note Purchase and Private Shelf Agreement, dated as of December 9, 2021, between Applied and PGIM, Inc., (filed as Exhibit 10.2 to the Company's Form 8-K filed December 14, 2021, SEC File No. 1-2299, and incorporated here by reference).
4.5	Amendment No. 3 to Amended and Restated Note Purchase and Private Shelf Agreement, dated October 28, 2022, between Applied and PGIM, Inc., (filed as Exhibit 10.1 to the Company's Form 8-K filed November 1, 2022, SEC File No. 1-2299, and incorporated here by reference).
4.6	Credit Agreement dated as of December 9, 2021, 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 December 14, 2021, SEC File No. 1-2299, and incorporated here by reference).
4.7	First Amendment Agreement, dated as of May 12, 2023, among Applied Industrial Technologies, Inc., KeyBank National Association as Agent, and the Lenders set forth therein (filed as Exhibit 4.7 to Applied's Form 10-K for the fiscal year ended June 30, 2023, SEC File No. 1-2299, and incorporated here by reference).
4.8	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).
4.9	Amendment No. 1 to Receivables Financing Agreement and Reaffirmation of Performance Guaranty dated as of March 26, 2021 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 10.2 to Applied's Form 8-K filed March 29, 2021, SEC File No. 1-2299, and incorporated here by reference).
4.10	Amendment No. 2 to Receivables Financing Agreement and Reaffirmation of Performance Guaranty, dated as of May 12, 2023, by and among AIT Receivables, LLC, Applied Industrial Technologies, Inc., PNC Bank, National Association, Regions Bank, and PNC Capital Markets LLC (filed as Exhibit 4.10 to Applied's Form 10-K for the fiscal year ended June 30, 2023, SEC File No. 1-2299, and incorporated here by reference).
4.11	Purchase and Sale Agreement dated as of August 31, 2018 among various entities listed on Schedule I thereto (including Applied Industrial Technologies, Inc.), as originators, Applied Industrial Technologies, Inc., as servicer, and AIT Receivables LLC, as buyer (filed as Exhibit 10.2 to Applied's Form 8-K filed September 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
4.12	Amendment No. 1 to Purchase and Sale Agreement dated as of November 19, 2018 among Applied Industrial Technologies, Inc. and various of its affiliates, as originators, Applied Industrial Technologies, Inc., as servicer, and AIT Receivables LLC, as buyer (filed as Exhibit 4.10 to Applied's Form 10-Q for the quarter ended March 31, 2021, SEC File No. 1-2299, and incorporated here by reference).
4.13	Amendment No. 2 to Purchase and Sale Agreement dated as of March 26, 2021, among various entities listed on Schedule I thereto (including Applied Industrial Technologies, Inc.), as originators, Applied Industrial Technologies, Inc. as servicer, and AIT Receivables LLC, as buyer (filed as Exhibit 10.2 to Applied's Form 8-K filed March 29, 2021, SEC File No. 1-2299, and incorporated here by reference).
4.14	Amendment No. 3 to Receivables Financing Agreement and Reaffirmation of Performance Guaranty dated as of August 6, 2023 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 Applied's Form 8-K filed August 9, 2023, SEC File No. 1-2299, and incorporated here by reference).
4.15	Amendment No. 3 to Purchase and Sale Agreement dated as of August 4, 2023 among various entities listed on Schedule I thereto (including Applied Industrial Technologies, Inc.), as originators, Applied Industrial Technologies, Inc., as servicer, and AIT Receivables LLC, as buyer (filed as Exhibit 10.2 to Applied's Form 8-K filed August 9, 2023, SEC File No. 1-2299, and incorporated here by reference).
10.1	Applied Industrial Technologies, Inc. 2023 Long-Term Performance Plan, as approved by the Shareholders on October 24, 2023.
31	Rule 13a-14(a)/15d-14(a) certifications
32	Section 1350 certifications
101	The following financial information from Applied Industrial Technologies Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Statements of Consolidated Income, (ii) the Condensed Statements of Consolidated Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Statements of Consolidated Cash Flows, (v) the Condensed Statements of Shareholders' Equity, and (vi) the Notes to Condensed Consolidated Financial Statements.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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 27, 2023

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

Date: October 27, 2023

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

**APPLIED INDUSTRIAL TECHNOLOGIES, INC.
2023 LONG-TERM PERFORMANCE PLAN**

1. Objectives

The Applied Industrial Technologies, Inc. 2023 Long-Term Performance Plan (the “Plan”) is designed to foster and promote the long-term growth and performance of the Company by: (a) strengthening the Company’s ability to develop and retain an outstanding management team, (b) motivating superior performance by means of long-term performance-related incentives and (c) enabling key employees and directors to participate in the continued growth and financial success of the Company. These objectives will be promoted by awarding to such person's performance-based stock awards, restricted stock, restricted stock units, Stock Options, stock appreciation rights and/or other performance or stock-based awards or cash.

The Plan is intended to replace the Applied Industrial Technologies, Inc. 2019 Long-Term Performance Plan, and no further awards will be granted thereunder after the Effective Date.

2. Definitions

(a) *“Award”* — The grant of stock or any form of Stock Option, stock appreciation right, performance share, restricted stock, restricted stock units, other stock-based award or cash whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

(b) *“Award Agreement”* — The instrument, agreement or other document given to a Participant by the Company that, in addition to the Plan, sets forth the terms, conditions and limitations applicable to an Award.

(c) *“Board”* — The Board of Directors of the Company.

(d) *“Cause”* — (i) the willful and continued failure by a Participant to perform substantially the Participant’s duties with the Company or one of its affiliates (other than for disability or Good Reason), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company (“Chief Executive Officer”) which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant’s duties, or (ii) the willful engagement by the Participant in illegal conduct or gross misconduct involving moral turpitude that is materially and demonstrably injurious to the Company; provided, however, that no act or failure to act shall be considered “willful” unless it is done, or omitted to be done, in bad faith or without the Participant’s reasonable belief that such action or omission was in the best interests of the Company. Any act, or failure to act, based on authority given the Participant pursuant to a resolution duly adopted by the Board or on the instructions of the Chief Executive Officer or a senior officer of the Company or based on the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, in good faith and in the best interests of the Company. Notwithstanding the foregoing, in the event that a Participant has entered into an employment, severance, or change-in-control agreement with the Company, the definition “Cause” as set forth in the most recently executed agreement will apply for all purposes of this Plan for such Participant, as opposed to the definition set forth herein.

(e) *“Code”* — The Internal Revenue Code of 1986, as amended from time to time.

(f) “*Committee*” — The Executive Organization and Compensation Committee of the Company’s Board, or such other committee of the Board that is designated by the Board, shall administer the Plan with respect to all Awards to Participants who are employees of the Company. The Corporate Governance and Sustainability Committee of the Company’s Board, or such other committee of the Board that is designated by the Board, shall administer the Plan with respect to all Awards to Participants who are Nonemployee Directors of the Company. The Committee shall be constituted so as to satisfy any applicable legal requirements including the requirements of Rule 16b-3 promulgated under the Securities Exchange Act of 1934 or any similar rule which may subsequently be in effect (“Rule 16b-3”). The members shall be appointed by, and serve at the pleasure of, the Board and any vacancy on the Committee shall be filled by the Board. For purposes of the provisions of Section 13 of the Plan, the Chief Executive Officer is hereby delegated authority to act on the Committee’s behalf with respect to any Participant, other than the Chief Executive Officer.

(g) “*Common Shares*” or “*shares*” — Authorized and issued or unissued shares of common stock without par value of the Company.

(h) “*Company*” — Applied Industrial Technologies, Inc., an Ohio corporation.

(i) “*Director*” — Any individual who is a member of the Board.

(j) “*Fair Market Value*” — The closing price of Common Shares as reported by the New York Stock Exchange for the date in question, provided that if no sales of Common Shares were made on said exchange on that date, the closing price of Common Shares as reported for the preceding day on which sales of Common Shares were made on that exchange.

(k) “*Nonemployee Director*” — Any Director who is not an employee of the Company or a Subsidiary.

(l) “*Good Reason*” — (i) a material diminution in a Participant’s authority, duties, or responsibilities, (ii) a material diminution in the authority, duties, or responsibilities of the person to whom a Participant reports immediately prior to a Change in Control, (iii) a material diminution by the Company of a Participant’s annual base salary that was paid to the Participant immediately prior to the Change in Control, (iv) a material change in the geographic location where a Participant provides service to the Company, or (v) any failure of any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, by agreement in form and substance satisfactory to a Participant, to expressly assume and agree to comply with the terms of an Award in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place; *provided further*, that, Good Reason shall not have occurred unless a Participant gives the Company written notice within ninety (90) days of the initial existence of the condition claimed by the Participant in good faith to constitute Good Reason and the Company fails to remedy the condition within thirty (30) days of such notice. A Participant shall not be deemed to have a Separation from Service for Good Reason unless such Separation from Service by the Participant occurs no later than two (2) years after the occurrence of the event constituting Good Reason.

(m) “*Participant*” — Any employee of the Company or a Subsidiary, a Nonemployee Director or any other person whose participation the Committee determines is in the best interests of the Company and to whom an Award is made under the Plan.

(n) “*Retirement*” or “*Retire*” — Any Separation from Service at or after attainment of age sixty-five (65), or after attainment of age fifty-five (55) and the completion of at least ten (10) years of employment with the Company and its Subsidiaries.

(o) “*Section 409A*” — Section 409A of the Code as well as regulations and guidance issued thereunder.

(p) “*Separation from Service*” — The termination of employment of an employee with the Company and its Subsidiaries; provided, however, that an approved leave of absence shall not be considered a termination of employment if the leave does not exceed six (6) months or, if longer, so long as the employee’s right to reemployment is provided by statute or by contract. Whether an employee has incurred a Separation from Service with respect to an Award that is nonqualified deferred compensation subject to Section 409A shall be determined in accordance with Section 409A.

(q) “*Specified Employee*” — A “specified employee” within the meaning of Section 409A and any “specified employee” identification policy of the Company.

(r) “*Stock Option*” — The right granted to a Participant under the Plan to purchase Common Shares pursuant to paragraph (a) of Section 7.

(s) “*Subsidiary*” --- means a direct or indirect subsidiary of the Company.

3. Eligibility

Persons eligible to be selected as Participants shall include employees of the Company, Nonemployee Directors or other persons selected by the Committee whose participation the Committee has determined to be in the best interests of the Company. The selection of Participants shall be within the sole discretion of the Committee. Awards may be made to the same Participant on more than one occasion.

4. Common Shares Available for Awards

The aggregate number of Common Shares that may be awarded under the Plan shall be One Million Six Hundred Thousand (1,600,000) Common Shares; provided, that no more than five hundred thousand (500,000) Common Shares shall be cumulatively available for the grant of incentive stock options under the Plan and that no more than seven hundred fifty thousand (750,000) Common Shares will be available for the grant of Stock Options, stock appreciation rights, and stock Awards to any individual Participant in any one calendar year; provided, however, any Common Shares issued by the Company through the assumption or substitution of outstanding grants from an acquired corporation or entity shall not reduce the Common Shares available for grants under the Plan. Such shares may consist, in whole or in part, of authorized and unissued shares or treasury shares. No Common Shares that were subject to a prior Award but that were not issued due to termination, cancellation or forfeiture of such Award or that were not issued due to withholding relating to such Award shall be available for future Award grants. In addition, no Common Shares that are tendered as payment for a Stock Option exercise or repurchased by the Company using Stock Option exercise proceeds shall be available for future Award grants. The whole number of Common Shares that are the subject of a stock-settled Award shall be counted against the Common Shares available for future Award grants.

From time to time, the Board and appropriate officers of the Company shall take whatever actions are necessary to file required documents with governmental authorities and stock exchanges to make Common Shares available for issuance. No fractional shares shall be issued, and the Committee shall determine the manner in which fractional share value shall be treated.

5. Administration

The Plan shall be administered by the Committee which shall have full and exclusive power and authority to interpret the Plan, to grant waivers of Plan restrictions and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which powers shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. In particular, the Committee shall have the authority to: (i) select eligible Participants as recipients of Awards; (ii) determine the number and type of Awards to be granted; (iii) determine the terms and conditions, not inconsistent with the terms hereof, of any Award granted; (iv) adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable; (v) interpret the terms and provisions of the Plan and any Award granted; (vi) prescribe the form of any agreement or instrument executed in connection with any Award; and (vii) otherwise supervise the administration of the Plan. In addition, the Committee shall have authority, without amending the Plan, to grant Awards hereunder to Participants who are foreign nationals or employed outside the United States or both, on terms and conditions different from those specified herein as may, in the sole judgment and discretion of the Committee, be necessary or desirable to further the purpose of the Plan. All decisions made by the Committee pursuant to the provisions hereof shall be made in the Committee's sole discretion and shall be final and binding on all persons, including the Company, its shareholders, employees, Participants, and their estates and beneficiaries.

Notwithstanding the powers and authorities of the Committee set forth in this Section 5:

(a) The Committee shall not permit the repricing of Stock Options by any method, including through cancellation and reissuance; and

(b) The Committee may only accelerate the vesting or exercisability of an Award: (i) upon Separation from Service by a Participant and as permitted under Section 409A to the extent an Award is subject to Section 409A, or (ii) upon Separation from Service of a Participant due to death or disability (provided, however, that with respect to an Award that is, or contains a payment provision for, nonqualified deferred compensation subject to Section 409A, "disability" shall have the meaning set forth in Treasury Regulation Section 1.409A-3(i)(4)).

6. Delegation of Authority

The Committee may delegate any of its authority hereunder to such subcommittees or persons as it deems appropriate. Any such delegation will take into consideration the implication for complying with Rule 16b-3.

7. Awards

The Committee shall determine the type or types of Award(s) to be made to each Participant and shall set forth in the related Award Agreement the terms, conditions and limitations applicable to each Award. Awards may include but are not limited to those listed in this Section. Awards may be granted singly, in combination or in tandem or in exchange for a previously granted Award; provided that the exercise price for any Stock Options shall not be less than the Fair Market Value on the date of grant of the new Award (except to the extent the Stock Options are granted as replacement Stock Options for stock options acquired by the Company, in which case such replacement Stock Option shall satisfy the requirements of Section 409A of the Code). Awards may also be made in combination or in tandem with, in replacement of, or as alternatives to, grants or rights under any other employee plan of the Company, including the plan of any acquired entity. All Awards payable in Common Shares shall have vesting periods determined by the Committee, which in no event shall be less than one (1) year.

(a) *Stock Option* — A grant of a right to purchase a specified number of Common Shares during a specified period and at a specified price not less than the Fair Market Value on the date of grant, as determined by the Committee. A Stock Option may be in the form of an incentive Stock Option (“ISO”) that, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code which, among other limitations, currently provides that the aggregate Fair Market Value (determined at the time the option is granted) of Common Shares exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000 (or such other limit as may be required by the Code); that the exercise price shall be not less than 100% of Fair Market Value on the date of the grant; and that such options shall be exercisable for a period of not more than ten years and may be granted no later than ten years after the effective date of this Plan. ISOs shall be granted only to key employees of the Company as permitted under Section 422 and 424 of the Code.

(b) *Stock Appreciation Right (“SAR”)* — A right to receive a payment, in cash and/or Common Shares, equal to the excess of the Fair Market Value of a specified number of Common Shares on the date the SAR is exercised over the Fair Market Value on the date of grant of the SAR as set forth in the applicable Award Agreement.

(c) *Stock Award* — An Award made in Common Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Common Shares. All or part of any Stock Award may be subject to conditions established by the Committee and set forth in the Award Agreement.

(d) *Restricted Stock Units* — An Award providing for the deferred issuance of Common Shares (or the cash value of a specified number of Common Shares). All or any part of any Award of Restricted Stock Units may be subject to conditions established by the Committee and set forth in the Award Agreement.

(e) *Cash Award* — An Award denominated in cash with the eventual payment amount subject to future service and such other restrictions and conditions as may be established by the Committee, and as set forth in the Award Agreement. The maximum amount of any cash Award payable to any Participant in any one calendar year shall be four million dollars (\$4,000,000).

(f) *Performance-Based Awards* - Awards that are intended to be “performance based” shall vest based on the satisfaction of performance goals established by the Committee at the time an Award is granted. Payment of any performance-based Award shall only be made only after the attainment of the applicable performance goals has been determined by the Committee (including in duly adopted resolutions of the Committee). The Committee shall retain the discretion to adjust performance goals relating to performance-based Awards, either on a formula or discretionary basis or any combination, as the Committee determines. Any performance-based Award that is nonqualified deferred compensation subject to Section 409A must be made with respect to performance periods that are at least twelve (12) months.

(g) *Compensation of Nonemployee Directors* – The total annual compensation of a Nonemployee Director, including all Awards (whether payable in cash or shares) granted under the Plan, shall not exceed \$750,000.

8. Payment of Awards

Payment of Awards may be made as specified in an Award Agreement and as determined by the Committee in its sole discretion, in the form of cash, Common Shares or combinations thereof and may include such restrictions as the Committee shall determine, including in the case of Common Shares, restrictions on transfer and forfeiture provisions. When transfer of shares is

so restricted or subject to forfeiture provisions, such shares are referred herein as “Restricted Stock.” Further, with Committee approval, payments may be deferred, either in the form of installments or a future lump sum payment. The Committee may permit selected Participants to elect to defer payments of some or all types of Awards (except Stock Options and SARs) in accordance with procedures established by the Committee to assure that any such deferral complies with applicable requirements of the Code, in particular, Section 409A, including, at the choice of Participants, the capability to make further deferrals for payment after Retirement. Any deferred payment, whether elected by the Participant or specified by the Award Agreement or by the Committee, may require the payment to be forfeited in accordance with the provisions of Section 13 of the Plan. Dividends or dividend equivalent rights may be extended to and made part of any Award denominated in shares or units of Common Shares, subject to such terms, conditions and restrictions as the Committee may establish; provided that dividends or dividend equivalents shall not be extended to or made part of Stock Options or SARs, unless the right to such dividends or dividend equivalents is not contingent, directly or indirectly, upon the exercise of the Stock Option or SAR. Dividends and dividend equivalent rights on unvested Awards (or a portion of an Award) shall accrue or not accrue in a manner determined by the Committee or in the Award Agreement but shall comply with Section 409A or an exception thereto, and not be paid prior to vesting of all or such portion of the Award. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payments denominated in Common Shares or units of Common Shares. At the discretion of the Committee, which shall take into consideration the requirements of Section 409A, a Participant may be offered an election to substitute an Award for another Award or Awards of the same or different type; provided that Awards may not be made to substitute for previously granted Stock Options having higher exercise prices. Notwithstanding the foregoing, (i) any Award that is not nonqualified deferred compensation within the meaning of Section 409A shall not have any feature that would allow for the deferral of compensation (within the meaning of Section 409A), other than the deferral of recognition of income until the exercise of such Award and (ii) any Award that is nonqualified deferred compensation within the meaning of Section 409A shall permit the deferral thereof only in a manner that meets the requirements of, and complies with, Section 409A. If, at any time, it is determined that any Award is taxable to a Participant under Section 409A, the Award, or portion thereof, which becomes so taxable shall be distributed to such Participant.

9. Stock Option Exercise

The price at which shares may be purchased under a Stock Option shall be paid in full at the time of the exercise (i) in cash or (ii) if permitted by the Committee, (A) by means of tendering Common Shares, (B) by directing the Company to retain Common Shares otherwise issuable to the Participant under the Stock Option or (C) by any other means which the Committee determines to be consistent with the Plan’s objectives and applicable law and regulations. The Committee shall determine acceptable methods for tendering Common Shares and may impose such conditions on the use of Common Shares to exercise a Stock Option as it deems appropriate.

10. Tax Withholding

The Company shall have the authority to withhold, or to require a Participant to remit to the Company, prior to issuance or delivery of any shares or cash hereunder, an amount sufficient to satisfy federal, state and local tax withholding requirements associated with any Award. In addition, the Company may, in its sole discretion, permit a Participant to satisfy any tax withholding requirements, in whole or in part, by (i) delivering to Common Shares held by such Participant having a Fair Market Value equal to the amount of the tax or (ii) directing the Company to retain Common Shares otherwise issuable to the Participant under the Plan. If

Common Shares are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value at the time the tax withholding is required to be made.

11. Amendment, Modification, Suspension or Discontinuance of this Plan

Subject to the Board's rights in Section 23, the Board or the Committee may amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law. Subject to changes in law or other legal requirements which would permit otherwise, the Plan may not be amended without consent of the holders of the majority of the Common Shares then outstanding, to (i) increase the aggregate number of Common Shares that may be issued under the Plan (except for adjustments pursuant to the Plan), (ii) materially modify the requirements as to eligibility for participation in the Plan, or (iii) withdraw administration of the Plan from the Committee.

The Board or the Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but no such amendment shall impair the rights of any Participant without the Participant's consent. The Board or the Committee may also make Awards hereunder in replacement of, or as alternatives to, Awards previously granted to Participants, except for previously granted options having higher exercise prices, but including without limitation grants or rights under any other plan of the Company or of any acquired entity. Notwithstanding the foregoing, the Board or the Committee shall consider the requirements of Section 409A in making any such amendment.

Notwithstanding the foregoing and except as provided in Section 15 of this Plan, without shareholder approval, the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Stock Options or SARs or cancel outstanding Stock Options or SARs in exchange for cash, other awards or Stock Options or SARs with an exercise price that is less than the exercise price of the original Stock Options or SARs.

12. Termination of Employment

If a Participant incurs a Separation from Service for any reason, all unexercised, deferred and unpaid Awards shall be exercisable or paid in accordance with the applicable Award Agreement, which may provide that the Committee may authorize, as it deems appropriate, the continuation of all or any part of Awards granted prior to such Separation from Service; provided that the Committee shall consider the requirements of Section 409A when making any such authorization.

13. Cancellation and Rescission of Awards

Unless the Award Agreement specifies otherwise, the Committee may cancel any Awards at any time if the Participant is not in compliance with all other applicable provisions of the Award Agreement, the Plan and with the following conditions:

(a) If the Committee determines, in good faith, that during the Participant's employment with the Company or during the period ending twelve (12) months following the Participant's Separation from Service, the Participant has committed an act inimical to the Company's interests, then the Committee may terminate or rescind, and, if applicable, the Participant may be required immediately to repay an Award issued, exercised or paid within the previous twelve (12) months. 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 the Company 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. By accepting an Award, a Participant also agrees that any Award shall be subject to repayment and/or forfeiture based on willful behavior that results in a material violation of any ethics or governance policy adopted by the Board. All determinations by the Committee shall be effective as of the time of the Participant's act.

(b) A Participant shall not, without prior written authorization from the Company, disclose to anyone outside the Company, or use in other than the Company's business, any confidential information or material relating to the business of the Company, acquired by the Participant either during or after employment with the Company.

(c) By exercising or accepting payment of an Award, a Participant thereby certifies that he or she is in compliance with the terms and conditions of the Plan. At the request of the Company, Participants shall be required to confirm in writing such certification to the Company. Such confirmation shall be delivered within ten (10) days of a request by the Company. Failure to comply with the provisions of paragraph (a), (b) or (c) of this Section 13 prior to, or during the six (6) months after, any exercise, payment or delivery pursuant to an Award (except in the event of an intervening Change in Control as defined below) shall cause such exercise, payment or delivery to be subject to rescission by the Company. If such exercise, payment or delivery is rescinded, the Company shall notify the Participant in writing of any such rescission within two (2) years after such exercise, payment or delivery. Within ten (10) days after receiving such a notice from the Company, the Participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery pursuant to an Award. Such payment shall be made either in cash or by returning to the Company the number of Common Shares that the Participant received in connection with the rescinded exercise, payment or delivery.

(d) By accepting or exercising any Award granted under the Plan (or any predecessor plan), a Participant agrees to abide and be bound by any policies adopted by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and any rules or exchange listing standards promulgated thereunder calling for the repayment and/or forfeiture of any Award or payment resulting from an accounting restatement. The repayment and/or forfeiture provisions shall apply whether or not the Participant is presently employed by or affiliated with the Company.

14. Nonassignability

Except as may be otherwise provided in the relevant Award Agreement, no Award or any benefit under the Plan shall be assignable or transferable, or payable to or exercisable by, anyone other than the Participant to whom the Award or any benefit under the Plan was granted.

15. Adjustments

In the event of any change in capitalization of the Company by reason of a stock split, stock dividend, combination, reclassification of shares, recapitalization, merger, consolidation, exchange of shares, spin-off, spin-out or other distribution of assets to shareholders, or similar event, the Committee may adjust proportionally (i) the Common Shares (1) reserved under the Plan, (2) available for ISOs and (3) covered by outstanding Awards denominated in shares or units; (ii) the share prices related to outstanding Awards; and (iii) the appropriate Fair Market Value and other price determinations for such Awards. In the event of any other change affecting the Common Shares or any distribution (other than normal cash dividends) to holders of capital stock, such adjustments as may be deemed equitable by the Committee, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee shall be authorized to

issue Stock Options or assume stock options, whether or not in a transaction to which Section 424 of the Code applies, by means of substitution of new Stock Options for previously issued options or an assumption of previously issued options.

16. Change in Control

(a) Within the one- (1-) year period immediately following any Change in Control (as defined below), in the event (x) an employee-Participant has a Separation from Service either by the Participant for Good Reason or by the Company without Cause or (y) a Nonemployee Director-Participant no longer serves as a member of the Board for any reason, then, as of the date immediately preceding the date of such Participant's Separation from Service or termination of service on the Board, as applicable, with respect to such Participant, (i) all Stock Options or SARs then outstanding shall become fully exercisable, whether or not then exercisable, (ii) all restrictions and conditions of all Stock Awards then outstanding shall be deemed satisfied, (iii) all Cash Awards shall be deemed to have been fully-earned at target levels and (iv) all Performance-Based Awards shall vest based on the Company'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 the Separation from Service.

(b) A "Change in Control" with respect to Awards that do not constitute nonqualified deferred compensation within the meaning of Section 409A shall have occurred when any of the following events shall occur:

(i) The Company is merged, consolidated or reorganized into or with another corporation or other legal person, and immediately after such merger, consolidation or reorganization less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such transaction are held in the aggregate by the holders of Voting Stock (as that term is hereafter defined) of the Company immediately prior to such transaction;

(ii) The Company sells all or substantially all of its assets to any other corporation or other legal person, and, immediately after such sale, less than a majority of the combined voting power of the then-outstanding securities of such corporation or person immediately after such sale are held in the aggregate by the holders of Voting Stock of the Company immediately prior to such sale;

(iii) There is a report filed or required to be filed on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report), each as promulgated pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), disclosing that any person (as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act) has become the beneficial owner (as the term "beneficial owner" is defined under Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act) of securities representing 30% or more of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors of the Company ("Voting Stock");

(iv) The Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing in response to Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) that a change in control of the Company has occurred or will occur in the future pursuant to any then-existing contract or transaction; or

(v) If during any period of two consecutive years, individuals who at the beginning of any such period constitute the Directors of the Company cease for any reason to constitute at least a majority thereof, provided, however, that for purposes of this clause (v), each

Director who is first elected, or first nominated for election by the Company's shareholders by a vote of at least two-thirds of the Directors of the Company (or a committee thereof) then still in office who were Directors of the Company at the beginning of any such period will be deemed to have been a Director of the Company at the beginning of such period.

Notwithstanding the foregoing provisions of Section 16(b)(iii) or (iv) hereof, unless otherwise determined in a specific case by majority vote of the Board, a "Change in Control" shall not be deemed to have occurred for purposes of the Plan solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities or interest, or (iii) any Company-sponsored employee stock ownership plan or any other employee benefit plan of the Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of Voting Stock, whether in excess of 30% or otherwise, or because the Company reports that a change in control of the Company has occurred or will occur in the future by reason of such beneficial ownership.

(c) A "Change in Control" with respect to Awards that constitute nonqualified deferred compensation within the meaning of Section 409A shall mean a change in the ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company that constitutes a "change in control" under Section 409A.

17. Notice

Any written notice to the Company required by any of the provisions of the Plan shall be addressed to the Chief Executive Officer or to the Chief Financial Officer of the Company, and shall become effective when it is received by the office of the Chief Executive Officer or the Chief Financial Officer.

18. Unfunded Plan

Insofar as it provides for Awards of cash and Common Shares, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants who are entitled to cash, Common Shares or rights thereto under the Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets that may at any time be represented by cash, Common Shares or rights thereto, nor shall the Plan be construed as providing for such segregation, nor shall the Company nor the Board nor the Committee be deemed to be a trustee of any cash, Common Shares or rights thereto to be granted under the Plan. Any liability of the Company to any Participant with respect to a grant of cash, Common Shares or rights thereto under the Plan shall be based solely upon any contractual obligations that may be created by the Plan and any Award Agreement; no such obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by the Plan or any Award Agreement.

19. Governing Law

The Plan and all determinations made, and actions taken pursuant hereto, to the extent not otherwise governed by the Code or the securities laws of the United States, shall be governed by the law of the State of Ohio and construed accordingly.

20. Rights of Employees

Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continued employment with the Company or any Subsidiary.

21. Status of Awards

Except to the extent specifically provided for in any other employee benefit plan of the Company, Awards hereunder shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company and shall not affect any benefits under any other benefit plan now or hereafter in effect under which the availability or amount of benefits is related to the level of compensation.

22. Section 409A; Tax Matters

To the extent applicable, the Company intends that the Plan comply with Section 409A and the Plan shall be construed in a manner to comply with Section 409A. In the event that any provision of the Plan shall be found not to be in compliance with Section 409A, the Participant shall be contractually obligated to execute any and all amendments to Awards deemed necessary and required by legal counsel for the Company to achieve compliance with Section 409A. By acceptance of an Award, Participants irrevocably waive any objections they may have to the amendments required by Section 409A. Participants also agree that in no event shall any payment required to be made pursuant to the Plan that is considered "nonqualified deferred compensation" within the meaning of Section 409A be accelerated in violation of Section 409A. In the event that a Participant is a Specified Employee, payments that are deemed to be nonqualified deferred compensation shall not be distributed, or begin to be distributed, until the first day of the seventh month following such Participant's Separation from Service. The amount of the first payment shall include the accumulated amount of the payments, if any, that would otherwise have been made during the first six (6) months but for the fact that the Participant is a Specified Employee. Although the Company shall use its best efforts to avoid the imposition of taxation, penalties and/or interest under Section 409A, tax treatment of Awards is not warranted or guaranteed. The Company, the Board, any Subsidiary or any delegate shall not be held liable for any taxes, penalties, interest or other monetary amounts owed by any Participant with respect to any Award.

The Company makes no warranties or representations to any Participant with respect to the tax consequences (including but not limited to income tax consequences) related to any Award or the issuance, transfer or disposition of shares pursuant to an Award. Each Participant is advised to consult with his or her own attorney, accountant and/or tax advisor regarding the tax consequences of any Award. Moreover, by accepting and/or exercising any Award, a Participant irrevocably acknowledges that the Company shall have no responsibility to take or refrain from taking any actions in order to achieve any particular tax result for the Participant.

23. Effective Date and Termination Date

The Plan shall become effective on the date it is first approved by shareholders by a majority of the votes cast by the holders of Common Shares at a meeting called for such purpose (the "Effective Date"). The Plan shall continue in effect until (i) October 24, 2028, (ii) such earlier date established by the Board pursuant to Section 11, or (iii) such later date as may be approved in the future by the Board and the Company's shareholders. Notwithstanding the foregoing, any Awards granted under the Plan prior to its termination shall remain outstanding in accordance with the terms of such Awards.

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 27, 2023

By: /s/ Neil A. Schrimsher

Neil A. Schrimsher

President & Chief Executive Officer

I, David K. Wells, Vice President-Chief Financial Officer, Treasurer, & Principal Accounting 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 27, 2023

By: /s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer, Treasurer, &
Principal Accounting Officer

[The following certification accompanies Applied Industrial Technologies' Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, 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, 2023, 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, & Principal
Accounting Officer

Date: October 27, 2023

[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.]