

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, 2019

OR

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

Commission file number 1-2299

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

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

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

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

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

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

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

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

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

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

☐

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

There were 38,655,628 (no par value) shares of common stock outstanding on October 18, 2019.

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,	
	2019	2018
Net sales	\$ 856,404	\$ 864,515
Cost of sales	604,944	612,662
Gross profit	251,460	251,853
Selling, distribution and administrative expense, including depreciation	190,294	185,514
Operating income	61,166	66,339
Interest expense, net	10,059	10,476
Other income, net	—	(239)
Income before income taxes	51,107	56,102
Income tax expense	12,308	7,164
Net income	\$ 38,799	\$ 48,938
Net income per share - basic	\$ 1.00	\$ 1.26
Net income per share - diluted	\$ 1.00	\$ 1.24
Weighted average common shares outstanding for basic computation	38,611	38,714
Dilutive effect of potential common shares	350	650
Weighted average common shares outstanding for diluted computation	38,961	39,364

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,	
	2019	2018
Net income per the condensed statements of consolidated income	\$ 38,799	\$ 48,938
Other comprehensive (loss) income, before tax:		
Foreign currency translation adjustments	(4,034)	5,714
Post-employment benefits:		
Reclassification of net actuarial gains and prior service cost into other income, net and included in net periodic pension costs	(17)	(75)
Cumulative effect of adopting accounting standard	—	(50)
Unrealized loss on cash flow hedge	(2,180)	—
Reclassification of interest from cash flow hedge into interest expense	427	—
Total other comprehensive (loss) income, before tax	(5,804)	5,589
Income tax (benefit) expense related to items of other comprehensive (loss) income	(557)	242
Other comprehensive (loss) income, net of tax	(5,247)	5,347
Comprehensive income, net of tax	\$ 33,552	\$ 54,285

See notes to condensed consolidated financial statements.

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

	September 30, 2019	June 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 98,204	\$ 108,219
Accounts receivable, net	529,330	540,902
Inventories	465,165	447,555
Other current assets	52,224	51,462
Total current assets	1,144,923	1,148,138
Property, less accumulated depreciation of \$184,989 and \$181,066	125,094	124,303
Operating lease assets, net	86,557	—
Identifiable intangibles, net	374,871	368,866
Goodwill	671,476	661,991
Other assets	26,811	28,399
TOTAL ASSETS	\$ 2,429,732	\$ 2,331,697
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 229,368	\$ 237,289
Current portion of long-term debt	93,912	49,036
Compensation and related benefits	63,973	67,978
Other current liabilities	91,469	69,491
Total current liabilities	478,722	423,794
Long-term debt	859,172	908,850
Other liabilities	164,613	102,019
TOTAL LIABILITIES	1,502,507	1,434,663
Shareholders' equity		
Preferred stock—no par value; 2,500 shares authorized; none issued or outstanding	—	—
Common stock—no par value; 80,000 shares authorized; 54,213 shares issued; 38,655 and 38,597 outstanding, respectively	10,000	10,000
Additional paid-in capital	172,223	172,931
Retained earnings	1,264,648	1,229,148
Treasury shares—at cost (15,558 and 15,616 shares, respectively)	(414,513)	(415,159)
Accumulated other comprehensive loss	(105,133)	(99,886)
TOTAL SHAREHOLDERS' EQUITY	927,225	897,034
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,429,732	\$ 2,331,697

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 38,799	\$ 48,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	5,223	4,981
Amortization of intangibles	10,374	10,921
Amortization of stock options and appreciation rights	773	651
Other share-based compensation expense	919	1,043
Changes in operating assets and liabilities, net of acquisitions	(8,682)	(53,184)
Other, net	2,612	(1,553)
Net Cash provided by Operating Activities	50,018	11,797
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	(35,703)	—
Property purchases	(4,946)	(3,173)
Proceeds from property sales	88	77
Net Cash used in Investing Activities	(40,561)	(3,096)
Cash Flows from Financing Activities		
Net repayments under revolving credit facility	—	(19,500)
Long-term debt borrowings	—	175,000
Long-term debt repayments	(4,934)	(146,934)
Payment of debt issuance costs	—	(685)
Dividends paid	(11,985)	(11,334)
Acquisition holdback payments	(201)	(219)
Taxes paid for shares withheld for equity awards	(1,754)	(3,203)
Net Cash used in Financing Activities	(18,874)	(6,875)
Effect of Exchange Rate Changes on Cash	(598)	432
(Decrease) increase in Cash and Cash Equivalents	(10,015)	2,258
Cash and Cash Equivalents at Beginning of Period	108,219	54,150
Cash and Cash Equivalents at End of Period	\$ 98,204	\$ 56,408

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, 2019	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2019	38,597	\$ 10,000	\$ 172,931	\$ 1,229,148	\$ (415,159)	\$ (99,886)	\$ 897,034
Net income				38,799			38,799
Other comprehensive loss						(5,247)	(5,247)
Cumulative effect of adopting accounting standards				(3,275)			(3,275)
Cash dividends — \$0.31 per share				(20)			(20)
Exercise of stock appreciation rights and options	5		(177)		61		(116)
Performance share awards	36		(1,540)		362		(1,178)
Restricted stock units	16		(631)		200		(431)
Compensation expense — stock appreciation rights and options			773				773
Other share-based compensation expense			919				919
Other	2		(52)	(4)	23		(33)
Balance at September 30, 2019	38,656	\$ 10,000	\$ 172,223	\$ 1,264,648	\$ (414,513)	\$ (105,133)	\$ 927,225

For the Period Ended September 30, 2018	Shares of Common Stock Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Shares- at Cost	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at July 1, 2018	38,703	\$ 10,000	\$ 169,383	\$ 1,129,678	\$ (403,875)	\$ (90,223)	\$ 814,963
Net income				48,938			48,938
Other comprehensive income						5,347	5,347
Cumulative effect of adopting accounting standards				3,056			3,056
Cash dividends — \$0.30 per share				(13)			(13)
Exercise of stock appreciation rights and options	17		(855)		(210)		(1,065)
Performance share awards	18		(844)		(301)		(1,145)
Restricted stock units	16		(760)		(198)		(958)
Compensation expense — stock appreciation rights and options			651				651
Other share-based compensation expense			1,043				1,043
Other				24	(35)		(11)
Balance at September 30, 2018	38,754	\$ 10,000	\$ 168,618	\$ 1,181,683	\$ (404,619)	\$ (84,876)	\$ 870,806

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, 2019, and the results of its operations and its cash flows for the three month periods ended September 30, 2019 and 2018, have been included. The condensed consolidated balance sheet as of June 30, 2019 has been derived from the audited consolidated financial statements at that date. This Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2019.

Operating results for the three month period ended September 30, 2019 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2020.

Inventory

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

Recently Adopted Accounting Guidance

Leases

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

Cash Flows

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

Recently Issued Accounting Guidance

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. This update is effective for annual and interim financial statement periods beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. In November 2018, April 2019, and May 2019 the FASB

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

issued ASU 2018-19, ASU 2019-04, and ASU 2019-05, respectively, which clarify the guidance in ASU 2016-13. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

2. REVENUE RECOGNITION

Disaggregation of Revenues

The following tables present the Company's net sales by reportable segment and by geographic areas based on the location of the facility shipping the product for the three months ended September 30, 2019 and 2018. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

	Three Months Ended September 30,					
	2019			2018		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
Geographic Areas:						
United States	\$ 492,873	\$ 250,113	\$ 742,986	\$ 490,774	\$ 256,649	\$ 747,423
Canada	65,946	—	65,946	69,107	—	69,107
Other countries	44,341	3,131	47,472	44,168	3,817	47,985
Total	\$ 603,160	\$ 253,244	\$ 856,404	\$ 604,049	\$ 260,466	\$ 864,515

The following tables present the Company's percentage of revenue by reportable segment and major customer industry for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30, 2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	34.8%	43.7%	37.5%
Industrial Machinery	10.2%	22.1%	13.7%
Metals	12.4%	8.2%	11.1%
Food	11.1%	2.7%	8.6%
Oil & Gas	9.3%	1.9%	7.1%
Chem/Petrochem	2.8%	12.7%	5.7%
Forest Products	7.7%	3.1%	6.4%
Cement & Aggregate	6.8%	1.0%	5.1%
Transportation	4.9%	4.6%	4.8%
Total	100.0%	100.0%	100.0%

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

Three Months Ended September 30, 2018			
	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	35.8%	44.0%	38.3%
Industrial Machinery	9.2%	21.4%	12.9%
Metals	11.1%	7.8%	10.1%
Food	10.8%	2.5%	8.3%
Oil & Gas	9.6%	2.1%	7.3%
Chem/Petrochem	3.5%	15.6%	7.1%
Forest Products	8.7%	2.6%	6.9%
Cement & Aggregate	6.8%	1.0%	5.0%
Transportation	4.5%	3.0%	4.1%
Total	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, 2019 and 2018:

Three Months Ended September 30, 2019			
	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	34.5%	9.3%	27.1%
Fluid Power	13.3%	39.7%	21.1%
General Maintenance; Hose Products	26.3%	8.0%	20.9%
Bearings, Linear & Seals	25.9%	0.3%	18.3%
Specialty Flow Control	—%	42.7%	12.6%
Total	100.0%	100.0%	100.0%

Three Months Ended September 30, 2018			
	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	32.8%	1.5%	23.3%
Fluid Power	14.0%	37.6%	21.1%
General Maintenance; Hose Products	27.6%	4.7%	20.8%
Bearings, Linear & Seals	25.6%	—%	17.9%
Specialty Flow Control	—%	56.2%	16.9%
Total	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, 2019	June 30, 2019	\$ Change	% Change
Contract assets	\$ 7,338	\$ 8,920	\$ (1,582)	(17.7)%

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 2020 Acquisition

On August 21, 2019, the Company acquired 100% of the outstanding shares of Olympus Controls, a Portland, Oregon automation solutions provider - including design, assembly, integration, and distribution - of motion control, machine vision, and robotic technologies. Olympus Controls is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was \$34,901, net tangible assets acquired were \$9,464, and intangible assets including goodwill was \$25,437 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.

Fiscal 2019 Acquisitions

On March 4, 2019, the Company acquired substantially all of the net assets of MilRoc Distribution (MilRoc) and Woodward Steel (Woodward). MilRoc is an Oklahoma based distributor of oilfield specific products, namely pumps and valves, as well as equipment repair services and industrial parts to the oil & gas industry. Woodward is an Oklahoma based steel supplier to the oil & gas and agriculture industries. MilRoc and Woodward are both included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$35,000, net tangible assets acquired were \$17,788, and intangible assets including goodwill was \$17,212 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase price includes acquisition holdback payments of \$4,375, which are included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of September 30, 2019, and which will be paid on the first, second, and third anniversaries of the acquisition date with interest at a fixed rate of 2.0% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

On November 2, 2018, the Company acquired substantially all of the net assets of Fluid Power Sales, Inc. (FPS), a Baldwinsville, New York based manufacturer and distributor of fluid power components, specializing in the engineering and fabrication of manifolds and power units. FPS is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was \$8,100, net tangible assets acquired were \$4,150, and goodwill was \$3,950 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase price includes acquisition holdback payments of \$1,200, which is included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of September 30, 2019, and which will be paid on the first and second anniversaries of the acquisition date with interest at a fixed rate of 1.5% per annum. The Company funded this acquisition using available cash. The acquisition price and the results of operations for the acquired entity are not material in relation to the Company's consolidated financial statements.

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

4. GOODWILL AND INTANGIBLES

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

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Balance at July 1, 2018	\$ 203,084	\$ 443,559	\$ 646,643
Goodwill acquired during the period	9,943	4,798	14,741
Other, primarily currency translation	607	—	607
Balance at June 30, 2019	\$ 213,634	\$ 448,357	\$ 661,991
Goodwill adjusted/acquired during the period	(3,393)	12,773	9,380
Other, primarily currency translation	105	—	105
Balance at September 30, 2019	\$ 210,346	\$ 461,130	\$ 671,476

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

The Company has seven (7) reporting units for which an annual goodwill impairment assessment was performed as of January 1, 2019. The Company concluded that all of the reporting units' fair value exceeded their carrying amounts by at least 20% as of January 1, 2019. Specifically, the Canada reporting unit's fair value exceeded its carrying value by 25%, and the reporting unit comprised of the FCX Performance Inc. operations' fair value exceeded its carrying value by 20%. The Canada and FCX reporting units have goodwill balances of \$28,067 and \$440,012, respectively, as of September 30, 2019. The fair values of the reporting units in accordance with the goodwill impairment test were determined using the income and market approaches. The income approach employs the discounted cash flow method reflecting projected cash flows expected to be generated by market participants and then adjusted for time value of money factors, and requires management to make significant estimates and assumptions related to forecasts of future revenues, operating margins, and discount rates. The market approach utilizes an analysis of comparable publicly traded companies and requires management to make significant estimates and assumptions related to the forecasts of future revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA) and multiples that are applied to management's forecasted revenues and EBITDA estimates.

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

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

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

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, 2019	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Identifiable Intangibles:			
Customer relationships	\$ 435,325	\$ 142,389	\$ 292,936
Trade names	107,695	29,189	78,506
Vendor relationships	11,306	8,315	2,991
Non-competition agreements	1,462	1,024	438
Total Identifiable Intangibles	<u>\$ 555,788</u>	<u>\$ 180,917</u>	<u>\$ 374,871</u>

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

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

During the three month period ended September 30, 2019, 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	\$ 12,664	20
Total Intangibles Acquired	<u>\$ 12,664</u>	<u>20</u>

Estimated future amortization expense by fiscal year (based on the Company's identifiable intangible assets as of September 30, 2019) for the next five years is as follows: \$30,200 for the remainder of 2020, \$38,600 for 2021, \$36,400 for 2022, \$34,200 for 2023, \$30,000 for 2024 and \$26,000 for 2025.

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5. DEBT

Revolving Credit Facility & Term Loan

In January 2018, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a \$780,000 unsecured term loan and a \$250,000 unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At September 30, 2019 and June 30, 2019, the Company had \$608,750 and \$613,625, respectively, outstanding under the term loan. The interest rate on the term loan as of September 30, 2019 and June 30, 2019 was 3.81% and 4.19%, respectively. The Company had no amount outstanding under the revolver at September 30, 2019 or June 30, 2019. Unused lines under this facility, net of outstanding letters of credit of \$2,462 and \$3,215, respectively, to secure certain insurance obligations, totaled \$247,538 and \$246,785 at September 30, 2019 and June 30, 2019, respectively, and were available to fund future acquisitions or other capital and operating requirements.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$3,087 and \$2,698 as of September 30, 2019 and June 30, 2019, respectively, in order to secure certain insurance obligations.

Trade Receivable Securitization Facility

In August 2018, the Company established a trade receivable securitization facility (the "AR Securitization Facility") with a termination date of August 31, 2021. The maximum availability under the AR Securitization Facility is \$175,000. Availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and, therefore, at certain times, we may not be able to fully access the \$175,000 of funding available under the AR Securitization Facility. The AR Securitization Facility effectively increases the Company's borrowing capacity by collateralizing a portion of the amount of the Service Center Based Distribution reportable segment's U.S. operations' trade accounts receivable. The collateralized trade accounts receivable is equal to the borrowed amount outstanding under the AR Securitization Facility and there are no restrictions on cash or other assets. The Company uses the proceeds from the AR Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs. Borrowings under this facility carry variable interest rates tied to LIBOR and fees on the AR Securitization Facility are 0.90% per year. As of September 30, 2019, and June 30, 2019, the Company borrowed \$175,000 under the AR Securitization Facility. The interest rate on the AR securitization as of September 30, 2019 and June 30, 2019 was 3.04% and 3.33%, respectively.

Other Long-Term Borrowings

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

In 2014, the Company assumed \$2,359 of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At September 30, 2019 and June 30, 2019, \$1,145 and \$1,204 was outstanding, respectively.

Unamortized debt issue costs of \$577 are included as a reduction of current portion of long-term debt on the condensed consolidated balance sheets as of September 30, 2019 and June 30, 2019. Unamortized debt issue costs of \$1,234 and \$1,366 are included as a reduction of long-term debt on the condensed consolidated balance sheets as of September 30, 2019 and June 30, 2019, respectively.

6. DERIVATIVES

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise

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from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's borrowings.

Cash Flow Hedges of Interest Rate Risk

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

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

In January 2019, the Company entered into an interest rate swap to mitigate variability in forecasted interest payments on \$463,000 of the Company's U.S. dollar-denominated unsecured variable rate debt. The interest rate swap effectively converts a portion of the floating rate interest payment into a fixed rate interest payment. The Company designated the interest rate swap as a pay-fixed, receive-floating interest rate swap instrument and is accounting for this derivative as a cash flow hedge. The interest rate swap converts \$463,000 of variable rate debt to a rate of 3.88%. The fair value of the interest rate cash flow hedge was \$15,955 and \$14,202 as of September 30, 2019 and June 30, 2019 (Level 2 in the fair value hierarchy), respectively, which is included in other current liabilities and other liabilities in the condensed consolidated balance sheet. Realized losses related to the interest rate cash flow hedge were not material during the three months ended September 30, 2019.

7. FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at September 30, 2019 and June 30, 2019 totaled \$11,360 and \$11,246, respectively. The majority of these marketable securities are held in a rabbi trust for a non-qualified deferred compensation plan. The marketable securities are included in other assets on the accompanying condensed consolidated balance sheets and their fair values were determined using quoted market prices (Level 1 in the fair value hierarchy).

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

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

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8. SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

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

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

	Three Months Ended September 30, 2018			
	Foreign currency translation adjustment	Unrealized gain on securities available for sale	Post-employment benefits	Total Accumulated other comprehensive (loss) income
Balance at July 1, 2018	\$ (87,974)	\$ 50	\$ (2,299)	\$ (90,223)
Other comprehensive income	5,453	—	—	5,453
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(56)	(56)
Net current-period other comprehensive income (loss)	5,453	(50)	(56)	5,347
Balance at September 30, 2018	\$ (82,521)	\$ —	\$ (2,355)	\$ (84,876)

Other Comprehensive (Loss) Income

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

	Three Months Ended September 30,					
	2019			2018		
	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount
Foreign currency translation adjustments	\$ (4,034)	\$ (121)	\$ (3,913)	\$ 5,714	\$ 261	\$ 5,453
Post-employment benefits:						
Reclassification of net actuarial gains and prior service cost into other income, net and included in net periodic pension costs	(17)	(4)	(13)	(75)	(19)	(56)
Unrealized loss on cash flow hedge	(2,180)	(537)	(1,643)	—	—	—
Reclassification of interest from cash flow hedge into interest expense	427	105	322	—	—	—
Cumulative effect of adopting accounting standard	—	—	—	(50)	—	(50)
Other comprehensive (loss) income	\$ (5,804)	\$ (557)	\$ (5,247)	\$ 5,589	\$ 242	\$ 5,347

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Anti-dilutive Common Stock Equivalents

In the three month periods ended September 30, 2019 and 2018, respectively, stock options and stock appreciation rights related to 740 and 250 shares of common stock, were not included in the computation of diluted earnings per share for the periods then ended as they were anti-dilutive.

9. LEASES

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

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

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

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

The Company's operating lease expense is recognized on a straight-line basis over the lease term and is recorded in selling, distribution and administrative expense on the condensed statements of consolidated income. Operating lease costs and short-term lease costs for the three months ended September 30, 2019 were \$8,300 and \$2,597, respectively. Variable lease costs and sublease income were not material.

Information related to operating leases is as follows:

	As of September 30, 2019
Operating lease assets, net	\$ 86,557
Operating lease liabilities	
Other current liabilities	\$ 29,253
Other liabilities	63,332
Total operating lease liabilities	\$ 92,585
	Three Months Ended September 30, 2019
Weighted average remaining lease term	4.6
Weighted average incremental borrowing rate	3.43%
Cash paid for operating leases	\$ 8,553
Right of use assets obtained in exchange for new operating lease liabilities	\$ 11,799

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The table below summarizes the aggregate maturities of operating lease liabilities of more than one year for each of the next five years:

Fiscal Year	Maturity of Operating Lease Liabilities
2020	\$ 24,706
2021	25,177
2022	18,042
2023	11,940
2024	9,124
Thereafter	12,640
Total lease payments	101,629
Less interest	(9,044)
Present value of lease liabilities	<u>\$ 92,585</u>

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

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

10. SEGMENT INFORMATION

The accounting policies of the Company's reportable segments are generally the same as those used to prepare the condensed consolidated financial statements. LIFO expense of \$358 and \$1,671 is recorded in cost of sales in the condensed statements of income for the three months ended September 30, 2019 and 2018, respectively, and is included in operating income for the Service Center Based Distribution segment. The Company allocates LIFO expense between the segments in the fourth quarter of its fiscal year. Intercompany sales, primarily from the Fluid Power & Flow Control segment to the Service Center Based Distribution segment, of \$7,313 and \$6,916, in the three months ended September 30, 2019 and 2018, respectively, have been eliminated in the Segment Financial Information tables below.

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Three Months Ended	Service Center Based Distribution	Fluid Power & Flow Control	Total
September 30, 2019			
Net sales	\$ 603,160	\$ 253,244	\$ 856,404
Operating income for reportable segments	60,360	26,857	87,217
Assets used in business	1,289,592	1,140,140	2,429,732
Depreciation and amortization of property	4,178	1,045	5,223
Capital expenditures	4,195	751	4,946
September 30, 2018			
Net sales	\$ 604,049	\$ 260,466	\$ 864,515
Operating income for reportable segments	62,809	30,880	93,689
Assets used in business	1,227,815	1,077,873	2,305,688
Depreciation and amortization of property	3,911	1,070	4,981
Capital expenditures	2,444	729	3,173

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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,	
	2019	2018
Operating income for reportable segments	\$ 87,217	\$ 93,689
Adjustment for:		
Intangible amortization—Service Center Based Distribution	3,054	4,018
Intangible amortization—Fluid Power & Flow Control	7,320	6,903
Corporate and other expense, net	15,677	16,429
Total operating income	61,166	66,339
Interest expense, net	10,059	10,476
Other income, net	—	(239)
Income before income taxes	\$ 51,107	\$ 56,102

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

11. OTHER INCOME, NET

Other income, net consists of the following:

	Three Months Ended September 30,	
	2019	2018
Unrealized gain on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ (55)	\$ (342)
Foreign currency transactions (gain) loss	(222)	27
Net other periodic post-employment benefits	(30)	(22)
Life insurance expense, net	300	87
Other, net	7	11
Total other income, net	\$ —	\$ (239)

12. SUBSEQUENT EVENTS

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

On October 30, 2019, the Company authorized the issuance of its senior unsecured promissory notes under its unsecured shelf facility agreement with Prudential Investment Management (the “Series E” notes) in the aggregate principal amount of \$25,000, with a maturity date of October 30, 2024, carrying a fixed interest rate of 3.08%.

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With approximately 6,750 employees across North America, Australia, New Zealand, and Singapore, Applied Industrial Technologies (“Applied,” the “Company,” “We,” “Us” or “Our”) is a leading value-added distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, automation technologies, and other industrial supplies, serving MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial, fluid power, and flow control applications, as well as customized mechanical, fabricated rubber, fluid power, and flow control shop services. Applied also offers storeroom services and inventory management solutions that provide added value to its customers. We have a long tradition of growth dating back to 1923, the year our business was founded in Cleveland, Ohio. During the first quarter of fiscal 2020, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from 604 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, 2019 decreased \$8.1 million or 0.9% compared to the prior year quarter, with acquisitions increasing sales by \$24.2 million or 2.8% and unfavorable foreign currency translation of \$1.3 million decreasing sales by 0.1%. Operating margin of 7.1% of sales was down from 7.7% for the prior year quarter. Net income of \$38.8 million decreased 20.7% compared to the prior year quarter. The current ratio was 2.4 to 1 at September 30, 2019 and 2.7 to 1 at June 30, 2019.

During the quarter ended September 30, 2019, the Company recorded a non-routine expense of \$1.5 million for severance activities to reduce headcount recorded within selling, distribution and administrative expense. Total severance charges reduced operating income for the quarter by \$1.5 million, net income by \$1.1 million, and earnings per share by \$0.02.

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

The MCU (total industry) and IP indices have declined since June 2019 and September 2018. The MCU for September 2019 was 77.5, which is down from both the June 2019 and September 2018 revised readings of 77.7 and 79.3, respectively. The ISM PMI registered 47.8 in September, down from the June 2019 reading of 51.7, and dropping below 50 (its expansionary threshold). The indices for the months during the current quarter were as follows:

Month	Index Reading		
	MCU	PMI	IP
September 2019	77.5	47.8	104.8
August 2019	77.9	49.1	105.2
July 2019	77.4	51.2	104.7

The number of Company employees was 6,753 at September 30, 2019, 6,650 at June 30, 2019, and 6,600 at September 30, 2018. The number of operating facilities totaled 604 at September 30, 2019, 600 at June 30, 2019 and 607 at September 30, 2018.

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Results of Operations
Three months Ended September 30, 2019 and 2018

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

	Three Months Ended September 30,		Change in \$'s Versus Prior Period - % (Decrease) Increase
	As a Percent of Net Sales		
	2019	2018	
Net sales	100.0%	100.0%	(0.9)%
Gross profit	29.4%	29.1%	(0.2)%
Selling, distribution & administrative expense	22.2%	21.5%	2.6 %
Operating income	7.1%	7.7%	(7.8)%
Net income	4.5%	5.7%	(20.7)%

During the quarter ended September 30, 2019, sales decreased \$8.1 million or 0.9% compared to the prior year quarter, with sales from acquisitions adding \$24.2 million or 2.8% and unfavorable foreign currency translation accounting for a decrease of \$1.3 million or 0.1%. There were 64 selling days in the quarter ended September 30, 2019 and 63 selling days in the quarter ended September 30, 2018. Excluding the impact of businesses acquired and foreign currency translation, sales were down \$31.0 million or 3.6% during the quarter, driven by a 5.2% decrease from operations, offset by an increase of 1.6% due to one additional sales day.

The following table shows changes in sales by reportable segment.

Sales by Reportable Segment	Three Months Ended September 30,		Amount of change due to			
	2019	2018	Sales Decrease	Acquisitions	Foreign Currency	Organic Change
Service Center Based Distribution	\$ 603.2	\$ 604.0	\$ (0.9)	\$ 12.0	\$ (1.3)	\$ (11.6)
Fluid Power & Flow Control	253.2	260.5	(7.2)	12.2	—	(19.4)
Total	\$ 856.4	\$ 864.5	\$ (8.1)	\$ 24.2	\$ (1.3)	\$ (31.0)

Sales from our Service Center Based Distribution segment, which operates primarily in MRO markets, decreased \$0.9 million or 0.1%. The acquisition within this segment increased sales by \$12.0 million or 2.0% while unfavorable foreign currency translation decreased sales by \$1.3 million or 0.2%. Excluding the impact of businesses acquired and foreign currency translation, sales decreased \$11.6 million or 1.9%, driven by a 3.5% decrease from operations which reflects the downturn in the industrial economy and correlates with the decreases in the MCU and IP indices, offset by an increase of 1.6% due to one additional sales day.

Sales from our Fluid Power & Flow Control segment decreased \$7.2 million or 2.8%. The acquisitions within this segment increased sales by \$12.2 million or 4.6%. Excluding the impact of businesses acquired, sales decreased \$19.4 million or 7.5%, due to a 9.0% decrease from operations offset by an increase of 1.6% due to one additional sales day. The decrease from operations is primarily due to weaker demand in our flow control operations and slower activity across our industrial OEM customer base, as well as technology end-market headwinds in our fluid power businesses.

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

Sales by Geographic Area	Three Months Ended September 30,		Sales Decrease	Amount of change due to		
	2019	2018		Acquisitions	Foreign Currency	Organic Change
United States	\$ 743.0	\$ 747.4	\$ (4.4)	\$ 24.2	\$ —	\$ (28.6)
Canada	65.9	69.1	(3.2)	—	(0.5)	(2.7)
Other countries	47.5	48.0	(0.5)	—	(0.8)	0.3
Total	\$ 856.4	\$ 864.5	\$ (8.1)	\$ 24.2	\$ (1.3)	\$ (31.0)

Sales in our U.S. operations were down \$4.4 million or 0.6%, as acquisitions added \$24.2 million or 3.2%. Excluding the impact of businesses acquired, U.S. sales were down \$28.6 million or 3.8%, driven by a decrease of 5.4% from operations, offset by an increase of 1.6% due to one additional sales day. Sales from our Canadian operations decreased \$3.2 million or 4.6%, and unfavorable foreign currency translation decreased Canadian sales by \$0.5 million or 0.7%. Excluding the impact of foreign currency translation, Canadian sales were down \$2.7 million or 3.9%, driven by a decrease of 5.5% from operations, offset by an increase of 1.6% due to one additional sales day. Consolidated sales from our other country operations, which include Mexico, Australia, New Zealand, and Singapore, decreased \$0.5 million or 1.1% from the prior year. Unfavorable foreign currency translation decreased other country sales by \$0.8 million or 1.7%. Excluding the impact of currency translation, other country sales were up \$0.3 million, or 0.6% during the quarter, driven by an increase of 0.7% due to one additional sales day.

Our gross profit margin was 29.4% in the quarter ended September 30, 2019 compared to 29.1% in the prior year quarter. The reduction in LIFO expense in the current quarter compared to the prior year quarter favorably impacted gross profit margin by 15 basis points during the quarter ended September 30, 2019.

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

	Three Months Ended September 30,		SD&A Increase	Amount of change due to		
	2019	2018		Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 190.3	\$ 185.5	\$ 4.8	\$ 5.5	\$ (0.5)	\$ (0.2)

SD&A consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management and providing marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as human resources, information technology, treasury, accounting, insurance, legal, and facility related expenses. SD&A was 22.2% of sales in the quarter ended September 30, 2019 compared to 21.5% in the prior year quarter. SD&A increased \$4.8 million or 2.6% compared to the prior year quarter. Changes in foreign currency exchange rates had the effect of decreasing SD&A during the quarter ended September 30, 2019 by \$0.5 million or 0.3% compared to the prior year quarter. SD&A from businesses acquired added \$5.5 million or 3.0% of SD&A expenses, including \$0.6 million of intangibles amortization related to acquisitions. Excluding the impact of businesses acquired and the favorable currency translation impact, SD&A decreased \$0.2 million or 0.1% during the quarter ended September 30, 2019 compared to the prior year quarter. The Company incurred \$1.5 million of non-routine expenses related to severance during the quarter ended September 30, 2019. Excluding the impact of acquisitions and severance, total compensation decreased \$1.0 million during the quarter ended September 30, 2019, which was unfavorably impacted by one additional payroll day in the current quarter compared to the prior year quarter. All other expenses within SD&A were down \$0.7 million.

Operating income decreased \$5.2 million or 7.8%, and as a percent of sales decreased to 7.1% from 7.7% during the prior year quarter.

Operating income as a percentage of sales for the Service Center Based Distribution segment decreased to 10.0% in the current year quarter from 10.4% in the prior year quarter. Operating income as a percentage of sales for the Fluid Power & Flow Control segment decreased to 10.6% in the current year quarter from 11.9% in the prior year quarter.

Other income, net for the quarter consisted of net favorable foreign currency transaction gains of \$0.2 million and unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.1 million, offset by life insurance expense of

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\$0.3 million. During the prior year quarter, other income, net was \$0.2 million, which included unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.3 million, offset by of life insurance expense of \$0.1 million.

The effective income tax rate was 24.1% for the quarter ended September 30, 2019 compared to 12.8% for the quarter ended September 30, 2018. The increase in the effective tax rate primarily relates to the Company recording a \$4.1 million favorable adjustment related to the Tax Cuts and Jobs Act in the quarter ended September 30, 2018, which favorably impacted the effective income tax rate by 7.3% in the prior year quarter. We expect our full year tax rate for fiscal 2020 to be in the 25.0% to 26.0% range.

As a result of the factors addressed above, net income decreased \$10.1 million or 20.7% compared to the prior year quarter. Net income per share was \$1.00 per share for the quarter ended September 30, 2019, compared to \$1.24 in the prior year quarter, a decrease of 19.4%.

Liquidity and Capital Resources

Our primary source of capital is cash flow from operations, supplemented as necessary by bank borrowings or other sources of debt. At September 30, 2019, we had \$954.9 million in outstanding borrowings. At June 30, 2019, we had \$959.8 million in outstanding borrowings. Management expects that our existing cash, cash equivalents, funds available under the revolving credit facility, and cash provided from operations, will be sufficient to finance normal working capital needs in each of the countries in which we operate, payment of dividends, acquisitions, investments in properties, facilities and equipment, debt service, and the purchase of additional Company common stock. Management also believes that additional long-term debt and line of credit financing could be obtained based on the Company's credit standing and financial strength.

The Company's working capital at September 30, 2019 was \$666.2 million, compared to \$724.3 million at June 30, 2019. The current ratio was 2.4 to 1 at September 30, 2019 and 2.7 to 1 at June 30, 2019.

Net Cash Flows

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

Net Cash Provided by (Used in):	Three Months Ended September 30,	
	2019	2018
Operating Activities	\$ 50,018	\$ 11,797
Investing Activities	(40,561)	(3,096)
Financing Activities	(18,874)	(6,875)
Exchange Rate Effect	(598)	432
(Decrease) Increase in Cash and Cash Equivalents	\$ (10,015)	\$ 2,258

Net cash provided by operating activities was \$50.0 million for the three months ended September 30, 2019 compared to \$11.8 million provided by operating activities in the prior period. The increase in cash provided by operating activities during the three months ended September 30, 2019 is related to working capital improvements.

Net cash used in investing activities during the three months ended September 30, 2019 increased from the prior period primarily due to \$35.7 million used for acquisitions in the current year period, while no acquisitions occurred in the prior year period.

Net cash used in financing activities during the three months ended September 30, 2019 increased from the prior period primarily due to a change in net debt activity, as there was \$4.9 million of net debt payments in the current year period compared to \$8.6 million of net debt borrowings in the prior year period. Further, \$12.0 million of cash was used for the payment of dividends in the current year period compared to \$11.3 million used in 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, 2019 and September 30, 2018, the Company did not acquire any shares of treasury stock on the open market. At September 30, 2019, we had authorization to repurchase 864,618 shares.

Borrowing Arrangements

In January 2018, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a \$780.0 million unsecured term loan and a \$250.0 million

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At September 30, 2019 and June 30, 2019, the Company had \$608.8 million and \$613.6 million, respectively, outstanding under the term loan. The interest rate on the term loan as of September 30, 2019 and June 30, 2019 was 3.81% and 4.19%, respectively. The Company had no amount outstanding under the revolver at September 30, 2019 or June 30, 2019. Unused lines under this facility, net of outstanding letters of credit of \$2.5 million and \$3.2 million, respectively, to secure certain insurance obligations, totaled \$247.5 million and \$246.8 million at September 30, 2019 and June 30, 2019, respectively, and were available to fund future acquisitions or other capital and operating requirements.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$3.1 million and \$2.7 million as of September 30, 2019 and June 30, 2019, respectively, in order to secure certain insurance obligations.

In August 2018, the Company established a trade receivable securitization facility (the "AR Securitization Facility") with a termination date of August 31, 2021. The maximum availability under the AR Securitization Facility is \$175.0 million. Availability is further subject to changes in the credit ratings of our customers, customer concentration levels or certain characteristics of the accounts receivable being transferred and, therefore, at certain times, we may not be able to fully access the \$175.0 million of funding available under the AR Securitization Facility. The AR Securitization Facility effectively increases the Company's borrowing capacity by collateralizing a portion of the amount of the Service Center Based Distribution reportable segment's U.S. operations' trade accounts receivable. The collateralized trade accounts receivable is equal to the borrowed amount outstanding under the AR Securitization Facility and there are no restrictions on cash or other assets. The Company uses the proceeds from the AR Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs. Borrowings under this facility carry variable interest rates tied to LIBOR and fees on the AR Securitization Facility are 0.90% per year. As of September 30, 2019 and June 30, 2019, the Company borrowed \$175.0 million under the AR Securitization Facility. The interest rate on the AR securitization as of September 30, 2019 and June 30, 2019 was 3.04% and 3.33%, respectively.

At September 30, 2019 and June 30, 2019, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170.0 million. The "Series C" notes have a principal amount of \$120.0 million and carry a fixed interest rate of 3.19%, and are due in equal principal payments in July 2020, 2021, and 2022. The "Series D" notes have a principal amount of \$50.0 million and carry a fixed interest rate of 3.21%, and are due in equal principal payments in October 2019 and 2023.

In 2014, the Company assumed \$2.4 million of debt as a part of the headquarters facility acquisition. The 1.50% fixed interest rate note is held by the State of Ohio Development Services Agency, maturing in May 2024. At September 30, 2019 and June 30, 2019, \$1.1 million and \$1.2 million was outstanding, respectively.

The new credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At September 30, 2019, the most restrictive of these covenants required that the Company have net indebtedness less than 4.0 times consolidated income before interest, taxes, depreciation and amortization (as defined). At September 30, 2019, the Company's net indebtedness was less than 3.0 times consolidated income before interest, taxes, depreciation and amortization (as defined). The Company was in compliance with all financial covenants at September 30, 2019.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
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Accounts Receivable Analysis

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

	September 30, 2019	June 30, 2019
Accounts receivable, gross	\$ 540,975	\$ 551,400
Allowance for doubtful accounts	11,645	10,498
Accounts receivable, net	\$ 529,330	\$ 540,902
Allowance for doubtful accounts, % of gross receivables	2.2%	1.9%

	Three Months Ended September 30, 2019	2018
Provision for losses on accounts receivable	\$ 2,175	\$ 1,164
Provision as a % of net sales	0.25%	0.13%

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 55.6 at September 30, 2019 compared to 55.2 at June 30, 2019.

Approximately 3.3% of our accounts receivable balances are more than 90 days past due, compared to 3.0% at June 30, 2019. On an overall basis, our provision for losses from uncollected receivables represents 0.25% of our sales in the three months ended September 30, 2019. The increase primarily relates to provisions recorded in the current year for customer 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, 2019 was 4.1 compared to 4.2 at June 30, 2019. We believe our inventory turnover ratio at the end of the year will be similar or slightly better than the ratio at September 30, 2019.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Cautionary Statement Under Private Securities Litigation Reform Act

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

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

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

We discuss certain of these matters and other risk factors more fully throughout this Form 10-Q as well as other of our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended June 30, 2019.

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

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

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, 2019 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, and other matters. Although it is not possible to predict the outcome of these proceedings or the range of reasonably possible loss, the Company believes, based on circumstances currently known, that the likelihood is remote that the ultimate resolution of any of these proceedings will have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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

Repurchases of common stock in the quarter ended September 30, 2019 were as follows:

Period	(a) Total Number of Shares	(b) Average Price Paid per Share (\$)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2019 to July 31, 2019	491	\$58.90	0	864,618
August 1, 2019 to August 31, 2019	0	\$0.00	0	864,618
September 1, 2019 to September 30, 2019	0	\$0.00	0	864,618
Total	491	\$58.90	0	864,618

- (1) During the quarter the Company purchased 491 shares in connection with the Deferred Compensation Plan.
- (2) On October 24, 2016, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock, replacing the prior authorization. We publicly announced the new authorization on October 26, 2016. Purchases can be made in the open market or in privately negotiated transactions.
The authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

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ITEM 6. [Exhibits](#)

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Applied Industrial Technologies, Inc., as amended on October 25, 2005 (filed as Exhibit 3(a) to the Company's Form 10-Q for the quarter ended December 31, 2005, SEC File No. 1-2299, and incorporated here by reference).
3.2	Code of Regulations of Applied Industrial Technologies, Inc., as amended on October 19, 1999 (filed as Exhibit 3(b) to the Company's Form 10-Q for the quarter ended September 30, 1999, SEC File No. 1-2299, and incorporated here by reference).
4.1	Certificate of Merger of Bearings, Inc. (Ohio) (now named Applied Industrial Technologies, Inc.) and Bearings, Inc. (Delaware) filed with the Ohio Secretary of State on October 18, 1988, including an Agreement and Plan of Reorganization dated September 6, 1988 (filed as Exhibit 4(a) to the Company's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
4.2	Private Shelf Agreement dated as of November 27, 1996, as amended through June 29, 2018, between Applied and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), conformed to show all amendments (filed as Exhibit 4.2 to the Company's Form 10-K for the fiscal year ended June 30, 2018, SEC File No. 1-2299, and incorporated here by reference).
4.3	Request for Purchase dated May 30, 2014 and 3.19% Series C Notes dated July 1, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 10.1 to the Company's Form 8-K filed July 2, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.4	Request for Purchase dated October 22, 2014 and 3.21% Series D Notes dated October 30, 2014, under Private Shelf Agreement dated November 27, 1996, as amended, between Applied Industrial Technologies, Inc. and Prudential Investment Management, Inc. (filed as Exhibit 4.5 to the Company's Form 10-Q for the quarter ended September 30, 2014, SEC File No. 1-2299, and incorporated here by reference).
4.5	Credit Agreement dated as of January 31, 2018, among Applied Industrial Technologies, Inc., KeyBank National Association as Agent, and various financial institutions (filed as Exhibit 10.1 to the Company's Form 8-K filed February 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
4.6	Receivables Financing Agreement dated as of August 31, 2018 among AIT Receivables LLC, as borrower, PNC Bank, National Association, as administrative agent, Applied Industrial Technologies, Inc., as initial servicer, PNC Capital Markets LLC, as structuring agent and the additional persons from time to time party thereto, as lenders (filed as Exhibit 10.1 to the Company's Form 8-K filed September 6, 2018, SEC File No. 1-2299, and incorporated here by reference).
10.1	Management Incentive Plan General Terms
10.2	Performance Shares Terms and Conditions
10.3	2019 Long Term Performance Plan, amended and restated, as approved by the Shareholders on October 29, 2019
31	Rule 13a-14(a)/15d-14(a) certifications
32	Section 1350 certifications
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

Certain instruments with respect to long-term debt have not been filed as exhibits because the total amount of securities authorized under any one of the instruments does not exceed 10 percent of the total assets of the Company and its subsidiaries

on a consolidated basis. The Company agrees to furnish to the Securities and Exchange Commission, upon request, a copy of each such instrument.

SIGNATURES

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

APPLIED INDUSTRIAL TECHNOLOGIES, INC.
(Company)

Date: October 31, 2019

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

Date: October 31, 2019

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

Management Incentive Plan General Terms

Authority

The annual Management Incentive Plan (the “Plan”) is established by the Board’s Executive Organization & Compensation Committee (the “Committee”) under the 2015 Long-Term Performance Plan (the “2015 LTPP”).

Objective

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

Participation

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

Plan Goals

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

Eligibility for Awards

If Plan goals are met, to be eligible for an award under the Plan, a participant must comply with the 2015 LTPP. In addition, except as provided in the 2015 LTPP, the participant must be actively employed by the Company on the last day of the fiscal year, except that,

- Participants retiring at age 55 or older under a Company retirement plan shall be eligible for a prorated award based on date of retirement (calculated using number of days’ participation in the Plan).
-

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

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

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

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

Change in Control

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

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

Other

These General Terms, together with the 2015 LTPP, govern the Plan. The Committee has the authority to construe the Plan, to establish, amend, and rescind rules and regulations relating to the Plan, and to make all other determinations, in the Committee's judgment, necessary or desirable for the Plan's administration. Except as specifically provided in these General Terms, in the event of any conflict between the provisions of the 2015 LTPP and the General Terms, the provisions of the 2015 LTPP shall

govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in these General Terms shall have the same meanings as set forth in the 2015 LTPP.

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

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

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

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

(August 2019)

Performance Shares Terms and Conditions

1. **Award of Performance Shares.** The Executive Organization & Compensation Committee (the “Committee”) of the Board of Directors of Applied Industrial Technologies, Inc. (“Applied”; together with its subsidiaries and affiliates, the “Company”) may award Performance Shares (the “Award”) to key senior officers of Applied who have broad policy-making functions and who directly contribute to the long-term success and profitability of the Company. The Committee has awarded you an Award with an Effective Date. The terms and conditions are set forth herein (the “Terms”) and together with the Applied Industrial Technologies, Inc. 2015 Long-Term Performance Plan (the “Plan”) govern your rights with respect to the Award. Notwithstanding the foregoing, however, in the event of any conflict between the provisions of the Plan and the Terms, the provisions of the Plan shall govern. Moreover, it should be noted that unless otherwise provided herein, capitalized words in the Terms shall have the same meanings as set forth in the Plan.

2. **Rights during Performance Period.** You shall not have the right to sell, exchange, transfer, pledge, hypothecate, or otherwise encumber your Award until all conditions with respect to vesting and distribution have been met. Until the issuance of shares of Applied common stock (“Shares”) to you in settlement of your Award has occurred, you shall not be treated as a shareholder with respect to the Shares.

3. **Performance Period.** The term “Performance Period” shall mean, for purposes of the Terms, the period from the Effective Date until the third year anniversary of the Effective Date.

4. **Vesting.** Subject to the provisions of Section 6, your Award will be 100% vested at the end of the Performance Period, in whole or in part based upon the achievement of the performance goals set by the Committee.

5. **Separation from Service or Termination of Officer Status.** If, during the Performance Period, you incur a Separation from Service (as defined in Section 409A) from the Company due to death or Disability (as defined in Section 409A) or termination after attaining age 55 and completing at least ten years of service with the Company, then, promptly following the availability of audited financial statements for the final year of the Performance Period, you (or your beneficiary whom you have designated to Applied in writing) shall be entitled to vesting of a portion of the Award (partial years shall be prorated by days) based on Applied’s actual performance relative to the performance goals for the individual years in the Performance Period that elapsed prior to your Separation from Service. In the event, however, that during the Performance Period, you incur a Separation from Service from the Company for any reason other than those specifically set forth above or in Section 6 hereof, then your Award will be forfeited and no amount shall be due or payable to you pursuant to the Award. In addition, if, during the Performance Period, you cease to be an officer of Applied (but remain an employee of the Company), then your Award shall be forfeited and no amount shall be due or payable to you pursuant to the Award.

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

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

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

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

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

7. **Settlement of Award.** Your Award shall be settled, based upon achieved performance goals, in Shares. Except as specifically provided otherwise in this Section 7, any Shares payable with respect to your Award shall be settled within the 75-day period after the end of the Performance Period. Notwithstanding the foregoing, in the event that your Award becomes vested due to a Change in Control, your Award shall be settled in Shares within the 75-day period after such vesting. In the event that any such 75-day period begins in one calendar year and ends in another, you shall not have the right to designate the calendar year of payment. Moreover, notwithstanding the foregoing, if you are a Specified Employee, a distribution of Shares, but only to the extent that such distribution is deemed to be deferred compensation under Section 409A, may not be made until within the 30-day period commencing with the first day of the seventh month following the month of any Separation from Service for reasons other than Change in Control, or if earlier, your death, except as may be otherwise permitted under Section 409A.

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

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

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

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

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

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

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

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

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

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

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

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

(August 2019)

**APPLIED INDUSTRIAL TECHNOLOGIES, INC.
2019 LONG-TERM PERFORMANCE PLAN**

1. Objectives

The Applied Industrial Technologies, Inc. 2019 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 persons performance-based stock awards, restricted stock, restricted stock units, stock options, stock appreciation rights and/or other performance or stock-based awards or cash.

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 Plan 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 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 upon authority given the Participant pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon 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 Committee of the Company’s Board, or such other committee of the Board designated by the Board, shall administer the Plan with respect to all awards to Participants who are Nonemployee Directors. 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, and its direct and indirect subsidiaries.
- (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 said exchange.
- (k) “*Nonemployee Director*” - Any Director who is not an employee of the Company.
- (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 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 30 days of such notice. A Participant shall not be deemed to have terminated the Participant’s employment with the Company for Good Reason unless such separation from service occurs no later than two years after the occurrence of the event constituting Good Reason.
- (m) “*Participant*” - Any employee of the Company, 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 65, or after attainment of age 55 and the completion of at least 10 years of employment with the Company.
- (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; provided, however, that an approved leave of absence shall not be considered a termination of employment if the leave does not exceed six 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 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.

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. Grants 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 two million two hundred fifty thousand (2,250,000) 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 grant 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 an 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 Awards 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 stockholders, 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 termination of employment by a Participant as permitted under Section 409A, or (ii) upon death or disability of a Participant.

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 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 or 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 be made only after the attainment of the applicable performance goals has been certified in writing 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 covered by Section 409A must be made with respect to performance periods that are at least 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 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 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

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 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 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. Participant also agrees that any Award shall be subject to repayment and/or forfeiture based upon 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 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 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 years after such exercise, payment or delivery. Within ten 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 Such 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 stock or units of stock; (ii) the stock 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 or assume stock options, whether or not in a transaction to which Section 424 of the Code applies, by means of substitution of new options for previously issued options or an assumption of previously issued options.

16. Change in Control

(a) Within the one-year period immediately following any Change in Control (as defined below), in the event (x) an employee-Participant's 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 termination of employment or 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 stockholders 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 Financial Officer or to the Chief Executive Officer of the Company, and shall become effective when it is received by the office of the Chief Financial Officer or the Chief Executive 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.

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 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 affiliate 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 the Participant’s 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 and Termination Dates

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 Plan shall continue in effect until (i) October 29, 2024, (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 31, 2019

By: /s/ Neil A. Schrimsher

Neil A. Schrimsher

President & Chief Executive Officer

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

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

Date: October 31, 2019

By: /s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer & Treasurer

[The following certification accompanies Applied Industrial Technologies' Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, 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, 2019, we, Neil A. Schrimsher, President & Chief Executive Officer, and David K. Wells, Vice President-Chief Financial Officer & Treasurer of the Company, certify that:

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

/s/ Neil A. Schrimsher

Neil A. Schrimsher

President & Chief Executive Officer

/s/ David K. Wells

David K. Wells

Vice President-Chief Financial Officer & Treasurer

Date: October 31, 2019

[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.]