



Expanding **Capabilities.** Enhanced **Differentiation.**

Annual Report 2019



Applied® at a Glance

Applied Industrial Technologies is a leading value-added distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, serving MRO and OEM customers in virtually every industry. In addition, Applied provides engineering, design and systems integration for industrial and fluid power 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.



Headquarters:
Cleveland, Ohio
USA



Operating Facilities:
600 in the United States,
Puerto Rico, Canada, Mexico, Australia,
New Zealand and Singapore



**of Leadership in
Distribution**



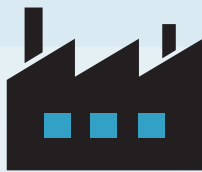
E-Commerce:
www.Applied.com



Distribution Centers:
11



Stock Keeping Units (SKUs)
Available to Customers:
7+ million



Product Manufacturers:
4,000+



NYSE: AIT

Stock Ticker Symbol



Employee Associates:
6,600+

Directors

Peter C. Wallace (3, 4)

Chairman of the Board of Directors
Former Chief Executive Officer
Gardner Denver, Inc.
(Equipment Manufacturer)
Former President and Chief Executive Officer
Robbins & Myers, Inc.
(Equipment Manufacturer)

Madhuri A. Andrews

Senior Vice President, Chief Digital
and Information Officer
Jacobs Engineering Group Inc.
(Technical, Professional, and Construction
Services)

Peter A. Dorsman (2, 3, 4)

Former Executive Vice President, Services
NCR Corporation
(Self-Service Technology Solutions)

Mary Dean Hall

Senior Vice President, Chief Financial Officer
and Treasurer
Quaker Houghton
(Industrial Process Fluids)

Edith Kelly-Green (1, 2, 3)

Former Vice President and
Chief Sourcing Officer
FedEx Express
(Express Transportation)

Dan P. Komnenovich (1, 2)

Former President and Chief Executive Officer
Aviall, Inc.
(Aviation Parts, Related Aftermarket Operations)

Robert J. Pagano, Jr. (1, 4)

President and Chief Executive Officer
Watts Water Technologies, Inc.
(Plumbing, Heating, and Water Quality Solutions)

Vincent K. Petrella (1, 3, 4)

Executive Vice President,
Chief Financial Officer and Treasurer
Lincoln Electric Holdings, Inc.
(Welding, Brazing Products Manufacturer)

Joe A. Raver (1, 2)

President and Chief Executive Officer
Hillenbrand, Inc.
(Diversified Industrial Company)

Neil A. Schrimsher (3)

President & Chief Executive Officer
Applied Industrial Technologies, Inc.

To Our Shareholders:

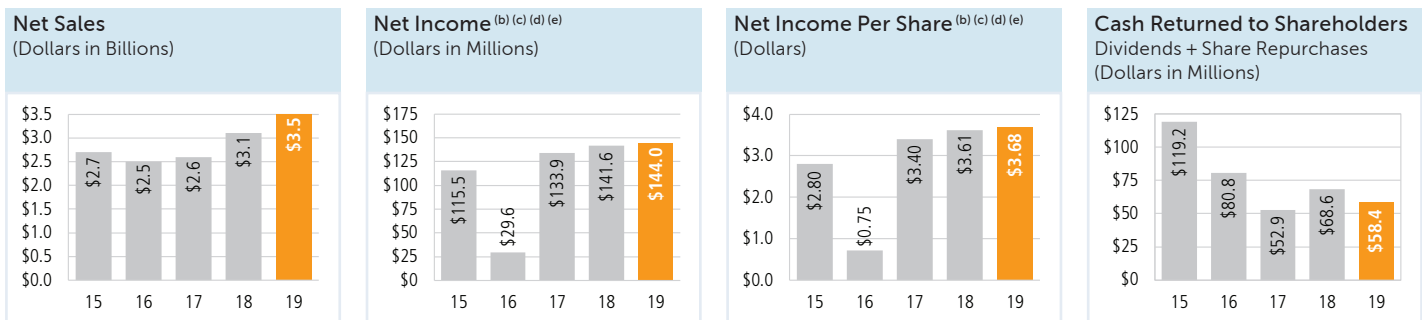
In fiscal 2019, we made meaningful progress in executing our strategy, creating success for our customers, and delivering value to our shareholders. Throughout the organization, our expanding capabilities and enhanced differentiation are yielding results in the form of new opportunities that positively impact our market position and customer base, and provide material contributions to the future growth of Applied.

2019 Financial Highlights:

Continued on next page

- » **Achieved record sales of \$3.5 billion**
- » **Increased net income to \$144.0 million; \$3.68 per share**
- » **Delivered \$328.4 million of EBITDA, up 18% year-over-year; 9.5% of sales, up 50 basis points year-over-year^(a)**
- » **Generated \$180.6 million of cash from operating activities, up 23% year-over-year**
- » **Returned \$58.4 million to shareholders through dividends and share repurchases**
- » **Raised the quarterly cash dividend to \$0.31 per common share, the 10th dividend increase since 2010**

(a) Please refer to the section entitled "Reconciliation of Net Income to EBITDA" on the inside back cover.



(b) The goodwill impairment charge in fiscal 2016 reduced net income by \$63.8 million and net income per share by \$1.62.

(c) The worthless stock tax deduction in fiscal 2017 increased net income by \$22.2 million and net income per share by \$0.56.

(d) One-time transaction costs relating to the FCX acquisition in fiscal 2018 decreased net income by \$5.1 million and net income per share by \$0.13.

(e) The intangible impairment charge in fiscal 2019 reduced net income by \$23.1 million and net income per share by \$0.59; the Canada tax valuation allowance reduced net income by \$3.8 million and net income per share by \$0.10; and restructuring charges reduced net income by \$1.7 million and net income per share by \$0.04.

Dr. Jerry Sue Thornton (2, 4)

President Emeritus
Cuyahoga Community College
(Two-Year Educational Institution)

Committees of The Board

- (1) Audit Committee
Chair: Vincent K. Petrella
- (2) Corporate Governance Committee
Chair: Edith Kelly-Green
- (3) Executive Committee
Chair: Peter C. Wallace
- (4) Executive Organization and Compensation Committee
Chair: Peter A. Dorsman

Officers

Neil A. Schrimsher

President & Chief Executive Officer

David K. Wells

Vice President – Chief Financial Officer & Treasurer

Fred D. Bauer

Vice President – General Counsel & Secretary

Warren E. “Bud” Hoffner

Vice President, General Manager – Fluid Power & Flow Control

Kurt W. Loring

Vice President – Chief Human Resources Officer

Christopher Macey

Corporate Controller

Ryan D. Cieslak

Assistant Treasurer

Senior Management

Mike R. Allen

President – Applied Industrial Technologies, LP (Canada)

Ivan J. Batista

General Director – Rafael Benitez Carrillo, Inc. (Puerto Rico)

Barbara D. Emery

Vice President – Human Resources

David S. Green

Vice President – North Atlantic Area

Thomas R. Hayes

Vice President – Southeast Area

James A. Jeffers

Vice President – Central States Area

Lonny D. Lawrence

Vice President – Information Technology

Tracie M. Longpre

Vice President – Supply Chain

Joe Mangiapane

Managing Director – Australia & New Zealand

Jeremy S. Moorman

Vice President – Operational Excellence

Sergio H. Nevárez

President – Applied Mexico

Darren B. “Ben” Padd

Vice President – Midwest Area

Jason W. Vasquez

Vice President – Sales & Marketing, U.S. Service Centers

Kurt J. Weinheimer

Vice President – Western Area

Expanding Capabilities. Enhanced Differentiation.

Our performance for the year is a reflection of our strategy, strong brands, innovative services, valued supplier relationships, and a team of more than 6,600 dedicated associates. Our results also demonstrate ongoing continuous improvement initiatives that position us for the future, regardless of the industrial cycle. Past, present and future, operational excellence remains a foundational element of our success, driving efficiency and productivity across our organization and further improving the Applied customer experience.

From our high-quality product offering to our value-added technical capabilities, we continue to build on our strong foundation and significant position as a well-diversified industrial distributor.

We further accelerate our differentiation through targeted acquisitions that build on our business reach and enhance our capabilities to expand with new and current customers.

We further accelerate our differentiation through targeted acquisitions that build on our business reach and enhance our capabilities to expand with new and current customers. Fiscal 2019 proved to be another active year with the addition of Fluid Power Sales in November 2018, followed by MilRoc Distribution and Woodward Steel in March 2019.

Fluid Power Sales provides a strong strategic fit that extends our Fluid Power market leadership with their quality fluid power components and specialization in the engineering and fabrication of manifolds and power units. The addition of MilRoc/Woodward complements and diversifies our product and service offering to key U.S. oil & gas markets, primarily in the Anadarko and Permian Basins. We remain encouraged by the positive activity within the U.S. oil & gas markets, where our scaling position in these key basins contributes nicely to our multi-faceted growth and differentiation.

Most recently, during the first quarter of fiscal 2020, we reached a definitive agreement to acquire Olympus Controls, an automation solutions provider – including design, assembly, integration, and distribution – of motion control, machine vision, and robotic technologies. Their full range of value-added automation expertise broadens our technical presence across varied industrial segments. Furthermore, we are expanding our innovative solutions for the Industrial Internet of Things (IIoT) – engaging our best suppliers in delivering smart products and systems that improve predictive and preventive maintenance, enable remote machine monitoring, and provide more automated and connected organizations.



We look forward to enhancing these comprehensive solutions, helping our customers increase productivity while lowering their owning and operating expenses. Also in fiscal 2019, we were proud to acknowledge the one-year anniversary of the FCX Performance acquisition and entry into engineered specialty flow control. There is much excitement about our long-term potential within our Fluid Power & Flow Control businesses, where our premier brands, innovative products, custom solutions, and high-touch technical service are positively impacting customers.

At Applied, we also recognize the impact and importance of corporate social responsibility in today's dynamic business environment. During fiscal 2019, we published the



Applied Corporate Social Responsibility web page and corresponding document detailing our ongoing progress and demonstrated commitment to ensuring that we conduct business fairly, honestly and ethically, in every location where we do business. Ultimately, the value we provide can take many forms – from actively advising our customers on how to save energy in their operations and reduce their overall environmental impact; to conducting energy audits in critical areas like motors, belting and gearing; as well as promoting

At Applied, we also recognize the impact and importance of corporate social responsibility in today's dynamic business environment.

product alternatives that are bio-based, non-toxic and/or made from recycled content. It also means being a responsible corporate citizen by implementing greener practices in our operations, promoting diversity and continuous learning across our organization, along with supporting the well-being of our associates and our communities. The Applied Core Values guide our actions in all we do, with an emphasis on integrity, customer focus, accountability, and teamwork.

A "One Applied" mindset, noticeable throughout the organization, helps ensure that – *together* – we are focused on the right things to propel our success. We are gratified and humbled when we are commended for our efforts, such as recently being named the 2018 Indirect Supply Chain Supplier of the Year for MillerCoors – a testament to our business leaders and talented associates. Additionally, I am very proud that Applied was again named a best workplace for top talent by Northeast Ohio's Employers Resource Council. This marks the 19th year we have received the prestigious NorthCoast99 Award based on our ability to attract, retain and motivate top-performing employees.

As a service-oriented organization, one of our top priorities is attracting top talent and investing to further develop our associates' know-how. We continue to leverage skills-based training and continuous learning opportunities that are customized in an on-demand, digital environment. Overall, our Management Development & Planning process links talent to business strategy to ensure we deliver our operating plans and business commitments.

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The Applied boardroom is no exception to our organizational development efforts. We are pleased to have Madhuri A. Andrews and Mary Dean Hall joining our Board, effective August 13, 2019. Together, they bring a wealth of experience and a strong track record of success, and we look forward to their insight and contributions. We also extend our sincere appreciation to Dr. Jerry Sue Thornton and Edith Kelly-Green who are retiring from the Applied Board in October 2019, after serving for 25 and 17 years, respectively.

As we enter fiscal 2020, we remain focused on executing our long-range strategic plan, generating profitable growth, and delivering long-term value for our stakeholders. With our strong foundation, expanding capabilities, enhanced differentiation, and outstanding potential, I am confident in our ability to excel and be bigger, better and stronger as we work toward our next milestone – *100 years!*

Thank you for your support and investment in Applied.



Neil A. Schrimsher
President & Chief Executive Officer

August 16, 2019

An investment in Applied® is an investment in our sound foundation, expanding capabilities, enhanced differentiation and outstanding potential!

- » **Industry Leader**
with a proven track record
- » **Strong Cash Generation**
providing business flexibility & ability to quickly de-lever
- » **Steady Margin Expansion**
with potential for more
- » **Excellent Process Controls**
with productive ERP tools
- » **Proven Acquirer**
well-positioned in large, fragmented markets
- » **Clear Plan**
for profitable growth
- » **Commitment to Total Shareholder Return**
through dividend increases, share repurchases and capital gains
- » **Experienced management team**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 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
(State or other jurisdiction of
incorporation or organization)

34-0117420
(I.R.S. Employer
Identification No.)

1 Applied Plaza, Cleveland, Ohio 44115
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (216) 426-4000.

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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 Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (December 31, 2018): \$2,069,669,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at August 9, 2019</u>
Common Stock, without par value	38,597,136

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual meeting of shareholders of Applied Industrial Technologies, Inc., to be held October 29, 2019, are incorporated by reference into Parts II, III, and IV of this Form 10-K.

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CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

This report, including the documents incorporated by reference, 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 our 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 Applied Industrial Technologies, Inc. ("Applied") and its management as to future occurrences and trends. Applied 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 forward-looking statements. All forward-looking statements are based on current expectations regarding important risk factors, many of which are outside Applied'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 Applied or another person that the results expressed in the statements will be achieved. In addition, Applied assumes no obligation publicly to update or revise forward-looking statements, whether because of new information or events, or otherwise, except as may be required by law.

Applied believes its primary risk factors include, but are not limited to, those identified in the following sections of this annual report on Form 10-K: "Risk Factors" in Item 1A; "Narrative Description of Business," in Item 1, section (c); and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7. PLEASE READ THOSE DISCLOSURES CAREFULLY.

PART I

ITEM 1. BUSINESS.

In this annual report on Form 10-K, "Applied" refers to Applied Industrial Technologies, Inc., an Ohio corporation. References to "we," "us," "our," and "the Company" refer to Applied and its subsidiaries.

We are a leading value-added distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, operating in North America, Australia, New Zealand, and Singapore. We serve MRO (maintenance, repair, and operations) and OEM (original equipment manufacturing) customers in virtually every industry. In addition, the Company 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.

We add value for our customers by providing product-related technical application support and solutions to help customers minimize their production downtime, improve machine performance, and reduce overall procurement and maintenance costs.

Applied and its predecessor companies have engaged in this business since 1923. Applied reincorporated in Ohio in 1988.

Our Internet address is www.applied.com. The following documents are available free of charge via hyperlink from the investor relations area of our website:

- Applied's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, together with Section 16 insider beneficial stock ownership reports - these documents are posted as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission
- Applied's Code of Business Ethics
- Applied's Board of Directors Governance Principles and Practices
- Applied's Director Independence Standards
- Charters for the Audit, Corporate Governance, and Executive Organization & Compensation Committees of Applied's Board of Directors

The information available via hyperlink from our website is not incorporated into this annual report on Form 10-K.

General Development of Business.

Information regarding developments in our business can be found in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is incorporated here by reference.

Narrative Description of Business.

Overview. Our field operating structure is built on two platforms: Service Center Based Distribution; and Fluid Power & Flow Control.

- **Service Center Based Distribution.** We distribute a wide range of industrial products through service centers across North America, Australia, and New Zealand. Customers primarily purchase our products for scheduled maintenance of their machinery and equipment and for emergency repairs. The Service Center Based Distribution segment accounts for a majority of our field operations and 71% of our 2019 consolidated sales dollars.

The Service Center Based Distribution segment also includes: 1) the Applied Maintenance Supplies & Solutions (MSS) service offering, which provides customers C-Class MRO supplies (fasteners, cutting tools, paints and chemicals, fluid flow, safety and janitorial products) through a vendor managed inventory solution; 2) Applied U.S. Energy, which specializes in serving customers primarily in the upstream oil and gas industry; 3) regional fabricated rubber shops, which modify and repair conveyor belts and make hose assemblies in accordance with customer requirements, along with rubber service field crews, which install and repair conveyor belts and rubber linings at customer locations; and 4) our operations in Canada, Mexico, Australia, and New Zealand.

- **Fluid Power & Flow Control.** Our Fluid Power & Flow Control segment businesses primarily market products and services to customers within the businesses' geographic regions. We serve customers purchasing for MRO needs as well as customers purchasing for OEM applications. In addition to distribution services, the businesses

offer technical advice, broader system solutions, and other value-added services. The fluid power businesses design and assemble hydraulic and electro-hydraulic power units and control systems, electronic control systems, pneumatic and electro-pneumatic panels and sub-assemblies, fabricated aluminum assemblies, lubrication systems, hydraulic manifolds, and pump assemblies. They also perform equipment repairs. Flow control capabilities include the following: flow control system integration; valve, actuator, and pump repair; valve actuation; and process instrumentation and calibration.

Products. We are a leading distributor of products including bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies.

These products are generally supplied to us by manufacturers whom we serve as a non-exclusive distributor. The suppliers also may provide us product training, as well as sales and marketing support. Authorizations to represent particular suppliers and product lines may vary by geographic region, particularly for our fluid power and flow control businesses. We believe our supplier relationships are generally good, and many have existed for decades. The disruption of relationships with certain suppliers, or the disruption of their operations, could adversely affect our business.

Our product suppliers typically confine their direct sales activities to large-volume transactions, mainly with large original equipment manufacturers. The suppliers generally do not sell maintenance and repair products directly to the customer, but instead refer the customer to us or another distributor.

Net sales by product category for the most recent fiscal year is detailed in note 2 to the consolidated financial statements, included in Item 8 under the caption "Financial Statements and Supplementary Data." That information is incorporated here by reference.

Services. Our employees advise and assist customers in selecting and applying products, and in managing storeroom inventory. We consider this advice and assistance to be an integral part of our product sales efforts. Beyond logistical distribution services, we offer product and process solutions involving multiple technologies. These solutions help customers minimize production downtime, improve machine performance, and reduce overall procurement and maintenance costs. By providing high levels of service, product and industry expertise, and technical support, while at the same time offering product breadth and competitive pricing, we believe we develop stronger, longer-lasting, and more profitable customer relationships.

Our service center sales employees include customer sales and service representatives and account managers, as well as product and industry specialists. Customer sales and service representatives receive, process, and expedite customer orders, provide product information, and assist account managers in serving customers. Account managers make onsite calls to customers to provide product information, identify customer requirements, make recommendations, and assist in implementing equipment maintenance and storeroom management programs. Account managers also measure and document the value of the cost savings and increased productivity we help generate. Specialists assist with applications in their areas of expertise.

We maintain product inventory levels at each service center tailored to the local market. These inventories consist of standard items as well as other items specific to local customer demand. Distribution centers replenish service center inventories and also may ship products directly to customers. Having product in stock helps us satisfy customers' immediate needs.

Timely delivery of products is an integral part of our service, particularly when customers require products for emergency repairs. Service centers and distribution centers use the most effective method of transportation available to meet customer needs. These methods include our own delivery vehicles, dedicated third-party transportation providers, as well as surface and air common carrier and courier services. Customers can also pick up items at our service centers.

Our information systems enhance our customer service. Customers turn to our website at www.applied.com to search for products in a comprehensive electronic catalog, research product attributes, view prices, check inventory levels, place orders, and track order status. We also use electronic data interchange (EDI) and other electronic interfaces with customers' technology platforms and plant maintenance systems.

In addition to our electronic capabilities, we publish a printed catalog, a comprehensive purchasing tool and resource guide for industrial and maintenance products (also available in a mobile-friendly digital version).

The Applied Maintenance Supplies & Solutions service offering provides traditional vendor managed inventory (VMI) services, at customer sites, for industrial and maintenance supplies, including fasteners, cutting tools, paints and chemicals, fluid flow, safety, and janitorial products.

In addition to distributing products, we offer shop services in select geographic areas. Our fabricated rubber shops modify and repair conveyor belts and provide hose assemblies (also available at select service centers and distribution centers and at our fluid power and flow control businesses) in accordance with customer requirements. Field crews install and repair conveyor belts and rubber lining, primarily at customer locations. Among the other services we offer, either performed by us directly or by third party providers, are the rebuilding or assembly of speed reducers, pumps, valves, cylinders, and electric and hydraulic motors, and custom machining.

Our specialized fluid power and flow control businesses generally operate independently of the service centers, but as product distributors, share the same focus on customer service. Product and application recommendations, inventory availability, and delivery speed are all important to the businesses' success.

Many of our fluid power and flow control businesses distinguish themselves from most component distributors by offering engineering, design, fabrication, installation, and repair services for equipment or systems in their fields of expertise. Our fluid power capabilities extend to the following specialties: fluid power system integration; manifold design, machining, and assembly; and the integration of hydraulic and pneumatic equipment with electronics for complete machine design. Flow control services include the following: flow control system integration; valve, actuator, and pump repair; valve actuation; and process instrumentation and calibration.

Each business has account managers with technical product and application knowledge, who handle sophisticated projects. The businesses also may provide technical support to our service centers and their customers.

Markets. We purchase from thousands of product manufacturers and resell the products to thousands of customers in a wide variety of industries, including agriculture and food processing, cement, chemicals and petrochemicals, fabricated metals, forest products, industrial machinery and equipment, mining, oil and gas, primary metals, transportation, and utilities, as well as to government entities. Customers range from very large businesses, with which we may have multiple-location relationships, to very small ones. We are not significantly dependent on a single customer or group of customers, the loss of which would have a material adverse effect on our business as a whole, and no single customer accounts for more than 4% of our net sales.

Competition. We consider our business to be highly competitive. In addition, our markets present few economic or technological barriers to entry, contributing to a high fragmentation of market share. Longstanding supplier and customer relationships, geographic coverage, name recognition, and our employees' knowledge and experience do, however, support our competitive position. Competition is based generally on breadth and quality of product and service offerings, product availability, price, ease of product selection and ordering, e-commerce capabilities, catalogs, and having a local presence. In the fluid power & flow control businesses, product manufacturer authorizations are often more selective and can be a more significant competitive factor, along with market reputation and product application knowledge.

Our principal competitors are specialist and general line distributors of bearings, power transmission products, fluid power components and systems, flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies. These competitors include local, regional, national, and multinational operations, and can include catalog and e-commerce companies. We also compete with original equipment manufacturers and their dealers in the sale of maintenance and replacement components. The identity and number of our competitors vary throughout the geographic, industry, and product markets we serve.

Although we may be one of the leading distributors in the geographic markets we serve for the primary product categories we provide there, our market share in a given market may be relatively small compared to the portion of the market served by original equipment manufacturers and other distributors.

Backlog Orders and Seasonality. Backlog orders are not material to our business as a whole, although they are a more important factor for our fluid power and flow control businesses. Our business has exhibited minor seasonality - in particular, sales per day during the first half of our fiscal year have historically been slightly lower than during the second half due, in part, to the impact of customer plant shutdowns, summer vacations and holidays.

Patents, Trademarks, Trade Names, and Licenses. Customer recognition of our service marks and trade names, including Applied Industrial Technologies®, Applied®, and AIT®, is an important contributing factor to our sales. Patents and licenses are not of material importance to our business.

Raw Materials and General Business Conditions. Our operations are dependent on general industrial and economic conditions. We would be adversely affected by the unavailability of raw materials to our suppliers, prolonged labor disputes experienced by suppliers or customers, or by events or conditions that have an adverse effect on industrial activity generally in the markets we serve or on key customer industries.

Number of Employees. At June 30, 2019, we had approximately 6,650 employees.

Working Capital. Our working capital position is discussed in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is incorporated here by reference.

We require substantial working capital related to accounts receivable and inventories. Significant amounts of inventory are carried to meet customers' delivery requirements. We generally require payments for sales on account within 30 days. Returns are not considered to have a material effect on our working capital requirements. We believe these practices are generally consistent among companies in our industry.

Environmental Laws. We believe that compliance with laws regulating the discharge of materials into the environment or otherwise relating to environmental protection will not have a material adverse effect on our capital expenditures, earnings, or competitive position.

ITEM 1A. RISK FACTORS.

In addition to other information set forth in this report, you should carefully consider the following factors that could materially affect our business, financial condition, or results of operations. The risks described below are not the only risks facing the Company. Certain risks are identified below in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is incorporated here by reference. Additional risks not currently known to us, risks that could apply broadly to issuers, or risks that we currently deem immaterial, may also impact our business and operations. Risks can also change over time.

Our business depends heavily on the operating levels of our customers and the factors that affect them, including general economic conditions. The markets for our products and services are subject to conditions or events that affect demand for goods and materials that our customers produce. Consequently, demand for our products and services has been and will continue to be influenced by most of the same factors that affect demand for and production of customers' goods and materials.

When customers or prospective customers reduce production levels because of lower demand, increased supply, higher costs, tight credit conditions, unfavorable currency exchange rates, adverse trade policies, foreign competition, other competitive disadvantage, offshoring of production, or other reasons, their need for our products and services diminishes. Selling prices and terms of sale come under pressure, adversely affecting the profitability and the durability of customer relationships, and credit losses may increase. Inventory management becomes more difficult in times of economic uncertainty. Volatile economic and credit conditions also make it more difficult for us, as well as our customers and suppliers, to forecast and plan future business activities.

Our business could be adversely affected if we do not successfully execute our initiatives to grow sales and earnings. We have numerous initiatives underway to grow sales, enhance gross margins, manage costs, and otherwise improve our earnings and competitive position. If we do not implement these initiatives effectively, or if for other reasons they are unsuccessful, our business could be adversely affected.

Consolidation in our customers' and suppliers' industries could adversely affect our business and financial results. Consolidation continues among our product suppliers and customers. As customer industries consolidate or customers otherwise aggregate their purchasing power, a greater proportion of our sales could be derived from large volume contracts, which could adversely impact margins. Consolidation among customers can trigger changes in their purchasing strategies, potentially shifting blocks of business among competing distributors and contributing to volatility in our sales and pressure on prices. Similarly, continued consolidation among our suppliers could reduce our ability to negotiate favorable pricing and other commercial terms for our inventory purchases. There can be no assurance we will be able to take advantage of consolidation trends.

Loss of key supplier authorizations, lack of product availability, or changes in distribution programs could adversely affect our sales and earnings. Our business depends on maintaining an immediately available supply of various products to meet customer demand. Many of our relationships with key product suppliers are longstanding, but are terminable by either party. The loss of key supplier authorizations, or a substantial decrease in the availability of their products, could put us at a competitive disadvantage and have a material adverse effect on our business. Supply interruptions could arise from raw materials shortages, inadequate manufacturing capacity or utilization to meet demand, financial problems, trade issues, labor disputes, or weather conditions affecting suppliers' production, transportation disruptions, or other reasons beyond our control.

In addition, as a distributor, we face the risk of key product suppliers changing their relationships with distributors generally, or us in particular, in a manner that adversely impacts us. For example, key suppliers could change the following: the prices we must pay for their products relative to other distributors or relative to competing brands;

the geographic or product line breadth of distributor authorizations; supplier purchasing incentive or other support programs; product purchase or stocking expectations; or the extent to which the suppliers seek to serve end-users directly.

An increase in competition could decrease sales or earnings. We operate in a highly competitive industry. The industry remains fragmented, but is consolidating. Our principal competitors are specialist and general line distributors of bearings, power transmission products, fluid power components and systems, flow control solutions, industrial rubber products, linear motion components, tools, safety products, oilfield supplies, and other industrial and maintenance supplies. These competitors include local, regional, national, and multinational operations, and can include catalog and e-commerce companies. Competition is largely focused in the local service area and is generally based on product line breadth, product availability, service capabilities, and price. Existing competitors have, and future competitors may have, greater financial or other resources than we do, broader or more appealing product or service offerings, greater market presence, stronger relationships with key suppliers or customers, or better name recognition. If existing or future competitors seek to gain or to retain market share by aggressive pricing strategies and sales methods, or otherwise through competitive advantage, our sales and profitability could be adversely affected. Our success will also be affected by our ability to continue to provide competitive offerings as customer preferences or demands evolve, for example with respect to our product and services portfolio or our e-commerce and inventory management solutions. Technological evolution or other factors can render product offerings obsolete, potentially impairing our competitive position and our inventory values.

The purchasing incentives we earn from product suppliers can be impacted if we reduce our purchases in response to declining customer demand. Certain of our product suppliers have historically offered to their distributors, including us, incentives for purchasing their products. In addition to market or customer account-specific incentives, certain suppliers pay incentives to the distributor for attaining specific purchase volumes during a program period. In some cases, to earn incentives, we must achieve year-over-year growth in purchases with the supplier. When demand for our products declines, we may be less inclined to add inventory to take advantage of certain incentive programs, thereby potentially adversely impacting our profitability.

Trade policies can have an adverse impact on industries we sell into, potentially negatively affecting our net sales and profits. Changes to trade policies can disrupt geographic and industry demand trends. While Applied primarily serves markets in the United States, a significant portion of our domestic customer base exports or serves exporters. U.S. government-imposed tariffs or taxes that penalize imports can be met with countermeasures by foreign governments, or can otherwise impact industrial production, and it becomes difficult to determine what the net effect of such actions is on Applied's net sales and profits. It is possible that such changes could adversely affect our financial results.

Volatility in product, energy, and other costs can affect our profitability. Product manufacturers may adjust the prices of products we distribute for many reasons, including changes in their costs for raw materials, components, energy, labor, and tariffs and taxes on imports. In addition, a portion of our own distribution costs is composed of fuel for our sales and delivery vehicles, freight, and utility expenses for our facilities. Our ability to pass along increases in our product and distribution costs in a timely manner to our customers depends on execution, market conditions, and contractual limitations. Failing to pass along price increases timely in an inflationary environment, or not maintaining sales volume while increasing prices, could significantly reduce our profitability.

While increases in the cost of products or energy could be damaging to us, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit margin to deteriorate. Changes in energy or raw materials costs can also adversely affect customers; for example, declines in oil, gas, and coal prices may negatively impact customers operating in those industries and, consequently, our sales to those customers.

Changes in customer or product mix and downward pressure on sales prices could cause our gross profit percentage to fluctuate or decline. Because we serve thousands of customers in many end markets, and offer millions of products, with varying profitability levels, changes in our customer or product mix could cause our gross profit percentage to fluctuate or decline. Downward pressure on sales prices could also cause our gross profit percentage to fluctuate or decline. We can experience downward pressure on sales prices as a result of deflation, pressure from customers to reduce costs, or increased competition.

Our ability to transact business is highly reliant on information systems. A disruption or security breach could materially affect our business, financial condition, or results of operation. We depend on information systems to process customer orders, manage inventory and accounts receivable collections, purchase products, manage accounts payable processes, ship products to customers on a timely basis, maintain cost-effective operations, provide superior service to customers, and compile financial results. A serious, prolonged disruption of

our information systems, due to manmade or natural causes, including power or telecommunications outage, or breach in security, could materially impair fundamental business processes and increase expenses, decrease sales, or otherwise reduce earnings.

Because of our reliance on information systems, we may be vulnerable to the growing threat of damage or intrusion from computer viruses or other cyber-attacks on our systems. Despite precautions taken to prevent or mitigate the risks of such incidents, an attack on our systems could not only cause business disruption, but could also result in the theft or disclosure of proprietary or confidential information, or a breach of customers, supplier, or employee information. Such an incident could negatively impact our sales, damage our reputation, and cause us to incur unanticipated legal liability and costs.

In recent years, we replaced multiple legacy information system applications with newer software platforms, to enhance our business information and transaction systems to support future growth. We continue with and consider additional enterprise resource planning system conversions, on a smaller scale, in discrete business operations. Despite extensive planning, we could experience disruptions related to the implementation because of the projects' complexity. The potential adverse consequences could include delays, loss of information, diminished management reporting capabilities, damage to our ability to process transactions timely, harm to our control environment, diminished employee productivity, and unanticipated increases in costs. Further, our ability to achieve anticipated operational benefits from new platforms is not assured.

Acquisitions are a key component of our anticipated growth. We may not be able to identify or to complete future acquisitions, to integrate them effectively into our operations, or to realize their anticipated benefits. Many industries we serve are mature. As a result, acquisitions of businesses have been important to our growth. While we wish to continue to acquire businesses, we may not be able to identify and to negotiate suitable acquisitions, to obtain financing for them on satisfactory terms, or otherwise to complete acquisitions. In addition, existing and future competitors, and private equity firms, increasingly compete with us for acquisitions, which can increase prices and reduce the number of suitable opportunities; the acquisitions they make can also adversely impact our market position.

We seek acquisition opportunities that complement and expand our operations. However, substantial costs, delays, or other difficulties related to integrating acquisitions could adversely affect our business or financial results. For example, we could face significant challenges in consolidating functions, integrating information systems, personnel, and operations, and implementing procedures and controls in a timely and efficient manner.

Further, even if we successfully integrate the acquisitions with our operations, we may not be able to realize cost savings, sales, profit levels, or other benefits that we anticipate from these acquisitions, either as to amount or in the time frame we expect. Our ability to realize anticipated benefits may be affected by a number of factors, including the following: our ability to achieve planned operating results, to reduce duplicative expenses and inventory effectively, and to consolidate facilities; economic and market factors; the incurrence of significant integration costs or charges in order to achieve those benefits; our ability to retain key product supplier authorizations, customer relationships, and employees; our ability to address competitive, distribution, and regulatory challenges arising from entering into new markets (geographic, product, service, end-industry, or otherwise), especially those in which we may have limited or no direct experience; and exposure to unknown or contingent liabilities of the acquired company. In addition, acquisitions could place significant demand on administrative, operational, and financial resources.

We incurred a substantial amount of debt to complete the acquisition of FCX Performance, Inc. To service our debt, we will require a significant amount of cash that may limit our ability to pay dividends, repurchase our shares, or complete other acquisitions or strategic initiatives. On January 31, 2018, we acquired FCX Performance, Inc. ("FCX"), a distributor of specialty process flow control products and services, for an aggregate purchase price of \$781.8 million. In connection with the FCX acquisition, we entered into a new credit facility pursuant to which we incurred approximately \$780.0 million in term loan indebtedness and approximately \$250.0 million in revolving indebtedness capacity. This indebtedness substantially increased our leverage and requires significant future principal and interest payments. As of June 30, 2019, we had total debt obligations outstanding of \$959.8 million. Our ability to service our debt and fund our other liquidity needs will depend on our ability to generate cash in the future. The additional leverage may (i) require us to dedicate a substantial portion of our cash flows from operations to the payment of debt service, reducing the availability of our cash flow to fund planned capital expenditures, pay dividends, repurchase our shares, complete other acquisitions or strategic initiatives, and other general corporate purposes; (ii) limit our ability to obtain additional financing in the future (either at all or on satisfactory terms) to enable us to react to changes in our business or execute our growth strategies; and (iii) place us at a competitive disadvantage compared to businesses in our industry that have lower levels of indebtedness. Additionally, any failure to comply with covenants in the instruments governing our debt

could result in an event of default. Any of the foregoing events or circumstances relating to our additional indebtedness may adversely affect our business, financial position, or results of operations and may cause our stock price to decline.

Goodwill, long-lived, and other intangible assets recorded as a result of our acquisitions could become impaired. We review goodwill, long-lived assets, including property, plant and equipment and identifiable amortizing intangible assets, for impairment whenever changes in circumstances or events may indicate that the carrying amounts are not recoverable. Factors which may cause an impairment of long-lived assets include significant changes in the manner of use of these assets, negative industry or market trends, significant underperformance relative to historical or projected future operating results, or a likely sale or disposal of the asset before the end of its estimated useful life. In 2019 we recorded a \$31.6 million non-cash impairment charge for intangible assets associated with the Company's upstream oil and gas industry operations in Canada.

As of June 30, 2019, we had \$662.0 million of goodwill and \$368.9 million of other intangible assets, net. We assess all existing goodwill at least annually for impairment on a reporting unit basis. The techniques used in our qualitative assessment and goodwill impairment tests incorporate a number of estimates and assumptions that are subject to change. Although we believe these estimates and assumptions are reasonable and reflect market conditions forecasted at the assessment date, any changes to these assumptions and estimates due to market conditions or otherwise may lead to an outcome where impairment charges would be required in future periods.

Tight credit markets could impact our ability to obtain financing on reasonable terms or increase the cost of future financing. Although the credit market turmoil of a decade ago did not have a significant adverse impact on our liquidity or borrowing costs, the availability of funds tightened and credit spreads on corporate debt increased. If credit market volatility were to return, obtaining additional or replacement financing could be more difficult and the cost of issuing new debt or replacing a credit facility could be higher than under our current facilities. Tight credit conditions could limit our ability to finance acquisitions on terms acceptable to us.

For more information relating to borrowing and interest rates, see the following sections below: "Liquidity and Capital Resources" in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations;" Item 7A under the caption "Quantitative and Qualitative Disclosures about Market Risk;" and notes 6 and 7 to the consolidated financial statements, included below in Item 8 under the caption "Financial Statements and Supplementary Data." That information is incorporated here by reference.

Our ability to maintain effective internal control over financial reporting may be insufficient to allow us to accurately report our financial results or prevent fraud, and this could cause our financial statements to become materially misleading and adversely affect the trading price of our common stock. We require effective internal control over financial reporting in order to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial statements and effectively prevent fraud, our financial statements could be materially misstated, which could adversely affect the trading price of our common stock.

If we are not able to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, financial condition and operating results could be harmed. Any material weakness could affect investor confidence in the accuracy and completeness of our financial statements. As a result, our ability to obtain any additional financing, or additional financing on favorable terms, could be materially and adversely affected. This, in turn, could materially and adversely affect our business, financial condition, and the market value of our stock and require us to incur additional costs to improve our internal control systems and procedures. In addition, perceptions of the Company among customers, suppliers, lenders, investors, securities analysts, and others could also be adversely affected.

We cannot assure that any material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal control over financial reporting. In addition, although we have been successful historically in strengthening our controls and procedures, those controls and procedures may not be adequate to prevent or identify irregularities or ensure the fair presentation of our financial statements included in our periodic reports filed with the SEC.

Our business depends on our ability to attract, develop, motivate, and retain qualified employees. Our success depends on hiring, developing, motivating, and retaining key employees, including executive, managerial, sales, professional, and other personnel. We may have difficulty identifying and hiring qualified personnel. In

addition, we may have difficulty retaining such personnel once hired, and key people may leave and compete against us. With respect to sales and customer service positions in particular, we greatly benefit from having employees who are familiar with the products and services we sell, and their applications, as well as with our customer and supplier relationships. The loss of key employees or our failure to attract and retain other qualified workers could disrupt or adversely affect our business. In addition, our operating results could be adversely affected by increased competition for employees, shortages of qualified workers, higher employee turnover (including through retirement as the workforce ages), or increased employee compensation or benefit costs.

An interruption of operations at our headquarters or distribution centers, or in our means of transporting product, could adversely impact our business. Our business depends on maintaining operating activity at our headquarters and distribution centers, and being able to receive and deliver product in a timely manner. A serious, prolonged interruption due to power or telecommunications outage, terrorist attack, earthquake, extreme weather events, other natural disasters, fire, flood, or other interruption could have a material adverse effect on our business and financial results.

There is no assurance that we will continue to pay dividends on our common stock. The timing, declaration, amount, and payment of dividends to our shareholders fall within the discretion of our Board of Directors and depend on many factors, including our financial condition and results of operations, as well as applicable law and business considerations that our Board of Directors considers relevant. There can be no assurance that we will continue to pay a quarterly dividend.

Additionally, if we cannot generate sufficient cash flow from operations to meet our debt payment obligations, then our ability to pay dividends, if so determined by the Board of Directors, will be impaired and we may be required to attempt to restructure or refinance our debt, raise additional capital, or take other actions such as selling assets, reducing, or delaying capital expenditures, or reducing our dividend. There can be no assurance, however, that any such actions could be effected on satisfactory terms, if at all, or would be permitted by the terms of our debt or our other credit and contractual arrangements.

Our operations outside the United States increase our exposure to global economic and political conditions and currency exchange volatility. Foreign operations contributed 13% of our sales in 2019. This presence outside the U.S. increases risks associated with exposure to more volatile economic conditions, political instability, cultural and legal differences in conducting business (including corrupt practices), economic and trade policy actions, and currency exchange fluctuations.

Our foreign operations' results are reported in the local currency and then translated into U.S. dollars at applicable exchange rates for inclusion in our consolidated financial statements. Fluctuations in currency exchange rates affect our operating results and financial position, as well as the comparability of results between financial periods.

We may be adversely affected by changes in LIBOR reporting practices or the method by which LIBOR is determined. As of June 30, 2019, we had approximately \$789 million of aggregate consolidated indebtedness that was indexed to the London Interbank Offered Rate ("LIBOR"). In addition, as of June 30, 2019, approximately \$463 million of this variable rate debt was converted to a fixed rate through an interest rate swap. The swap agreement was entered into in January 2019 and is indexed to LIBOR. Central banks around the world, including the Federal Reserve, have commissioned working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR based on observable market transactions. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next few years. The U.K. Financial Conduct Authority (FCA), which regulates LIBOR, has announced that it has commitments from panel banks to continue to contribute to LIBOR through the end of 2021, but that it will not use its powers to compel contributions beyond such date. Accordingly, there is considerable uncertainty regarding the publication of such rates beyond 2021. The Federal Reserve Bank of New York and various other authorities have commenced the publication of reforms and actions relating to alternatives to U.S. dollar LIBOR. Although the full impact of such reforms and actions, together with any transition away from LIBOR, including the potential or actual discontinuance of LIBOR publication, remains unclear, these changes may have a material adverse impact on the availability of financing, including LIBOR-based loans, and on our financing costs.

We are subject to litigation and regulatory risk due to the nature of our business, which may have a material adverse effect on our business. From time to time, we are involved in lawsuits or other legal proceedings that arise from our business. These may, for example, relate to product liability claims, commercial disputes, personal injuries, or employment-related matters. In addition, we could face claims over other matters, such as claims arising from our status as a public company or government contractor, or otherwise relating to our compliance with a wide array of laws and regulations to which we are subject. The defense and ultimate outcome

of lawsuits or other legal proceedings or inquiries may result in higher operating expenses, which could have a material adverse effect on our business, financial condition, or results of operations.

Our business is subject to risks, some for which we maintain third-party insurance and some for which we self-insure. We may incur losses and be subject to liability claims that could have a material adverse effect on our financial condition, results of operations, or cash flows. We maintain insurance policies that provide limited coverage for some, but not all, of the potential risks and liabilities associated with our business. The policies are subject to deductibles and exclusions that result in our retention of a level of risk on a self-insured basis. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. Because of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Even where insurance coverage applies, insurers may contest their obligations to make payments. Our financial condition, results of operations, and cash flows could be materially and adversely affected by losses and liabilities from uninsured or underinsured events, as well as by delays in the payment of insurance proceeds, or the failure by insurers to make payments.

In addition to the risks identified above, other risks to our future performance include, but are not limited to, the following:

- changes in customer preferences for products and services of the nature, brands, quality, or cost sold by us;
- changes in customer procurement policies and practices;
- changes in the market prices for products and services relative to the costs of providing them;
- changes in operating expenses;
- organizational changes in the Company;
- government regulation, legislation, or policies, including with respect to federal tax policy and international trade;
- the variability and timing of new business opportunities including acquisitions, customer relationships, and supplier authorizations;
- the incurrence of debt and contingent liabilities in connection with acquisitions; and
- changes in accounting policies and practices that could impact our financial reporting and increase compliance costs.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We believe having a local presence is important to serving our customers, so we maintain service centers and other operations in local markets throughout the countries in which we operate. At June 30, 2019, we owned real properties at 119 locations and leased 451 locations. Certain properties house more than one operation.

The following were our principal owned real properties (each of which has more than 50,000 square feet of floor space) at June 30, 2019:

Location of Principal Owned Real Property	Type of Facility
Cleveland, Ohio	Corporate headquarters
Atlanta, Georgia	Distribution center, service center, hose shop
Florence, Kentucky	Distribution center
Carlisle, Pennsylvania	Distribution center
Fort Worth, Texas	Distribution center and rubber shop

Our principal leased real properties (each of which has more than 50,000 square feet of floor space) at June 30, 2019 were:

Location of Principal Leased Real Property	Type of Facility
Fontana, California	Distribution center, rubber shop, fluid power shop, and service center
Newark, California	Fluid power shop
Midland, Michigan	Flow control shop
Elyria, Ohio	Product return center and service center
Strongsville, Ohio	Offices and warehouse
Portland, Oregon	Distribution center
Stafford, Texas	Offices, warehouse, and flow control shop
Longview, Washington	Service center, rubber shop, and fluid power shop
Nisku, Alberta	Offices, service center, and shops
Winnipeg, Manitoba	Distribution center and service center

The properties in Newark, Midland, and Stafford are used in our Fluid Power & Flow Control segment. The Fontana and Longview properties are used in both the Service Center Based Distribution segment and the Fluid Power & Flow Control segment. The remaining properties are used in the Service Center Based Distribution segment.

We consider our properties generally sufficient to meet our requirements for office space and inventory stocking.

A service center's size is primarily influenced by the amount and types of inventory the service center requires to meet customers' needs.

When opening new operations, we have tended to lease rather than purchase real property. We do not consider any service center, distribution center, or shop property to be material, because we believe that, if it becomes necessary or desirable to relocate an operation, other suitable property could be found.

In addition to operating locations, we own or lease certain properties which in the aggregate are not material and are either for sale, lease, or sublease to third parties due to a relocation or closing. We also may lease or sublease to others unused portions of buildings.

Additional information regarding our properties can be found in note 13 to the consolidated financial statements, included below in Item 8 under the caption "Financial Statements and Supplementary Data." That information is incorporated here by reference.

ITEM 3. LEGAL PROCEEDINGS.

Applied and/or one of its subsidiaries is a party to pending legal proceedings with respect to product liability, commercial, personal injury, employment, and other matters. Although it is not possible to predict the outcome of these proceedings or the range of reasonably possible loss, we believe, 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 Applied's consolidated financial position, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

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

EXECUTIVE OFFICERS OF THE REGISTRANT.

Applied's executive officers are elected by the Board of Directors for a term of one year, or until their successors are chosen and qualified, at the Board's organization meeting held following the annual meeting of shareholders.

The following is a list of the executive officers and a description of their business experience during the past five years. Except as otherwise stated, the positions and offices indicated are with Applied, and the persons were most recently elected to their current positions on October 30, 2018:

Name	Positions and Experience	Age
Neil A. Schrimsher	President since 2013 and Chief Executive Officer since 2011.	55
Fred D. Bauer	Vice President-General Counsel & Secretary since 2002.	53
Warren E. Hoffner	Vice President, General Manager-Fluid Power & Flow Control since October 2018. He served as Vice President, General Manager-Fluid Power from 2003 to October 2018. The Board of Directors designated Mr. Hoffner an executive officer in October 2015.	59
Kurt W. Loring	Vice President-Chief Human Resources Officer since 2014.	50
David K. Wells	Vice President-Chief Financial Officer & Treasurer since September 2017. He served as Vice President-Finance from May 2017 through August 2017. Prior to joining Applied, from May 2015 to May 2017, Mr. Wells was Vice President & Chief Financial Officer of ESAB, a manufacturer of welding and material cutting products and a division of Colfax Corporation (NYSE: CFX). Prior to then he was Vice President & Chief Financial Officer of Apex Tool Group, a manufacturer of hand and power tools.	56

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Applied's common stock, without par value, is listed for trading on the New York Stock Exchange with the ticker symbol "AIT." Information concerning the quarterly stock dividends for the fiscal years ended June 30, 2019, 2018, and 2017 and the number of shareholders of record as of August 9, 2019 are set forth in Item 8, "Financial Statements and Supplementary Data," in the "Quarterly Operating Results" table. That information is incorporated here by reference.

The following table summarizes Applied's repurchases of its common stock in the quarter ended June 30, 2019.

Period	(a) Total Number of Shares (1)	(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 (2)
April 1, 2019 to April 30, 2019	412	60.00	—	864,618
May 1, 2019 to May 31, 2019	—	—	—	864,618
June 1, 2019 to June 30, 2019	1,490	58.53	—	864,618
Total	1,902	58.85	—	864,618

- (1) During the quarter ended June 30, 2019, Applied purchased 1,902 shares in connection with an employee deferred compensation program. This purchase is not counted in the authorization in note (2).
- (2) On October 24, 2016, the Board of Directors authorized the repurchase of up to 1.5 million shares of the Company's common stock, replacing the prior authorization. We publicly announced the new authorization on October 26, 2016. Purchases can be made in the open market or in privately negotiated transactions. The authorization is in effect until all shares are purchased, or the Board revokes or amends the authorization.

ITEM 6. SELECTED FINANCIAL DATA.

This selected financial data should be read in conjunction with Applied's consolidated financial statements and related notes included elsewhere in this annual report as well as the section of the annual report titled Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(In thousands, except per share amounts and statistical data)

	2019	2018 ^(b)	2017	2016	2015
Consolidated Operations — Year Ended June 30					
Net sales	\$3,472,739	\$ 3,073,274	\$2,593,746	\$2,519,428	\$ 2,751,561
Depreciation and amortization of property	20,236	17,798	15,306	15,966	16,578
Amortization:					
Intangible assets	41,883	32,065	24,371	25,580	25,797
SARs and stock options	2,437	1,961	1,891	1,543	1,610
Operating income ^{(a) (d)}	233,788	225,827	175,386	89,782	184,619
Net income ^{(a) (c) (d)}	143,993	141,625	133,910	29,577	115,484
Per share data:					
Net income:					
Basic	3.72	3.65	3.43	0.75	2.82
Diluted ^{(a) (c) (d)}	3.68	3.61	3.40	0.75	2.80
Cash dividend	1.22	1.18	1.14	1.10	1.04
Year-End Position — June 30					
Working capital	\$ 724,344	\$ 625,469	\$ 572,789	\$ 507,238	\$ 535,938
Long-term debt (including portion classified as current)	959,829	966,063	291,982	328,334	320,995
Total assets	2,331,697	2,285,741	1,387,595	1,312,025	1,432,556
Shareholders' equity	897,034	814,963	745,256	657,916	741,328
Year-End Statistics — June 30					
Current ratio	2.7	2.4	2.8	2.8	2.7
Operating facilities	600	610	552	559	565
Shareholders of record ^(e)	4,165	4,323	4,687	5,372	6,016
Return on assets ^{(a) (c) (d) (f)}	6.3%	8.0%	10.2%	2.2%	7.9%
Return on equity ^{(a) (c) (d) (g)}	16.8%	18.2%	19.1%	4.2%	15.0%
Capital expenditures	\$ 18,970	\$ 23,230	\$ 17,045	\$ 13,130	\$ 14,933
Cash Returned to Shareholders During the Year					
Dividends paid	\$ 47,266	\$ 45,858	\$ 44,619	\$ 43,330	\$ 42,663
Purchases of treasury shares	11,158	22,778	8,242	37,465	76,515
Total	\$ 58,424	\$ 68,636	\$ 52,861	\$ 80,795	\$ 119,178

- (a) A long-lived intangible asset impairment charge in fiscal 2019 reduced operating income by \$31.6 million, net income by \$26.9 million, and diluted earnings per share by \$0.69, which includes the impact of the \$3.8 million valuation allowance on certain Canadian deferred tax assets. Excluding the long-lived intangible asset impairment charge, the fiscal 2019 return on assets would be 7.5% and return on equity would be 20.0%.
- (b) FY 2018 includes the acquisition of FCX Performance, Inc. from the acquisition date of 1/31/2018.
- (c) FY 2017 includes a tax benefit pertaining to a worthless stock tax deduction of \$22.2 million, or \$0.56 per share. Excluding the worthless stock tax deduction, the fiscal 2017 return on assets would be 8.5% and return on equity would be 16.2%.
- (d) A goodwill impairment charge in fiscal 2016 reduced operating income by \$64.8 million, net income by \$63.8 million, and diluted earnings per share by \$1.62. Excluding the goodwill impairment charge, the fiscal 2016 return on assets would be 6.7% and return on equity would be 12.8%.
- (e) Includes participant-shareholders in the Applied Industrial Technologies, Inc. Retirement Savings Plan and shareholders in the Company's direct stock purchase program.
- (f) Return on assets is calculated as net income divided by monthly average assets.
- (g) Return on equity is calculated as net income divided by the average shareholders' equity (beginning of the year plus end of the year divided by 2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

With more than 6,600 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, 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. At June 30, 2019, business was conducted in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore from 600 facilities.

The following is Management's Discussion and Analysis of significant factors that have affected our financial condition, results of operations and cash flows during the periods included in the accompanying consolidated balance sheets, statements of consolidated income, consolidated comprehensive income and consolidated cash flows in Item 8 under the caption "Financial Statements and Supplementary Data." When reviewing the discussion and analysis set forth below, please note that the majority of SKUs (Stock Keeping Units) we sell in any given year were not 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.

Our fiscal 2019 consolidated sales were \$3.5 billion, an increase of \$399.5 million or 13.0% compared to the prior year, with the acquisitions of FCX Performance Inc. (FCX), Fluid Power Sales Inc. (FPS), MilRoc Distribution (MilRoc), and Woodward Steel (Woodward), increasing sales by \$360.0 million or 11.7% and unfavorable foreign currency translation of \$19.2 million decreasing sales by 0.6%. Gross profit margin increased to 29.0% for fiscal 2019 from 28.8% for fiscal 2018 primarily due to the impact of the acquisitions, which favorably impacted the gross profit margin by 48 basis points in fiscal 2019, offset by an unfavorable impact of 26 basis points from the change in LIFO expense in fiscal 2019 compared to fiscal 2018. Operating margin decreased to 6.7% in fiscal 2019 from 7.3% in fiscal 2018. The reduction in operating margin is primarily due to a non-cash impairment charge recorded during fiscal 2019 totaling \$31.6 million related to the long-lived intangible assets associated with the Company's upstream oil and gas operations in Canada within the Service Center Based Distribution segment. The non-cash impairment charge decreased net income by \$23.1 million and earnings per share by \$0.59 per share.

During the third quarter of fiscal 2019, the Company recorded charges of \$2.3 million for restructuring activities within the Service Center Based Distribution segment to reduce headcount and consolidate locations, primarily related to the Company's oil and gas operations. Of the total, \$0.7 million related to inventory reserves for excess and obsolete inventory recorded within cost of sales and \$1.6 million related to severance and facility consolidation recorded within selling, distribution and administrative expense. Total restructuring charges reduced gross profit for the year by \$0.7 million, operating income by \$2.3 million, and earnings per share by \$0.04 per share.

Our earnings per share was \$3.68 in fiscal 2019 versus \$3.61 in fiscal year 2018.

Shareholders' equity was \$897.0 million at June 30, 2019 compared to \$815.0 million at June 30, 2018. Working capital increased \$98.9 million from June 30, 2018 to \$724.3 million at June 30, 2019. The current ratio was 2.7 to 1 at June 30, 2019 and 2.4 to 1 at June 30, 2018.

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 gradually decreased during the second half of fiscal 2019 correlating with an overall decline in the industrial economy in the same period. The ISM PMI registered 51.7 in June 2019, a decrease from the June 2018 revised reading of 60.0. A reading above 50 generally indicates expansion. The index readings for the months during the current quarter, along with the revised indices for previous quarter ends, were as follows:

Month	Index Reading		
	MCU	PMI	IP
June 2019	77.9	51.7	105.2
May 2019	78.1	52.1	104.8
April 2019	77.9	52.8	104.6
March 2019	78.4	55.3	105.2
December 2018	79.5	54.3	106.4
September 2018	79.3	59.5	105.7
June 2018	78.6	60.0	104.8

RESULTS OF OPERATIONS

This discussion and analysis deals with comparisons of material changes in the consolidated financial statements for the years ended June 30, 2019 and 2018. For the comparison of the years ended June 30, 2018 and 2017, see the Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our 2018 Annual Report on Form 10-K.

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

	Year Ended June 30, As a % of Net Sales		Change in \$'s Versus Prior Period
	2019	2018	% Change
Net Sales	100.0%	100.0%	13.0%
Gross Profit Margin	29.0%	28.8%	14.0%
Selling, Distribution & Administrative	21.4%	21.4%	12.8%
Operating Income	6.7%	7.3%	3.5%
Net Income	4.1%	4.6%	1.7%

Sales in fiscal 2019 were \$3.5 billion, which was \$399.5 million or 13.0% above the prior year, with sales from acquisitions accounting for \$360.0 million or 11.7% of the increase, and unfavorable foreign currency translation accounting for a decrease of \$19.2 million or 0.6%. There were 251.5 selling days in both fiscal 2019 and fiscal 2018. Excluding the impact of businesses acquired and the impact of foreign currency translation, sales were up \$58.7 million or 1.9% during the year, which is driven by growth of 3.5% from the Service Center Based Distribution segment, offset by a 1.6% decline from the Fluid Power & Flow Control segment.

The following table shows changes in sales by reportable segment.

Amounts in millions	Year ended June 30,		Sales Increase	Amount of change due to		
	2019	2018		Acquisitions	Foreign Currency	Organic Change
Sales by Reportable Segment						
Service Center Based Distribution	\$ 2,452.9	\$ 2,346.4	\$ 106.5	\$ 17.6	\$ (19.2)	\$ 108.1
Fluid Power & Flow Control	1,019.8	726.8	293.0	342.4	—	(49.4)
Total	\$ 3,472.7	\$ 3,073.2	\$ 399.5	\$ 360.0	\$ (19.2)	\$ 58.7

Sales of our Service Center Based Distribution segment, which operates primarily in MRO markets, increased \$106.5 million, or 4.5%. Acquisitions within this segment increased sales by \$17.6 million or 0.7%, and unfavorable foreign currency translation decreased sales by \$19.2 million or 0.8%. Excluding the impact of businesses acquired and the impact of foreign currency translation, sales increased \$108.1 million or 4.6% due to overall growth in the industrial economy.

Sales of our Fluid Power & Flow Control segment increased \$293.0 million or 40.3%. Acquisitions within this segment, primarily FCX, increased sales \$342.4 million or 47.1%. Excluding the impact of businesses acquired, sales decreased \$49.4 million or 6.8%. The decrease from operations is primarily due to softness and project delays in our fluid power businesses tied to technology markets, specifically electronic equipment and component manufacturers, as well as slower demand in our flow control operations.

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

Amounts in millions	Year ended June 30,		Sales Increase	Amount of change due to		
	2019	2018		Acquisitions	Foreign Currency	Organic Change
Sales by Geographic Area						
United States	\$ 3,016.7	\$ 2,615.0	\$ 401.7	\$ 360.0	\$ —	\$ 41.7
Canada	271.3	273.6	(2.3)	—	(11.5)	9.2
Other countries	184.7	184.6	0.1	—	(7.7)	7.8
Total	\$ 3,472.7	\$ 3,073.2	\$ 399.5	\$ 360.0	\$ (19.2)	\$ 58.7

Sales in our U.S. operations increased \$401.7 million or 15.4%, with acquisitions adding \$360.0 million or 13.8%. Excluding the impact of businesses acquired, U.S. sales were up \$41.7 million or 1.6%. Sales from our Canadian operations decreased \$2.3 million or 0.8%, and unfavorable foreign currency translation decreased Canadian sales by \$11.5 million or 4.2%. Excluding the impact of foreign currency translation, Canadian sales were up \$9.2 million or 3.4%, of which 4.2% is growth from operations, offset by a 0.8% decrease due to two less sales days. Consolidated sales from our other country operations increased \$0.1 million compared to the prior year. Unfavorable foreign currency translation decreased other country sales by \$7.7 million or 4.2%. Excluding the impact of foreign currency translation, other country sales were up \$7.8 million or 4.2% compared to the prior year.

Our gross profit margin increased to 29.0% in fiscal 2019 compared to 28.8% in fiscal 2018 primarily due to the impact of acquisitions, which favorably impacted the gross profit margin by 48 basis points in fiscal 2019, offset by an unfavorable impact of 26 basis points from the change in LIFO expense in fiscal 2019 compared to fiscal 2018.

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

Amounts in millions	Year ended June 30,		SD&A Increase	Amount of change due to		
	2019	2018		Acquisitions	Foreign Currency	Organic Change
SD&A	\$ 742.2	\$ 658.2	\$ 84.1	\$ 86.9	\$ (5.6)	\$ 2.8

SD&A consists of associate compensation, benefits and other expenses associated with selling, purchasing, warehousing, supply chain management, and 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, facility related expenses and expenses incurred in acquiring businesses. SD&A increased \$84.1 million or 12.8% during fiscal 2019 compared to the prior year, and as a percentage of sales remained stable at 21.4% in fiscal 2019 and 2018. Changes in foreign currency exchange rates had the effect of decreasing SD&A by \$5.6 million or 0.9% compared to the prior year. SD&A from businesses acquired added \$86.9 million or 13.2%, including \$13.7 million of intangibles amortization related to acquisitions, and net of \$6.1 million of one-time acquisition costs related to the acquisition of FCX in the prior year that did not reoccur in the current year. Excluding the impact of businesses acquired and the favorable impact from foreign currency translation, SD&A increased \$2.8 million or 0.5% during fiscal 2019 compared to fiscal 2018. The Company incurred \$1.6 million of restructuring expenses related to severance and facility consolidation during fiscal 2019. All other expenses within SD&A were up \$1.2 million.

As a result of the continued decline in the oil and gas industry in western Canada, the Company performed an impairment analysis for certain long-lived intangible assets related to the Company's upstream oil and gas operations in Canada during the third quarter of fiscal 2019. As a result of this test, the Company determined that the net book values of these long-lived intangible assets were impaired and recognized a non-cash impairment charge of \$31.6 million for intangible assets in fiscal 2019, which decreased net income by \$23.1 million and earnings per share by \$0.59 per share.

Operating income increased \$8.0 million, or 3.5%, to \$233.8 million during fiscal 2019 from \$225.8 million during fiscal 2018, and as a percentage of sales, decreased to 6.7% from 7.3%, primarily as a result of the impairment expense recorded during the current year.

Operating income as a percentage of sales for the Service Center Based Distribution segment increased to 10.4% in fiscal 2019 from 10.2% in fiscal 2018. Operating income as a percentage of sales for the Fluid Power & Flow Control segment decreased to 11.0% in fiscal 2019 from 11.4% in fiscal 2018.

Segment operating income is impacted by changes in the amounts and levels of certain supplier support benefits and expenses allocated to the segments. The expense allocations include corporate charges for working capital, logistics support and other items and impact segment gross profit and operating expense.

Other income, net, represents certain non-operating items of income and expense. This was \$0.9 million of income in fiscal 2019 compared to \$2.4 million of income in fiscal 2018. Current year income primarily consists of unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.7 million and life insurance income of \$0.5 million, offset by foreign currency transaction losses of \$0.3 million. Fiscal 2018 income consisted primarily of life insurance income of \$1.6 million and unrealized gains on investments held by non-qualified deferred compensation trusts of \$0.8 million.

The effective income tax rate was 26.0% for fiscal 2019 compared to 30.8% for fiscal 2018. The decrease in the effective tax rate is primarily due to the enactment of the Tax Cuts and Jobs Act (the "Act") in December 2017, which reduced the U.S. federal corporate income tax rate from 35.0% to 21.0% effective January 1, 2018. The Act resulted in a statutory rate of 21.0% for fiscal 2019 and a blended statutory rate of 28.1% for fiscal 2018. In the third quarter of fiscal 2019, the Company recorded a valuation allowance of \$3.8 million related to certain deferred tax assets in Canada due to the uncertainty in realizing these net deferred tax assets, which was increased by \$1.8 million in the fourth quarter of fiscal 2019, and in total increased the effective tax rate by 2.9% for fiscal 2019. Also in the fourth quarter of fiscal 2019, final regulations were released by the Internal Revenue Service that impacted the transition tax. As a result of these regulations, the net transition tax paid by the Company was \$1.4 million.

We expect our income tax rate for fiscal 2020 to be in the range of 25.0% to 27.0%.

As a result of the factors discussed above, net income for fiscal 2019 increased \$2.4 million from the prior year. Net income per share was \$3.68 per share for fiscal 2019 compared to \$3.61 per share for fiscal 2018. Current year results were favorably impacted by \$0.48 per share for acquisitions, \$0.37 per share for tax reform, and improved Company performance, offset by a \$0.69 per share unfavorable impact from the intangible impairment, which includes the impact of recording the \$3.8 million valuation allowance in the third quarter of fiscal 2019, and a \$0.04 per share unfavorable impact from restructuring charges during fiscal 2019. The prior year results include positive impacts on earnings per share of \$0.15 per share related to tax reform and \$0.05 per share related to the results of FCX, offset by a negative impact of \$0.13 per share for one-time costs related to the acquisition of FCX.

At June 30, 2019, we had a total of 600 operating facilities in the United States, Puerto Rico, Canada, Mexico, Australia, New Zealand, and Singapore, versus 610 at June 30, 2018.

The approximate number of Company employees was 6,650 at June 30, 2019 and 6,634 at June 30, 2018.

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 June 30, 2019 we had total debt obligations outstanding of \$959.8 million compared to \$966.1 million at June 30, 2018. 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 we operate in, 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 June 30, 2019 was \$724.3 million compared to \$625.5 million at June 30, 2018. The current ratio was 2.7 to 1 at June 30, 2019 and 2.4 to 1 at June 30, 2018. The increase is primarily driven by a higher cash balance at June 30, 2019.

Net Cash Flows

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

	Year Ended June 30,	
	2019	2018
Net Cash Provided by (Used in):		
Operating Activities	\$ 180,601	\$ 147,304
Investing Activities	(55,102)	(797,906)
Financing Activities	(71,539)	600,284
Exchange Rate Effect	109	(589)
Increase (Decrease) in Cash and Cash Equivalents	\$ 54,069	\$ (50,907)

The increase in cash provided by operating activities during fiscal 2019 is primarily due to the impact of acquisitions along with improved operating results, offset by changes in working capital.

Net cash used in investing activities in fiscal 2019 included \$37.5 million used for the acquisitions of FPS, MilRoc and Woodward, and \$19.0 million used for capital expenditures. Net cash used in investing activities in fiscal 2018 included \$775.7 million used for acquisitions, primarily FCX, and \$23.2 million for capital expenditures.

Net cash used in financing activities in fiscal 2019 included \$175.0 million of cash from borrowings under the new trade receivable securitization facility, offset by \$19.5 million of net payments under the revolving credit facility, and \$161.7 million of long-term debt repayments. Further uses of cash were \$47.3 million for dividend payments, \$11.2 million used to repurchase 192,082 shares of treasury stock, \$3.5 million used to pay taxes for shares withheld, and \$2.6 million used for acquisition holdback payments.

Net cash provided by financing activities in fiscal 2018 included \$780.0 million of cash borrowings under the new credit facility and \$19.5 million of net borrowings under the revolving credit facility, offset by \$125.4 million of long-term debt repayments. Further uses of cash were \$45.9 million for dividend payments, \$22.8 million used to repurchase 393,300 shares of treasury stock, and \$3.3 million used for the payment of debt issuance costs.

The increase in dividends over the year is the result of regular increases in our dividend payout rates. We paid dividends of \$1.22 and \$1.18 per share in fiscal 2019 and 2018, respectively.

Capital Expenditures

We expect capital expenditures for fiscal 2020 to be in the \$20.0 million to \$25.0 million range, primarily consisting of capital associated with additional information technology equipment and infrastructure investments. Depreciation for fiscal 2020 is expected to be in the range of \$21.0 million to \$22.0 million.

Share Repurchases

The Board of Directors has authorized the repurchase of shares of the Company's stock. These purchases may be made in open market and negotiated transactions, from time to time, depending upon market conditions. At June 30, 2019, we had authorization to purchase an additional 864,618 shares.

In fiscal 2019, 2018 and 2017, we repurchased 192,082, 393,300, and 162,500 shares of the Company's common stock, respectively, at an average price per share of \$58.10, \$57.92, and \$50.72, respectively.

Borrowing Arrangements

In January 2018, in conjunction with the acquisition of FCX, the Company refinanced its existing credit facility and entered into a new five-year credit facility with a group of banks expiring in January 2023. This agreement provides for a \$780.0 million unsecured term loan and a \$250.0 million unsecured revolving credit facility. Fees on this facility range from 0.10% to 0.20% per year based upon the Company's leverage ratio at each quarter end. Borrowings under this agreement carry variable interest rates tied to either LIBOR or prime at the Company's discretion. At June 30, 2019 and June 30, 2018, the Company had \$613.6 million and \$775.1 million outstanding under the term loan, respectively. The Company had no amount outstanding under the revolver as of June 30, 2019 and \$19.5 million was outstanding under the revolver as of June 30, 2018. Unused lines under this facility, net of outstanding letters of credit of \$3.2 million and \$3.6 million, respectively, to secure certain insurance obligations, totaled \$246.8 million and \$226.9 million at June 30, 2019 and June 30, 2018, respectively, and were available to fund future acquisitions or other capital and operating requirements. In January 2019, the Company entered into an interest rate swap on \$463.0 million of unsecured variable debt to mitigate variability in forecasted interest payments.

The interest rate on the term loan was 4.19% and 4.13% as of June 30, 2019 and June 30, 2018, respectively. The weighted average interest rate on the amount outstanding under the revolving credit facility as of June 30, 2018 was 3.93%.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$2.7 million as of June 30, 2019 and June 30, 2018, 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 June 30, 2019, the Company borrowed \$175.0 million under the AR Securitization Facility, and the interest rate was 3.33%.

At June 30, 2019 and June 30, 2018, the Company had borrowings outstanding under its unsecured shelf facility agreement with Prudential Investment Management of \$170.0 million. Fees on this facility range from 0.25% to 1.25% per year based on the Company's leverage ratio at each quarter end. The "Series C" notes have a principal amount of \$120.0 million 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, 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 June 30, 2019 and 2018, \$1.2 million and \$1.4 million was outstanding, respectively.

The credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At June 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 June 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 June 30, 2019.

Accounts Receivable Analysis

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

June 30,	2019	2018
Accounts receivable, gross	\$ 551,400	\$ 559,775
Allowance for doubtful accounts	10,498	10,964
Accounts receivable, net	\$ 540,902	\$ 548,811
Allowance for doubtful accounts, % of gross receivables	1.9%	2.0%
Year Ended June 30,	2019	2018
Provision for losses on accounts receivable	\$ 4,058	\$ 2,803
Provision as a % of net sales	0.12%	0.09%

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 55.2 at June 30, 2019 versus 55.0 at June 30, 2018.

Approximately 3.0% of our accounts receivable balances are more than 90 days past due at June 30, 2019 compared to 4.0% at June 30, 2018. This decrease primarily relates to our U.S. Service Center Based Distribution

businesses. On an overall basis, our provision for losses from uncollected receivables represents 0.12% of our sales in the year ended June 30, 2019. 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 uses inventory valued at average costs. The annualized inventory turnover (using average costs) for the period ended June 30, 2019 was 4.2 versus 4.0 at June 30, 2018. We believe our inventory turnover ratio in fiscal 2020 will be slightly better than our fiscal 2019 levels.

CONTRACTUAL OBLIGATIONS

The following table shows the approximate value of the Company's contractual obligations and other commitments to make future payments as of June 30, 2019 (in thousands):

	Total	Period Less Than 1 yr	Period 2-3 yrs	Period 4-5 yrs	Period Over 5 yrs	Other
Operating leases	\$ 104,160	\$ 33,707	\$ 39,827	\$ 18,491	\$ 12,135	—
Planned funding of post-retirement obligations	12,900	3,500	1,800	1,200	6,400	—
Unrecognized income tax benefit liabilities, including interest and penalties	5,800	—	—	—	—	5,800
Long-term debt obligations	959,829	49,613	338,361	571,855	—	—
Interest on long-term debt obligations (1)	105,400	35,800	58,400	11,200	—	—
Acquisition holdback payments	6,371	2,640	3,656	75	—	—
Total Contractual Cash Obligations	\$1,194,460	\$ 125,260	\$ 442,044	\$ 602,821	\$ 18,535	\$ 5,800

(1) Amounts represent estimated contractual interest payments on outstanding long-term debt obligations. Rates in effect as of June 30, 2019 are used for variable rate debt.

Purchase orders for inventory and other goods and services are not included in our estimates as we are unable to aggregate the amount of such purchase orders that represent enforceable and legally binding agreements specifying all significant terms. The previous table includes the gross liability for unrecognized income tax benefits including interest and penalties in the "Other" column as the Company is unable to make a reasonable estimate regarding the timing of cash settlements, if any, with the respective taxing authorities.

SUBSEQUENT EVENTS

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

During the first quarter of fiscal 2020, the Company reached a definitive agreement to acquire 100% of the outstanding stock of Olympus Controls Corp., located in Tualatin, Oregon. The Company intends to fund this acquisition using funds available through the Company's revolving credit facility. As a full-service provider of innovative technologies and complete engineered solutions for OEMs, machine builders, integrators, and end users, this business will be included in the Fluid Power & Flow Control segment.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates at a specific point in time that affect the amounts reported in the consolidated financial statements and disclosed in the accompanying notes. The Business and Accounting Policies note to the consolidated financial statements describes the significant accounting policies and methods used in preparation of the consolidated financial statements. Estimates are used for, but not limited to, determining the net carrying value of trade accounts receivable, inventories, recording self-insurance liabilities and other accrued liabilities. Estimates are also used in establishing opening balances in relation to purchase accounting. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

LIFO Inventory Valuation and Methodology

Inventories are valued at the average cost method, using the last-in, first-out (LIFO) method for U.S. inventories, and the average cost method for foreign inventories. We adopted the link chain dollar value LIFO method for accounting for U.S. inventories in fiscal 1974. Approximately 15.9% of our domestic inventory dollars relate to LIFO layers added in the 1970s. The excess of average cost over LIFO cost is \$151.7 million as reflected in our consolidated balance sheet at June 30, 2019. The Company maintains five LIFO pools based on the following product groupings: bearings, power transmission products, rubber products, fluid power products and other products.

LIFO layers and/or liquidations are determined consistently year-to-year. See the Inventories note to the consolidated financial statements in Item 8 under the caption "Financial Statements and Supplementary Data," for further information.

Allowances for Slow-Moving and Obsolete Inventories

We evaluate the recoverability of our slow-moving and inactive inventories at least quarterly. We estimate the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. Our ability to recover our cost for slow moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand and relationships with suppliers. A significant portion of the products we hold in inventory have long shelf lives, are not highly susceptible to obsolescence and are eligible for return under various supplier return programs.

As of June 30, 2019 and 2018, the Company's reserve for slow-moving or obsolete inventories was \$41.1 million and \$38.1 million, respectively, recorded in inventories in the consolidated balance sheets.

Allowances for Doubtful Accounts

We evaluate the collectibility of trade accounts receivable based on a combination of factors. Initially, we estimate an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This initial estimate is adjusted based on recent trends of certain customers and industries estimated to be a greater credit risk, trends within the entire customer pool and changes in the overall aging of accounts receivable. While we have a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which we operate could result in higher than expected defaults, and therefore, the need to revise estimates for bad debts. Accounts are written off against the allowance when it becomes evident that collection will not occur.

As of June 30, 2019 and 2018, our allowance for doubtful accounts was 1.9% and 2.0% of gross receivables, respectively. Our provision for losses on accounts receivable was \$4.1 million, \$2.8 million and \$2.1 million in fiscal 2019, 2018 and 2017, respectively.

Goodwill and Intangibles

The purchase price of an acquired company is allocated between intangible assets and the net tangible assets of the acquired business with the residual of the purchase price recorded as goodwill. Goodwill for acquired businesses is accounted for using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of the acquisition at their respective estimated fair values. The determination of the value of the intangible assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future and the appropriate weighted average cost of capital. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as the estimated life of each asset, can materially impact the net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances through impairment charges, if the asset becomes impaired in the future. As part of acquisition accounting, we recognize acquired identifiable intangible assets such as customer relationships, vendor relationships, trade names, and non-competition agreements apart from goodwill. Finite-lived identifiable intangibles are evaluated for impairment when changes in conditions indicate carrying value may not be recoverable.

We evaluate goodwill for impairment at the reporting unit level annually as of January 1, and whenever an event occurs or circumstances change that would indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Events or circumstances that may result in an impairment review include changes in macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events, specific events affecting the reporting unit or sustained decrease in share price. Each year, the Company may elect to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If impairment is indicated in the qualitative assessment, or, if management elects to initially perform a quantitative assessment of goodwill, the impairment test uses a one-step approach. The fair value of a reporting unit is compared with its carrying amount,

including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit.

Goodwill on our consolidated financial statements relates to both the Service Center Based Distribution segment and the Fluid Power & Flow Control segment. The Company has seven 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. As of June 30, 2019, the Company's goodwill balance was \$662.0 million, of which \$28.3 million relates to the Canada reporting unit. As of January 1, 2019, the fair value of the Canada reporting unit exceeded the carrying value by 25.0%. If the Company does not achieve the forecasted sales growth and margin improvements goodwill could be impaired.

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 additional impairment if the Company determines that the fair values of its reporting units have fallen below their carrying values.

Income Taxes

Deferred income taxes are recorded for estimated future tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes, giving consideration to enacted tax laws. As of June 30, 2019, the Company had recognized \$54.5 million of net deferred tax liabilities. Valuation allowances are provided against deferred tax assets where it is considered more-likely-than-not that the Company will not realize the benefit of such assets on a jurisdiction by jurisdiction basis. The remaining net deferred tax asset is the amount management believes is more-likely-than-not of being realized. The realization of these deferred tax assets can be impacted by changes to tax laws, statutory rates and future taxable income levels.

CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT

This Form 10-K, including 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 our Form 10-K, as well as other of our filings with the Securities and Exchange Commission.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risk is impacted by changes in foreign currency exchange rates as well as changes in interest rates. We occasionally utilize derivative instruments as part of our overall financial risk management policy, but do not use derivative instruments for speculative or trading purposes.

Foreign Currency Exchange Rate Risk

Because we operate throughout North America, Australia and New Zealand and approximately 13.1% of our fiscal year 2019 net sales were generated outside the United States, foreign currency exchange rates can impact our financial position, results of operations and competitive position. The financial statements of foreign subsidiaries are translated into their U.S. dollar equivalents at end-of-period exchange rates for assets and liabilities, while income and expenses are translated at average monthly exchange rates. Translation gains and losses are components of other comprehensive income (loss) as reported in the statements of consolidated comprehensive income. Transaction gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in the statements of consolidated income as a component of other (income) expense, net. Applied does not currently hedge the net investments in our foreign operations.

During the course of the fiscal year, the Canadian and Mexican currency exchange rates increased in relation to the U.S. dollar by 1.4% and 3.6%, respectively, while the Australian and New Zealand currency exchange rates decreased in relation to the U.S. dollar by 4.8% and 1.1%, respectively. In the twelve months ended June 30, 2019, we experienced net foreign currency translation gains totaling \$2.0 million, which were included in other comprehensive (loss) income. We utilize a sensitivity analysis to measure the potential impact on earnings based on a hypothetical 10% change in foreign currency rates. Excluding the non-cash intangible asset impairment charge recorded in fiscal 2019, a 10% strengthening of the U.S. dollar relative to foreign currencies that affect the Company from the levels experienced during the year ended June 30, 2019 would have resulted in a \$1.4 million decrease in net income for the year ended June 30, 2019. Excluding the non-cash intangible asset impairment charge recorded in fiscal 2019, a 10% weakening of the U.S. dollar relative to foreign currencies that affect the Company from the levels experienced during the year ended June 30, 2019 would have resulted in a \$1.4 million increase in net income for the year ended June 30, 2019.

Interest Rate Risk

Our primary exposure to interest rate risk results from our outstanding debt obligations with variable interest rates. The levels of fees and interest charged on our various debt facilities are based upon leverage levels and market interest rates. The Company uses interest rate swap instruments to mitigate variability in forecasted interest rates.

Our variable interest rate debt facilities outstanding include our five-year credit facility, which provides for a revolving credit facility with a capacity of up to \$250.0 million in borrowings with no balance outstanding at June 30, 2019, a \$780.0 million term loan, of which \$613.6 million was outstanding at June 30, 2019, and a \$175.0 million trade receivable securitization facility, all of which was outstanding at June 30, 2019. In January 2019, the Company entered into an interest rate swap on \$463.0 million 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. Fixed interest rate debt facilities include \$170.0 million outstanding under our unsecured shelf facility agreement, as well as \$1.2 million of assumed debt from the purchase of our headquarters facility. We had total average variable interest rate bank borrowings of \$810.9 million during fiscal 2019. The impact of a hypothetical 1.0% increase in the interest rates on our average variable interest rate bank borrowings (not considering the impact of our interest rate swap) would have resulted in a \$8.1 million increase in interest expense. Due to the interest rate swap, the impact of a hypothetical 1.0% increase in the variable interest rate would have reduced net cash interest paid by \$1.9 million. Changes in market interest rates would also impact interest rates on these facilities.

For more information relating to borrowing and interest rates, see the "Liquidity and Capital Resources" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and notes 6 and 7 to the consolidated financial statements in Item 8. That information is also incorporated here by reference. In addition, see Item 1A, "Risk Factors," for additional risk factors relating to our business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Applied Industrial Technologies, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2019 and 2018, the related statements of consolidated income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 30, 2019, based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 16, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill - Canada Reporting Unit - Refer to Note 5 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company determines the fair value of its reporting units using the income and market approaches. The determination of the fair value using the income approach requires management to make significant estimates and assumptions related to forecasts of future revenues, operating margins, and discount rates. The determination of the fair value using the market approach requires management to make significant estimates and assumptions related to forecasts of future revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA) and multiples that are applied to management's forecasted revenues and EBITDA estimates. The goodwill balance was \$662.0 million as of June 30, 2019, of which \$28.3 million related to the Canada reporting unit. The fair value of the Canada reporting unit exceeded its carrying value by 25% as of the measurement date and, therefore, no impairment was recognized.

Given the nature of the Canada reporting unit's operations, the sensitivity of the business to changes in the Canadian economy, the reporting unit's historical performance as compared to projections, and the difference between its fair value and the carrying value, auditing management's judgments regarding forecasts of future revenues, operating margins, and EBITDA, as well as selection of the discount rate and selection of multiples applied to management's forecasted revenues and EBITDA estimates for the Canada reporting unit, required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasts of future revenues, operating margins, and EBITDA ("forecasts"), and the selection of the discount rate and selection of multiples applied to management's forecasted revenues and EBITDA estimates ("market multiples") for the Canada reporting unit included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the determination of the fair value of the Canada reporting unit, such as controls related to management's forecasts and the selection of the discount rate and market multiples used.
 - We evaluated management's ability to accurately forecast by comparing actual results to management's historical forecasts.
 - We evaluated the reasonableness of management's forecasts by comparing the forecasts to (1) historical results, (2) internal communications to management and the Board of Directors, and (3) forecasted information included in industry reports for the various industries the Canada reporting unit operates within.
 - With the assistance of our fair value specialists, we evaluated the discount rate, including testing the underlying source information and the mathematical accuracy of the calculations, and developing a range of independent estimates and comparing those to the discount rate selected by management.
 - With the assistance of our fair value specialists, we evaluated the market multiples by evaluating the selected comparable publicly traded companies and the adjustments made for differences in growth prospects and risk profiles between the reporting unit and the comparable publicly traded companies. We tested the underlying source information and mathematical accuracy of the calculations.
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/s/ Deloitte & Touche LLP
Cleveland, Ohio

August 16, 2019

We have served as the Company's auditor since 1966.

STATEMENTS OF CONSOLIDATED INCOME

(In thousands, except per share amounts)

Year Ended June 30,	2019	2018	2017
Net Sales	\$ 3,472,739	\$ 3,073,274	\$ 2,593,746
Cost of Sales	2,465,116	2,189,279	1,856,051
Gross Profit	1,007,623	883,995	737,695
Selling, Distribution and Administrative, including depreciation	742,241	658,168	562,309
Intangible Impairment	31,594	—	—
Operating Income	233,788	225,827	175,386
Interest Expense	40,788	24,142	8,831
Interest Income	(600)	(657)	(290)
Other Income, net	(881)	(2,376)	(121)
Income Before Income Taxes	194,481	204,718	166,966
Income Tax Expense	50,488	63,093	33,056
Net Income	\$ 143,993	\$ 141,625	\$ 133,910
Net Income Per Share — Basic	\$ 3.72	\$ 3.65	\$ 3.43
Net Income Per Share — Diluted	\$ 3.68	\$ 3.61	\$ 3.40

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(In thousands)

Year Ended June 30,	2019	2018	2017
Net income per the statements of consolidated income	\$ 143,993	\$ 141,625	\$ 133,910
Other comprehensive (loss) income, before tax:			
Foreign currency translation adjustments	2,021	(8,875)	2,238
Post-employment benefits:			
Actuarial (loss) gain on re-measurement	(372)	709	2,038
Reclassification of actuarial (gains) losses and prior service cost into other income, net and included in net periodic pension costs	(306)	(73)	506
Unrealized gain on investment securities available for sale	—	37	91
Cumulative effect of adopting accounting standard	(50)	—	—
Unrealized loss on cash flow hedge	(14,446)	—	—
Reclassification of interest from cash flow hedge into interest expense	244	—	—
Total other comprehensive (loss) income, before tax	(12,909)	(8,202)	4,873
Income tax (benefit) expense related to items of other comprehensive income (loss)	(3,246)	319	1,029
Other comprehensive (loss) income, net of tax	(9,663)	(8,521)	3,844
Comprehensive income	\$ 134,330	\$ 133,104	\$ 137,754

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands)

June 30,	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 108,219	\$ 54,150
Accounts receivable, net	540,902	548,811
Inventories	447,555	422,069
Other current assets	51,462	32,990
Total current assets	1,148,138	1,058,020
Property — at cost		
Land	14,452	14,411
Buildings	101,338	104,419
Equipment, including computers and software	189,579	177,813
Total property — at cost	305,369	296,643
Less accumulated depreciation	181,066	175,300
Property — net	124,303	121,343
Identifiable intangibles, net	368,866	435,947
Goodwill	661,991	646,643
Other assets	28,399	23,788
Total Assets	\$ 2,331,697	\$ 2,285,741
Liabilities		
Current liabilities		
Accounts payable	\$ 237,289	\$ 256,886
Current portion of long-term debt	49,036	19,183
Compensation and related benefits	67,978	73,370
Other current liabilities	69,491	83,112
Total current liabilities	423,794	432,551
Long-term debt	908,850	944,522
Other liabilities	102,019	93,705
Total Liabilities	1,434,663	1,470,778
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; 38,597 and 38,703 shares outstanding, respectively	10,000	10,000
Additional paid-in capital	172,931	169,383
Retained earnings	1,229,148	1,129,678
Treasury shares — at cost (15,616 and 15,510 shares), respectively	(415,159)	(403,875)
Accumulated other comprehensive loss	(99,886)	(90,223)
Total Shareholders' Equity	897,034	814,963
Total Liabilities and Shareholders' Equity	\$ 2,331,697	\$ 2,285,741

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In thousands)

Year Ended June 30,	2019	2018	2017
Cash Flows from Operating Activities			
Net income	\$ 143,993	\$ 141,625	\$ 133,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Intangible impairment	31,594	—	—
Depreciation and amortization of property	20,236	17,798	15,306
Amortization of intangibles	41,883	32,065	24,371
Amortization of stock appreciation rights and options	2,437	1,961	1,891
Deferred income taxes	2,368	1,615	(2,852)
Provision for losses on accounts receivable	4,058	2,803	2,071
Unrealized foreign exchange transaction losses (gains)	238	(667)	(333)
Other share-based compensation expense	4,474	4,666	3,629
Gain on sale of property	(459)	(335)	(1,541)
Other	—	—	103
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	8,465	(83,103)	(42,267)
Inventories	(16,590)	(33,436)	(3,624)
Other operating assets	(7,738)	6,947	(6,162)
Accounts payable	(29,788)	50,345	32,076
Other operating liabilities	(24,570)	5,020	8,041
Cash provided by Operating Activities	180,601	147,304	164,619
Cash Flows from Investing Activities			
Capital expenditures	(18,970)	(23,230)	(17,045)
Proceeds from property sales	1,003	978	2,924
Cash paid for acquisition of businesses, net of cash acquired	(37,526)	(775,654)	(2,773)
Other	391	—	—
Cash used in Investing Activities	(55,102)	(797,906)	(16,894)
Cash Flows from Financing Activities			
Net (repayments) borrowings under revolving credit facility	(19,500)	19,500	(33,000)
Borrowings under long-term debt facilities	175,000	780,000	—
Long-term debt repayments	(161,738)	(125,420)	(3,353)
Payment of debt issuance costs	(775)	(3,298)	—
Purchases of treasury shares	(11,158)	(22,778)	(8,242)
Dividends paid	(47,266)	(45,858)	(44,619)
Acquisition holdback payments	(2,610)	(319)	(11,307)
Exercise of stock appreciation rights and options	—	102	656
Taxes paid for shares withheld	(3,492)	(1,645)	(3,484)
Cash (used in) provided by Financing Activities	(71,539)	600,284	(103,349)
Effect of exchange rate changes on cash	109	(589)	820
Increase (decrease) in cash and cash equivalents	54,069	(50,907)	45,196
Cash and cash equivalents at beginning of year	54,150	105,057	59,861
Cash and Cash Equivalents at End of Year	\$ 108,219	\$ 54,150	\$ 105,057
Supplemental Cash Flow Information			
Cash paid during the year for:			
Income taxes	54,294	41,724	38,772
Interest	40,142	25,560	8,561

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(In thousands)

For the Years Ended June 30, 2019, 2018 and 2017	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, 2016	39,057	\$ 10,000	\$ 162,529	\$ 944,821	\$(373,888)	\$(85,546)	\$ 657,916
Net income				133,910			133,910
Other comprehensive income (loss)						3,844	3,844
Cash dividends — \$1.14 per share				(45,005)			(45,005)
Purchases of common stock for treasury	(163)				(8,242)		(8,242)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	111		(2,218)		105		(2,113)
Performance share awards	10		(360)		126		(234)
Restricted stock units	15		(624)		227		(397)
Compensation expense — stock appreciation rights and options			1,891				1,891
Other share-based compensation expense			3,629				3,629
Other	11		(192)	25	224		57
Balance at June 30, 2017	39,041	10,000	164,655	1,033,751	(381,448)	(81,702)	745,256
Net income				141,625			141,625
Other comprehensive income (loss)						(8,050)	(8,050)
Reclassifications of certain income tax effects from accumulated other comprehensive loss				471		(471)	—
Cash dividends — \$1.18 per share				(46,162)			(46,162)
Purchases of common stock for treasury	(393)				(22,778)		(22,778)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	19		(482)		84		(398)
Performance share awards	5		(273)		(24)		(297)
Restricted stock units	15		(740)		(56)		(796)
Compensation expense — stock appreciation rights and options			1,961				1,961
Other share-based compensation expense			4,666				4,666
Other	16		(404)	(7)	347		(64)
Balance at June 30, 2018	38,703	10,000	169,383	1,129,678	(403,875)	(90,223)	814,963
Net income				143,993			143,993
Other comprehensive income (loss)						(9,663)	(9,663)
Cumulative effect of adopting accounting standards				3,056			3,056
Cash dividends — \$1.22 per share				(47,621)			(47,621)
Purchases of common stock for treasury	(192)				(11,158)		(11,158)
Treasury shares issued for:							
Exercise of stock appreciation rights and options	30		(1,069)		(59)		(1,128)
Performance share awards	18		(844)		(301)		(1,145)
Restricted stock units	23		(1,057)		(120)		(1,177)
Compensation expense — stock appreciation rights and options			2,437				2,437
Other share-based compensation expense			4,474				4,474
Other	15		(393)	42	354		3
Balance at June 30, 2019	38,597	\$ 10,000	\$ 172,931	\$ 1,229,148	\$(415,159)	\$(99,886)	\$ 897,034

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

NOTE 1: BUSINESS AND ACCOUNTING POLICIES

Business

Applied Industrial Technologies, Inc. and subsidiaries (the “Company” or “Applied”) is a leading value-added distributor of bearings, power transmission products, engineered fluid power components and systems, specialty flow control solutions, and other industrial supplies, serving Maintenance Repair & Operations (MRO) and Original Equipment Manufacturer (OEM) 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. Although the Company does not generally manufacture the products it sells, it does assemble and repair certain products and systems.

Consolidation

The consolidated financial statements include the accounts of Applied Industrial Technologies, Inc. and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Foreign Currency

The financial statements of the Company’s Canadian, Mexican, Australian and New Zealand subsidiaries are measured using local currencies as their functional currencies. Assets and liabilities are translated into U.S. dollars at current exchange rates, while income and expenses are translated at average exchange rates. Translation gains and losses are reported in other comprehensive (loss) income in the statements of consolidated comprehensive income. Gains and losses resulting from transactions denominated in foreign currencies are included in the statements of consolidated income as a component of other income, net.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Marketable Securities

The primary marketable security investments of the Company include money market and mutual funds held in a rabbi trust for a non-qualified deferred compensation plan. These are included in other assets in the consolidated balance sheets, are classified as trading securities, and are reported at fair value based on quoted market prices. Changes in the fair value of the investments during the period are recorded in other income, net in the statements of consolidated income.

Concentration of Credit Risk

The Company has a broad customer base representing many diverse industries across North America, Australia, New Zealand, and Singapore. As such, the Company does not believe that a significant concentration of credit risk exists in its accounts receivable. The Company’s cash and cash equivalents consist of deposits with commercial banks and regulated non-bank subsidiaries. While the Company monitors the creditworthiness of these institutions, a crisis in the financial systems could limit access to funds and/or result in the loss of principal. The terms of these deposits and investments provide that all monies are available to the Company upon demand.

Accounts Receivable

Accounts receivable are stated at their estimated net realizable value and consist of amounts billed or billable and currently due from customers. The Company maintains an allowance for doubtful accounts, which reflects management’s best estimate of probable losses based on an analysis of customer accounts, known troubled accounts, historical experience with write-offs, and other currently available evidence.

Allowances for Doubtful Accounts

The Company evaluates the collectibility of trade accounts receivable based on a combination of factors. Initially, the Company estimates an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This initial estimate is adjusted based on recent trends of customers and industries estimated to be greater credit risks, trends within the entire customer pool, and changes in the overall aging of accounts receivable. Accounts are written off against the allowance when it becomes evident collection will not occur. While the Company has a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which the Company operates could result in higher than expected defaults, and therefore, the need to revise estimates for bad debts. The allowance for doubtful accounts was \$10,498 and \$10,964 at June 30, 2019 and June 30, 2018, respectively.

Inventories

Inventories are valued at average cost, using the last-in, first-out (LIFO) method for U.S. inventories and the average cost method for foreign inventories. The Company adopted the link chain dollar value LIFO method of accounting for U.S. inventories in fiscal 1974. At June 30, 2019, approximately 15.9% of the Company's domestic inventory dollars relate to LIFO layers added in the 1970s. The Company maintains five LIFO pools based on the following product groupings: bearings, power transmission products, rubber products, fluid power products and other products. LIFO layers and/or liquidations are determined consistently year-to-year.

The Company evaluates the recoverability of its slow moving and inactive inventories at least quarterly. The Company estimates the recoverable cost of such inventory by product type while considering factors such as its age, historic and current demand trends, the physical condition of the inventory, as well as assumptions regarding future demand. The Company's ability to recover its cost for slow moving or obsolete inventory can be affected by such factors as general market conditions, future customer demand, and relationships with suppliers. Historically, the Company's inventories have demonstrated long shelf lives, are not highly susceptible to obsolescence, and, in certain instances, can be eligible for return under supplier return programs.

Supplier Purchasing Programs

The Company enters into agreements with certain suppliers providing inventory purchase incentives. The Company's inventory purchase incentive arrangements are unique to each supplier and are generally annual programs ending at either the Company's fiscal year end or the supplier's year end; however, program length and ending dates can vary. Incentives are received in the form of cash or credits against purchases upon attainment of specified purchase volumes and are received either monthly, quarterly or annually. The incentives are generally a specified percentage of the Company's net purchases based upon achieving specific purchasing volume levels. These percentages can increase or decrease based on changes in the volume of purchases. The Company accrues for the receipt of these inventory purchase incentives based upon cumulative purchases of inventory. The percentage level utilized is based upon the estimated total volume of purchases expected during the life of the program. Supplier programs are analyzed each quarter to determine the appropriateness of the amount of purchase incentives accrued. Upon program completion, differences between estimates and actual incentives subsequently received have not been material. Benefits under these supplier purchasing programs are recognized under the Company's inventory accounting methods as a reduction of cost of sales when the inventories representing these purchases are recorded as cost of sales. Accrued incentives expected to be settled as a credit against future purchases are reported on the consolidated balance sheets as an offset to amounts due to the related supplier.

Property and Related Depreciation and Amortization

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is included in selling, distribution and administrative expenses in the accompanying statements of consolidated income. Buildings, building improvements and leasehold improvements are depreciated over ten to thirty years or the life of the lease if a shorter period, and equipment is depreciated over three to ten years. The Company capitalizes internal use software development costs in accordance with guidance on accounting for costs of computer software developed or obtained for internal use. Amortization of software begins when it is ready for its intended use, and is computed on a straight-line basis over the estimated useful life of the software, generally not to exceed twelve years. Capitalized software and hardware costs are classified as property on the consolidated balance sheets. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the recorded value cannot be recovered from undiscounted future cash flows. Impairment losses, if any, would be measured based upon the difference between the carrying amount and the fair value of the assets.

Goodwill and Intangible Assets

Goodwill is recognized as the excess cost of an acquired entity over the net amount assigned to assets acquired and liabilities assumed. Goodwill is not amortized. Goodwill is reviewed for impairment annually as of January 1 or whenever changes in conditions indicate an evaluation should be completed. These conditions could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit. The Company utilizes the income and market approaches to determine the fair value of reporting units. Evaluating impairment requires significant judgment by management, including estimated future operating results, estimated future cash flows, the long-term rate of growth of the business, and determination of an appropriate discount rate. While the Company uses available information to prepare the estimates and evaluations, actual results could differ significantly.

The Company recognizes acquired identifiable intangible assets such as customer relationships, trade names, vendor relationships, and non-competition agreements apart from goodwill. Customer relationship identifiable intangibles are amortized using the sum-of-the-years-digits method or the expected cash flow method over estimated useful lives consistent with assumptions used in the determination of their value. Amortization of all other finite-lived identifiable intangible assets is computed using the straight-line method over the estimated period of benefit. Amortization of identifiable intangible assets is included in selling, distribution and administrative expense in the accompanying statements of consolidated income. Identifiable intangible assets with finite lives are reviewed for impairment when changes in conditions indicate carrying value may not be recoverable. Identifiable intangible assets with indefinite lives are reviewed for impairment on an annual basis or whenever changes in conditions indicate an evaluation should be completed. The Company does not currently have any indefinite-lived identifiable intangible assets.

Self-Insurance Liabilities

The Company maintains business insurance programs with significant self-insured retention covering workers' compensation, business, automobile, general product liability and other claims. The Company accrues estimated losses including those incurred but not reported using actuarial calculations, models and assumptions based on historical loss experience. The Company also maintains a self-insured health benefits plan which provides medical benefits to U.S. based employees electing coverage under the plan. The Company estimates its reserve for all unpaid medical claims, including those incurred but not reported, based on historical experience, adjusted as necessary based upon management's reasoned judgment.

Revenue Recognition

The Company primarily sells purchased products distributed through its network of service centers and recognizes revenue at a point in time when control of the product transfers to the customer, typically upon shipment from an Applied facility or directly from a supplier. For products that ship directly from suppliers to customers, Applied acts as the principal in the transaction and recognizes revenue on a gross basis. Revenue recognized over time is not significant. Revenue is measured as the amount of consideration expected to be received in exchange for the products and services provided, net of allowances for product returns, variable consideration, and any taxes collected from customers that will be remitted to governmental authorities. Shipping and handling costs are recognized in net sales when they are billed to the customer. The Company has elected to account for shipping and handling activities as fulfillment costs. There are no significant costs associated with obtaining customer contracts.

Payment terms with customers vary by the type and location of the customer and the products or services offered. The Company does not adjust the promised amount of consideration for the effects of significant financing components based on the expectation that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Arrangements with customers that include payment terms extending beyond one year are not significant.

The Company's products are generally sold with a right of return and may include variable consideration in the form of incentives, discounts, credits or rebates. Product returns are estimated based on historical return rates. The returns reserve was \$7,265 and \$2,602 at June 30, 2019 and June 30, 2018, respectively. The increase in the reserve is due to the Company's adoption of Accounting Standards Codification (ASC) Topic 606 - Revenue from Contracts with Customers (ASC 606), which required the returns reserve to be established at the gross sales value with an asset established for the value of expected product to be returned.

The Company estimates and recognizes variable consideration based on historical experience to determine the expected amount to which the Company will be entitled in exchange for transferring the promised goods or services to a customer. The Company records variable consideration as an adjustment to the transaction price in the period it is incurred. The realization of variable consideration occurs within a short period of time from product delivery; therefore, the time value of money effect is not significant.

Shipping and Handling Costs

The Company records freight payments to third parties in cost of sales and internal delivery costs in selling, distribution and administrative expense in the accompanying statements of consolidated income. Internal delivery costs in selling, distribution and administrative expenses were approximately \$24,090, \$19,320 and \$20,060 for the fiscal years ended June 30, 2019, 2018 and 2017, respectively.

Income Taxes

Income taxes are determined based upon income and expenses recorded for financial reporting purposes. Deferred income taxes are recorded for estimated future tax effects of differences between the bases of assets and liabilities for financial reporting and income tax purposes, giving consideration to enacted tax laws. Uncertain tax positions meeting a more-likely-than-not recognition threshold are recognized in accordance with ASC Topic 740 - Income Taxes. The Company recognizes accrued interest and penalties related to unrecognized income tax benefits in the provision for income taxes.

Share-Based Compensation

Share-based compensation represents the cost related to share-based awards granted to employees under the 2015 Long-Term Performance Plan, the 2011 Long-Term Performance Plan, or the 2007 Long-Term Performance Plan. The Company measures share-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost over the requisite service period. Non-qualified stock appreciation rights (SARs) and stock options are granted with an exercise price equal to the closing market price of the Company's common stock at the date of grant and the fair values are determined using a Black-Scholes option pricing model, which incorporates assumptions regarding the expected volatility, the expected option life, the risk-free interest rate and the expected dividend yield. SARs and stock option awards generally vest over four years of continuous service and have ten-year contractual terms. The fair value of restricted stock awards, restricted stock units (RSUs), and performance shares are based on the closing market price of Company common stock on the grant date.

Treasury Shares

Shares of common stock repurchased by the Company are recorded at cost as treasury shares and result in a reduction of shareholders' equity in the consolidated balance sheets. The Company uses the weighted-average cost method for determining the cost of shares reissued. The difference between the cost of the shares and the reissuance price is added to or deducted from additional paid-in capital.

Derivatives

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain risks, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

In accordance with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Recently Adopted Accounting Guidance

Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)". The standard outlines a single comprehensive model for entities to use in the accounting for revenue arising from contracts with customers. The core principle of this model is that "an entity recognizes revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services." Subsequent to the issuance of ASU 2014-09, the FASB issued ASU 2015-14, ASU 2016-08, ASU 2016-10, and ASU 2016-12, which clarify the guidance in ASU 2014-09 but do not change the core principle of the revenue recognition model, and

have been collectively codified into ASC 606. The provisions of ASC 606 are effective for interim and annual periods beginning after December 15, 2017. On July 1, 2018, the Company adopted ASC 606 using the modified retrospective method. As a result, the Company applied ASC 606 only to contracts that were not completed as of July 1, 2018. The adoption of ASC 606 resulted in a net increase to opening retained earnings of approximately \$3,429, net of tax, on July 1, 2018. See note 2, Revenue Recognition, for further information on the impacts of these standard updates.

Income Tax Consequences of Intra-entity Transfer of Assets other than Inventory

In October 2016, the FASB issued its final standard on the income tax consequences of intra-entity transfers of assets other than inventory. This standard, issued as ASU 2016-16, requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset other than inventory. This update is effective for annual and interim financial statement periods beginning after December 15, 2017. The Company adopted ASU 2016-16 during the first quarter of fiscal 2019 using the modified retrospective method, and recorded a cumulative-effect adjustment decreasing retained earnings by \$424, recording a deferred tax asset of \$587 and reversing a prepaid asset of \$1,011 as of the beginning of the period. The deferred tax asset is included in other assets on the consolidated balance sheet as of June 30, 2019.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued its final standard on targeted improvements to accounting for hedging activities. This standard, issued as ASU 2017-12, expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instruments and the hedged item in the financial statements. This update is effective for annual and interim financial statement periods beginning after December 15, 2018. The Company early adopted ASU 2017-12 during the third quarter of fiscal 2019.

Recently Issued Accounting Guidance

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. The core principle of this update is that a "lessee should recognize the assets and liabilities that arise from leases." 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. The Company plans to use this new transition method option upon adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings. In December 2018 and January 2019, the FASB issued ASU 2018-20 and ASU 2019-01, respectively, which further clarify the guidance. The Company established a cross-functional team to evaluate the new standard and is in the process of implementing new lease administration software. Upon adoption, the Company's right of use assets and corresponding lease liabilities are estimated at approximately \$80,000 to \$105,000 before considering deferred taxes. Applied does not expect a material impact to the Company's statements of consolidated income, comprehensive income, or cash flows.

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 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 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 these pronouncements on its financial statements and related disclosures.

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 has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

In August 2018, the FASB issued its final standard on the accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. This standard, issued as ASU 2018-15, aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements

for capitalizing implementation costs incurred to develop or obtain internal-use software. This update is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

NOTE 2: REVENUE RECOGNITION

The Company adopted ASC 606 using the modified retrospective method effective July 1, 2018. The Company completed an analysis of revenue streams at each of its business units and evaluated the impact of adopting ASC 606 on revenue recognition. The Company primarily sells purchased products and the majority of its revenue is recognized at a point in time. The cumulative effect of initially applying ASC 606 resulted in a net increase to the opening retained earnings balance of \$3,429, net of tax, at July 1, 2018. The transition adjustment is comprised of two components. The first component is recognition of revenue from bill and hold arrangements. The second component is recognition of revenue from contracts that meet the criteria to recognize revenue over time as the underlying products have no alternative use and the Company has a right to payment for performance completed to date. Revenue for periods prior to July 1, 2018 has not been adjusted and continues to be reported under ASC Topic 605 - Revenue Recognition.

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. On July 1, 2018, \$13,823 of contract assets were recognized as part of the cumulative effect adjustment resulting from the adoption of ASC 606.

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

	June 30, 2019	July 1, 2018	\$ Change	% Change
Contract assets	\$ 8,920	\$ 13,823	(4,903)	(35.5)%

The following tables summarize the impacts of ASC 606 on the Company's consolidated financial statements:

	Year Ended June 30, 2019		
	As Reported	Adjustments	Balances without adoption of ASC 606
Net sales	\$ 3,472,739	\$ 4,675	\$ 3,477,414
Cost of sales	2,465,116	3,691	2,468,807
Gross profit	1,007,623	984	1,008,607
Selling, distribution and administrative expense, including depreciation	742,241	321	742,562
Intangible Impairment	31,594	—	31,594
Operating income	233,788	663	234,451
Interest expense, net	40,188	—	40,188
Other income, net	(881)	—	(881)
Income before income taxes	194,481	663	195,144
Income tax expense	50,488	166	50,654
Net income	\$ 143,993	\$ 497	\$ 144,490

As of June 30, 2019			
	As Reported	Adjustments	Balances without adoption of ASC 606
Assets			
Accounts receivable, net	\$ 540,902	\$ 4,690	\$ 545,592
Other current assets	51,462	(8,920)	42,542
Inventories	447,555	6,552	454,107
Other assets	28,399	297	28,696
Liabilities			
Other current liabilities	69,491	6,688	76,179
Other liabilities	102,019	(1,116)	100,903
Equity			
Retained Earnings	\$ 897,034	\$ (2,932)	\$ 894,102

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 years ended June 30, 2019 and 2018. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

	Year Ended June 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	\$ 2,009,479	\$ 1,007,280	\$ 3,016,759	\$ 1,903,388	\$ 711,653	\$ 2,615,041
Canada	271,305	—	271,305	273,622	—	273,622
Other countries	172,121	12,554	184,675	169,408	15,203	184,611
Total	\$ 2,452,905	\$ 1,019,834	\$ 3,472,739	\$ 2,346,418	\$ 726,856	\$ 3,073,274

The following table presents the Company's percentage of revenue by reportable segment and major customer industry for the year ended June 30, 2019:

	Year Ended June 30, 2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total
General Industry	33.7%	43.0%	36.3%
Industrial Machinery	10.4	21.8	13.8
Metals	12.6	9.4	11.6
Food	10.6	2.7	8.3
Oil & Gas	10.1	2.1	7.8
Forest Products	8.0	3.1	6.6
Chem/Petrochem	3.1	13.8	6.3
Cement & Aggregate	6.7	1.0	5.0
Transportation	4.8	3.1	4.3
Total	100.0%	100.0%	100.0%

The following table presents the Company's percentage of revenue by reportable segment and product line for the year ended June 30, 2019:

	Year Ended June 30, 2019		
	Service Center Based Distribution	Fluid Power & Flow Control	Total
Power Transmission	33.9%	1.6%	24.4%
Fluid Power	13.5	39.4	21.1
Bearings, Linear & Seals	27.5	0.3	19.5
General Maintenance; Hose Products	25.1	5.3	19.3
Specialty Flow Control	—	53.4	15.7
Total	100.0%	100.0%	100.0%

NOTE 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 2019 Acquisitions

On March 4, 2019, the Company acquired substantially all of the net assets of MilRoc Distribution and Woodward Steel. MilRoc Distribution 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 Steel is an Oklahoma based steel supplier to the oil & gas and agriculture industries. MilRoc Distribution and Woodward Steel are both included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$35,000, net tangible assets acquired were \$17,910, and intangible assets including goodwill was \$17,090 based upon preliminary estimated fair values at the acquisition date, which are subject to adjustment pending the completion of the fair value analysis. The purchase price includes acquisition holdback payments of \$4,375, which are included in other current liabilities and other liabilities on the consolidated balance sheet as of June 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 consolidated balance sheet as of June 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.

FCX Acquisition

On January 31, 2018, the Company completed the acquisition of 100% of the outstanding shares of FCX Performance, Inc. (FCX), a Columbus, Ohio based distributor of specialty process flow control products and services. The total consideration transferred for the acquisition was \$781,781, which was financed by cash-on-hand and a new credit facility comprised of a \$780,000 Term Loan A and a \$250,000 revolver, effective with the transaction closing. See note 6 Debt. As a distributor of engineered valves, instruments, pumps and lifecycle services to MRO and OEM customers across diverse industrial and process end markets, this business is included in the Fluid Power & Flow Control Segment.

The following table summarizes the consideration transferred, assets acquired, and liabilities assumed in connection with the acquisition of FCX based on their estimated fair values at the acquisition date.

	FCX Acquisition
	2018
Cash	\$ 11,141
Accounts receivable	80,836
Inventories	44,669
Other current assets	1,753
Property	8,282
Identifiable intangible assets	305,420
Goodwill	440,012
Other assets	775
Total assets acquired	\$ 892,888
Accounts payable and accrued liabilities	54,035
Other liabilities	2,677
Deferred tax liabilities	54,395
Net assets acquired	\$ 781,781
Purchase price	\$ 784,281
Reconciliation of fair value transferred:	
Working Capital Adjustments	(2,500)
Total Consideration	\$ 781,781

Goodwill acquired of \$161,452 is deductible for income tax purposes.

Net sales, operating income and net income from the FCX acquisition included in the Company's results since January 31, 2018, the date of the acquisition, are as follows:

	2019	January 31, 2018 to June 30, 2018
Net sales	\$ 549,833	\$ 249,752
Operating income	38,186	16,845
Net income	28,075	8,758

The Company incurred \$2,849 in third-party costs during 2018 pertaining to the acquisition of FCX, which are included in selling, distribution and administration expense in the statements of consolidated income for fiscal 2018.

The following unaudited pro forma consolidated results of operations have been prepared as if the FCX acquisition (including the related acquisition costs) had occurred at the beginning of fiscal 2017:

Pro forma, year ended June 30:	2018	2017
Net sales	\$ 3,330,430	\$ 2,943,583
Operating income	234,603	196,194
Net income	158,181	126,270
Diluted net income per share	\$ 4.03	\$ 3.20

These pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results to reflect additional amortization that would have been recorded assuming the fair value adjustments to identified intangible assets had been applied as of July 1, 2016. In addition, pro forma adjustments have been made for the interest expense that would have been incurred as a result of the indebtedness used to finance the acquisitions. The pro forma net income amounts also incorporate an adjustment to the recorded income tax expense for the income tax effect of the pro forma adjustments described above. These pro forma results of operations do not include any anticipated synergies or other effects of the planned integration of FCX; accordingly,

such pro forma adjustments do not purport to be indicative of the results of operations that actually would have resulted had the acquisitions occurred as of the date indicated or that may result in the future.

Other Fiscal 2018 Acquisition

On July 3, 2017, the Company acquired 100% of the outstanding stock of Diseños, Construcciones y Fabricaciones Hispanoamericanas, S.A. ("DICOFASA"), a distributor of accessories and components for hydraulic systems and lubrication, located in Puebla, Mexico. DICOFASA is included in the Service Center Based Distribution segment. The purchase price for the acquisition was \$5,920, net tangible assets acquired were \$3,395, and goodwill was \$2,525 based upon estimated fair values at the acquisition date. The purchase price includes \$906 of acquisition holdback payments, of which \$219 was paid during fiscal year 2019. Due to changes in foreign currency exchange rates, the balance of \$646 is included in other current liabilities and other liabilities on the consolidated balance sheets as of June 30, 2019, which will be paid on the second and third 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.

Fiscal 2017 Acquisition

On March 3, 2017, the Company acquired substantially all of the net assets of Sentinel Fluid Controls ("Sentinel"), a distributor of hydraulic and lubrication components, systems and solutions operating from four locations. Sentinel is included in the Fluid Power & Flow Control segment. The purchase price for the acquisition was \$3,755, net tangible assets acquired were \$3,130, and goodwill was \$625 based upon estimated fair values at the acquisition date. The purchase price included \$982 of acquisition holdback payments, of which \$329, \$328, and \$175 were paid during fiscal years 2019, 2018, and 2017, respectively. The remaining balance of \$150 is included in other current liabilities and other liabilities on the consolidated balance sheets, which will be paid plus interest at various times in the future. The Company funded the amount paid for the acquisition at closing 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.

Holdback Liabilities for Acquisitions

Acquisition holdback payments of approximately \$2,640, \$2,343, \$1,313 and \$75 will be made in fiscal 2020, 2021, 2022, and 2024, respectively. The related liabilities for these payments are recorded in the consolidated balance sheets in other current liabilities for the amounts due in fiscal year 2020 and other liabilities for the amounts due in fiscal years 2021 through 2024.

NOTE 4: INVENTORIES

Inventories consist of the following:

June 30,	2019	2018
U.S. inventories at average cost	\$ 473,949	\$ 443,521
Foreign inventories at average cost	125,260	117,711
	599,209	561,232
Less: Excess of average cost over LIFO cost for U.S. inventories	151,654	139,163
Inventories on consolidated balance sheets	\$ 447,555	\$ 422,069

The overall impact of LIFO layer liquidations increased gross profit by \$112, \$579, and \$9,414 in fiscal 2019, fiscal 2018, and fiscal 2017, respectively. In fiscal 2017, reductions in U.S. inventories, primarily in the bearings pool which included the scrapping of approximately \$6,000 of product, resulted in liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years.

NOTE 5: 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 years ended June 30, 2019 and 2018 are as follows:

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Balance at July 1, 2017	\$ 201,740	\$ 4,395	\$ 206,135
Goodwill added during the year	2,525	439,164	441,689
Other, primarily currency translation	(1,181)	—	(1,181)
Balance at June 30, 2018	203,084	443,559	646,643
Goodwill added during the year	9,943	4,798	14,741
Other, primarily currency translation	607	—	607
Balance at June 30, 2019	\$ 213,634	\$ 448,357	\$ 661,991

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%. The Canada reporting unit has a goodwill balance of \$28,327 as of June 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.

At June 30, 2019 and 2018, 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.

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

June 30, 2019	Amount	Accumulated Amortization	Net Book Value
Finite-Lived 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 Intangibles	\$ 542,382	\$ 173,516	\$ 368,866
June 30, 2018	Amount	Accumulated Amortization	Net Book Value
Finite-Lived Intangibles:			
Customer relationships	\$ 465,691	\$ 125,009	\$ 340,682
Trade names	112,939	22,454	90,485
Vendor relationships	11,425	7,382	4,043
Non-competition agreements	2,761	2,024	737
Total Intangibles	\$ 592,816	\$ 156,869	\$ 435,947

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

During fiscal 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	\$ 5,956	20.0
Trade names	941	5.0
Non-competition agreements	250	5.0
Total Intangibles Acquired	\$ 7,147	17.5

Due to a sustained decline in economic conditions in the upstream oil and gas industry in western Canada, management also assessed the long-lived intangible assets related to the Reliance asset group in Canada for impairment during the third quarter of fiscal 2019. The Reliance asset group is located in western Canada and primarily serves customers in the upstream oil and gas industry. The asset group carrying value exceeded the sum of the undiscounted cash flows, indicating impairment. The fair value of the asset group was then determined using the income approach, using Level 3 assumptions in the fair value hierarchy, and the analysis resulted in the measurement of a full impairment loss of \$31,594, which was recorded in the third quarter of fiscal 2019.

Amortization of identifiable intangibles totaled \$41,883, \$32,065 and \$24,371 in fiscal 2019, 2018 and 2017, respectively, and is included in selling, distribution and administrative expenses in the statements of consolidated income. Future amortization expense based on the Company's identifiable intangible assets as of June 30, 2019 is estimated to be \$39,000 for 2020, \$36,900 for 2021, \$34,800 for 2022, \$32,600 for 2023 and \$28,600 for 2024.

NOTE 6: DEBT

Revolving Credit Facility & Term Loan

In January 2018, in conjunction with the acquisition of FCX, 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 June 30, 2019 and June 30, 2018, the Company had \$613,625 and \$775,125 outstanding under the term loan, respectively. The Company had no amount outstanding under the revolver as of June 30, 2019 and \$19,500 was outstanding under the revolver as of June 30, 2018. Unused lines under this facility, net of outstanding letters of credit of \$3,215 and \$3,625, respectively, to secure certain insurance obligations, totaled \$246,785 and \$226,875 at June 30, 2019 and June 30, 2018, respectively, and were available to fund future acquisitions or other capital and operating requirements. The interest rate on the term loan was 4.19% and 4.13% as of June 30, 2019 and June 30, 2018, respectively. The weighted average interest rate on the amount outstanding under the revolving credit facility as of June 30, 2018 was 3.93%.

Additionally, the Company had letters of credit outstanding with a separate bank, not associated with the revolving credit agreement, in the amount of \$2,698 as of June 30, 2019 and June 30, 2018, 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 June 30, 2019, the Company borrowed \$175,000 under the AR Securitization Facility, and the interest rate was 3.33%.

Other Long-Term Borrowings

At June 30, 2019 and June 30, 2018, 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 June 30, 2019 and 2018, \$1,204 and \$1,438 was outstanding, respectively.

Unamortized debt issue costs of \$577 and \$551 are included as a reduction of current portion of long-term debt on the consolidated balance sheets as of June 30, 2019 and June 30, 2018, respectively. Unamortized debt issue costs of \$1,366 and \$1,807 are included as a reduction of long-term debt on the consolidated balance sheets as of June 30, 2019 and June 30, 2018, respectively.

The table below summarizes the aggregate maturities of amounts outstanding under long-term borrowing arrangements for each of the next five years:

Fiscal Year	Aggregate Maturity
2020	\$ 49,613
2021	79,241
2022	259,120
2023	546,624
2024	25,231

Covenants

The credit facility and the unsecured shelf facility contain restrictive covenants regarding liquidity, net worth, financial ratios, and other covenants. At June 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 June 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 June 30, 2019.

NOTE 7: DERIVATIVES

Risk Management Objective of Using Derivatives

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

Cash Flow Hedges of Interest Rate Risk

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

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive loss and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other

comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

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

NOTE 8: FAIR VALUE MEASUREMENTS

Marketable securities measured at fair value at June 30, 2019 and June 30, 2018 totaled \$11,246 and \$10,318, 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 consolidated balance sheets and their fair values were valued using quoted market prices (Level 1 in the fair value hierarchy).

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

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

NOTE 9: INCOME TAXES

Income Before Income Taxes

The components of income before income taxes are as follows:

Year Ended June 30,	2019	2018	2017
U.S.	\$ 204,462	\$ 186,874	\$ 154,472
Foreign	(9,981)	17,844	12,494
Income before income taxes	\$ 194,481	\$ 204,718	\$ 166,966

Provision

The provision (benefit) for income taxes consists of:

Year Ended June 30,	2019	2018	2017
Current:			
Federal	\$ 34,437	\$ 48,131	\$ 26,456
State and local	7,965	8,038	4,692
Foreign	5,718	5,309	4,760
Total current	48,120	61,478	35,908
Deferred:			
Federal	6,265	5,955	852
State and local	1,947	(586)	535
Foreign	(5,844)	(3,754)	(4,239)
Total deferred	2,368	1,615	(2,852)
Total	\$ 50,488	\$ 63,093	\$ 33,056

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted in the U.S., making significant changes to U.S. tax law. The Act reduced the U.S. federal corporate income tax rate from 35% to 21%, required companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries that were previously tax deferred, generally eliminated U.S. federal income tax on dividends from foreign subsidiaries, and created new taxes on certain foreign-sourced earnings. During fiscal 2018, the Company revised its estimated annual effective tax rate to reflect the change in the federal statutory rate from 35% to 21%. The rate change was administratively effective as of the beginning of the Company's fiscal year, resulting in a blended statutory rate for fiscal 2018 of 28.06%.

The SEC staff issued SAB 118, which provided guidance on accounting for the tax effects of the Act for which the accounting under ASC 740 was incomplete. To the extent that a company's accounting for certain income tax effects of the Act was incomplete but it was able to determine a reasonable estimate, it was required to record a provisional estimate in the financial statements. If a company could not determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before enactment of the Act. According to SAB 118, the Company recorded a provisional tax expense of \$3,877 related to the one-time transition tax on certain unremitted earnings of foreign subsidiaries and recorded a provisional tax expense of \$2,414 related to the re-measurement of deferred tax balances in fiscal 2018. During fiscal 2019, the Company completed its accounting of the Act. Accordingly, the Company recorded adjustments in fiscal 2019 totaling \$2,403 to reduce the tax liability related to the one-time transition tax.

Effective Tax Rates

The following reconciles the U.S. federal statutory income tax rate to the Company's effective income tax rate:

Year Ended June 30,	2019	2018	2017
Statutory income tax rate	21.0%	28.1%	35.0%
Effects of:			
State and local taxes	4.4	3.1	2.8
U.S. federal tax reform	(0.3)	3.1	—
Worthless stock deduction	—	—	(13.9)
Stock compensation	(0.5)	(0.4)	(1.4)
GILTI/FDII	0.7	—	—
U.S. tax on foreign income, net	0.5	—	—
Impact of foreign operations	(1.8)	(1.3)	(2.3)
Deductible dividend	(0.2)	(0.3)	(0.4)
Valuation allowance	2.9	(0.9)	0.3
Other, net	(0.7)	(0.6)	(0.3)
Effective income tax rate	26.0%	30.8%	19.8%

Consolidated Balance Sheets

Significant components of the Company's deferred tax assets and liabilities are as follows:

June 30,	2019	2018
Deferred tax assets:		
Compensation liabilities not currently deductible	\$ 17,401	\$ 19,334
Other expenses and reserves not currently deductible	13,050	13,169
Goodwill and intangibles	2,398	3,197
Foreign tax credit	—	413
Net operating loss carryforwards	8,466	11,315
Hedging instrument	3,498	—
Other	1,173	199
Total deferred tax assets	45,986	47,627
Less: Valuation allowance	(5,597)	(38)
Deferred tax assets, net of valuation allowance	40,389	47,589
Deferred tax liabilities:		
Inventories	(8,600)	(8,196)
Goodwill and intangibles	(75,504)	(86,176)
Depreciation and differences in property bases	(10,777)	(9,294)
Total deferred tax liabilities	(94,881)	(103,666)
Net deferred tax liabilities	\$ (54,492)	\$ (56,077)
Net deferred tax liabilities are classified as follows:		
Other assets	\$ 3,859	\$ 2,103
Other liabilities	(58,351)	(58,180)
Net deferred tax liabilities	\$ (54,492)	\$ (56,077)

As of June 30, 2019 and 2018, the Company had foreign net operating loss carryforwards of approximately \$27,024 and \$21,668, respectively, which will expire at various dates beginning in 2033. Also as of June 30, 2019 and 2018, the Company had state net operating loss carryforwards, the tax benefit of which is approximately \$2,098 and \$1,549 respectively, which will expire at various dates beginning in 2027.

Valuation allowances are provided against deferred tax assets where it is considered more-likely-than-not that the Company will not realize the benefit of such assets. The remaining net deferred tax asset is the amount management believes is more-likely-than-not of being realized. The realization of these deferred tax assets can be

impacted by changes to tax laws, statutory tax rates and future income levels. During the year ended June 30, 2019, the Company recorded a valuation allowance of \$5,559 related to certain deferred tax assets in Canada due to the uncertainty in realizing these net deferred tax assets.

As of June 30, 2019, the Company has accumulated undistributed earnings of non-U.S. subsidiaries of approximately \$107,277. Because \$95,400 of such earnings have previously been subject to the one-time transition tax required by the Act, any additional taxes due with respect to such earnings or the excess of the amount for financial reporting over the tax basis of our foreign investments would generally be limited to foreign withholding and state income taxes. The amount of the unrecognized tax liability with respect to the distribution of such earnings is estimated to be approximately \$2,795. In addition, we expect foreign tax credits would be available to either offset or partially reduce the tax cost in the event of a distribution. We intend, however, to indefinitely reinvest these earnings and expect future U.S. cash generation to be sufficient to meet future U.S. cash needs.

Unrecognized Income Tax Benefits

The Company and its subsidiaries file income tax returns in U.S. federal, various state, local and foreign jurisdictions. The following table sets forth the changes in the amount of unrecognized tax benefits for the years ended June 30, 2019, 2018 and 2017:

Year Ended June 30,	2019	2018	2017
Unrecognized Income Tax Benefits at beginning of the year	\$ 3,988	\$ 3,533	\$ 2,915
Current year tax positions	105	143	574
Prior year tax positions	1,151	636	259
Expirations of statutes of limitations	(265)	(324)	(189)
Settlements	—	—	(26)
Unrecognized Income Tax Benefits at end of year	\$ 4,979	\$ 3,988	\$ 3,533

Included in the balance of unrecognized income tax benefits at June 30, 2019, 2018, and 2017 are \$4,701, \$3,725, and \$3,323, respectively, of income tax benefits that, if recognized, would affect the effective income tax rate.

During 2019, 2018, and 2017, the Company recognized \$161, \$(110), and \$163 of expense (benefit), respectively, for interest and penalties related to unrecognized income tax benefits in its statements of consolidated income. The Company had a liability for penalties and interest of \$838 and \$677 as of June 30, 2019 and 2018, respectively. The Company does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next twelve months.

The Company is subject to U.S. federal income tax examinations for the tax years 2016 through 2019 and to state and local income tax examinations for the tax years 2013 through 2019. In addition, the Company is subject to foreign income tax examinations for the tax years 2012 through 2019.

The Company's unrecognized income tax benefits are included in other liabilities in the consolidated balance sheets since payment of cash is not expected within one year, or as a reduction of a deferred tax asset.

NOTE 10: SHAREHOLDERS' EQUITY

Treasury Shares

At June 30, 2019, 128 shares of the Company's common stock held as treasury shares were restricted as collateral under escrow arrangements relating to change in control and director and officer indemnification agreements.

Accumulated Other Comprehensive Income (Loss)

Changes in the accumulated other comprehensive income (loss) for the years ended June 30, 2019, 2018, and 2017, are comprised of the following amounts, shown net of taxes:

	Foreign currency translation adjustment	Unrealized (loss) gain on securities available for sale	Post- employment benefits	Cash flow hedge	Total accumulated other comprehensive (loss) income
Balance at July 1, 2016	\$ (81,685)	\$ (38)	\$ (3,823)	\$ —	\$ (85,546)
Other comprehensive income	2,238	59	1,239	—	3,536
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	308	—	308
Net current-period other comprehensive income	2,238	59	1,547	—	3,844
Balance at June 30, 2017	(79,447)	21	(2,276)	—	(81,702)
Other comprehensive (loss) income	(8,549)	20	524	—	(8,005)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(45)	—	(45)
Amounts reclassified for certain income tax effects to retained earnings	22	9	(502)	—	(471)
Net current-period other comprehensive (loss) income	(8,527)	29	(23)	—	(8,521)
Balance at June 30, 2018	(87,974)	50	(2,299)	—	(90,223)
Other comprehensive income (loss)	1,644	—	(327)	(10,887)	(9,570)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(226)	183	(43)
Cumulative effect of adopting accounting standards	—	(50)	—	—	(50)
Net current-period other comprehensive income (loss)	1,644	(50)	(553)	(10,704)	(9,663)
Balance at June 30, 2019	\$ (86,330)	\$ —	\$ (2,852)	\$ (10,704)	\$ (99,886)

Other Comprehensive (Loss) Income

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

Year Ended June 30,	2019			2018			2017		
	Pre-Tax Amount	Tax Expense (Benefit)	Net Amount	Pre-Tax Amount	Tax (Benefit) Expense	Net Amount	Pre-Tax Amount	Tax Expense	Net Amount
Foreign currency translation adjustments	\$ 2,021	\$ 377	\$ 1,644	\$ (8,875)	\$ (326)	\$ (8,549)	\$ 2,238	\$ —	\$ 2,238
Post-employment benefits:									
Actuarial (loss) gain on re-measurement	(372)	(45)	(327)	709	185	524	2,038	799	1,239
Reclassification of actuarial (gains) losses and prior service cost into other income, net and included in net periodic pension costs	(306)	(80)	(226)	(73)	(28)	(45)	506	198	308
Unrealized gain on investment securities available for sale	—	—	—	37	17	20	91	32	59
Unrealized loss on cash flow hedge	(14,446)	(3,559)	(10,887)	—	—	—	—	—	—
Reclassification of interest from cash flow hedge into interest expense	244	61	183	—	—	—	—	—	—
Cumulative effect of adopting accounting standard	(50)	—	(50)	—	—	—	—	—	—
Reclassification of certain income tax effects to retained earnings	—	—	—	—	471	(471)	—	—	—
Other comprehensive (loss) income	\$ (12,909)	\$ (3,246)	\$ (9,663)	\$ (8,202)	\$ 319	\$ (8,521)	\$ 4,873	\$ 1,029	\$ 3,844

Net Income Per Share

Basic net income per share is based on the weighted-average number of common shares outstanding. Diluted net income per share includes the dilutive effect of potential common shares outstanding. Under the two-class method of computing net income per share, non-vested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's participating securities include Restricted Stock Units ("RSUs") and restricted stock awards. The Company calculated basic and diluted net income per share under both the treasury stock method and the two-class method. For the years presented there were no material differences in the net income per share amounts calculated using the two methods. Accordingly, the treasury stock method is disclosed below.

The following table presents amounts used in computing net income per share and the effect on the weighted-average number of shares of dilutive potential common shares:

Year Ended June 30,	2019	2018	2017
Net Income	\$ 143,993	\$ 141,625	\$ 133,910
Average Shares Outstanding:			
Weighted-average common shares outstanding for basic computation	38,670	38,752	39,013
Dilutive effect of potential common shares	490	529	391
Weighted-average common shares outstanding for dilutive computation	39,160	39,281	39,404
Net Income Per Share — Basic	\$ 3.72	\$ 3.65	\$ 3.43
Net Income Per Share — Diluted	\$ 3.68	\$ 3.61	\$ 3.40

Stock awards relating to 226, 66 and 141 shares of common stock were outstanding at June 30, 2019, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per share for the fiscal years then ended as they were anti-dilutive.

NOTE 11: SHARE-BASED COMPENSATION

Share-Based Incentive Plans

Following approval by the Company's shareholders in October 2015, the 2015 Long-Term Performance Plan (the "2015 Plan") replaced the 2011 Long-Term Performance Plan. The 2015 Plan, which expires in 2020, provides for granting of SARs, stock options, stock awards, cash awards, and such other awards or combination thereof as the Executive Organization and Compensation Committee or, in the case of director awards, the Corporate Governance Committee of the Board of Directors (together referred to as the Committee) may determine to officers, other key employees and members of the Board of Directors. Grants are generally made at regularly scheduled committee meetings. Compensation costs charged to expense under award programs paid (or to be paid) with shares (including SARs, stock options, performance shares, restricted stock, and RSUs) are summarized in the table below:

Year Ended June 30,	2019	2018	2017
SARs and options	\$ 2,440	\$ 1,961	\$ 1,891
Performance shares	2,082	2,006	1,331
Restricted stock and RSUs	2,391	2,660	2,298
Total compensation costs under award programs	\$ 6,913	\$ 6,627	\$ 5,520

Such amounts are included in selling, distribution and administrative expense in the accompanying statements of consolidated income. The total income tax benefit recognized in the statements of consolidated income for share-based compensation plans was \$2,709, \$1,923 and \$4,848 for fiscal years 2019, 2018 and 2017, respectively. It has been the practice of the Company to issue shares from treasury to satisfy requirements of awards paid with shares.

The aggregate unrecognized compensation cost for share-based award programs with the potential to be paid at June 30, 2019 are summarized in the table below:

June 30,	2019	Average Expected Period of Expected Recognition (Years)
SARs and options	\$ 4,216	2.3
Performance shares	3,994	1.7
Restricted stock and RSUs	1,846	1.7
Total unrecognized compensation costs under award programs	\$ 10,056	2.0

Cost of these programs will be recognized as expense over the weighted-average remaining vesting period of 2.0 years. The aggregate number of shares of common stock which may be awarded under the 2015 Plan is 2,500; shares available for future grants at June 30, 2019 were 1,395.

Stock Appreciation Rights and Stock Options

The weighted-average assumptions used for SARs and stock option grants issued in fiscal 2019, 2018 and 2017 are:

	2019	2018	2017
Expected life, in years	6.0	6.0	4.8
Risk free interest rate	2.8%	2.1%	1.2%
Dividend yield	1.8%	2.5%	2.5%
Volatility	22.5%	24.3%	24.1%
Per share fair value of SARs and stock options granted during the year	\$16.15	\$11.25	\$7.97

The expected life is based upon historical exercise experience of the officers, other key employees and members of the Board of Directors. The risk free interest rate is based upon U.S. Treasury zero-coupon bonds with remaining terms equal to the expected life of the SARs and stock options. The assumed dividend yield has been estimated based upon the Company's historical results and expectations for changes in dividends

and stock prices. The volatility assumption is calculated based upon historical daily price observations of the Company's common stock for a period equal to the expected life.

SARs are redeemable solely in Company common stock. The exercise price of stock option awards may be settled by the holder with cash or by tendering Company common stock.

A summary of SARs and stock options activity is presented below:

Year Ended June 30, 2019 (Shares in thousands)	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	1,401	\$ 45.32
Granted	194	74.05
Exercised	(95)	36.51
Forfeited	(21)	61.59
Outstanding, end of year	1,479	\$ 49.42
Exercisable at end of year	910	\$ 43.21
Expected to vest at end of year	1,464	\$ 49.31

The weighted-average remaining contractual terms for SARs and stock options outstanding, exercisable, and expected to vest at June 30, 2019 were 6.1, 4.9, and 6.1 years, respectively. The aggregate intrinsic values of SARs and stock options outstanding, exercisable, and expected to vest at June 30, 2019 were \$20,682, \$16,685, and \$20,579, respectively. The aggregate intrinsic value of the SARs and stock options exercised during fiscal 2019, 2018, and 2017 was \$3,363, \$1,765, and \$8,396, respectively.

The total fair value of shares vested during fiscal 2019, 2018, and 2017 was \$1,846, \$2,149, and \$1,788, respectively.

Performance Shares

Performance shares are paid in shares of Applied stock at the end of a three-year period provided the Company achieves goals established by the committee. The number of Applied shares payable will vary depending on the level of the goals achieved.

A summary of nonvested performance shares activity at June 30, 2019 is presented below:

Year Ended June 30, 2019 (Shares in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	93	\$ 45.16
Awarded	36	54.05
Vested	(32)	38.10
Nonvested, end of year	97	\$ 50.88

The Committee set three one-year goals for each of the 2019, 2018, and 2017 grants. Each fiscal year during the three-year term has its own separate goals, tied to the Company's earnings before interest, tax, depreciation, and amortization (EBITDA) and after-tax return on assets (ROA). Achievement during any particular fiscal year is awarded and "banked" for payout at the end of the three-year term. For the outstanding grants as of June 30, 2019, the maximum number of shares which could be earned in future periods was 62.

Restricted Stock and Restricted Stock Units

Restricted stock award recipients are entitled to receive dividends on, and have voting rights with respect to their respective shares, but are restricted from selling or transferring the shares prior to vesting. Restricted stock awards vest over periods of one to four years. RSUs are grants valued in shares of Applied stock, but shares are not issued until the grants vest three to four years from the award date, assuming continued employment with Applied. Applied primarily pays dividend equivalents on RSUs on a current basis. A summary of the status of the Company's non-vested restricted stock and RSUs at June 30, 2019 is presented below:

Year Ended June 30, 2019 (Share amounts in thousands)	Shares	Weighted-Average Grant-Date Fair Value
Nonvested, beginning of year	116	\$ 51.27
Granted	36	68.92
Forfeitures	(7)	57.59
Vested	(56)	48.05
Nonvested, end of year	89	\$ 59.93

NOTE 12: BENEFIT PLANS

Retirement Savings Plan

Substantially all U.S. employees participate in the Applied Industrial Technologies, Inc. Retirement Savings Plan. Participants may elect 401(k) contributions of up to 50% of their compensation, subject to Internal Revenue Code maximums. The Company partially matches 401(k) contributions by participants. The Company's expense for matching of employees' 401(k) contributions was \$7,711, \$6,551 and \$6,677 during 2019, 2018 and 2017, respectively.

Deferred Compensation Plans

The Company has deferred compensation plans that enable certain employees of the Company to defer receipt of a portion of their compensation. Assets held in these rabbi trusts consist of investments in money market and mutual funds and Company common stock.

Post-employment Benefit Plans

The Company provides the following post-employment benefits which, except for the Qualified Defined Benefit Retirement Plan and Key Executive Restoration Plan, are unfunded:

Supplemental Executive Retirement Benefits Plan

The Company has a non-qualified pension plan to provide supplemental retirement benefits to certain officers. Benefits are payable and determinable at retirement based upon a percentage of the participant's historical compensation. The Executive Organization and Compensation Committee of the Board of Directors froze participant benefits (credited service and final average earnings) and entry into the Supplemental Executive Retirement Benefits Plan (SERP) effective December 31, 2011.

Key Executive Restoration Plan

In fiscal 2012, the Company adopted the Key Executive Restoration Plan (KERP), a funded, non-qualified deferred compensation plan, to replace the SERP. The Company recorded \$400, \$359, and \$289 of expense associated with this plan in fiscal 2019, 2018, and 2017, respectively.

Qualified Defined Benefit Retirement Plan

The Company has a qualified defined benefit retirement plan that provides benefits to certain hourly employees at retirement. These employees do not participate in the Retirement Savings Plan. The benefits are based on length of service and date of retirement. The plan accruals were frozen as of April 16, 2018 and employees are now permitted to participate in the Retirement Savings Plan subsequent to April 16, 2018.

Retiree Health Care Benefits

The Company provides health care benefits, through third-party policies, to eligible retired employees who pay a specified monthly premium. Premium payments are based upon current insurance rates for the type of coverage provided and are adjusted annually. Certain monthly health care premium payments are partially subsidized by the Company. Additionally, in conjunction with a fiscal 1998 acquisition, the Company assumed the obligation for a post-retirement medical benefit plan which provides health care benefits to eligible retired employees at no cost to the individual.

The Company uses a June 30 measurement date for all plans.

The following table sets forth the changes in benefit obligations and plan assets during the year and the funded status for the post-employment plans at June 30:

	Pension Benefits		Retiree Health Care Benefits	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation at beginning of the year	\$ 21,534	\$ 24,411	\$ 1,491	\$ 1,684
Service cost	45	124	18	19
Interest cost	698	729	54	52
Plan participants' contributions	—	—	69	68
Benefits paid	(3,695)	(3,181)	(150)	(223)
Actuarial loss (gain) during year	486	(549)	24	(109)
Benefit obligation at end of year	\$ 19,068	\$ 21,534	\$ 1,506	\$ 1,491
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 7,702	\$ 6,530	\$ —	\$ —
Actual gain on plan assets	669	516	—	—
Employer contributions	3,798	3,837	81	155
Plan participants' contributions	—	—	69	68
Benefits paid	(3,695)	(3,181)	(150)	(223)
Fair value of plan assets at end of year	\$ 8,474	\$ 7,702	\$ —	\$ —
Funded status at end of year	\$ (10,594)	\$ (13,832)	\$ (1,506)	\$ (1,491)

The amounts recognized in the consolidated balance sheets and in accumulated other comprehensive loss for the post-employment plans were as follows:

June 30,	Pension Benefits		Retiree Health Care Benefits	
	2019	2018	2019	2018
Amounts recognized in the consolidated balance sheets:				
Other current liabilities	\$ 3,352	\$ 3,298	\$ 155	\$ 220
Other liabilities	7,242	10,534	1,351	1,271
Net amount recognized	\$ 10,594	\$ 13,832	\$ 1,506	\$ 1,491
Amounts recognized in accumulated other comprehensive loss:				
Net actuarial (loss) gain	\$ (4,995)	\$ (4,781)	\$ 977	\$ 1,121
Prior service cost	—	—	184	554
Total amounts recognized in accumulated other comprehensive loss	\$ (4,995)	\$ (4,781)	\$ 1,161	\$ 1,675

The following table provides information for pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets:

June 30,	Pension Benefits	
	2019	2018
Projected benefit obligations	\$ 19,068	\$ 21,534
Accumulated benefit obligations	19,068	21,534
Fair value of plan assets	8,474	7,702

The net periodic costs (benefits) are as follows:

Year Ended June 30,	Pension Benefits			Retiree Health Care Benefits		
	2019	2018	2017	2019	2018	2017
Service cost	\$ 45	\$ 124	\$ 126	\$ 18	\$ 19	\$ 29
Interest cost	698	729	687	54	52	63
Expected return on plan assets	(532)	(472)	(460)	—	—	—
Recognized net actuarial loss (gain)	185	424	872	(121)	(154)	(181)
Amortization of prior service cost	—	27	86	(369)	(369)	(271)
Recognition of prior service cost upon plan curtailment	—	8	—	—	—	—
Net periodic cost (benefits)	\$ 396	\$ 840	\$ 1,311	\$ (418)	\$ (452)	\$ (360)

The Company reports the service cost component of the net periodic post-employment costs in the same line item in the income statement as other compensation costs arising from services rendered by the employees during the period. The other components of net periodic post-employment costs are presented in the income statement separately from the service cost component and outside a subtotal of income from operations. Therefore, \$63, \$143, and \$155 of service costs are included in selling, distribution and administrative expense, and \$(85), \$245, and \$796 of net other periodic post-employment (benefits) costs are included in other income, net in the statements of consolidated income for the years ended June 30, 2019, 2018, and 2017, respectively.

The estimated net actuarial loss for the pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$239. The estimated net actuarial gain and income from prior service cost for the retiree health care benefits that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are \$122 and \$184, respectively.

Assumptions

A discount rate is used to determine the present value of future payments. In general, the Company's liability increases as the discount rate decreases and decreases as the discount rate increases. The Company computes a weighted-average discount rate taking into account anticipated plan payments and the associated interest rates from the Financial Times Stock Exchange Pension Yield Curve (formerly the Citigroup Pension Discount Yield Curve) and the Findley Discount Curve.

The weighted-average actuarial assumptions used to determine benefit obligations and net periodic benefit cost for the plans were as follows:

June 30,	Pension Benefits		Retiree Health Care Benefits	
	2019	2018	2019	2018
Assumptions used to determine benefit obligations at year end:				
Discount rate	2.8%	3.5%	3.1%	3.8%
Assumptions used to determine net periodic benefit cost:				
Discount rate	3.5%	2.8%	3.8%	3.3%
Expected return on plan assets	7.0%	7.0%	N/A	N/A

The assumed health care cost trend rates used in measuring the accumulated benefit obligation for retiree health care benefits were 7.0% as of June 30, 2019 and 2018, respectively, decreasing to 5.0% by 2027.

A one-percentage point change in the assumed health care cost trend rates would have had the following effects as of June 30, 2019 and for the year then ended:

	One-Percentage Point	
	Increase	Decrease
Effect on total service and interest cost components of periodic expense	\$ 10	\$ (7)
Effect on post-retirement benefit obligation	180	(151)

Plan Assets

The fair value of each major class of plan assets for the Company's Qualified Defined Benefit Retirement Plan is valued using either quoted market prices in active markets for identical instruments; Level 1 in the fair value hierarchy, or other inputs that are observable, either directly or indirectly; Level 2 in the fair value hierarchy. Following are the fair values and target allocation as of June 30:

Asset Class:	Target Allocation	Fair Value	
		2019	2018
Equity* securities (Level 1)	40 – 70%	\$ 5,441	\$ 6,226
Debt securities (Level 2)	20 – 50%	3,033	1,337
Other (Level 1)	0 – 20%	—	139
Total	100%	\$ 8,474	\$ 7,702

* Equity securities do not include any Company common stock.

The Company has established an investment policy and regularly monitors the performance of the assets of the trust maintained in conjunction with the Qualified Defined Benefit Retirement Plan. The strategy implemented by the trustee of the Qualified Defined Benefit Retirement Plan is to achieve long-term objectives and invest the pension assets in accordance with ERISA and fiduciary standards. The long-term primary objectives are to provide for a reasonable amount of long-term capital, without undue exposure to risk; to protect the Qualified Defined Benefit Retirement Plan assets from erosion of purchasing power; and to provide investment results that meet or exceed the actuarially assumed long-term rate of return. The expected long-term rate of return on assets assumption was developed by considering the historical returns and the future expectations for returns of each asset class as well as the target asset allocation of the pension portfolio.

Cash Flows

Employer Contributions

The Company expects to contribute \$3,350 to its pension benefit plans and \$130 to its retiree health care benefit plans in fiscal 2020. Contributions do not equal estimated future benefit payments as certain payments are made from plan assets.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as applicable, are expected to be paid in each of the next five years and in the aggregate for the subsequent five years:

During Fiscal Years	Pension Benefits	Retiree Health Care Benefits
2020	\$ 3,800	\$ 130
2021	1,300	120
2022	1,300	110
2023	1,400	110
2024	750	100
2025 through 2029	6,250	500

NOTE 13: LEASES

The Company leases many service center and distribution center facilities, vehicles and equipment under non-cancelable lease agreements accounted for as operating leases. The minimum annual rental commitments under non-cancelable operating leases as of June 30, 2019 are as follows:

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

Rental expense incurred for operating leases, principally from leases for real property, vehicles and computer equipment was \$45,000 in 2019, \$41,000 in 2018 and \$35,900 in 2017, and was classified within selling, distribution and administrative expense in the statements of consolidated income.

The Company maintains lease agreements for many of the operating facilities of businesses it acquires from previous owners. In many cases, the previous owners of the business acquired become employees of Applied and occupy management positions within those businesses. The payments under lease agreements of this nature totaled \$2,400 in each of 2019, 2018, and 2017.

NOTE 14: SEGMENT INFORMATION

In the first quarter of fiscal 2019, the Company performed a review of its management reporting structure and implemented changes to align with how the Company measures performance. As a result, the Company has revised its reportable segments to reflect how management currently reviews financial information and makes operating decisions. Certain supplier support benefits are now included within the Service Center Based Distribution segment operating income. Previously, these benefits were included in Corporate and other expense, net. All prior-period amounts have been adjusted to reflect the reportable segment change.

The Company's reportable segments are: Service Center Based Distribution and Fluid Power & Flow Control. These reportable segments contain the Company's various operating segments which have been aggregated based upon similar economic and operating characteristics. The Service Center Based Distribution segment provides customers with solutions to their maintenance, repair and original equipment manufacturing needs through the distribution of industrial products including bearings, power transmission components, fluid power components and systems, industrial rubber products, linear motion products, tools, safety products, and other industrial and maintenance supplies. The Fluid Power & Flow Control segment distributes engineered fluid power components and specialty flow control solutions and operates shops that assemble fluid power systems and components, performs equipment repair, and offers technical advice to customers.

The accounting policies of the Company's reportable segments are generally the same as those described in note 1. Intercompany sales, primarily from the Fluid Power & Flow Control segment to the Service Center Based Distribution segment of \$28,677, \$25,556, and \$22,719, in 2019, 2018, and 2017, respectively, have been eliminated in the following table.

Segment Financial Information

	Service Center Based Distribution	Fluid Power & Flow Control	Total
Year Ended June 30, 2019			
Net sales	\$ 2,452,905	\$ 1,019,834	\$ 3,472,739
Operating income for reportable segments	254,954	112,117	367,071
Assets used in the business	1,265,093	1,066,604	2,331,697
Depreciation and amortization of property	15,982	4,254	20,236
Capital expenditures	16,475	2,495	18,970
Year Ended June 30, 2018			
Net sales	\$ 2,346,418	\$ 726,856	\$ 3,073,274
Operating income for reportable segments	238,322	83,175	321,497
Assets used in the business	1,198,296	1,087,445	2,285,741
Depreciation and amortization of property	15,336	2,462	17,798
Capital expenditures	18,492	4,738	23,230
Year Ended June 30, 2017			
Net sales	\$ 2,180,358	\$ 413,388	\$ 2,593,746
Operating income for reportable segments	203,267	46,312	249,579
Assets used in the business	1,187,054	200,541	1,387,595
Depreciation and amortization of property	14,375	931	15,306
Capital expenditures	14,566	2,479	17,045

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

Year Ended June 30,	2019	2018	2017
Operating income for reportable segments	\$ 367,071	\$ 321,497	\$ 249,579
Adjustments for:			
Intangible amortization — Service Center Based Distribution	13,639	17,375	18,954
Intangible amortization — Fluid Power & Flow Control	28,244	14,690	5,417
Intangible Impairment — Service Center Based Distribution	31,594	—	—
Corporate and other expense, net	59,806	63,605	49,822
Total operating income	233,788	225,827	175,386
Interest expense, net	40,188	23,485	8,541
Other income, net	(881)	(2,376)	(121)
Income before income taxes	\$ 194,481	\$ 204,718	\$ 166,966

Fluctuations in corporate and other expense, net, are 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.

Geographic Information

Long-lived assets are based on physical locations and are comprised of the net book value of property and intangible assets. Information by geographic area is as follows:

June 30,	2019	2018	2017
Long-Lived Assets:			
United States	\$ 474,910	\$ 501,373	\$ 207,126
Canada	13,291	50,261	57,947
Other Countries	4,968	5,656	6,558
Total	\$ 493,169	\$ 557,290	\$ 271,631

NOTE 15: COMMITMENTS AND CONTINGENCIES

The Company is a party to various pending judicial and administrative proceedings. Based on circumstances currently known, the Company believes the likelihood is remote that the ultimate resolution of any of these matters 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.

NOTE 16: OTHER INCOME, NET

Other income, net, consists of the following:

Year Ended June 30,	2019	2018	2017
Unrealized gain on assets held in rabbi trust for a non-qualified deferred compensation plan	\$ (689)	\$ (785)	\$ (1,188)
Foreign currency transaction losses (gains)	334	(210)	209
Net other periodic post-employment (benefits) costs	(85)	245	796
Life insurance (income) expense, net	(479)	(1,628)	107
Other, net	38	2	(45)
Total other income, net	\$ (881)	\$ (2,376)	\$ (121)

NOTE 17: SUBSEQUENT EVENTS

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

During the first quarter of fiscal 2020, the Company reached a definitive agreement to acquire 100% of the outstanding stock of Olympus Controls Corp., located in Tualatin, Oregon. The Company intends to fund this acquisition using funds available through the Company's revolving credit facility. As a full-service provider of innovative technologies and complete engineered solutions for OEMs, machine builders, integrators, and end users, this business will be included in the Fluid Power & Flow Control segment.

QUARTERLY OPERATING RESULTS

(In thousands, except per share amounts)
(UNAUDITED)

	Net Sales	Gross Profit	Operating Income	Net Income	Per Common Share	
					Net Income	Cash Dividend
2019						
First Quarter	\$ 864,515	\$ 251,853	\$ 66,339	\$ 48,938	\$ 1.24	\$ 0.30
Second Quarter	840,038	242,860	60,965	38,717	0.99	0.30
Third Quarter	885,443	255,559	34,509	16,535	0.42	0.31
Fourth Quarter	882,743	257,351	71,975	39,803	1.02	0.31
	\$ 3,472,739	\$ 1,007,623	\$ 233,788	\$ 143,993	\$ 3.68	\$ 1.22
2018						
First Quarter	\$ 680,701	\$ 192,424	\$ 51,837	\$ 33,721	\$ 0.86	\$ 0.29
Second Quarter	667,187	188,360	46,715	30,950	0.79	0.29
Third Quarter	827,665	239,524	56,444	36,592	0.93	0.30
Fourth Quarter	897,721	263,687	70,831	40,362	1.03	0.30
	\$ 3,073,274	\$ 883,995	\$ 225,827	\$ 141,625	\$ 3.61	\$ 1.18

On August 9, 2019, there were 4,135 shareholders of record including 2,786 shareholders in the Applied Industrial Technologies, Inc. Retirement Savings Plan. The Company's common stock is listed on the New York Stock Exchange. The closing price on August 9, 2019 was \$55.34 per share.

The sum of the quarterly per share amounts may not equal per share amounts reported for year-to-date. This is due to changes in the number of weighted shares outstanding and the effects of rounding for each period.

Cost of sales for interim financial statements are computed using estimated gross profit percentages which are adjusted throughout the year based upon available information. Adjustments to actual cost are primarily made based on periodic physical inventory and the effect of year-end inventory quantities on LIFO costs.

Fiscal 2019

During the third quarter of fiscal 2019, the Company acquired substantially all of the net assets of MilRoc Distribution and Woodward Steel for a purchase price of \$35.0 million. MilRoc Distribution is an Oklahoma based distributor of oilfield specific products, namely pumps and valves, as well as equipment repair services and industrial trailer parts to the oil & gas industry, and fluid power components, specializing in the engineering and fabrication of manifolds and power units. Woodward Steel is a Woodward, Oklahoma based steel supplier to the oil & gas and agriculture industries. MilRoc Distribution and Woodward steel are both included in the Service Center Based Distribution segment.

During the third quarter of fiscal 2019, the Company incurred certain restructuring charges primarily for oil & gas operations. Total restructuring charges reduced gross profit for the quarter by \$0.7 million and operating income by \$2.3 million.

During the third quarter of fiscal 2019, the Company performed an impairment analysis for certain long-lived intangible assets related to the Company's upstream oil & gas operations in Canada as a result of the continued decline in the oil & gas industry in Western Canada. As a result of this test, the Company determined that the net book values of these long-lived intangible assets were impaired and recognized a non-cash impairment charge of \$31.6 million. The Company also recorded a valuation allowance against its Canadian deferred tax assets of \$3.8 million.

Fiscal 2018

During the third quarter of fiscal 2018, the Company completed the acquisition of all of the outstanding shares of FCX Performance, Inc. (FCX), a Columbus, Ohio based distributor of specialty process flow control products and services. At the time of closing, FCX operated 68 locations with approximately 1,000 employees. The total consideration transferred for the acquisition was approximately \$782 million, which was financed by cash-on-hand and a new credit facility comprised of a \$780 million Term Loan A and \$250 million revolver (the Credit Facility), effective with the transaction closing. This Credit Facility was used to finance the transaction, as well as to repay the Company's existing term loan outstanding prior to the acquisition date. The Company incurred one-time acquisition costs that decreased operating income by \$6.1 million, net income by \$5.1 million and net income per share by \$0.13 per share.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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.

Management's Report on Internal Control over Financial Reporting

The Management of Applied Industrial Technologies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President & Chief Executive Officer and the Vice President - Chief Financial Officer & Treasurer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's Management and Board of Directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of inherent limitations, internal control over financial reporting can provide only reasonable, not absolute, assurance with respect to the preparation and presentation of the consolidated financial statements and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of June 30, 2019. This evaluation was based on the criteria set forth in the framework "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management determined that the Company's internal control over financial reporting was effective as of June 30, 2019.

The effectiveness of the Company's internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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

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

August 16, 2019

Changes in Internal Control Over Financial Reporting

There have not been any changes in internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Applied Industrial Technologies, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Applied Industrial Technologies, Inc. and subsidiaries (the "Company") as of June 30, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended June 30, 2019, of the Company and our report dated August 16, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Cleveland, Ohio

August 16, 2019

ITEM 9B. OTHER INFORMATION.

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item as to Applied's directors is incorporated by reference to Applied's proxy statement relating to the annual meeting of shareholders to be held October 29, 2019, under the caption "Item 1 - Election of Directors." The information required by this Item as to Applied's executive officers has been furnished in this report in Part I, after Item 4, under the caption "Executive Officers of the Registrant."

The information required by this Item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to Applied's proxy statement, under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

Applied has a code of ethics, named the Code of Business Ethics, that applies to our employees, including our principal executive officer, principal financial officer, and principal accounting officer. The Code of Business Ethics is posted via hyperlink at the investor relations area of our www.applied.com website. In addition, amendments to and waivers from the Code of Business Ethics will be disclosed promptly at the same location.

Information regarding the composition of Applied's audit committee and the identification of audit committee financial experts serving on the audit committee is incorporated by reference to Applied's proxy statement, under the caption "Corporate Governance."

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 29, 2019, under the captions "Executive Compensation" and "Compensation Committee Report."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Applied's shareholders have approved the following equity compensation plans: the 2007 Long-Term Performance Plan, the 2011 Long-Term Performance Plan, the 2015 Long-Term Performance Plan, the Deferred Compensation Plan, and the Deferred Compensation Plan for Non-Employee Directors. All of these plans are currently in effect.

The following table shows information regarding the number of shares of Applied common stock that may be issued pursuant to equity compensation plans or arrangements of Applied as of June 30, 2019.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	1,464,276	\$49.31	*
Equity compensation plans not approved by security holders	—	—	—
Total	1,464,276	\$49.31	*

* The 2015 Long-Term Performance Plan was adopted to replace the 2011 Long-Term Performance Plan and the 2011 Long-Term Performance Plan was adopted to replace the 2007 Long-Term Performance Plan. Stock options and stock appreciation rights remain outstanding under each of the 2007 and 2011 plans, but no new awards are made under those plans. The aggregate number of shares that remained available for awards under the 2015 Long-Term Performance Plan at June 30, 2019 was 1,394,903.

Information concerning the security ownership of certain beneficial owners and management is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 29, 2019, under the caption "Holdings of Major Shareholders, Officers, and Directors."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 29, 2019, under the caption "Corporate Governance."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 29, 2019, under the caption "Item 4 - Ratification of Auditors."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE.

(a)1. Financial Statements.

The following consolidated financial statements, notes thereto, the reports of independent registered public accounting firm, and supplemental data are included in Item 8 of this report:

- Report of Independent Registered Public Accounting Firm
- Statements of Consolidated Income for the Years Ended June 30, 2019, 2018, and 2017
- Statements of Consolidated Comprehensive Income for the Years Ended June 30, 2019, 2018, and 2017
- Consolidated Balance Sheets at June 30, 2019 and 2018
- Statements of Consolidated Cash Flows for the Years Ended June 30, 2019, 2018, and 2017
- Statements of Consolidated Shareholders' Equity For the Years Ended June 30, 2019, 2018, and 2017
- Notes to Consolidated Financial Statements for the Years Ended June 30, 2019, 2018, and 2017
- Supplementary Data:
 - Quarterly Operating Results

(a)2. Financial Statement Schedule.

The following schedule is included in this Part IV, and is found in this report at the page indicated:

Page No.

Schedule II - Valuation and Qualifying Accounts: Pg. 70

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted because they are not required under the related instructions, are not applicable, or the required information is included in the consolidated financial statements and notes thereto.

(a)3. Exhibits.

* Asterisk indicates an executive compensation plan or arrangement.

<u>Exhibit No.</u>	<u>Description</u>
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 Applied'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 Applied'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) 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 Applied'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 Applied'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 Applied'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 Applied'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 Applied'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 A written description of Applied's director compensation program is incorporated by reference to Applied's proxy statement for the annual meeting of shareholders to be held October 29, 2019 under the caption "Director Compensation."
- *10.2 Deferred Compensation Plan for Non-Employee Directors (September 1, 2003 Restatement), the terms of which govern benefits vested as of December 31, 2004, for Peter A. Dorsman, an Applied director (filed as Exhibit 10(c) to Applied's Form 10-K for the year ended June 30, 2003, SEC File No. 1-2299, and incorporated here by reference).
- *10.3 Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.2 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
- *10.4 Amendment to the Applied Industrial Technologies, Inc. Deferred Compensation Plan for Non-Employee Directors (Post-2004 Terms) (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended March 31, 2014, SEC File No. 1-2299, and incorporated here by reference).
- *10.5 Form of Director and Officer Indemnification Agreement entered into between Applied and each of its directors and executive officers (filed as Exhibit 10(g) to Applied's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
- *10.6 2007 Long-Term Performance Plan (filed as Exhibit 10 to Applied's Form 8-K filed October 23, 2007, SEC File No. 1-2299, and incorporated here by reference).
- *10.7 Section 409A Amendment to the 2007 Long-Term Performance Plan (filed as Exhibit 10.5 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
- *10.8 2011 Long-Term Performance Plan (filed as Appendix to Applied's proxy statement for the annual meeting of shareholders held on October 25, 2011, SEC File No. 1-2299, and incorporated here by reference).
- *10.9 2015 Long-Term Performance Plan (filed as Appendix to Applied's proxy statement for the annual meeting of shareholders held on October 27, 2015, SEC File No. 1-2299, and incorporated here by reference).
- *10.10 Non-Statutory Stock Option Award Terms and Conditions (Directors) (filed as Exhibit 10 to Applied's Form 8-K filed November 30, 2005, SEC File No. 1-2299, and incorporated here by reference).
- *10.11 Restricted Stock Award Terms and Conditions (Directors) (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended March 31, 2018, SEC File No. 1-2299, and incorporated here by reference).
- *10.12 Stock Appreciation Rights Award Terms and Conditions (Officers) (August 2017 revision) (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- *10.13 Restricted Stock Units Terms and Conditions (filed as Exhibit 10.2 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- *10.14 Performance Shares Terms and Conditions (filed as Exhibit 10.3 to Applied's Form 10-Q for the quarter ended September 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- *10.15 Management Incentive Plan General Terms (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended September 30, 2018, SEC File No. 1-2299, and incorporated here by reference).
- *10.16 Key Executive Restoration Plan, as amended and restated (filed as Exhibit 10.1 to Applied's Form 8-K filed August 16, 2013, SEC File No. 1-2299, and incorporated here by reference).
- *10.17 Schedule of executive officer participants in the Key Executive Restoration Plan, as amended and restated (filed as Exhibit 10.2 to Applied's Form 10-Q for the quarter ended September 30, 2018, SEC File No. 1-2299, and incorporated here by reference).

- *10.18 Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms), in which Fred D. Bauer participates (filed as Exhibit 10.1 to Applied's Form 10-Q for the quarter ended December 31, 2008, SEC File No. 1-2299, and incorporated here by reference).
- *10.19 First Amendment to the Applied Industrial Technologies, Inc. Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied's Form 8-K filed December 22, 2011, SEC File No. 1-2299, and incorporated here by reference).
- *10.20 Second Amendment to the Applied Industrial Technologies, Inc. Supplemental Executive Retirement Benefits Plan (Restated Post-2004 Terms) (filed as Exhibit 10.1 to Applied's Form 8-K filed October 26, 2012, SEC File No. 1-2299, and incorporated here by reference).
- *10.21 Supplemental Defined Contribution Plan (January 1, 1997 Restatement), the terms of which govern benefits vested as of December 31, 2004, for Fred D. Bauer (filed as Exhibit 10(m) to Applied's Registration Statement on Form S-4 filed May 23, 1997, Registration No. 333-27801, and incorporated here by reference).
- *10.22 First Amendment to Supplemental Defined Contribution Plan effective as of October 1, 2000 (filed as Exhibit 10(a) to Applied's Form 10-Q for the quarter ended September 30, 2000, SEC File No. 1-2299, and incorporated here by reference).
- *10.23 Second Amendment to Supplemental Defined Contribution Plan effective as of January 16, 2001 (filed as Exhibit 10(a) to Applied's Form 10-Q for the quarter ended March 31, 2001, SEC File No. 1-2299, and incorporated here by reference).
- *10.24 Supplemental Defined Contribution Plan (Post-2004 Terms), restated effective as of January 1, 2017 (filed as Exhibit 10.27 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference.)
- *10.25 Severance Agreement for Neil A. Schrimsher (filed as Exhibit 10.2 to Applied's Form 8-K filed October 31, 2011, SEC File No. 1-2299, and incorporated here by reference).
- *10.26 Amendment to Severance Agreement for Neil A. Schrimsher (filed as Exhibit 10.2 to Applied's Form 8-K filed October 26, 2012, SEC File No. 1-2299, and incorporated here by reference).
- *10.27 Change in Control Agreement for Neil A. Schrimsher (filed as Exhibit 10.3 to Applied's Form 8-K filed October 31, 2011, SEC File No. 1-2299, and incorporated here by reference).
- *10.28 Change in Control Agreement for Fred D. Bauer (filed as Exhibit 99.1 to Applied's Form 8-K filed April 25, 2008, SEC File No. 1-2299, and incorporated here by reference).
- *10.29 Form of Change in Control Agreement for Kurt W. Loring and David K. Wells (filed as Exhibit 10.3 to Applied's Form 10-Q for the quarter ended September 30, 2013, SEC File No. 1-2299, and incorporated here by reference).
- *10.30 A written description of Applied's Life and Accidental Death and Dismemberment Insurance for executive officers (filed as Exhibit 10.33 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- *10.31 A written description of Applied's Long-Term Disability Insurance for executive officers (filed as Exhibit 10.34 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- *10.32 A written description of Applied's Retiree Health Care Coverage for Neil A. Schrimsher and Fred D. Bauer (filed as Exhibit 10.35 to Applied's Form 10-K for the year ended June 30, 2017, SEC File No. 1-2299, and incorporated here by reference).
- 21 Applied's subsidiaries at June 30, 2019.
- 23 Consent of Independent Registered Public Accounting Firm.
- 24 Powers of attorney.
- 31 Rule 13a-14(a)/15d-14(a) certifications.
- 32 Section 1350 certifications.
- 95 Mine safety and health disclosure.
- 101.INS XBRL Instance 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

Applied 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 Applied'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.

ITEM 16. FORM 10-K SUMMARY.

Not applicable.

APPLIED INDUSTRIAL TECHNOLOGIES, INC. & SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JUNE 30, 2019, 2018, AND 2017
(in thousands)

COLUMN A	COLUMN B		COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Additions (Deductions) Charged to Other Accounts	Deductions from Reserve	Balance at End of Period	
Year Ended June 30, 2019						
Reserve deducted from assets to which it applies —						
Accounts receivable:						
Allowance for doubtful accounts	\$ 10,964	\$ 4,058	\$ —	\$ 4,524 (C)	\$ 10,498	
Returns reserve	2,602	738	3,925 (A)	—	7,265	
	<u>\$ 13,566</u>	<u>\$ 4,796</u>	<u>\$ 3,925</u>	<u>\$ 4,524</u>	<u>\$ 17,763</u>	
Year Ended June 30, 2018						
Reserve deducted from assets to which it applies —						
Accounts receivable:						
Allowance for doubtful accounts	\$ 8,056	\$ 2,803	\$ 3,548 (B)	\$ 3,443 (C)	\$ 10,964	
Returns reserve	1,572	—	1,030 (B)	—	2,602	
	<u>\$ 9,628</u>	<u>\$ 2,803</u>	<u>\$ 4,578</u>	<u>\$ 3,443</u>	<u>\$ 13,566</u>	
Year Ended June 30, 2017						
Reserve deducted from assets to which it applies —						
Accounts receivable:						
Allowance for doubtful accounts	\$ 9,329	\$ 2,071	\$ —	\$ 3,344 (C)	\$ 8,056	
Returns reserve	1,705	—	(133) (B)	—	1,572	
	<u>\$ 11,034</u>	<u>\$ 2,071</u>	<u>\$ (133)</u>	<u>\$ 3,344</u>	<u>\$ 9,628</u>	

- (A) The Company adopted ASC 606 - Revenue from Contracts with Customers effective July 1, 2018 which requires the Company's sales returns reserve to be established at the gross sales value with an asset established for the value of the expected product to be returned.
- (B) Amounts in the year ending June 30, 2018 represent reserves recorded through purchase accounting for acquisitions made during the year of \$3,548 and for the return of merchandise by customers of \$1,030. Amounts in the fiscal year ending June 30, 2017 represent reserves for the return of merchandise by customers.
- (C) Amounts represent uncollectible accounts charged off.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED INDUSTRIAL TECHNOLOGIES, INC.

/s/ Neil A. Schrimsher

Neil A. Schrimsher
President & Chief Executive Officer

/s/ David K. Wells

David K. Wells
Vice President-Chief Financial Officer
& Treasurer

/s/ Christopher Macey

Christopher Macey
Corporate Controller
(Principal Accounting Officer)

Date: August 16, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Madhuri A. Andrews, Director

*

Peter A. Dorsman, Director

Mary Dean Hall, Director

*

Edith Kelly-Green, Director

*

Dan P. Komnenovich, Director

*

Robert J. Pagano, Jr., Director

*

Vincent K. Petrella, Director

*

Joe A. Raver, Director

/s/ Neil A. Schrimsher

Neil A. Schrimsher, President & Chief Executive Officer
and Director

*

Dr. Jerry Sue Thornton, Director

*

Peter C. Wallace, Director and Chairman

/s/ Fred D. Bauer

Fred D. Bauer, as attorney in fact
for persons indicated by "*"

Date: August 16, 2019

Shareholder Information

Applied Industrial Technologies, Inc. common stock is listed on the New York Stock Exchange under the symbol AIT. The Company is identified in most financial listings as "AppliedIndlTch."

RESEARCH ON APPLIED INDUSTRIAL TECHNOLOGIES IS AVAILABLE THROUGH:

CLEVELAND RESEARCH COMPANY

Adam Uhlman
216/649-7241

GREAT LAKES REVIEW – Division of Wellington Shields & Co.

Elliott Schlang
216/767-1340

KEYBANC CAPITAL MARKETS

Steve Barger
216/689-0210

Longbow Research

Chris Dankert
216/525-8486

WELLS FARGO SECURITIES, LLC

Allison Poliniak-Cusic
212/214-5062

SHAREHOLDER INQUIRIES

Requests to transfer Applied Industrial Technologies, Inc. shares and all correspondence regarding address change information, duplicate mailings, missing certificates, failure to receive dividend checks in a timely manner or to participate in the Company's direct stock purchase program should be directed to the Company's transfer agent and registrar:

COMPUTERSHARE

P.O. Box 505000
Louisville, KY 40233-5000
800/988-5291

INVESTOR RELATIONS INQUIRIES SHOULD BE DIRECTED TO:

RYAN D. CIESLAK

Director – Investor Relations & Treasury
Applied Industrial Technologies
1 Applied Plaza
Cleveland, OH 44115-5004
Telephone: 216/426-4887
E-mail: rcieslak@applied.com

ANNUAL REPORT ON FORM 10-K

The Applied Industrial Technologies, Inc. Annual Report on Form 10-K for the fiscal year ended June 30, 2019, including the financial statements and schedules thereto, is available at our website www.Applied.com. It is also available without charge upon written request to the Director – Investor Relations & Treasury at the address shown.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:00 a.m., Tuesday, October 29, 2019, at the Corporate Headquarters of Applied Industrial Technologies, 1 Applied Plaza, East 36th and Euclid Avenue, Cleveland, Ohio 44115.

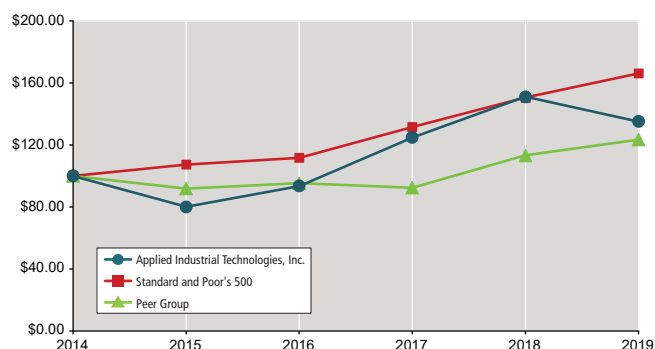
Reconciliation of Net Income to EBITDA

(\$000)	FY2019	FY2018
Sales	\$3,472,739	\$3,073,274
Net Income	\$143,993	\$141,625
+ Interest Expense	40,188	23,485
+ Taxes	50,488	63,093
+ Depreciation	20,236	17,798
+ Amortization*	73,477	32,065
EBITDA	\$328,382	\$278,066
EBITDA % of Sales	9.5%	9.0%

*Includes FY2019 intangibles impairment

Comparison of Five-Year Cumulative Total Return

Applied Industrial Technologies, Inc., Standard & Poor's 500, and Peer Group (Performance Results from 7/1/2014 through 6/30/2019)



Assumes \$100 invested at the close of trading 6/30/14 in Applied Industrial Technologies, Inc. common stock, Standard & Poor's 500, and Peer Group.

Cumulative total return assumes reinvestment of dividends.

The returns of the companies in the Peer Group are weighted based on the companies' relative stock market capitalization.

Peer Group companies selected on a line-of-business basis include: DXP Enterprises, Inc.; Fastenal Company; Genuine Parts Company; W. W. Grainger, Inc.; Kaman Corporation; Lawson Products, Inc.; MSC Industrial Direct Co., Inc.; and WESCO International, Inc.

	2014	2015	2016	2017	2018	2019
Applied Industrial Technologies, Inc.	100.00	79.98	93.55	124.88	151.13	135.14
Standard & Poor's 500	100.00	107.42	111.71	131.70	150.64	166.33
Peer Group	100.00	91.93	95.34	92.38	113.28	123.54

Source: Zacks Investment Research, Inc.

This report contains statements that are forward-looking, as that term is defined by the Securities and Exchange Commission in its rules, regulations and releases. Applied intends that such forward-looking statements be subject to the safe harbors created thereby. All forward-looking statements are based on current expectations regarding important risk factors, including those identified on pages 1, 5-10 and 24 of Applied's Form 10-K for the fiscal year ended June 30, 2019 included herein. Accordingly, actual results may differ materially from those expressed in the forward-looking statements, and the making of such statements should not be regarded as a representation by Applied or any other person that results expressed will be achieved.



Corporate Headquarters
1 Applied Plaza
Cleveland, Ohio 44115
216/426-4000
Applied.com