

APPLIED INDUSTRIAL TECHNOLOGIES INC
Form 10-Q
January 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended DECEMBER 31, 2018
OR

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

For the transition period from _____ to _____
Commission File Number 1-2299

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

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

One Applied Plaza, Cleveland, Ohio 44115
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (216) 426-4000
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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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 [X]

There were 38,759,724 (no par value) shares of common stock outstanding on January 11, 2019.

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PART I: FINANCIAL INFORMATION

ITEM I: FINANCIAL STATEMENTS

APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net sales	\$840,038	\$667,187	\$1,704,553	\$1,347,888
Cost of sales	597,178	478,827	1,209,840	967,104
Gross profit	242,860	188,360	494,713	380,784
Selling, distribution and administrative expense, including depreciation	181,895	141,645	367,409	282,232
Operating income	60,965	46,715	127,304	98,552
Interest expense, net	9,578	2,139	20,054	4,305
Other expense (income), net	946	(20)) 707	(731)
Income before income taxes	50,441	44,596	106,543	94,978
Income tax expense	11,724	13,646	18,888	30,307
Net income	\$38,717	\$30,950	\$87,655	\$64,671
Net income per share - basic	\$1.00	\$0.80	\$2.26	\$1.67
Net income per share - diluted	\$0.99	\$0.79	\$2.23	\$1.65
Cash dividends per common share	\$0.30	\$0.29	\$0.60	\$0.58
Weighted average common shares outstanding for basic computation	38,743	38,716	38,729	38,824
Dilutive effect of potential common shares	504	490	587	446
Weighted average common shares outstanding for diluted computation	39,247	39,206	39,316	39,270
See notes to condensed consolidated financial statements.				

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CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Net income per the condensed statements of consolidated income	\$38,717	\$30,950	\$87,655	\$64,671
Other comprehensive (loss) income, before tax:				
Foreign currency translation adjustments	(10,270)	(6,031)	(4,556)	2,128
Post-employment benefits:				
Reclassification of net actuarial gains and prior service cost into other expense (income), net and included in net periodic pension costs	(78)	(22)	(153)	(36)
Unrealized loss on investment securities available for sale	—	46	—	42
Cumulative effect of adopting accounting standard	—	—	(50)	—
Total of other comprehensive (loss) income, before tax	(10,348)	(6,007)	(4,759)	2,134
Income tax (benefit) expense related to items of other comprehensive (loss) income	(592)	57	(350)	46
Other comprehensive (loss) income, net of tax	(9,756)	(6,064)	(4,409)	2,088
Comprehensive income, net of tax	\$28,961	\$24,886	\$83,246	\$66,759

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	December 31, 2018	June 30, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 79,827	\$ 54,150
Accounts receivable, less allowances of \$13,982 and \$13,566	512,034	548,811
Inventories	445,881	422,069
Other current assets	44,041	32,990
Total current assets	1,081,783	1,058,020
Property, less accumulated depreciation of \$182,812 and \$175,300	122,005	121,343
Identifiable intangibles, net	413,093	435,947
Goodwill	651,206	646,643
Other assets	21,901	23,788
TOTAL ASSETS	\$ 2,289,988	\$ 2,285,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 232,558	\$ 256,886
Current portion of long term debt	44,184	19,183
Compensation and related benefits	56,882	73,370
Other current liabilities	60,164	83,112
Total current liabilities	393,788	432,551
Long-term debt	923,410	944,522
Post-employment benefits	9,200	11,985
Other liabilities	73,675	81,720
TOTAL LIABILITIES	1,400,073	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; 38,758 and 38,703 outstanding, respectively	10,000	10,000
Additional paid-in capital	170,385	169,383
Retained Earnings	1,208,748	1,129,678
Treasury shares—at cost (15,455 and 15,510 shares, respectively)	(404,586)	(403,875)
Accumulated other comprehensive loss	(94,632)	(90,223)
TOTAL SHAREHOLDERS' EQUITY	889,915	814,963
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,289,988	\$ 2,285,741
See notes to condensed consolidated financial statements.		

Table of ContentsAPPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended December 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$87,655	\$64,671
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	10,019	8,008
Amortization of intangibles	21,912	11,526
Unrealized foreign exchange transactions gain	(155)	(610)
Amortization of stock options and appreciation rights	1,257	1,013
Gain on sale of property	(105)	(333)
Other share-based compensation expense	2,351	1,577
Changes in operating assets and liabilities, net of acquisition	(55,922)	(65,007)
Other, net	(1,432)	339
Net Cash provided by Operating Activities	65,580	21,184
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	(6,900)	(5,014)
Property purchases	(7,096)	(11,460)
Proceeds from property sales	244	596
Other	391	—
Net Cash used in Investing Activities	(13,361)	(15,878)
Cash Flows from Financing Activities		
Net (repayments) borrowings under revolving credit facility	(19,500)	23,000
Long-term debt borrowings	175,000	—
Long-term debt repayments	(151,868)	(1,679)
Payment of debt issuance costs	(685)	—
Purchases of treasury shares	—	(22,778)
Dividends paid	(23,275)	(22,571)
Acquisition holdback payments	(2,275)	(319)
Taxes paid for shares withheld for equity awards	(3,318)	(1,298)
Net Cash used in Financing Activities	(25,921)	(25,645)
Effect of Exchange Rate Changes on Cash	(621)	606
Increase (Decrease) in Cash and Cash Equivalents	25,677	(19,733)
Cash and Cash Equivalents at Beginning of Period	54,150	105,057
Cash and Cash Equivalents at End of Period	\$79,827	\$85,324
See notes to condensed consolidated financial statements.		

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APPLIED INDUSTRIAL TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position of Applied Industrial Technologies, Inc. (the "Company", or "Applied") as of December 31, 2018, and the results of its operations and its cash flows for the six month periods ended December 31, 2018 and 2017, have been included. The condensed consolidated balance sheet as of June 30, 2018 has been derived from the audited consolidated financial statements at that date. This Quarterly Report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 2018. Operating results for the six month period ended December 31, 2018 are not necessarily indicative of the results that may be expected for the remainder of the fiscal year ending June 30, 2019.

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)" ("ASC 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 condensed consolidated balance sheet as of December 31, 2018.

Inventory

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

Recently 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 financial statement periods beginning after December 15, 2018, with earlier application permitted. In July 2018, the FASB issued ASU 2018-10

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

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, the FASB issued ASU 2018-20 which further clarifies the guidance. The Company has established a cross-functional team to evaluate the new standard and has begun implementing new lease administration software. The Company is still determining the financial impact that this standard update will have on its consolidated financial statements, but anticipates it will have a material impact on its assets and liabilities due to the addition of right-of-use assets and lease liabilities to the consolidated balance sheet. The Company will continue to evaluate the impacts of the adoption of the standard and these assessments are subject to change.

In June 2016, the FASB issued its final standard on measurement of credit losses on financial instruments. This standard, issued as ASU 2016-13, requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. This update is effective for annual and interim financial statement periods beginning after December 15, 2019, with early adoption permitted for financial statement periods beginning after December 15, 2018. In November 2018, the FASB issued ASU 2018-19 which clarifies the guidance in ASU 2016-13. The Company has not yet determined the impact of this pronouncement 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.

2. REVENUE RECOGNITION

The Company adopted ASC 606 - Revenue from Contracts with Customers 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.

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

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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.

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.

Variable Consideration

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 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.

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 condensed consolidated balance sheet, is as follows:

	December 31, 2018	July 1, 2018	\$	%
Contract assets	\$ 9,324	\$ 13,823	\$(4,499)	(32.5)%

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

	For the three months ended December 31, 2018		
	As Reported	Adjustments	Balances without adoption of ASC 606
Net sales	\$840,038	\$ 1,005	\$841,043
Cost of sales	597,178	699	597,877
Gross profit	242,860	306	243,166
Selling, distribution and administrative expense, including depreciation	181,895	55	181,950
Operating income	60,965	251	61,216
Interest expense, net	9,578	—	9,578
Other expense, net	946	—	946
Income before income taxes	50,441	251	50,692
Income tax expense	11,724	64	11,788
Net income	\$38,717	\$ 187	\$38,904

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	For the six months ended December 31, 2018		
	As Reported	Adjustments	Balances without adoption of ASC 606
Net sales	\$ 1,704,553	\$ 4,317	\$ 1,708,870
Cost of sales	1,209,840	3,103	1,212,943
Gross profit	494,713	1,214	495,927
Selling, distribution and administrative expense, including depreciation	367,409	274	367,683
Operating income	127,304	940	128,244
Interest expense, net	20,054	—	20,054
Other expense, net	707	—	707
Income before income taxes	106,543	940	107,483
Income tax expense	18,888	236	19,124
Net income	\$87,655	\$ 704	\$88,359

As of December 31, 2018

	As Reported	Adjustments	Balances without adoption of ASC 606
Assets			
Other current assets	\$44,041	\$ (9,324)	\$34,717
Inventories	445,881	11,830	457,711
Other assets	21,901	192	22,093
Liabilities			
Other current liabilities	60,164	6,626	66,790
Compensation and related benefits	56,882	(456)	56,426
Other liabilities	73,675	(747)	72,928
Equity			
Retained Earnings	\$889,915	\$ (2,725)	\$887,190

Disaggregation of Revenues

The following tables present the Company's net sales by reportable segment and by geographic areas based on the location of the facility shipping the product for the three and six months ended December 31, 2018. Other countries consist of Mexico, Australia, New Zealand, and Singapore.

Three Months Ended December 31,
2018

	2018			2017		
	Service Center Based Distribution	Fluid Power & Flow Control	Total	Service Center Based Distribution	Fluid Power & Flow Control	Total
United States	\$479,335	\$247,862	\$727,197	\$448,819	\$108,212	\$557,031

Geographic Areas:

United States	\$479,335	\$247,862	\$727,197	\$448,819	\$108,212	\$557,031
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Canada	68,569	—	68,569	67,479	—	\$67,479
Other countries	41,394	2,878	44,272	39,309	3,368	\$42,677
Total	\$589,298	\$250,740	\$840,038	\$555,607	\$111,580	\$667,187

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Six Months Ended December 31, 2018			2017		
	Service Center Based Distribution	Fluid Center Power & Flow Control	Total	Service Center Based Distribution	Fluid Center Power & Flow Control	Total
Geographic Areas:						
United States	\$970,109	\$504,511	\$1,474,620	\$907,815	\$216,761	\$1,124,576
Canada	137,676	—	137,676	134,296	—	\$134,296
Other countries	85,562	6,695	92,257	82,409	6,607	\$89,016
Total	\$1,193,347	\$511,206	\$1,704,553	\$1,124,520	\$223,368	\$1,347,888

The following tables present the Company's percentage of revenue by reportable segment and major customer industry for the three and six months ended December 31, 2018:

	For the three months ended December 31, 2018		
	Service Center Based Distribution	Fluid Center Power & Flow Control	Total
General Industry	35.9 %	46.1 %	38.9 %
Industrial Machinery	9.7 %	20.3 %	12.9 %
Metals	13.6 %	8.5 %	12.1 %
Food	10.1 %	2.7 %	7.8 %
Oil & Gas	10.2 %	2.1 %	7.8 %
Chem/Petrochem	2.9 %	14.0 %	6.2 %
Forest Products	7.1 %	2.9 %	5.9 %
Cement & Aggregate	6.0 %	0.9 %	4.5 %
Transportation	4.5 %	2.5 %	3.9 %
Total	100.0%	100.0 %	100.0%
	For the six months ended December 31, 2018		
	Service Center Based Distribution	Fluid Center Power & Flow Control	Total
General Industry	35.8 %	44.9 %	38.4 %
Industrial Machinery	9.5 %	20.8 %	12.9 %
Metals	12.3 %	8.2 %	11.1 %
Food	10.4 %	2.6 %	8.1 %
Oil & Gas	9.9 %	2.1 %	7.6 %
Chem/Petrochem	3.2 %	14.8 %	6.7 %
Forest Products	8.0 %	2.8 %	6.4 %
Cement & Aggregate	6.4 %	1.0 %	4.8 %
Transportation	4.5 %	2.8 %	4.0 %
Total	100.0%	100.0 %	100.0%

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following tables present the Company's percentage of revenue by reportable segment and product line for the three and six months ended December 31, 2018:

	For the three months ended December 31, 2018			
	Service Based Distribution	Fluid Center Power & Flow Control		Total
Power Transmission	34.3 %	1.3 %		24.4 %
Fluid Power	13.7 %	38.1 %		21.0 %
General Maintenance; Hose Products	25.4 %	5.8 %		19.6 %
Bearings, Linear & Seals	26.6 %	0.4 %		18.8 %
Specialty Flow Control	— %	54.4 %		16.2 %
Total	100.0 %	100.0 %		100.0 %
	For the six months ended December 31, 2018			
	Service Based Distribution	Fluid Center Power & Flow Control		Total
Power Transmission	33.5 %	1.4 %		23.9 %
Fluid Power	13.8 %	37.9 %		21.0 %
General Maintenance; Hose Products	26.6 %	5.2 %		20.2 %
Bearings, Linear & Seals	26.1 %	0.2 %		18.3 %
Specialty Flow Control	— %	55.3 %		16.6 %
Total	100.0 %	100.0 %		100.0 %

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 Acquisition

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 \$4,104, and goodwill was \$3,996 based upon estimated fair values at the acquisition date. The purchase price includes acquisition holdback payments of \$1,200, which is included in other current liabilities and other liabilities on the condensed consolidated balance sheet as of December 31, 2018, 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 5 - Debt. As a distributor of engineered valves, instruments, pumps and lifecycle services to MRO (Maintenance, Repair & Operations) and OEM (Original Equipment Manufacturer) customers across diverse industrial and process end markets, this business is included in the Fluid Power & Flow Control Segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the consideration transferred, assets acquired, and liabilities assumed in connection with the acquisition of FCX based on their preliminary estimated fair values at the acquisition date, which are subject to adjustment. The purchase accounting will be finalized within one year from the acquisition date.

Cash	\$11,141
Accounts receivable	80,836
Inventories	44,669
Other current assets	1,657
Property	8,282
Identifiable intangible assets	305,420
Goodwill	440,143
Other assets	775
Total assets acquired	\$892,923
Accounts payable and accrued liabilities	54,012
Other liabilities	2,677
Deferred tax liabilities	54,453
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 expected to be deductible for income tax purposes.

Net sales, operating income and net income from the FCX acquisition included in the Company's three and six months ended December 31, 2018 are as follows:

	Three Months Ended December 31, 2018	Six Months Ended December 31, 2018
Net sales	\$ 138,254	\$ 284,740