Applied Industrial Technologies®

We Keep Industry Running

Fiscal Q3 2020 Recap

April 30, 2020

Safe Harbor Statement

This presentation 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. Forward-looking statements are often identified by qualifiers such as “expect,” “outlook,” “guidance,” “will” and derivative or similar expressions. All forward-looking statements are based on current expectations regarding important risk factors including trends in the industrial sector of the economy, the effects of the health crisis associated with the COVID-19 pandemic on our business operations, results of operations, and financial condition, and other risk factors identified in Applied's most recent periodic report and other filings made with the Securities and Exchange Commission, many of which risks are amplified by circumstances arising out of the COVID-19 pandemic. 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 the results expressed therein will be achieved. Applied assumes no obligation to update publicly or revise any forward-looking statements, whether due to new information, or events, or otherwise.

Non-GAAP Financial Measures

This presentation sets forth certain non-GAAP financial measures - Adjusted Earnings per Share (EPS); Adjusted Net Income; Adjusted Gross Margin; Adjusted Selling Distribution and Administrative (SD&A) Expense; EBITDA; Adjusted EBITDA; Adjusted EBITDA Margin; Free Cash Flow; Net Leverage Ratio - which are presented as supplemental disclosures to Net Income; Cash from Operations; Total Debt Outstanding; and reported results. Management believes these measures are useful indicators for normalizing earnings for non-routine items and facilitating effective evaluation of operating performance. A presentation of the most directly comparable GAAP measure and reconciliations of Adjusted EPS, Adjusted Net Income, Adjusted Gross Margin, Adjusted SD&A, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Free Cash Flow, and Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **Applied® is a "critical infrastructure" business** and continues to serve essential industries during the COVID-19 crisis.
- **Operating facilities remain open** while adhering to health and safety guidelines; supply chain constraints limited to-date.
- **Industrial demand weakness** continued in Q3 with pronounced declines in "heavy industries" during March and April given the initial COVID-19 impact.
- **Strong cost control and cash flow** during Q3 with adj. SD&A expense down 7.5% YoY on a organic basis, and free cash of $61M (153% of adj. net income).
- **Liquidity / balance sheet** supportive with $165M of cash and approximately $250M undrawn revolver; net debt down 20% YoY with net leverage at 2.5x.
- **Withdrawing FY20 guidance** due to the evolving and uncertain impact of COVID-19 on our results near term.
- **Well positioned** with deep understanding of near-term requirements, cash-centric and adaptable business model, and exposure to critical early-cycle MRO demand and secular growth themes likely to unfold as a recovery develops.

Fiscal Q3 2020 Key Financial Highlights

- **Sales down 6.2% YoY**
  - Down 9.5% on a days adjusted organic basis
  - Acquisitions +1.9%, selling days +1.6%, currency -0.2%
- **Net Loss of $82.8M or $2.14 per share**
- **Non-GAAP Adjusted Net Income of $39.6M and Adjusted EPS of $1.02**
  - On a pre-tax basis, excludes a non-cash goodwill impairment charge of $131.0M and non-routine costs of $6.0M
- **Adjusted gross margin of 29.0% vs. the prior year of 28.9%**
  - Excludes $3.9M of non-routine costs
  - Down 15 bps YoY excluding LIFO expense ($2.0M vs. $3.6M in prior year period)
  - Unchanged sequentially excluding LIFO expense
- **Adjusted SD&A expense 21.9% of sales vs. 21.2% in prior year**
  - Excludes $2.1M of non-routine costs
  - Down 7.5% YoY on a organic per day basis
  - Reflects strong cost discipline and benefits from recent cost actions
- **Adjusted EBITDA of $75.9M**
  - 9.1% of sales, down 42 bps YoY
  - 9.4% of sales excluding LIFO expense

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Current Discussion Points – COVID-19

Discussion Point	Update	Detail
1. Health and Safety	• *Well-being of associates, customers, suppliers, and other business partners is top priority across Applied®*	• *Implemented enhanced facility maintenance & safety measures, remote working, social distancing, and virtual processes*
2. Business Continuity	• *Classified as "critical infrastructure" business and playing vital role in supporting various customers*	• *Operating facilities open and adhering to health and safety guidelines*
3. Sales Impact	• *Evolving and uncertain; impact greatest across "heavy" industries currently; tied to temporary customer facility closures, reduced production / project activity*	• *April sales trending down high-teen percent YoY on an organic basis*
4. Sales Support	• *Seeing ongoing demand for critical break-fix parts, services, and solutions across several "essential" industries*	• *Food & Beverage, Agriculture, Pulp & Paper, Aggregates, Technology, Chemicals, Plastics, Life Sciences*
5. Supply Chain	• *Limited supply chain disruptions to-date but monitoring the situation closely*	• *Deep and tenured relationships with premier suppliers; hub-and-spoke network with local presence provides agile customer support*
6. Operational Actions	• *Measures taken and planned across organization to adjust processes and costs appropriately near term, while positioning for a recovery*	• *Restricting travel, aligning staffing levels, adjusting work hours, freezing hiring, lowering capital spending, adjusting wages, suspending 401(k) match, furloughing*
7. Liquidity Position	• *Positive with cushion, optionality, and supportive bank relationships*	• *\$165M of cash on hand, ~\$250M undrawn revolver (additional \$250M accordion), \$100M of availability on uncommitted shelf agreement*

Current Discussion Points – Continued…

Discussion Point	Update	Detail
8. Industry Position	• *Value proposition and growth opportunity significant as a recovery eventually unfolds*	• *Customer deferred maintenance, idle equipment, and labor constraints drive demand for break-fix MRO, technical services/solutions, automation, and IIoT*
9. End-Market Trends	• *Broad weakness continued across most end markets through February, compounded by COVID-19 in March*	• *Greatest YoY pressure across Metals, Mining, Oil & Gas, Transportation, and Machinery end-markets*
10. Decremental Margins	• *Variable expense, formal actions, and cost discipline company-wide provide shock absorbers near term*	• *High-teen decremental margins possible in Q4 assuming April organic sales declines (high-teens) persist*
11. Balance Sheet	• *Net debt down 20% YoY; in compliance with financial covenants including max leverage ratio of 3.75x*	• *Current liquidity, cost management, and potential cash conversion provide additional go-forward support near term*
12. Cash Generation	• *Record Q3 free cash flow highlights strong execution and counter-cyclical cash generation*	• *Collection trends firm into April but uncertainty remains; deploying various actions to support Q4 cash generation*
13. Capital Deployment	• *Prudent approach near term given macro uncertainty; M&A remains a focus over intermediate to long term*	• *Near-term priorities include liquidity cushion, opportunistic debt reduction, and dividend payments; no current plans for share repurchases*
14. FCX Update	• *Impairment in Q3 reflects end-market softness and lower growth projections given new near-term macro-economic backdrop*	• *Strategic opportunity remains intact with ongoing execution of five-year synergy plan*

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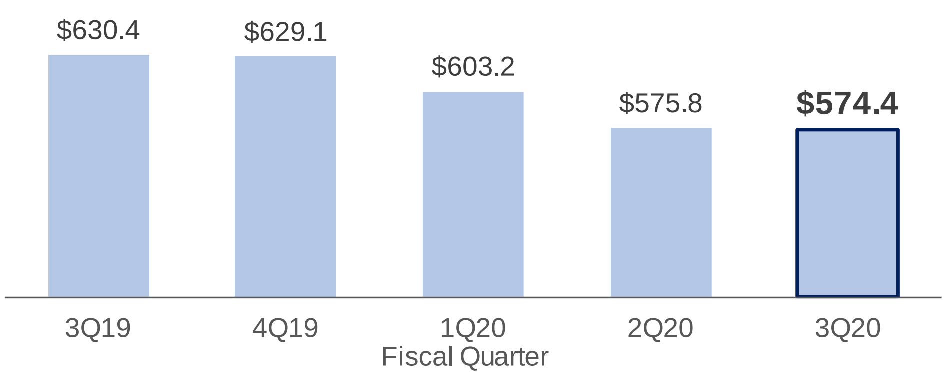
Segment Results – Service Center Based Distribution

<u>Segment Overview</u>: *Representing 71% of fiscal 2019 sales - the segment includes our legacy distribution operations including ~430 local service centers across North America, Australia, and New Zealand, primarily focused on our core bearings, power transmission, and fluid power MRO product offering, as well as other industrial supplies for scheduled maintenance and emergency repairs of customers' machinery and equipment.*

Service Center Distribution Sales, in Millions



- **Sales down 8.9% YoY**

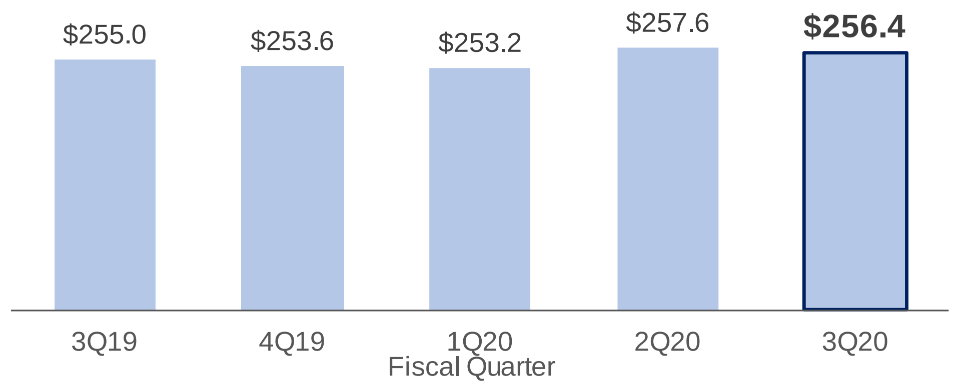
Days Adj. Organic	- 10.9%
Selling Days	+1.6%
Currency	- 0.3%
Acquisitions	+0.7%

- **Sales decline reflects ongoing industrial end-market softness through February, compounded by the initial impact from COVID-19 in March, including temporary customer facility closures and idle production**
- **Weaker demand notable in metals, mining, oil & gas, machinery, and transportation end markets; also impacted by weak Canada and Mexico sales**

Segment Results – Fluid Power & Flow Control

Segment Overview: *Representing 29% of fiscal 2019 sales - the segment consists of 1) our Fluid Power network specializing in distributing, engineering, designing, integrating, and repairing hydraulic and pneumatic technologies and related systems, 2) our specialty flow control products and engineered solutions, and 3) our automation products and solutions following our acquisition of Olympus Controls in August 2019.*

Fluid Power & Flow Control Sales, in Millions



- **Sales up 0.6% YoY**
  - Days Adj. Organic - 6.0%
  - Selling Days +1.6%
  - Acquisitions +5.0%

- **Organic sales decline primarily reflects weaker industrial OEM demand, slower Flow Control end markets and reduced project activity**

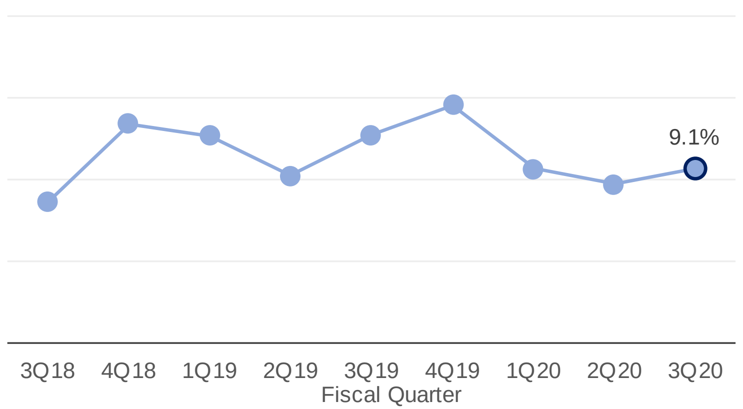
- **Partially balanced by growth within technology end markets**

Adjusted Margin and Expense Highlights

Adjusted Gross Profit, Adjusted SD&A, and Adjusted EBITDA Metrics

$ in millions	Q3 20 (1)	Q3 19 (2)	Chg YoY	Excluding LIFO % Chg YoY
Gross Profit	**$240.7**	$256.2	(6.1%)	(6.6%)
Gross Margin	**29.0%**	28.9%	3 bps	(15) bps
SD&A Expense	**$181.6**	$187.9	(3.3%)	
% of Sales	**21.9%**	21.2%	(64) bps	
EBITDA	**$75.9**	$84.6	(10.3%)	(11.8%)
EBITDA Margin	**9.1%**	9.6%	(42) bps	(60) bps
Memo: LIFO Expense	**$2.0**	$3.6		

Adjusted EBITDA Margin



- **Adj. gross margin up 3 bps YoY**
  - Excluding LIFO expense, down 15 bps YoY
- **Adj. SD&A down 3.3% YoY**
  - Down 7.5% YoY on an organic daily basis
  - Strong execution on cost actions; remaining diligent with cost focus in current environment
- **Adj. EBITDA margin down 42 bps YoY**

(1) Excludes $6.0M of non-routine costs ($3.9M to gross profit and $2.1M to SD&A)
(2) Excludes $2.3M of non-routine costs ($0.7M to gross profit and $1.6M to SD&A)

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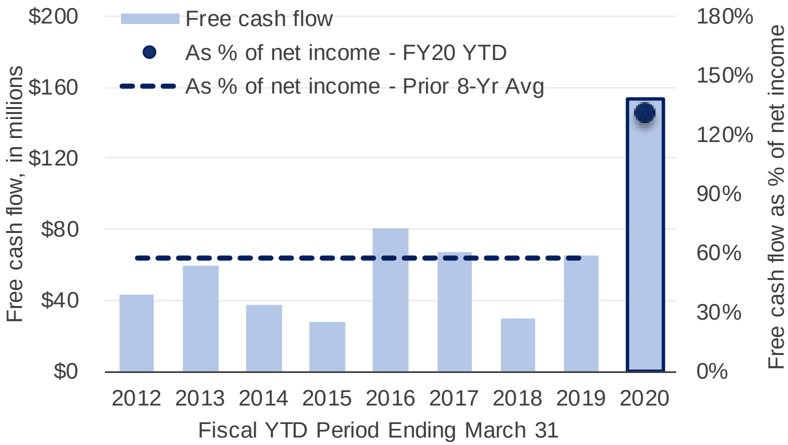
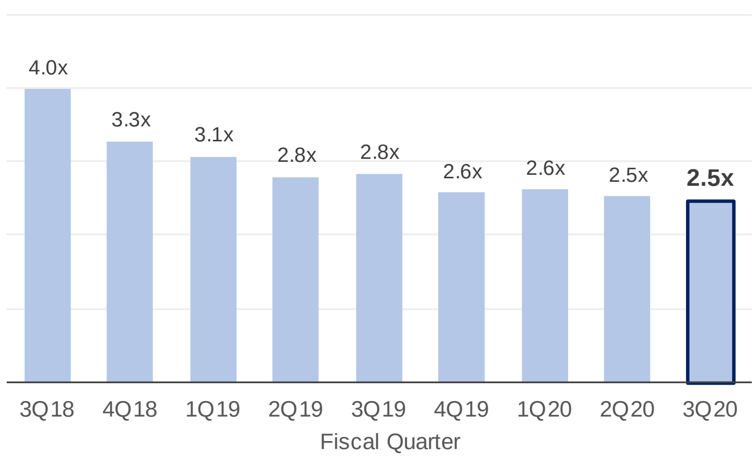
Cash Flow and Balance Sheet Leverage

Fiscal YTD Free Cash Flow, in Millions



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **YTD Fiscal 2020 cash from operations of $169.6M; free cash flow of $153.4M**
  - Free cash 131% of adjusted YTD net income
  - Reflects ongoing traction with working capital initiatives and benefit of slower macro environment

- **Net leverage ratio at 2.5x**
  - Below prior year of 2.8x
  - Net debt down 20% YoY
  - Total debt down nearly $120M since financing FCX acquisition in early calendar 2018
  - In compliance with financial covenants
  - Current liquidity, cost actions, and cash conversion support future debt reduction opportunities, and provide cushion to financial covenants near term

Debt Outstanding and Maturity Schedule, as of 3/31/20

Debt Outstanding ($ in millions)

Debt Facility / Type	Rate Type	Current Rate	Amount Outstanding	*% of Total*	*Available Capacity*
Revolving Credit Facility	Variable	2.6%	$0	-	*$248*[1]
Term Loan	Variable	2.8%	$599	*63.4%*	
AR Securitization Facility	Variable	2.5%	$175	*18.5%*	
Private Notes *(Uncommitted Shelf Facility)*:					
Series C Notes	Fixed	3.2%	$120	*12.7%*	
Series D Notes	Fixed	3.2%	25	*2.6%*	
Series E Notes	Fixed	3.1%	25	*2.6%*	
Total Private Notes		3.2%	$170	*18.0%*	*$100*[2]
Other Debt	Fixed	1.5%	$1	*0.1%*	
Total Debt Outstanding			**$945**		

(1) Net of letters of credit; (2) Uncommitted capacity

- **$945M of debt outstanding**
  - $780M net of $165M of cash on hand
- **~$250M of available capacity under undrawn revolver**
- **$100M of available capacity on uncommitted shelf facility**
- **No material debt maturities until fiscal 2023**

Debt Maturity Schedule

Appendix: Reconciliation of Adjusted Net Income and EPS

(dollar amount in thousands)	Three Months Ended March 31, 2020				
	Pre-tax	**Tax Effect**	**Net of Tax**	**Per Share Impact**	**Tax Rate**
Net loss and net loss per share	**$ (85,327)**	**$ (2,550)**	**$ (82,777)**	**$ (2.14)**	**3.0%**
Goodwill impairment	131,000	12,200	118,800	3.07	9.3%
Non-routine costs	5,997	1,396	4,601	0.12	23.3%
Non-routine tax benefit	-	1,010	(1,010)	(0.03)	N/M
Adjusted net income and net income per share	**$ 51,670**	**$ 12,056**	**$ 39,614**	**$ 1.02**	**23.3%**

(dollar amount in thousands)	Three Months Ended March 31, 2019				
	Pre-tax	**Tax Effect**	**Net of Tax**	**Per Share Impact**	**Tax Rate**
Net income and net income per share	**$ 25,818**	**$ 9,283**	**$ 16,535**	**$ 0.42**	**36.0%**
Canadian intangible impairment	31,594	8,467	23,127	0.60	26.8%
Canadian tax valuation allowance	-	(3,785)	3,785	0.10	N/M
Non-routine costs	2,300	598	1,702	0.04	26.0%
Adjusted net income and net income per share	**$ 59,712**	**$ 14,563**	**$ 45,149**	**$ 1.16**	**24.4%**

Appendix: Reconciliation of Adjusted Gross Margin

(dollar amount in thousands)	Q3 FY19	Q3 FY20
Net Sales	**$ 885,443**	**$ 830,797**
Gross Profit	255,559	236,752
Non-routine costs in cost of sales	700	3,900
Adjusted Gross Profit	$ 256,259	$ 240,652
Adjusted Gross Margin	**28.9%**	**29.0%**

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Appendix: Reconciliation of Adjusted SD&A Expense

(dollar amount in thousands)	Q3 FY19	Q3 FY20
SD&A (Operating Expense)	$ 189,456	$ 183,702
Non-routine costs	1,600	2,097
Adjusted SD&A (Adjusted Operating Expense)	$ 187,856	$ 181,605

Appendix: Reconciliation of EBITDA and Adjusted EBITDA

(dollar amount in thousands)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20
Net Income	$ 36,592	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031	$ (82,777)
Interest expense, net	8,216	10,964	10,476	9,578	9,947	10,187	10,059	9,583	8,805
Income tax expense	12,927	19,859	7,164	11,724	9,283	22,317	12,308	11,346	(2,550)
Depreciation and amortization of property	4,713	5,077	4,981	5,038	5,026	5,191	5,223	5,394	5,380
Amortization of intangibles	9,800	10,739	10,921	10,991	9,911	10,060	10,374	10,195	10,048
EBITDA	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 50,702	$ 87,558	$ 76,763	$ 74,549	$ (61,094)
Goodwill & intangible impairment					31,594				131,000
Non-routine costs					2,300		1,455		5,997
Adjusted EBITDA	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 84,596	$ 87,558	$ 78,218	$ 74,549	$ 75,903

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Appendix: Reconciliation of Adjusted EBITDA Margin

(dollar amount in thousands)	**Q3 FY18**	**Q4 FY18**	**Q1 FY19**	**Q2 FY19**	**Q3 FY19**	**Q4 FY19**	**Q1 FY20**	**Q2 FY20**	**Q3 FY20**
Net Sales	$ 827,665	$ 897,721	$ 864,515	$ 840,038	$ 885,443	$ 882,743	$ 856,404	$ 833,375	$ 830,797
Adjusted EBITDA	72,248	87,001	82,480	76,048	84,596	87,558	78,218	74,549	75,903
Adjusted EBITDA Margin	**8.7%**	**9.7%**	**9.5%**	**9.1%**	**9.6%**	**9.9%**	**9.1%**	**8.9%**	**9.1%**

Appendix: Reconciliation of Free Cash Flow

	Three months ended September 30								
(dollar amount in thousands)	**Q1 FY12**	**Q1 FY13**	**Q1 FY14**	**Q1 FY15**	**Q1 FY16**	**Q1 FY17**	**Q1 FY18**	**Q1 FY19**	**Q1 FY20**
Cash provided by Operating Activities	$ 16,401	$ 23,947	$ 16,956	$ (18,101)	$ 15,090	$ 41,864	$ 9,440	$ 11,797	$ 50,018
Capital Expenditures	(7,142)	(3,892)	(1,571)	(3,100)	(3,112)	(2,999)	(6,336)	(3,173)	(4,946)
Free Cash Flow	$ 9,259	$ 20,055	$ 15,385	$ (21,201)	$ 11,978	$ 38,865	$ 3,104	$ 8,624	$ 45,072

	Three months ended December 31								
(dollar amount in thousands)	**Q2 FY12**	**Q2 FY13**	**Q2 FY14**	**Q2 FY15**	**Q2 FY16**	**Q2 FY17**	**Q2 FY18**	**Q2 FY19**	**Q2 FY20**
Cash provided by Operating Activities	$ 13,815	$ 4,939	$ 15,707	$ 19,274	$ 18,355	$ 3,794	$ 11,744	$ 53,783	$ 54,881
Capital Expenditures	(6,880)	(2,951)	(2,555)	(4,706)	(2,625)	(3,711)	(5,124)	(3,923)	(7,019)
Free Cash Flow	$ 6,935	$ 1,988	$ 13,152	$ 14,568	$ 15,730	$ 83	$ 6,620	$ 49,860	$ 47,862

	Three months ended March 31								
(dollar amount in thousands)	**Q3 FY12**	**Q3 FY13**	**Q3 FY14**	**Q3 FY15**	**Q3 FY16**	**Q3 FY17**	**Q3 FY18**	**Q3 FY19**	**Q3 FY20**
Cash provided by Operating Activities	$ 31,755	$ 40,170	$ 11,663	$ 13,415	$ 56,914	$ 32,848	$ 26,694	$ 11,586	$ 64,725
Capital Expenditures	(4,273)	(2,993)	(2,366)	(3,444)	(3,704)	(5,077)	(6,438)	(4,615)	(4,258)
Free Cash Flow	$ 27,482	$ 37,177	$ 9,297	$ 9,971	$ 53,210	$ 27,771	$ 20,256	$ 6,971	$ 60,467

	Nine months ended March 31								
(dollar amount in thousands)	**Q3 FY12**	**Q3 FY13**	**Q3 FY14**	**Q3 FY15**	**Q3 FY16**	**Q3 FY17**	**Q3 FY18**	**Q3 FY19**	**Q3 FY20**
Cash provided by Operating Activities	$ 61,971	$ 69,056	$ 44,326	$ 14,588	$ 90,359	$ 78,506	$ 47,878	$ 77,166	$ 169,624
Capital Expenditures	(18,295)	(9,836)	(6,492)	(11,250)	(9,441)	(11,787)	(17,898)	(11,711)	(16,223)
Free Cash Flow	$ 43,676	$ 59,220	$ 37,834	$ 3,338	$ 80,918	$ 66,719	$ 29,980	$ 65,455	$ 153,401

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20
Net Income	$ 36,592	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031	$ (82,777)
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EBITDA	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 50,702	$ 87,558	$ 76,763	$ 74,549	$ (61,094)
Goodwill & intangible impairment					31,594				131,000
Non-routine costs					2,300		1,455		5,997
Adjusted EBITDA	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 84,596	$ 87,558	$ 78,218	$ 74,549	$ 75,903
Trailing 4-Quarter EBITDA	249,501	278,066	298,240	317,777	330,125	330,682	326,420	324,921	316,228
Current portion of long-term debt	$ 19,182	$ 19,183	$ 19,184	$ 44,184	$ 44,163	$ 49,036	$ 93,912	$ 73,771	$ 78,642
Long-term debt	1,017,327	944,522	953,216	923,410	937,536	908,850	859,172	874,423	864,758
Total Debt	$ 1,036,509	$ 963,705	$ 972,400	$ 967,594	$ 981,699	$ 957,886	$ 953,084	$ 948,194	$ 943,400
Cash	43,523	54,150	56,408	79,827	47,367	108,219	98,204	128,149	165,464
Net Debt	$ 992,986	$ 909,555	$ 915,992	$ 887,767	$ 934,332	$ 849,667	$ 854,880	$ 820,045	$ 777,936
Net Leverage Ratio	**4.0**	**3.3**	**3.1**	**2.8**	**2.8**	**2.6**	**2.6**	**2.5**	**2.5**

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Appendix: Number of Selling Days by Fiscal Quarter and Full Year

	Q1	Q2	Q3	Q4	Year
2018	63.0	61.0	63.5	64.0	251.5
2019	63.0	62.0	63.0	63.5	251.5
2020	**64.0**	**62.0**	**64.0**	**63.5**	**253.5**

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