We Keep Industry Running

Fiscal Q4 2020 Recap

August 12, 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 Selling Distribution and Administrative (SD&A) Expense; Adjusted Segment Operating Income; 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 SD&A, Adjusted Segment Operating Income, 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

- **Strong execution across Applied®** in response to COVID-19 with operating model functioning well and limited business disruptions.
- **Effective cost control** during Q4 with a 16% YoY organic decline in adj. SD&A expense and mid-teen decremental margins against a high-teen sales decline.
- **Record free cash generation** of $123M (396% of adj. net income) in Q4 and $277M (186% of adj. net income) for the full year FY20.
- **Balance sheet supportive** with $269M of cash on hand at June 30; net debt down 22% YoY and net leverage at 2.3x (down from 2.5x at March 31).
- **Sales trends remain weak in core industrial end markets**, though underlying demand stable to slightly stronger since mid-May.
- **Gross margins largely in line with expectations in Q4;** full year FY20 adj. gross margins unchanged YoY despite unfavorable mix and lower volume.
- **Expect strong break/fix MRO demand as recovery gains momentum**, while industry position and strategic focus provides notable growth and margin potential in coming years.

Recovery and Long-Term Growth Considerations

Our products and solutions should be increasingly critical across the industrial supply chain following the COVID-19 pandemic…

Early-cycle Break/Fix Demand: Elevated customer requirements following an unprecedented period of plant shutdowns, idle equipment, and deferred maintenance.

Customer Outsourcing of Technical Needs: Greater focus on addressing skilled labor constraints that could increase as broader economy reopens.

Industrial Facility Optimization: Greater focus on plant floor optimization/automation and equipment maintenance as supply chain de-risking initiatives gain momentum.

Compliance and Regulatory Requirements: Implementation of more stringent facility and equipment standards driving increased technical MRO needs.

Manufacturing Reshoring: Potential greater customer push to diversify production concentration and shift risk management parameters.

Demand for Next Generation Industrial Solutions: Evolving production strategies and re-prioritizing investments in automation and IIoT as supply chain requirements increase.

Industry Consolidation: Acceleration of market share toward leading distribution platforms given increasing service, operational, and capital requirements.

Fiscal Q4 2020 Key Financial Highlights

- **Sales down 17.9% YoY**
  - Down 18.4% on an organic basis
  - Acquisitions +1.5%, currency -1%, selling days neutral this quarter
- **Net Income of $30.0M and EPS of $0.77**
- **Non-GAAP Adjusted Net Income of $31.1M and Adjusted EPS of $0.80**
  - Excludes $1.5M (pre-tax) of non-routine expense from cost actions and restructuring; $1.0M in Service Center segment and $0.5M in Fluid Power & Flow Control segment
- **Gross margin of 28.7% vs. the prior year of 29.2%**
  - Down 70 bps YoY excluding LIFO expense ($0.8M vs. $3.4M in prior year period)
  - Decline YoY reflects unfavorable mix and the lower volume environment
- **Adjusted SD&A expense 22.0% of sales vs. 21.0% in prior year**
  - Excludes $1.5M of non-routine expense
  - Down 16% YoY on an organic basis
  - Reflects strong cost discipline, resilient operating model, and recent cost actions
- **Adjusted EBITDA of $64.8M**
  - 8.9% of sales, down 98 bps YoY
  - 9.0% of sales, excluding LIFO expense

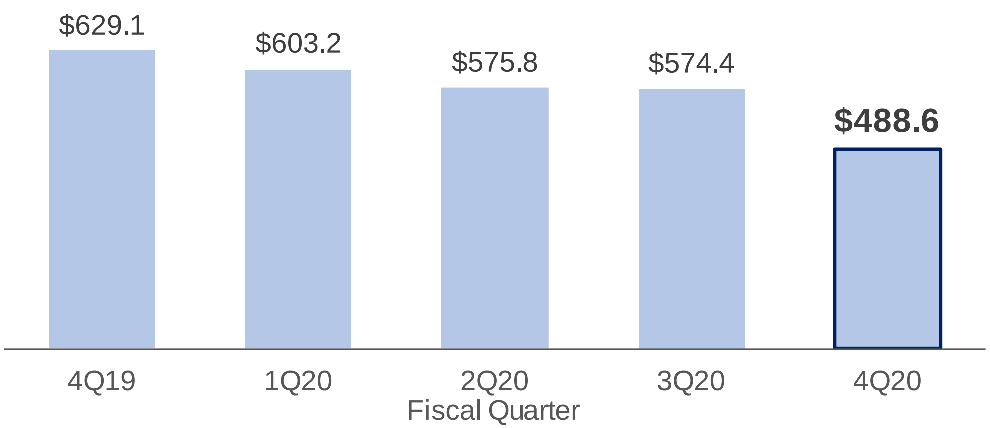
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Applied® Operations	• *Effective response to COVID-19 across organization with limited operational and supply chain disruption to date*	• *All operating facilities open and operational; Applied® continues to play a vital role in supporting essential industries while adhering to health and safety guidelines*
2. Underlying Demand	• *Trends remain weak with customers slow to reopen facilities in core manufacturing end markets; firming slightly in recent months*	• *Organic sales down 18% YoY in F4Q20 and down mid-teens YoY F1Q21 to date; underlying trends stable to slightly stronger since bottoming mid-May*
3. End-Market Trends	• *Weakness concentrated in "heavy" industries reflecting temporary customer facility closures, reduced production, slower project activity*	• *Greatest YoY pressure in metals, mining, oil & gas, transportation, and machinery end markets*
4. Safety & San/Jan Sales	• *Stronger YoY given COVID-19 related demand but a small portion of overall sales and not material to results*	• *Safety & San/Jan product sales were up by a double-digit percentage in FY20 but represented a low-single digit percentage of total sales*
5. Outlook	• *Expect a slow recovery in F1H21 as industrial activity remains subdued against an evolving macro and pandemic backdrop*	• *Assuming demand stable with July and early August levels, expect a F1Q21 organic sales decline of 17% to 18% YoY, and high-teen decremental margins*
6. Operational Actions	• *Extending cost actions into F1Q21 given ongoing sales weakness and macro uncertainty in recent months*	• *70%-75% temporary and include travel restrictions, wage reductions, furloughs, staff alignments, 401(k) match suspension*
7. Liquidity	• *Record cash generation in F4Q20 provides support and flexibility into FY21*	• *$269M cash on hand,~$250M undrawn revolver (additional $250M accordion), available $100M on uncommitted shelf agreement as of June 30, 2020*
8. Capital Deployment	• *Reiterate prudent approach near term given macro uncertainty; M&A remains a focus over intermediate to long term*	• *Paid down $40M private placement note in July; M&A pipeline remains focused on fluid power, flow control, and automation opportunities*

Segment Results – Service Center Based Distribution

<u>Segment Overview</u>: *Representing 69% of fiscal 2020 sales - the segment includes our legacy distribution operations including ~420 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

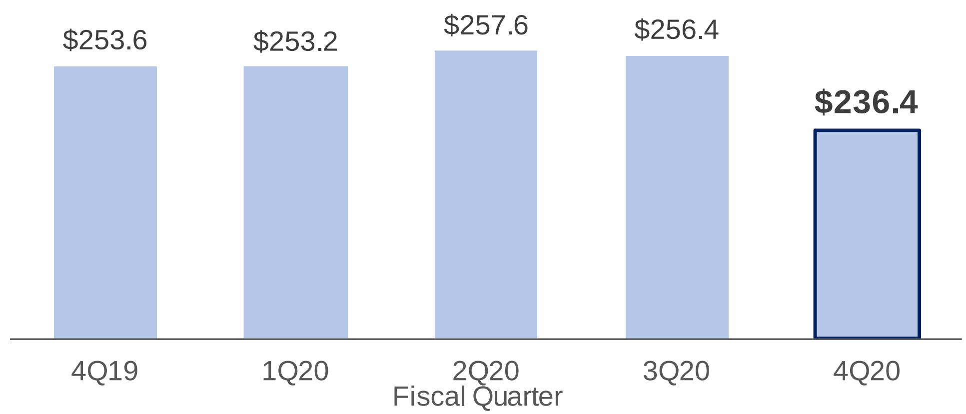


- **Sales down 22.3% YoY in F4Q20**
  - Organic - 21.1%
  - Currency - 1.2%
- **Decline reflects weaker industrial end-market demand from the impact of COVID-19, including temporary customer facility closures, idle production, and deferred maintenance activity**
- **Weakness most notable in metals, mining, oil & gas, machinery, and transportation end markets; more pronounced across local accounts**
- **Adjusted segment operating income of $45.4M in F4Q20**
  - Excludes $1.0M of non-routine expense

Segment Results – Fluid Power & Flow Control

Segment Overview: *Representing 31% of fiscal 2020 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 down 6.8% YoY in F4Q20**
  - Organic - 11.8%
  - Acquisitions + 5.0%

- **Decline reflects weaker demand across Fluid Power industrial and off-highway mobile applications, slower Flow Control end markets, and reduced project activity; partially offset by growth within technology end markets**

- **Adjusted segment operating income of $27.6M in F4Q20**
  - Excludes $0.5M of non-routine expense

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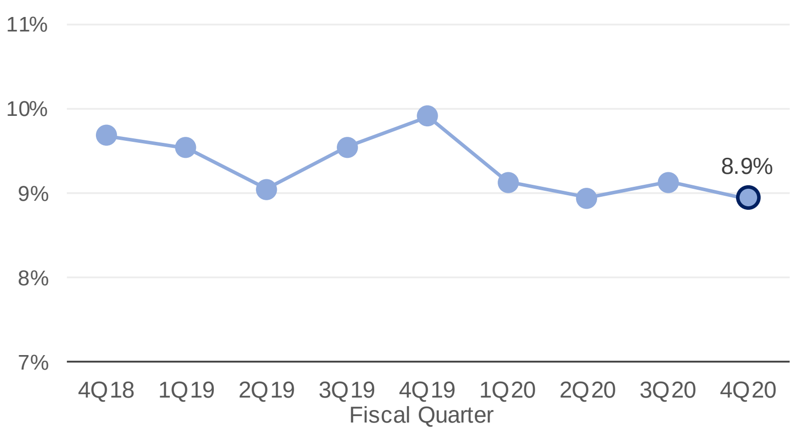
Adjusted Margin and Expense Highlights

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

$ in millions	Q4 20 (1)	Q4 19	Chg YoY	Excluding LIFO % Chg YoY
Gross Profit	**$208.3**	$257.4	(19.1%)	(19.8%)
Gross Margin	**28.7%**	29.2%	(43) bps	(70) bps
SD&A Expense	**$159.7**	$185.4	(13.8%)	
% of Sales	**22.0%**	21.0%	(103) bps	
EBITDA	**$64.8**	$87.6	(26.0%)	(27.9%)
EBITDA Margin	**8.9%**	9.9%	(98) bps	(126) bps
Memo:				
LIFO Expense	**$0.8**	$3.4		

Adjusted EBITDA Margin



(1) Excludes $1.5M of non-routine costs

- **Gross margin down 43 bps YoY**
  - Excluding LIFO expense, down 70 bps YoY
  - Decline reflects unfavorable mix tied to softer local service center sales, project business in Canada, and the weaker volume environment
  - Partially offset by ongoing margin initiatives, stable price/cost dynamics, and favorable Fluid Power & Flow Control segment margin performance
- **Adj. SD&A down 13.8% YoY**
  - Down 16% YoY on an organic basis
  - Strong execution on cost actions; remaining diligent with cost focus in current environment
  - Decremental margins of 15% on adj. operating income
- **Adj. EBITDA margin down 98 bps YoY**

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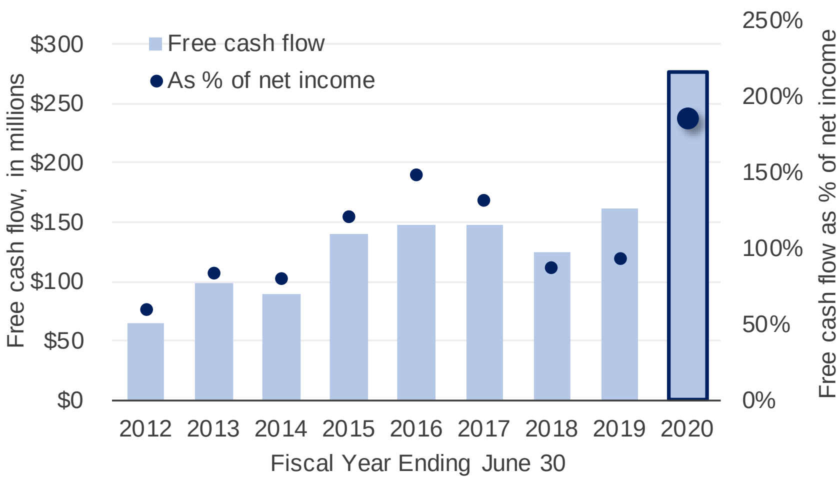
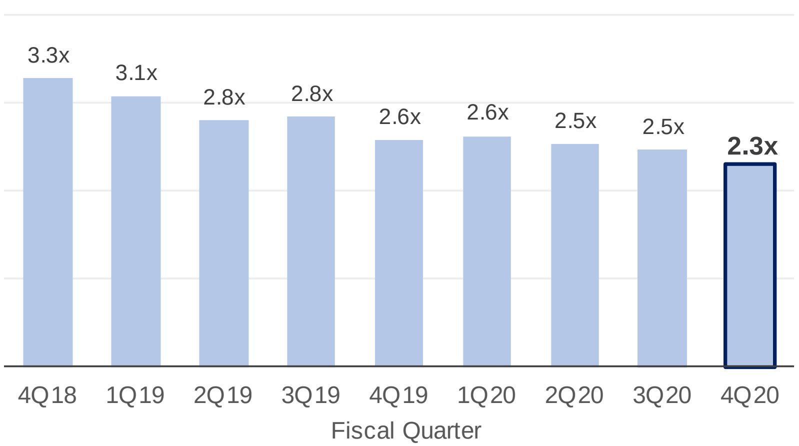
Cash Flow and Balance Sheet Leverage

Free Cash Flow (in Millions)



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **Fiscal 2020 cash from operations of $296.7M; free cash flow of $276.6M**
  - FY20 free cash 186% of adjusted net income
  - Includes $123.2M of free cash in Q4
  - Reflects ongoing traction with working capital initiatives and benefit of slower macro environment
  - **No benefit in FY20 from cash tax deferrals related to the CARES Act**

- **Net leverage ratio at 2.3x**
  - Below prior year of 2.6x and Q3 of 2.5x
  - Net debt down 22% YoY
  - In compliance with financial covenants
  - Current liquidity and cost actions provide flexibility entering FY21
  - Paid down $40M private placement note in July; driving reduction in future cash interest expense
  - Total debt down $170M since early 2018

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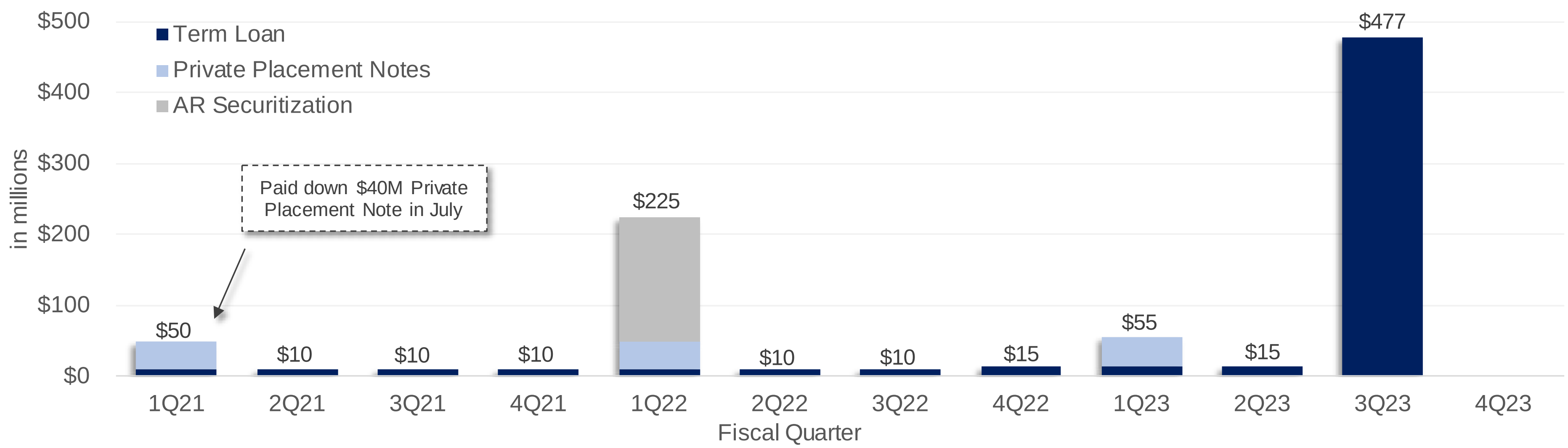
Debt Outstanding and Maturity Schedule, as of 6/30/20

- **$935M of debt outstanding**
  - ~$665M net of $269M of cash on hand
  - Paid down $40 million private placement note in July with excess cash
- **~$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: Number of Selling Days by Fiscal Quarter and Full Year

	Q1	Q2	Q3	Q4	Year
2019	63.0	62.0	63.0	63.5	251.5
2020	64.0	62.0	64.0	63.5	253.5
2021	**64.0**	**62.0**	**63.0**	**63.5**	**252.5**

Appendix: Net Sales and Operating Income by Segment

(dollar amount in thousands)	Three Months Ended June 30 Q4 FY19	 Q4 FY20
Service Center Based Distribution Segment:		
Net sales	$ 629,120	$ 488,633
Operating income	$ 69,065	$ 44,388
Non-routine costs	-	1,040
Adjusted segment operating income	**$ 69,065**	**$ 45,428**
Fluid Power & Flow Control Segment:		
Net sales	$ 253,623	$ 236,443
Operating income	$ 26,157	$ 27,092
Non-routine costs	-	500
Adjusted segment operating income	**$ 26,157**	**$ 27,592**
Corporate and other expense, net [1]	**$ 23,247**	**$ 24,452**

(1) Includes intangible amortization expense

Appendix: Reconciliation of Adjusted Net Income and EPS

	Three Months Ended June 30, 2020				
(dollar amount in thousands)	**Pre-tax**	**Tax Effect**	**Net of Tax**	**Per Share Impact**	**Tax Rate**
Net income and net income per share	**$ 40,079**	**$ 10,090**	**$ 29,989**	**$ 0.77**	**25.2%**
Non-routine costs	1,540	388	1,152	0.03	25.2%
Adjusted net income and net income per share	**$ 41,619**	**$ 10,478**	**$ 31,141**	**$ 0.80**	**25.2%**

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Appendix: Reconciliation of Adjusted SD&A Expense

	Three Months Ended June 30	
(dollar amount in thousands)	**Q4 FY19**	**Q4 FY20**
SD&A (Operating Expense)	$ 185,376	$ 161,262
Non-routine costs	-	1,540
Adjusted SD&A (Adjusted Operating Expense)	$ 185,376	$ 159,722

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Appendix: Reconciliation of EBITDA and Adjusted EBITDA

(dollar amount in thousands)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Net Income	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031	$ (82,777)	$ 29,989
Interest expense, net	10,964	10,476	9,578	9,947	10,187	10,059	9,583	8,805	8,088
Income tax expense	19,859	7,164	11,724	9,283	22,317	12,308	11,346	(2,550)	10,090
Depreciation and amortization of property	5,077	4,981	5,038	5,026	5,191	5,223	5,394	5,380	5,199
Amortization of intangibles	10,739	10,921	10,991	9,911	10,060	10,374	10,195	10,048	9,882
EBITDA	**$ 87,001**	**$ 82,480**	**$ 76,048**	**$ 50,702**	**$ 87,558**	**$ 76,763**	**$ 74,549**	**$ (61,094)**	**$ 63,248**
Goodwill & intangible impairment				31,594				131,000	
Non-routine costs				2,300		1,455		5,997	1,540
Adjusted EBITDA	**$ 87,001**	**$ 82,480**	**$ 76,048**	**$ 84,596**	**$ 87,558**	**$ 78,218**	**$ 74,549**	**$ 75,903**	**$ 64,788**

Appendix: Reconciliation of Adjusted EBITDA Margin

(dollar amount in thousands)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Net Sales	**$ 897,721**	**$ 864,515**	**$ 840,038**	**$ 885,443**	**$ 882,743**	**$ 856,404**	**$ 833,375**	**$ 830,797**	**$ 725,076**
Adjusted EBITDA	87,001	82,480	76,048	84,596	87,558	78,218	74,549	75,903	64,788
Adjusted EBITDA Margin	**9.7%**	**9.5%**	**9.1%**	**9.6%**	**9.9%**	**9.1%**	**8.9%**	**9.1%**	**8.9%**

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Appendix: Reconciliation of Free Cash Flow

	Three Months Ended June 30								
(dollar amount in thousands)	**Q4 FY12**	**Q4 FY13**	**Q4 FY14**	**Q4 FY15**	**Q4 FY16**	**Q4 FY17**	**Q4 FY18**	**Q4 FY19**	**Q4 FY20**
Cash provided by Operating Activities	$ 28,451	$ 42,341	$ 65,784	$ 117,695	$ 70,718	$ 86,113	$ 99,426	$ 103,435	$ 127,090
Capital Expenditures	(7,726)	(2,378)	(13,698)	(3,924)	(3,689)	(5,258)	(5,332)	(7,259)	(3,892)
Free Cash Flow	$ 20,725	$ 39,963	$ 52,086	$ 113,771	$ 67,029	$ 80,855	$ 94,094	$ 96,176	$ 123,198

	Year Ended June 30								
(dollar amount in thousands)	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Cash provided by Operating Activities	$ 90,422	$ 111,397	$ 110,110	$ 157,007	$ 162,014	$ 164,619	$ 147,304	$ 180,601	$ 296,714
Capital Expenditures	(26,021)	(12,214)	(20,190)	(14,933)	(13,130)	(17,045)	(23,230)	(18,970)	(20,115)
Free Cash Flow	$ 64,401	$ 99,183	$ 89,920	$ 142,074	$ 148,884	$ 147,574	$ 124,074	$ 161,631	$ 276,599

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Net Income	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031	$ (82,777)	$ 29,989
Interest expense, net	10,964	10,476	9,578	9,947	10,187	10,059	9,583	8,805	8,088
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Non-routine costs				2,300		1,455		5,997	1,540
Adjusted EBITDA	$ 87,001	$ 82,480	$ 76,048	$ 84,596	$ 87,558	$ 78,218	$ 74,549	$ 75,903	$ 64,788
Trailing 4-Quarter EBITDA	278,066	298,240	317,777	330,125	330,682	326,420	324,921	316,228	293,458
Current portion of long-term debt	$ 19,183	$ 19,184	$ 44,184	$ 44,163	$ 49,036	$ 93,912	$ 73,771	$ 78,642	$ 78,646
Long-term debt	944,522	953,216	923,410	937,536	908,850	859,172	874,423	864,758	855,143
Total Debt	$ 963,705	$ 972,400	$ 967,594	$ 981,699	$ 957,886	$ 953,084	$ 948,194	$ 943,400	$ 933,789
Cash	54,150	56,408	79,827	47,367	108,219	98,204	128,149	165,464	268,551
Net Debt	$ 909,555	$ 915,992	$ 887,767	$ 934,332	$ 849,667	$ 854,880	$ 820,045	$ 777,936	$ 665,238
Net Leverage Ratio	**3.3**	**3.1**	**2.8**	**2.8**	**2.6**	**2.6**	**2.5**	**2.5**	**2.3**

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