Applied Industrial Technologies®

*We Keep Industry Running*

# Fiscal Q4 2021 Recap

**August 17, 2021**

# 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 “believe,” “expect,” “outlook,” “project” “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 including 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 Selling, Distribution and Administrative (SD&A) Expense; 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

- **F4Q21 results exceeded expectations** with strong execution, sustained demand improvement, and benefits from internal initiatives driving record quarterly earnings.
- **Underlying demand momentum remains positive** with F4Q21 organic daily sales rates up 6% sequentially vs. F3Q21 and continued strength in orders F1Q22 to-date.
- **Fluid power backlog at record highs** and later-cycle specialty flow control demand increasing; Fluid Power & Flow Control segment organic sales "2-YEAR YoY STACK" up 8% in F4Q21.
- **Ongoing traction across automation offering** with strong organic sales growth in F4Q21 and an active M&A pipeline into early FY22.
- **Gross margins expanded YoY in F4Q21,** partially reflecting strong channel execution, pricing actions, and improving demand conditions.
- **Benefits from a leaner cost structure and productivity gains** driving favorable operating leverage and sustained EBITDA margin expansion as the demand environment improves.
- **Balance sheet in solid position to support growth initiatives** following strong FY21 cash generation (free cash of $226M or 121% of adjusted net income); potential for additional value-creating M&A.

# Fiscal Q4 2021 Key Financial Highlights

- **Sales up 23.6% YoY**
  - Up 19.8% on an organic basis
  - Acquisitions +2.1%, currency +1.7%, selling days neutral this quarter

- **Net Income of $59.2M; EPS of $1.51 up 89% vs. prior year adjusted EPS of $0.80**
  - Includes a net $3.7M pre-tax ($0.07/sh) LIFO benefit vs. $0.8M pre-tax ($0.02/sh) of LIFO expense in F4Q20
  - The LIFO benefit in F4Q21 relates to year-end LIFO adjustments for inventory layer liquidations
  - F4Q21 includes discrete tax benefits related to stock option exercises

- **Gross margin 29.4%, up 63 bps vs. prior year**
  - Includes a favorable 52 bps YoY impact due to LIFO

- **SD&A expense 20.3% of sales vs. prior year adjusted SD&A expense of 22.0%**
  - Up 9% YoY on an organic, constant currency basis

- **EBITDA of $94.8M, up 46.4% vs. prior year adjusted EBITDA of $64.8M**
  - Includes a net $4.5M (~7%) favorable YoY impact due to LIFO
  - 10.6% EBITDA margin up 165 bps YoY including a favorable 52 bps YoY impact due to LIFO

- **Operating cash flow of $38.3M; free cash flow of $34.6M**
  - Full-year FY21 operating cash flow of $241.7M; free cash flow of $225.8M (121.1% of adjusted net income)

*Note: YoY comparisons exclude $1.5M pre-tax ($0.03 per share) of non-routine expense recorded in prior-year period (F4Q20)*

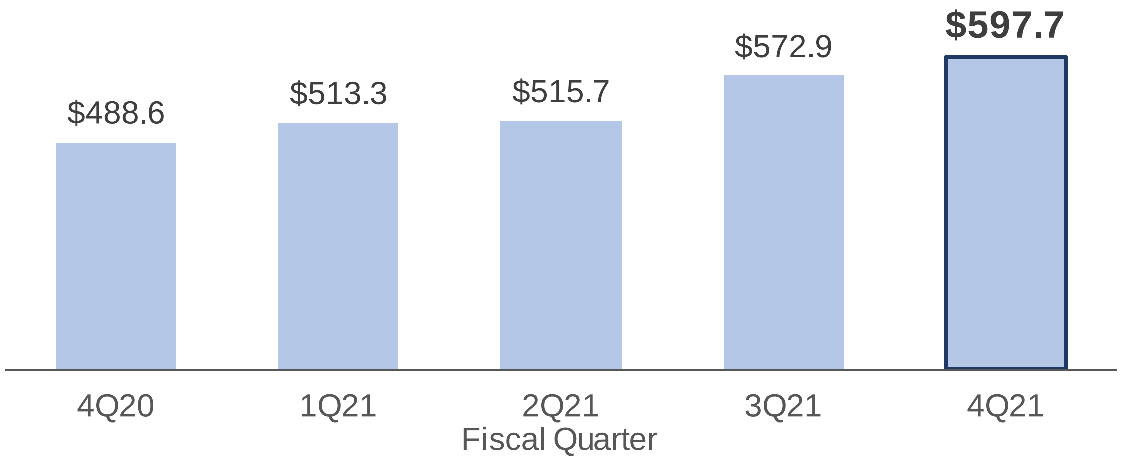
# Current Investor Discussion Points

| Discussion Point | Update | Detail |
|---|---|---|
| **1. Underlying Demand** | • *Positive momentum sustaining across both segments; bookings strengthened in F4Q21 and remain firm in early F1Q22; capital projects getting released; fluid power backlog at record highs* | • *F4Q21 organic daily sales +19.8% YoY vs. +0.4% in F3Q21, and +6% sequentially vs. a 4Q/3Q average of flat sequentially during the FY15-FY19 period* |
| **2. End-Market Trends** | • *Demand improvement remains broad-based with heavy industries continuing to gain greater momentum* | • *27 of top 30 industry verticals up YoY in F4Q21; strongest YoY trends across lumber & wood, food & beverage, aggregates, technology, chemicals, transportation, and mining* |
| **3. Inflation & Pricing** | • *Pricing actions and channel execution balancing supplier product inflation; expect additional pricing opportunities in FY22* | • *Price / cost dynamic neutral YoY during F4Q21; price contributed 80-100 bps to YoY sales growth in F4Q21; expect similar to slightly higher level of price contribution in F1H22* |
| **4. Supply Chain** | • *Suppliers continue to face supply chain constraints though magnitude not materially different vs. F3Q21; impact to Applied remains modest to date* | • *Position across core verticals, supplier strategy, and localized scale provide supply chain support and share gain opportunities through an upcycle* |
| **5. FY22 Outlook** | • *Optimistic on industrial backdrop and demand sustainability based on breadth of demand drivers and industry position; partially balanced by lingering macro / pandemic-related uncertainty* | • *Sales F1Q22 to-date up by a high-teens percent YoY; FY22 guidance assumes 7% to 9% organic sales growth for the full year* |
| **6. Incremental Margins** | • *Leaner cost structure and productivity gains remain positive factors; partially balanced in FY22 by LIFO expense, lapping of prior-year temporary cost actions, normalizing medical / personnel expense* | • *F4Q21 incremental margins of 19% including a positive 300 bps impact from YoY LIFO favorability; reiterate incremental margin target of mid to high-teens on average over an upcycle* |
| **7. Capital Deployment** | • *Balance sheet and liquidity in solid position to support growth initiatives and shareholder returns; M&A remains primary focus with active pipeline across Automation, Flow Control, and Fluid Power* | • *Deployed ~$230M in FY21 toward M&A, debt paydown, dividends, and share buybacks; includes a net $24M of debt paydown and $40M of share buybacks in F4Q21* |
| **8. Automation Expansion** | • *Solid organic growth across automation platform during F4Q21 with continued expansion expected in FY22 focused on next generation robotics, vision, motion, and digital solutions* | • *Automation organic sales up over 30% YoY in F4Q21; M&A pipeline remains active into early FY22* |

# Segment Results – Service Center Based Distribution

Segment Overview: *Representing 68% of fiscal 2021 sales - the segment includes our legacy distribution operations including ~400 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 repairs of customers' machinery, equipment, and facilities*

*Service Center Distribution Sales, in Millions*

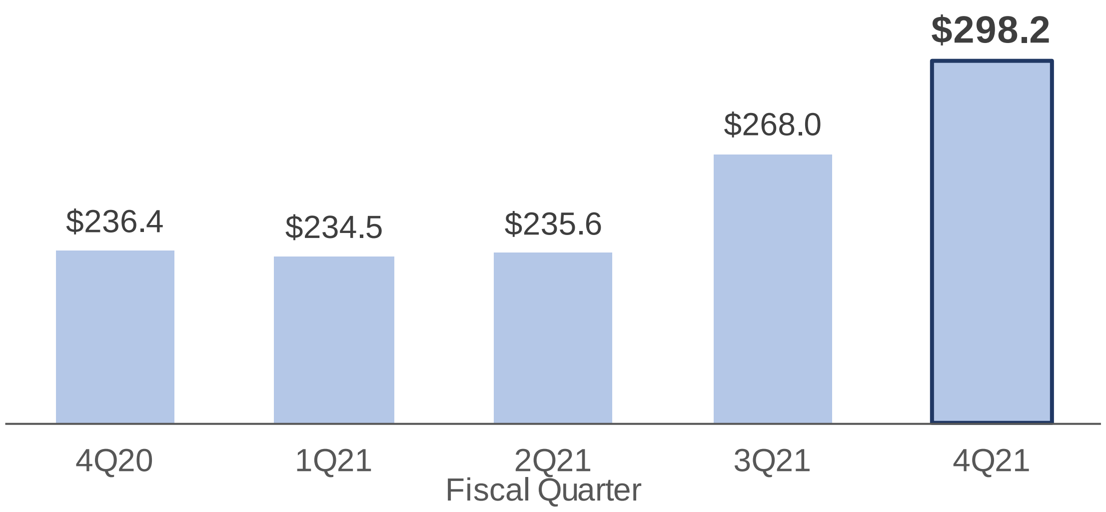



- **Sales up 22.3% YoY in F4Q21**
  - Organic + 19.8%
  - Currency + 2.5%
- Segment benefiting from ongoing end-market recovery, sales process initiatives, and easy prior-year comparisons as pandemic-related headwinds are lapped
- Segment daily sales up 3.5% vs. F3Q21 and seasonally strong; 2-YEAR YoY STACK strongest across lumber & wood, food & beverage, chemicals, pulp & paper, aggregates, and mining
- Customer booking activity sustained positive momentum as quarter progressed; seeing greater release of larger maintenance spending
- Segment operating income of $67.1M in F4Q21

# Segment Results – Fluid Power & Flow Control

<u>Segment Overview</u>: *Representing 32% of fiscal 2021 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.*

*Fluid Power & Flow Control Sales, in Millions*



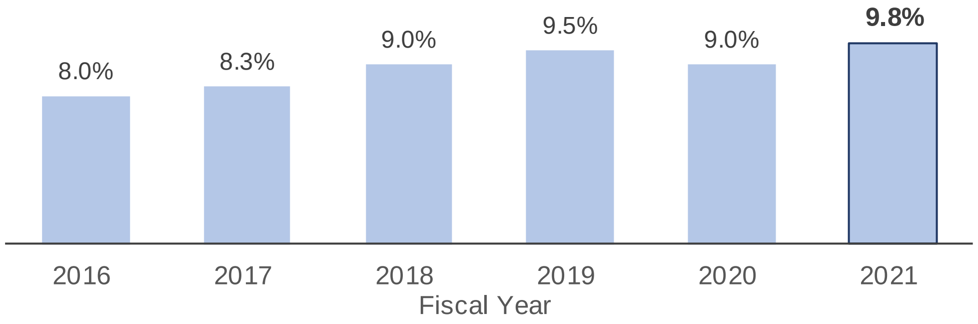

- **Sales up 26.1% YoY in F4Q21**
  - Organic + 19.7%
  - Acquisitions + 6.4%
- Segment benefiting from strong demand within technology end market, as well as ongoing recovery across off-highway mobile, life sciences, chemical, and industrial industries
- Backlog at record levels with orders tied to equipment optimization, automation, and technology demand; project activity picking up, partially balanced by extended supplier lead times
- Segment operating income of $38.4M in F4Q21

# Margin and Expense Highlights

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

| *$ in millions* | **Q4 21** | **Q4 20[1]** | **Chg YoY** | ***LIFO Impact YoY*** |
|---|---|---|---|---|
| Gross Profit | **$263.0** | $208.3 | 26.3% | *2.2%* |
| Gross Margin | **29.4%** | 28.7% | 63 bps | *52 bps* |
| SD&A Expense | **$181.9** | $159.7 | 13.9% | |
| % of Sales | **20.3%** | 22.0% | 173 bps | |
| EBITDA | **$94.8** | $64.8 | 46.4% | *7.4%* |
| EBITDA Margin | **10.6%** | 8.9% | 165 bps | *52 bps* |
| **Memo:** | | | | |
| LIFO (Income) Expense | **($3.7)** | $0.8 | | |

*Adjusted EBITDA Margin*




- **Gross margin up 63 bps YoY**
  - Includes a favorable 52 bps YoY impact due to LIFO
  - YoY expansion excluding LIFO impact reflects recent price actions, strong channel execution, and ongoing margin initiatives
  - Price / cost dynamics neutral to gross margin on YoY basis
- **Adjusted SD&A expense up 13.9% YoY**
  - Up 9% YoY on an organic, constant currency basis
  - 20.3% of sales; the lowest 4Q level in 10 years
  - Reflects strong expense control, operational discipline, efficiency gains, and improved demand environment
- **Adjusted EBITDA margin of 10.6% up 165 bps YoY**
  - Includes a favorable 52 bps YoY impact due to LIFO

*Note: (1) F4Q20 excludes $1.5M of non-routine expense in SD&A*

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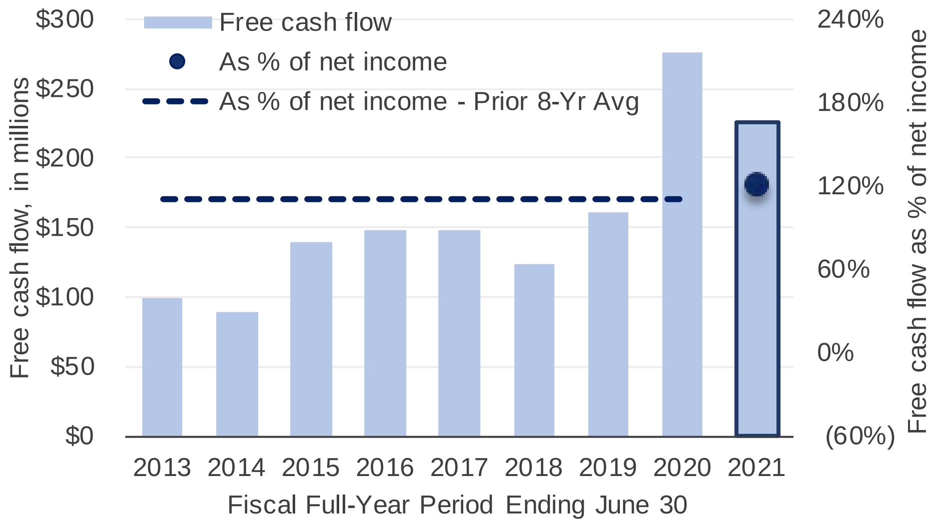
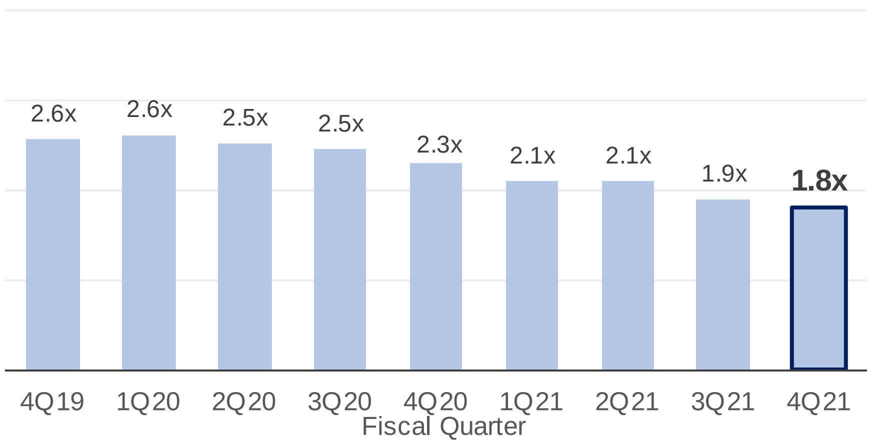
# Cash Flow and Balance Sheet

*Free Cash Flow (in Millions) - Fiscal Year Period*




*Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)*




- **F4Q21 cash from operations of $38.3M; free cash of $34.6M**
  - Full-year FY21 cash from operations of $242M; free cash of $226M
  - Full-year FY21 free cash at 121% of adjusted net income
  - Ongoing traction with working capital initiatives balancing growth investment
  - Expect greater working capital requirements in FY22, consistent with counter-cyclical cash flow profile
- **Net leverage ratio at 1.8x as of June 30, 2021**
  - Below prior-year level of 2.3x and F3Q21 of 1.9x
  - Paid down a $106M of debt during FY21 including $24M in F4Q21
  - Net debt down 14% YoY and over 30% since the end of FY19
  - Total debt down over $230M since early 2018
- **Strong liquidity to support growth** *(figures below as of 6/30/21)*
  - $258M of cash on hand
  - ~$250M of available capacity under undrawn revolver
  - $180M of available capacity on uncommitted shelf facility
  - $62M of available capacity under AR securitization facility

# Fiscal 2022 Guidance and Outlook Assumptions

| | Fiscal 2022 Guidance | | |
|---|---|---|---|
| **Total Revenue - YoY % change** | **8%** | **-** | **10%** |
| Organic - YoY % change | 7% | - | 9% |
| | | | |
| **EBITDA Margin** | **9.7%** | **-** | **9.9%** |
| YoY bps change | (10) | - | 10 |
| *Projected YoY bps impact from higher LIFO expense* | *(30)* | *-* | *(20)* |
| | | | |
| **Diluted EPS** | **$5.00** | **-** | **$5.40** |
| YoY % change | 5% | - | 14% |
| *Projected YoY % impact from higher LIFO expense* | *(5%)* | *-* | *(4%)* |
| | | | |
| **Additional Assumptions:** | | | |
| Depreciation & amortization expense | $51 | - | $52 |
| Interest & other expense | $31 | - | $32 |
| Effective tax rate | 22% | - | 23% |

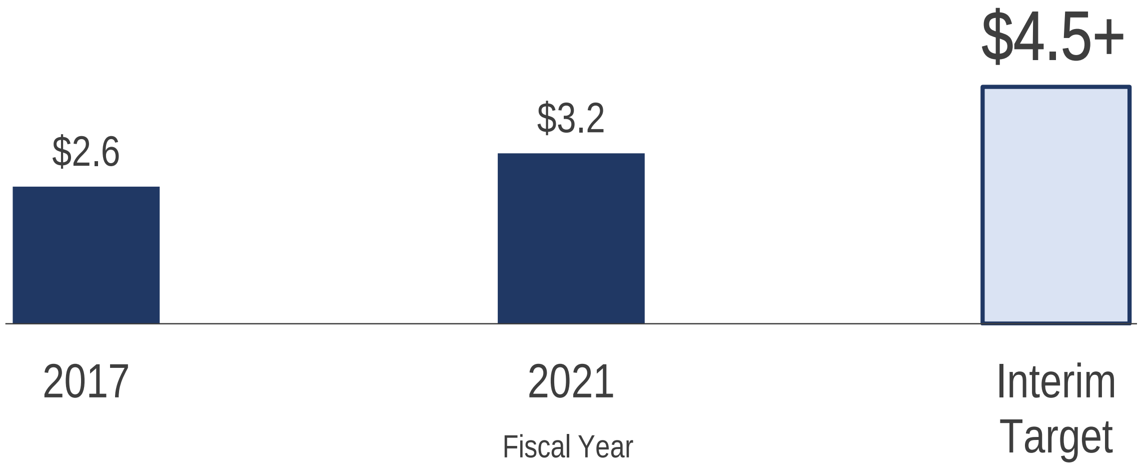
## Fiscal 2022 Guidance Assumptions:

- Sustained positive industrial demand and pricing environment
- Benefits from internal growth initiatives and market opportunities
- Consideration around ongoing supply chain, labor, and inflation headwinds, as well as lingering pandemic-related uncertainty
- Mid-teen YoY organic daily sales growth in F1Q22
- Incremental margins in the low double-digit range
  - Inclusive of higher LIFO expense YoY
  - Lapping of prior-year temporary cost actions
  - Annual merit pay increase January 1
  - Normalizing medical and personnel expense
- Guidance excludes potential incremental M&A contribution

*Note: $ amount in millions except EPS*

# Interim Financial Objectives

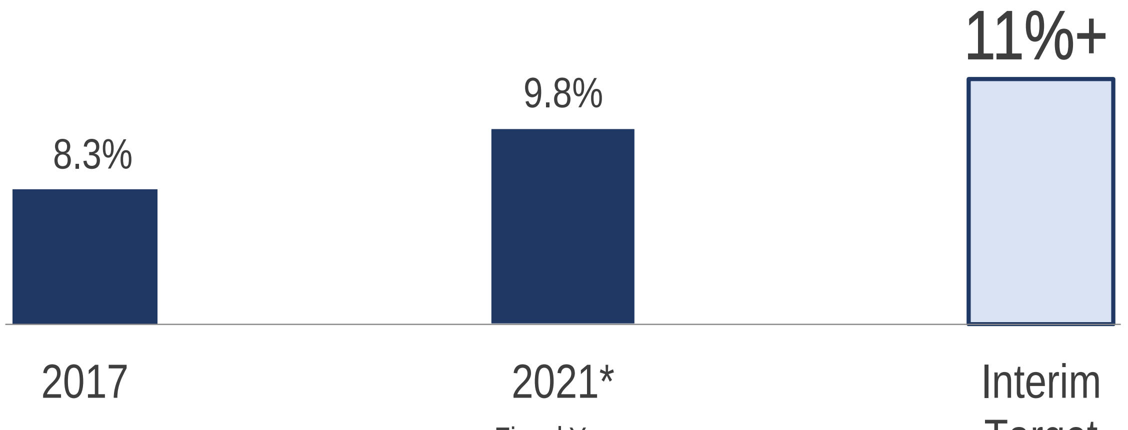
## *Net Sales – Grow to Over $4.5 Billion*




## Strategic Drivers & Considerations

- Mid Single-Digit Organic Growth on Average Over Upcycle
- Greater Cross-Selling Across Legacy Customer Network
- Secular Tailwinds From Leading Technical Industry Position
- Ongoing Expansion of Automation, IIoT, and Digital Offerings
- ~300 Bps of Growth From Accretive Acquisitions Per Year
  - *Primary Focus on Automation, Flow Control, and Fluid Power*
- High Single-Digit Sales CAGR Over Horizon

## *EBITDA Margins – Expand to Over 11%*




** FY21 adjusted EBITDA Margin*

## Strategic Drivers & Considerations

- Mid to High-Teen Incremental Margins on Average Over Upcycle
- Leveraging of Systems Investments and Shared Services
- Ongoing Operational Excellence Initiatives
- History and Culture of Cost Discipline and Accountability
- Expansion of Higher Margin Products & Solutions
  - *Fluid Power, Flow Control, Automation, Consumables*

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

| Fiscal Period | 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 |
| **2022** | **64.0** | **61.0** | **64.0** | **63.5** | **252.5** |

# Appendix: Net Sales and Operating Income by Segment

| *(dollar amount in thousands)* | Three Months Ended June 30 Q4 FY20 | Q4 FY21 |
|---|---|---|
| ***Service Center Based Distribution Segment:*** | | |
| Net sales | $ 488,633 | $ 597,667 |
| Operating income | $ 44,388 | $ 67,098 |
| Non-routine costs | 1,040 | - |
| **Adjusted segment operating income** | **$ 45,428** | **$ 67,098** |
| ***Fluid Power & Flow Control Segment:*** | | |
| Net sales | $ 236,443 | $ 298,221 |
| Operating income | $ 27,092 | $ 38,445 |
| Non-routine costs | 500 | - |
| **Adjusted segment operating income** | **$ 27,592** | **$ 38,445** |
| **Corporate and other expense, net [1]** | **$ 24,452** | **$ 24,442** |

*Note: (1) Includes intangible amortization expense*

# Appendix: Reconciliation of Adjusted SD&A Expense

| *(dollar amount in thousands)* | Three Months Ended Q4 FY20 | Three Months Ended Q4 FY21 |
|---|---|---|
| **SD&A (Operating Expense)** | $ 161,262 | $ 181,883 |
| Non-routine costs | 1,540 | |
| **Adjusted SD&A (Adjusted Operating Expense)** | $ 159,722 | $ 181,883 |

# Appendix: Reconciliation of EBITDA and Adjusted EBITDA

| *(dollar amount in thousands)* | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 | Q2 FY21 | Q3 FY21 | Q4 FY21 |
|---|---|---|---|---|---|---|---|---|---|
| Net Income | $ 39,803 | $ 38,799 | $ 38,031 | $ (82,777) | $ 29,989 | $ 34,784 | $ (5,334) | $ 56,063 | $ 59,244 |
| Interest expense, net | 10,187 | 10,059 | 9,583 | 8,805 | 8,088 | 7,653 | 7,658 | 7,608 | 7,673 |
| Income tax expense | 22,317 | 12,308 | 11,346 | (2,550) | 10,090 | 10,048 | (4,834) | 12,453 | 14,638 |
| Depreciation and amortization of property | 5,191 | 5,223 | 5,394 | 5,380 | 5,199 | 5,352 | 5,209 | 5,080 | 5,139 |
| Amortization of intangibles | 10,060 | 10,374 | 10,195 | 10,048 | 9,882 | 9,726 | 8,276 | 8,236 | 8,127 |
| **EBITDA** | **$ 87,558** | **$ 76,763** | **$ 74,549** | **$ (61,094)** | **$ 63,248** | **$ 67,563** | **$ 10,975** | **$ 89,440** | **$ 94,821** |
| Goodwill & intangible impairment | | | | 131,000 | | | 49,528 | | |
| Non-routine costs (income) | | 1,455 | | 5,997 | 1,540 | | 7,772 | (2,609) | |
| **Adjusted EBITDA** | **$ 87,558** | **$ 78,218** | **$ 74,549** | **$ 75,903** | **$ 64,788** | **$ 67,563** | **$ 68,275** | **$ 86,831** | **$ 94,821** |

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# Appendix: Reconciliation of Adjusted EBITDA Margin

| *(dollar amount in thousands)* | **Q4 FY19** | **Q1 FY20** | **Q2 FY20** | **Q3 FY20** | **Q4 FY20** | **Q1 FY21** | **Q2 FY21** | **Q3 FY21** | **Q4 FY21** |
|---|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **$ 882,743** | **$ 856,404** | **$ 833,375** | **$ 830,797** | **$ 725,076** | **$ 747,807** | **$ 751,287** | **$ 840,937** | **$ 895,888** |
| Adjusted EBITDA | 87,558 | 78,218 | 74,549 | 75,903 | 64,788 | 67,563 | 68,275 | 86,831 | 94,821 |
| **Adjusted EBITDA Margin** | **9.9%** | **9.1%** | **8.9%** | **9.1%** | **8.9%** | **9.0%** | **9.1%** | **10.3%** | **10.6%** |

# Appendix: Reconciliation of Free Cash Flow

| | Three Months Ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **Q4 FY14** | **Q4 FY15** | **Q4 FY16** | **Q4 FY17** | **Q4 FY18** | **Q4 FY19** | **Q4 FY20** | **Q4 FY21** |
| Cash provided by Operating Activities | $ 65,784 | $ 117,695 | $ 70,718 | $ 86,113 | $ 99,426 | $ 103,435 | $ 127,090 | $ 38,288 |
| Capital Expenditures | (13,698) | (3,924) | (3,689) | (5,258) | (5,332) | (7,259) | (3,892) | (3,675) |
| **Free Cash Flow** | $ 52,086 | $ 113,771 | $ 67,029 | $ 80,855 | $ 94,094 | $ 96,176 | $ 123,198 | $ 34,613 |

| | Year Ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **FY14** | **FY15** | **FY16** | **FY17** | **FY18** | **FY19** | **FY20** | **FY21** |
| Cash provided by Operating Activities | $ 110,110 | $ 157,007 | $ 162,014 | $ 164,619 | $ 147,304 | $ 180,601 | $ 296,714 | $ 241,697 |
| Capital Expenditures | (20,190) | (14,933) | (13,130) | (17,045) | (23,230) | (18,970) | (20,115) | (15,852) |
| **Free Cash Flow** | $ 89,920 | $ 142,074 | $ 148,884 | $ 147,574 | $ 124,074 | $ 161,631 | $ 276,599 | $ 225,845 |

# Appendix: Reconciliation of Net Leverage Ratio

| *(dollar amount in thousands)* | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 | Q2 FY21 | Q3 FY21 | Q4 FY21 |
|---|---|---|---|---|---|---|---|---|---|
| **Net Income** | $ 39,803 | $ 38,799 | $ 38,031 | $ (82,777) | $ 29,989 | $ 34,784 | $ (5,334) | $ 56,063 | $ 59,244 |
| Interest expense, net | 10,187 | 10,059 | 9,583 | 8,805 | 8,088 | 7,653 | 7,658 | 7,608 | 7,673 |
| Income tax expense | 22,317 | 12,308 | 11,346 | (2,550) | 10,090 | 10,048 | (4,834) | 12,453 | 14,638 |
| Depreciation and amortization | 5,191 | 5,223 | 5,394 | 5,380 | 5,199 | 5,352 | 5,209 | 5,080 | 5,139 |
| Amortization of intangibles | 10,060 | 10,374 | 10,195 | 10,048 | 9,882 | 9,726 | 8,276 | 8,236 | 8,127 |
| **EBITDA** | $ 87,558 | $ 76,763 | $ 74,549 | $ (61,094) | $ 63,248 | $ 67,563 | $ 10,975 | $ 89,440 | $ 94,821 |
| Goodwill & intangible impairment | | | | 131,000 | | | 49,528 | | |
| Non-routine costs (income) | | 1,455 | | 5,997 | 1,540 | | 7,772 | (2,609) | |
| **Adjusted EBITDA** | $ 87,558 | $ 78,218 | $ 74,549 | $ 75,903 | $ 64,788 | $ 67,563 | $ 68,275 | $ 86,831 | $ 94,821 |
| **Trailing 4-Quarter EBITDA** | 330,682 | 326,420 | 324,921 | 316,228 | 293,458 | 282,803 | 276,529 | 287,457 | 317,490 |
| Current portion of long-term debt | $ 49,036 | $ 93,912 | $ 73,771 | $ 78,642 | $ 78,646 | $ 78,651 | $ 78,638 | $ 78,644 | $ 43,525 |
| Long-term debt | 908,850 | 859,172 | 874,423 | 864,758 | 855,143 | 792,827 | 783,076 | 773,404 | 784,855 |
| Total Debt | $ 957,886 | $ 953,084 | $ 948,194 | $ 943,400 | $ 933,789 | $ 871,478 | $ 861,714 | $ 852,048 | $ 828,380 |
| Cash | 108,219 | 98,204 | 128,149 | 165,464 | 268,551 | 271,060 | 288,775 | 304,016 | 257,745 |
| Net Debt | $ 849,667 | $ 854,880 | $ 820,045 | $ 777,936 | $ 665,238 | $ 600,418 | $ 572,939 | $ 548,032 | $ 570,635 |
| **Net Leverage Ratio** | **2.6** | **2.6** | **2.5** | **2.5** | **2.3** | **2.1** | **2.1** | **1.9** | **1.8** |