Applied Industrial Technologies®

We Keep Industry Running

Fiscal Q1 2022 Recap

October 27, 2021

Safe Harbor Statement

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Non-GAAP Financial Measures

This presentation sets forth certain non-GAAP financial measures including EBITDA; Adjusted EBITDA; 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 EBITDA, Adjusted EBITDA, Free Cash Flow, and Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **Reported record 1Q sales, EBITDA, and EPS** as strong execution and industry position supported solid earnings growth despite industrial supply chain and inflationary headwinds.
- **Underlying demand remains favorable** with order activity sustaining positive momentum and fluid power backlog hitting new record highs; October organic sales up mid-teens YoY month to date.
- **Benefits from productivity gains and cost control** drove favorable operating leverage and EBITDA margin expansion during F1Q22, and helped to mitigate inflationary headwinds.
- **Gross margins impacted by higher LIFO expense** reflecting strategic inventory purchases and inflation; excluding LIFO impact, F1Q22 gross margins relatively unchanged YoY and up sequentially.
- **Industry-wide supply chain issues remain manageable to date** and reinforce Applied's value proposition, but uncertainty remains on the related impact near term.
- **Solid F1Q22 free cash generation of $45M (85% of net income)** as internal initiatives are helping balance greater working capital investment, including a build in operational inventories since the end of FY21.

Fiscal Q1 2022 Key Financial Highlights

- **Sales up 19.2% YoY**
  - Up 16.3% on an organic basis
  - Acquisitions +2.1%, currency +0.8%, selling days neutral this quarter

- **Net Income of $53.0M and EPS of $1.36**
  - EPS up 52.3% from prior year
  - Includes $3.6M pre-tax ($0.07/sh) of LIFO expense in F1Q22 vs. $1.1M ($0.02/sh) in F1Q21

- **Gross margin 28.6%, down 22 bps vs. prior year**
  - Includes an unfavorable 25 bps YoY impact due to higher LIFO expense

- **SD&A expense 20.3% of sales vs. prior year of 21.9%**
  - Up 7% YoY on an organic, constant currency basis

- **EBITDA of $88.5M, up 31.0% vs. prior year**
  - Includes a net $2.5M unfavorable YoY impact due to higher LIFO expense
  - 9.9% EBITDA margin up 89 bps YoY including an unfavorable 25 bps YoY impact due to higher LIFO expense

- **Operating cash flow of $48.6M; free cash flow of $45.0M**
  - Free cash flow conversion at 85.0% of net income

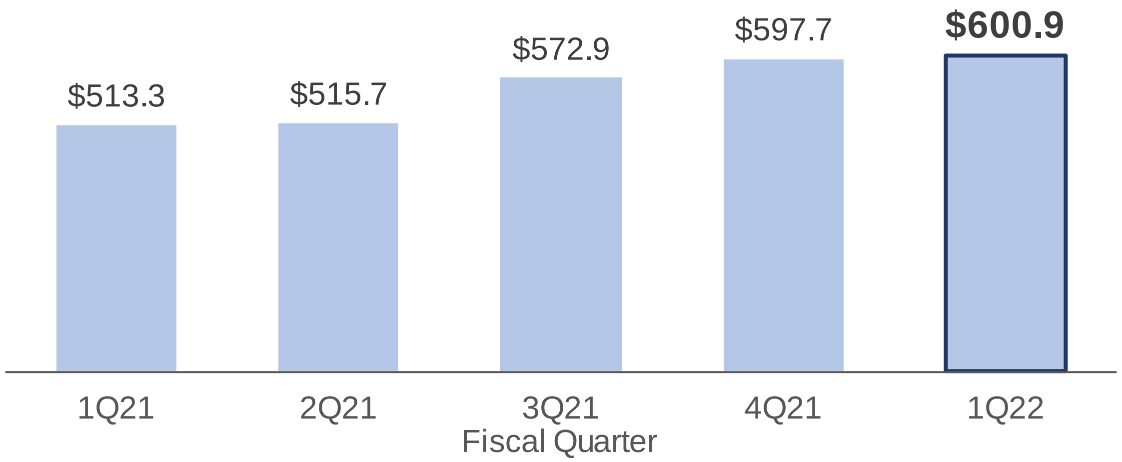
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Supply Chain	• *Industry-wide bottlenecks presenting challenges and uncertainty; direct impact to Applied remains manageable to date reflecting industry position, geographic footprint, and internal execution*	• *October organic sales up by a mid-teens percent YoY to date; F1Q22 EBITDA margins up 89 bps YoY; U.S. operational inventories up 6% YTD*
2. End-Market Trends	• *Sales growth and underlying demand remains broadly positive; rate of sales improvement and growth accelerated across heavy industrial and later-cycle end markets during F1Q22*	• *25 of top 30 industry verticals up YoY in F1Q22; strongest YoY trends across technology, chemicals, mining, lumber & wood, paper, aggregates, and machinery*
3. Inflation & Pricing	• *Price actions and channel execution balancing supplier product inflation; LIFO expense running higher than expected YTD; further price actions expected going forward*	• *Price / cost impact immaterial to gross margins YoY during F1Q22; LIFO expense of $3.6M represents a 25 bps YoY headwind to reported gross margins in F1Q22*
4. Underlying Demand	• *Order volumes remain healthy; industry-wide supply chain disruptions having a limited impact on sales flow-through near term; intermediate demand outlook remains favorable*	• *Booking trends across Service Center network remain positive; fluid power and automation backlog expanding; secular and company-specific growth tailwinds remain firmly intact*
5. Operating Costs	• *Productivity gains and operational focus helping balance higher employee-related expenses YTD, lapping of prior-year temporary cost actions, and normalizing medical expense*	• *F1Q22 incremental margins at 15.5% inclusive of a negative 170 bps impact from higher LIFO expense YoY; EBITDA margins up 89 bps YoY including a negative 25 bps impact from LIFO expense*
6. 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 $36M in F1Q22 toward M&A, debt paydown, dividends, and share buybacks; balance sheet net leverage at 1.7x with $247M of cash on hand at the end of F1Q22*
7. Automation Expansion	• *Seeing solid organic growth and order momentum across automation platform YTD; remains a key M&A priority*	• *Demand positively influenced by labor and production bottlenecks industry-wide; acquired R.R. Floody Company in F1Q22*

Segment Results – Service Center Based Distribution

<u>Segment Overview</u>: *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

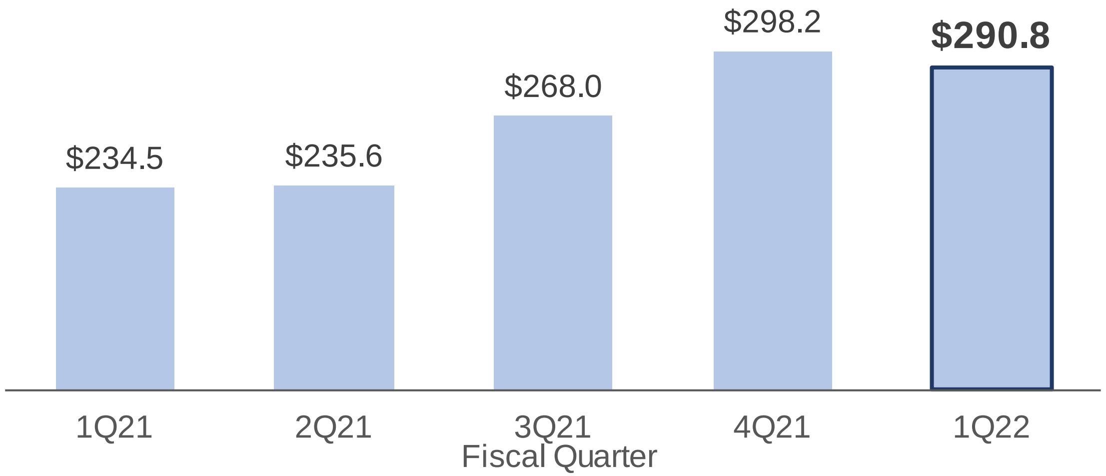


- **Sales up 17.1% YoY in F1Q22**
  - Organic + 15.9%
  - Currency + 1.2%
- Segment benefiting from stronger local account growth, sales process initiatives, greater recovery across heavy industries, and stronger international sales; partially offset by supply chain bottlenecks industry-wide
- 2-YEAR YoY STACK trend strongest across lumber & wood, pulp & paper, chemicals, aggregates, food & beverage, and rubber & plastic
- Segment operating income of $64.7M in F1Q22

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 24.0% YoY in F1Q22**
  - Organic + 17.4%
  - Acquisitions + 6.6%
- 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; sales flow-through impacted by extended supplier lead times and industry-wide supply chain bottlenecks
- Segment operating income of $34.8M in F1Q22

Fiscal Q1 2022 Margin and Expense Highlights

Gross Profit, SD&A Expense, and EBITDA Metrics

$ in millions	**Q1 22**	**Q1 21**	**Chg YoY**	***LIFO Impact YoY***
Gross Profit	**$255.3**	$215.8	18.3%	*(1.0%)*
Gross Margin	**28.6%**	28.9%	(22) bps	*(25) bps*
SD&A Expense	**$180.7**	$163.5	10.6%	
% of Sales	**20.3%**	21.9%	159 bps	
EBITDA	**$88.5**	$67.6	31.0%	*(3.0%)*
EBITDA Margin	**9.9%**	9.0%	89 bps	*(25) bps*
Memo: LIFO Expense	**$3.6**	$1.1		

- **Gross margin down 22 bps YoY**
  - Includes an unfavorable 25 bps YoY impact due to LIFO
  - Relatively unchanged YoY and up sequentially excluding LIFO impact
  - Price actions, channel execution, and ongoing margin initiatives providing support in current inflationary environment
- **SD&A expense up 10.6% YoY**
  - Up 7% YoY on an organic, constant currency basis
  - 20.3% of sales; the lowest 1Q level in nine years
  - Reflects strong expense control, operational discipline, and efficiency gains
- **EBITDA margin of 9.9% up 89 bps YoY**
  - Includes an unfavorable 25 bps YoY impact due to LIFO

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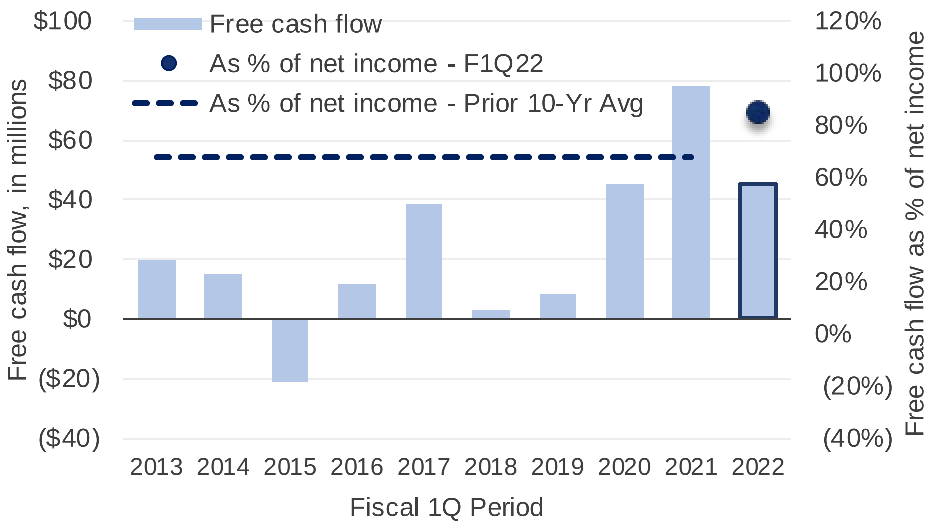
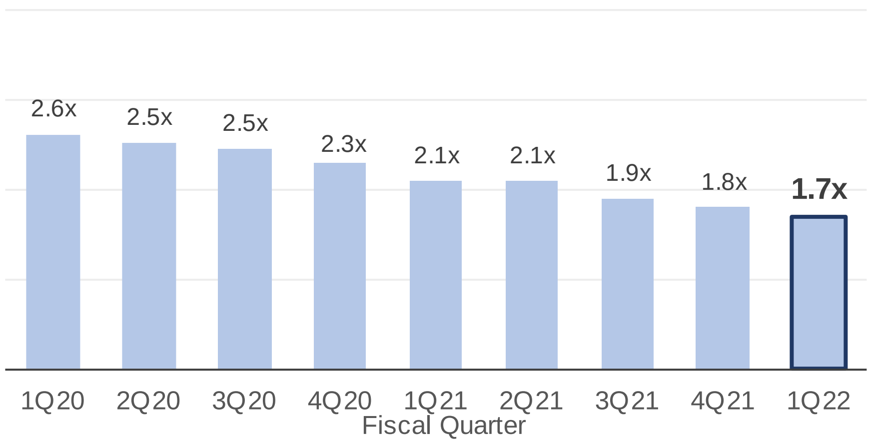
Cash Flow and Balance Sheet

Free Cash Flow (in Millions) - Fiscal 1Q Period



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F1Q22 cash from operations of $48.6M; free cash of $45.0M**
  - Free cash at 85% of net income
  - Ongoing traction with working capital initiatives balancing growth investment
  - Operational inventory up 4% YTD including up 6% across the U.S.
- **Net leverage ratio at 1.7x as of September 30, 2021**
  - Below prior-year level of 2.1x and F4Q21 of 1.8x
  - Outstanding debt down 6% YoY and 15% since the end of FY19
  - Total debt down ~$250M since early 2018
- **Strong liquidity to support growth** *(figures below as of 9/30/21)*
  - $247M 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

	Fiscal 2022 Guidance		
Total Sales - YoY % change	**8%**	**-**	**10%**
Organic - YoY % change	7%	-	9%
EBITDA Margin	**9.7%**	**-**	**9.9%**
YoY bps change	(10)	-	10
Diluted EPS	**$5.00**	**-**	**$5.40**
YoY % change	5%	-	14%
Additional Assumptions:			
Depreciation & amortization expense	$52	-	$53
Interest & other expense	$31	-	$32
Effective tax rate	22%	-	23%

Updated Considerations:

- Maintain FY2022 sales, EBITDA margin, and EPS guidance
- Ongoing uncertainty given industry-wide industrial supply chain and inflationary issues
- LIFO expense higher than expected in F1Q22
  - If a similar level of LIFO expense sustains for the balance of FY2022, would expect a ~40 bps YoY impact on FY2022 EBITDA margins vs. initial expectation of 20-30 bps
- F2Q22 assumptions:
  - Organic daily sales up by a low double-digit to low teen percent
  - Gross margins down slightly vs. F1Q22
  - SD&A expense flat to up slightly vs. F1Q22

Note: $ amount in millions except EPS

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 September 30 Q1 FY21	Q1 FY22
Service Center Based Distribution Segment:		
Net sales	$ 513,284	$ 600,871
Operating income	$ 49,901	$ 64,653
Fluid Power & Flow Control Segment:		
Net sales	$ 234,523	$ 290,810
Operating income	$ 25,861	$ 34,805
Corporate and other expense, net (1)	$ 23,454	$ 24,844

Note: (1) Includes intangible amortization expense

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Appendix: Reconciliation of EBITDA

(dollar amount in thousands)	Three Months Ended September 30 Q1 FY21	 Q1 FY22
Net Income	**$ 34,784**	**$ 52,969**
Interest expense, net	7,653	7,390
Income tax expense	10,048	14,567
Depreciation and amortization of property	5,352	5,427
Amortization of intangibles	9,726	8,121
EBITDA	**$ 67,563**	**$ 88,474**

Appendix: Reconciliation of EBITDA Margin

(dollar amount in thousands)	**Three Months Ended September 30**	
	Q1 FY21	**Q1 FY22**
Net Sales	**$ 747,807**	**$ 891,681**
EBITDA	67,563	88,474
EBITDA Margin	**9.0%**	**9.9%**

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Appendix: Reconciliation of Free Cash Flow

	Three Months Ended September 30									
(dollar amount in thousands)	**Q1 FY13**	**Q1 FY14**	**Q1 FY15**	**Q1 FY16**	**Q1 FY17**	**Q1 FY18**	**Q1 FY19**	**Q1 FY20**	**Q1 FY21**	**Q1 FY22**
Cash provided by Operating Activities	$23,947	$ 16,956	$ (18,101)	$ 15,090	$ 41,864	$ 9,440	$ 11,797	$ 50,018	$ 81,842	$ 48,642
Capital Expenditures	(3,892)	(1,571)	(3,100)	(3,112)	(2,999)	(6,336)	(3,173)	(4,946)	(3,597)	(3,621)
Free Cash Flow	**$20,055**	**$ 15,385**	**$ (21,201)**	**$ 11,978**	**$ 38,865**	**$ 3,104**	**$ 8,624**	**$ 45,072**	**$ 78,245**	**$ 45,021**

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22
Net Income	$ 38,799	$ 38,031	$ (82,777)	$ 29,989	$ 34,784	$ (5,334)	$ 56,063	$ 59,244	$ 52,969
Interest expense, net	10,059	9,583	8,805	8,088	7,653	7,658	7,608	7,673	7,390
Income tax expense	12,308	11,346	(2,550)	10,090	10,048	(4,834)	12,453	14,638	14,567
Depreciation and amortization	5,223	5,394	5,380	5,199	5,352	5,209	5,080	5,139	5,427
Amortization of intangibles	10,374	10,195	10,048	9,882	9,726	8,276	8,236	8,127	8,121
EBITDA	**$ 76,763**	**$ 74,549**	**$ (61,094)**	**$ 63,248**	**$ 67,563**	**$ 10,975**	**$ 89,440**	**$ 94,821**	**$ 88,474**
Goodwill & intangible impairment			131,000			49,528			
Non-routine costs (income)	1,455		5,997	1,540		7,772	(2,609)		
Adjusted EBITDA	**$ 78,218**	**$ 74,549**	**$ 75,903**	**$ 64,788**	**$ 67,563**	**$ 68,275**	**$ 86,831**	**$ 94,821**	**$ 88,474**
Trailing 4-Quarter EBITDA	**326,420**	**324,921**	**316,228**	**293,458**	**282,803**	**276,529**	**287,457**	**317,490**	**338,401**
Current portion of long-term debt	$ 93,912	$ 73,771	$ 78,642	$ 78,646	$ 78,651	$ 78,638	$ 78,644	$ 43,525	$ 88,401
Long-term debt	859,172	874,423	864,758	855,143	792,827	783,076	773,404	784,855	730,307
Total Debt	$ 953,084	$ 948,194	$ 943,400	$ 933,789	$ 871,478	$ 861,714	$ 852,048	$ 828,380	$ 818,708
Cash	98,204	128,149	165,464	268,551	271,060	288,775	304,016	257,745	247,313
Net Debt	$ 854,880	$ 820,045	$ 777,936	$ 665,238	$ 600,418	$ 572,939	$ 548,032	$ 570,635	$ 571,395
Net Leverage Ratio	**2.6**	**2.5**	**2.5**	**2.3**	**2.1**	**2.1**	**1.9**	**1.8**	**1.7**