Applied Industrial Technologies®

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Fiscal Q2 2022 Recap

January 27, 2022

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Non-GAAP Financial Measures

This presentation sets forth certain non-GAAP financial measures including Adjusted Earnings per Share (EPS); Adjusted Net Income; Adjusted Gross Margin; Adjusted Selling, Distribution and Administrative (SD&A) Expense; 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 Adjusted Earnings per Share (EPS); Adjusted Net Income; Adjusted Gross Margin; Adjusted Selling, Distribution and Administrative (SD&A) Expense; EBITDA; Adjusted EBITDA; Free Cash Flow; Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **Reported record 2Q results** reflecting solid execution, expanding industrial activity, traction with company-specific growth opportunities, and strong operating leverage.
- **Sales growth strengthened as the quarter progressed** with F2Q22 daily sales rates up 3% sequentially on an organic basis vs. F1Q22 and above normal seasonal trends.
- **Gross margins expanded YoY and sequentially** primarily reflecting broad-based execution across the business and countermeasures in response to ongoing inflation and supply chain dynamics.
- **Productivity gains and disciplined cost control** providing further momentum to underlying operating leverage and EBITDA margin expansion (up 147 bps YoY).
- **Raising fiscal 2022 guidance for sales, EBITDA margins, and EPS** given strong year-to-date performance and expectations for sustained positive momentum in F2H22.
- **Well-positioned within an increasingly positive industrial backdrop** given our leading technical industry position, expanding addressable market, enhanced internal capabilities, and strong balance sheet.

Fiscal Q2 2022 Key Financial Highlights

- **Sales up 16.7% YoY**
  - Up 16.4% on an organic daily basis
  - Acquisitions +1.6%, currency +0.3%, selling days -1.6%

- **Net Income of $57.0M and EPS of $1.46**
  - EPS up 49.1% from prior-year adjusted EPS of $0.98
  - Includes $4.7M pre-tax ($0.09/sh) of LIFO expense in F2Q22 vs. $0.9M ($0.02/sh) in F2Q21

- **Gross margin 29.4%, up 51 bps vs. prior-year adjusted gross margin of 28.9%**
  - Includes an unfavorable 42 bps YoY impact due to higher LIFO expense

- **SD&A expense 20.5% of sales vs. prior-year adjusted SD&A expense of 21.6%**
  - Up 9% YoY on an organic, constant currency basis

- **EBITDA of $92.6M, up 35.6% vs. prior-year adjusted EBITDA of $68.3M**
  - Includes a net $3.8M unfavorable YoY impact due to higher LIFO expense
  - 10.6% EBITDA margin up 147 bps YoY including an unfavorable 42 bps YoY impact due to higher LIFO expense

- **Operating cash flow of $32.6M; free cash flow of $28.7M**
  - Year-to-date free cash flow of $74M or 67% of net income

Note: Prior-year fiscal 2Q adjusted results exclude a $49.5M pre-tax ($0.97 per share) asset impairment charge and $7.8M pre-tax ($0.15 per share) of non-routine costs.

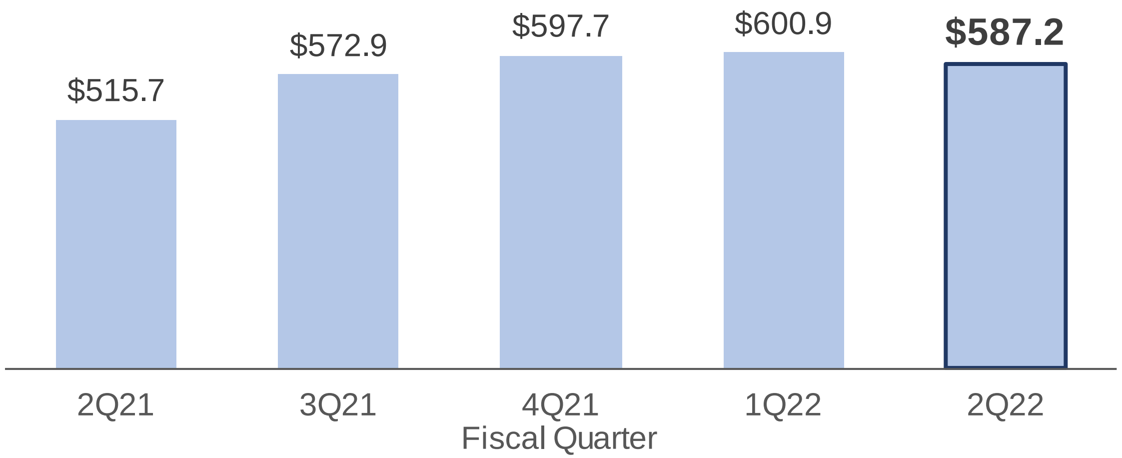
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Supply Chain	• *Industry-wide bottlenecks continue but not getting worse; direct impact to Applied remains manageable reflecting industry position, geographic footprint, and internal execution*	• *Sales exceeded expectations across Applied during F2Q22; cross-functional inventory planning and procurement team executing well with operational inventories up 8% YTD and supporting growth*
2. End-Market Trends	• *End-market demand remains broadly positive; underlying growth accelerating across heavy industrial and later-cycle verticals*	• *25 of top 30 industry verticals up YoY in F2Q22; strongest 2-Year STACK YoY growth across technology, metals, lumber & wood, industrial machinery, mining, and chemicals*
3. Inflation & Pricing	• *Broad-based execution across Applied during F2Q22 with price actions, channel execution, and ongoing countermeasures balancing supplier product inflation and YoY LIFO headwinds*	• *Gross margin up 51 bps YoY and 75 bps sequentially in F2Q22 with price / cost relationship positive YoY in the quarter*
4. Underlying Demand	• *Industrial backdrop remains healthy with customer break-fix activity sustaining positive momentum and greater capital spending being released; limited impact from Omicron variant to date*	• *Underlying sales growth accelerated as the quarter progressed; booking trends seasonally strong across both segments; fluid power and automation backlogs remain at record levels*
5. Operating Leverage	• *Incremental margins exceeded expectations on strong sales growth, broad-based gross margin improvement, productivity gains, and operational execution*	• *F2Q22 incremental EBIT margins at ~19% despite higher LIFO expense YoY; record 2Q EBITDA margins of 10.6% up 147 bps YoY and 161 bps from pre-COVID F2Q20 levels*
6. Automation Expansion	• *Solid order activity and sales growth during F2Q22; demand positively influenced by labor and production bottlenecks industry-wide and Applied's engineered solution capabilities*	• *Organic growth across automation business up over 25% YoY in F2Q22; growth pipeline remains solid with additional expansion opportunities developing both organically and via potential M&A*
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*	• *Paid down $98M of debt in F2Q22; net leverage at 1.6x; refinanced credit agreement in early December, driving interest savings and additional balance sheet flexibility going forward*

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

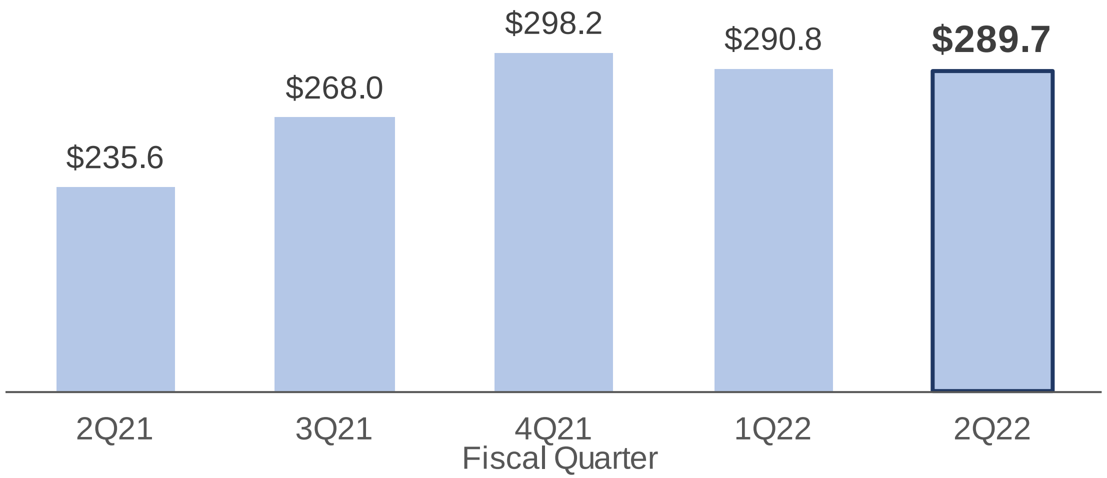


- **Sales up 13.9% YoY in F2Q22**
  - Organic + 15.1%
  - Currency + 0.4%
  - Selling days - 1.6%
- Segment benefiting from greater break-fix MRO activity, stronger local account growth, sales process initiatives, and a greater recovery across heavy industries
- **2-YEAR YoY STACK** trend strongest across machinery, lumber & wood, aggregates & mining, food & beverage, and pulp & paper
- Segment operating income of $67.5M in F2Q22

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 22.9% YoY in F2Q22**
  - Organic + 19.3%
  - Acquisitions + 5.2%
  - Selling days - 1.6%
- Segment benefiting from strong demand across technology, off-highway mobile, life sciences, chemical, utilities, metals, and machinery industries
- Segment sales up over 9% organically on **2-YEAR YoY STACK** basis; backlog at record levels with orders tied to equipment optimization, automation, and technology demand
- Segment operating income of $36.4M in F2Q22

Fiscal Q2 2022 Margin and Expense Highlights

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

$ in millions	Q2 22	Q2 21[1]	Chg YoY	*LIFO Impact YoY*
Gross Profit	**$257.6**	$216.9	18.8%	*(1.7%)*
Gross Margin	**29.4%**	28.9%	51 bps	*(42) bps*
SD&A Expense	**$179.4**	$162.0	10.8%	
% of Sales	**20.5%**	21.6%	110 bps	
EBITDA	**$92.6**	$68.3	35.6%	*(5.1%)*
EBITDA Margin	**10.6%**	9.1%	147 bps	*(42) bps*
Memo:				
LIFO Expense	**$4.7**	$0.9		

- **Gross margin up 51 bps YoY**
  - Includes an unfavorable 42 bps YoY impact due to LIFO
  - Up 75 bps sequentially including a unfavorable 13 bps LIFO impact
  - Improvement broad-based across business on solid execution
  - Price actions, channel execution, effective freight management, favorable mix, and ongoing margin initiatives providing support
- **SD&A expense up 10.8% YoY**
  - Up 9% YoY on an organic, constant currency basis
  - 20.5% of sales; the lowest 2Q level in over 10 years
  - Reflects strong expense control, operational discipline, and efficiency gains
- **EBITDA margin of 10.6% up 147 bps YoY**
  - Includes an unfavorable 42 bps YoY impact due to LIFO
  - Represents record 2Q level

Note: (1) F2Q21 excludes $7.8M of non-routine expense ($7.4M in cost of sales and $0.4M in SD&A).

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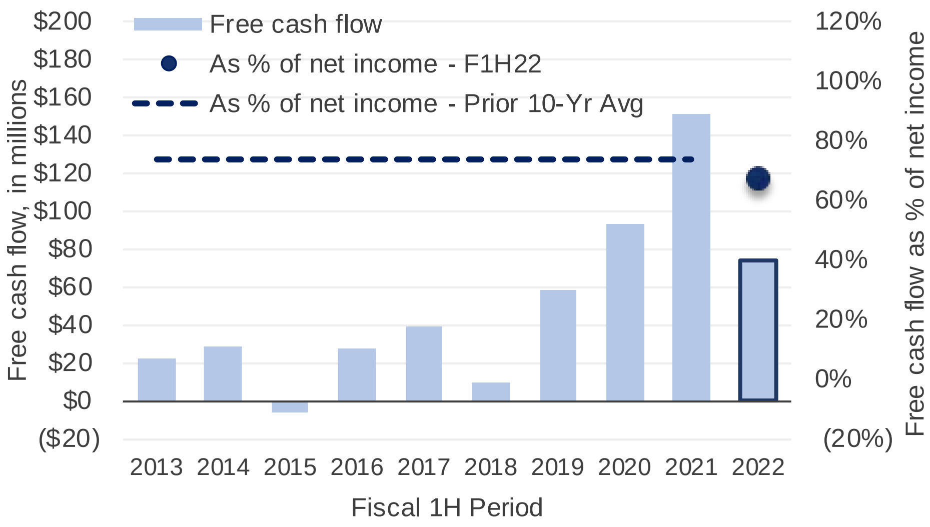
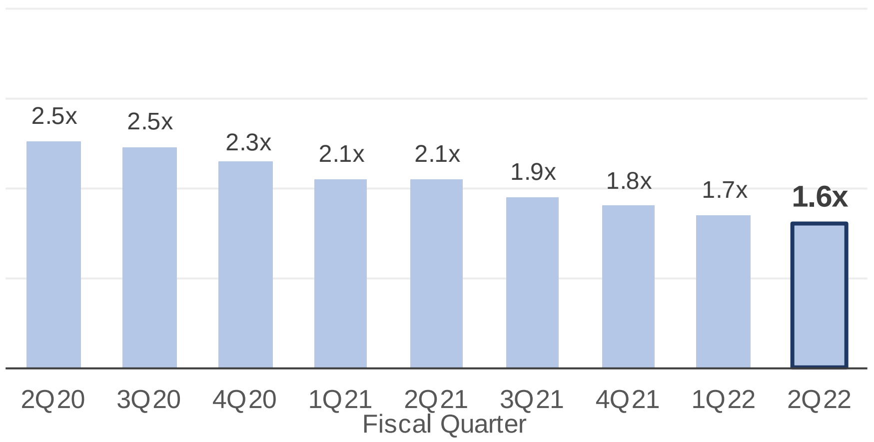
Cash Flow and Balance Sheet

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



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F2Q22 cash from operations of $32.6M; free cash of $28.7M**
  - o 1H FY22 cash from operations of $81M; free cash of $74M (67% of net income)
  - o Ongoing traction with working capital initiatives balancing growth investment
  - o Operational inventory up 8% YTD including up 11% across the U.S.
- **Net leverage ratio at 1.6x as of December 31, 2021**
  - o Below prior-year level of 2.1x and F4Q21 of 1.8x
  - o Paid down $98M of debt in F2Q22 following December credit facility refinancing
  - o Outstanding debt down 16% YoY and 25% since the end of FY19
  - o Total debt down ~$350M since early 2018
- **Strong liquidity to support growth** *(figures below as of 12/31/21)*
  - o $155M of cash on hand
  - o $457M of available capacity under revolver
    - ▪ Additional $500M accordion option available
  - o $180M of available capacity on uncommitted shelf facility
  - o $62M of available capacity under AR securitization facility

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Updated Fiscal 2022 Guidance

Fiscal 2022 Guidance

	Prior (10/27/21)			Current (1/27/22)		
Total Sales - YoY % change	8%	-	10%	**11.5%**	**-**	**12.5%**
Organic - YoY % change	7%	-	9%	10.5%	-	11.5%
EBITDA Margin	9.7%	-	9.9%	**10.1%**	**-**	**10.3%**
YoY bps change	(10)	-	10	30	-	50
Diluted EPS	$5.00	-	$5.40	**$5.70**	**-**	**$5.90**
YoY % change	5%	-	14%	20%	-	24%
Additional Assumptions:						
Depreciation & amortization expense	$52	-	$53	$54		
Interest & other expense	$31	-	$32	$27		
Effective tax rate	22%	-	23%	22%		

Updated Considerations:

- Raising FY2022 sales, EBITDA margin, and EPS guidance to reflect strong YTD performance and a favorable near-term outlook
- Expect sustained positive industrial demand and traction with internal growth initiatives, partially offset by ongoing supply chain, labor, and inflationary pressures across the industrial sector
- Assumes mid to high single-digit YoY organic sales growth in F2H22 on more difficult prior-year comparisons relative to F1H22
- Annual merit pay increase effective January 1
- Expect ongoing YoY LIFO headwinds in F2H22
- F3Q22 assumptions:
  - Organic daily sales up by a high single-digit percent YoY
  - Gross margins at or slightly above 29%
  - SD&A expense in the high $180M range

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**
2023	**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 December 31 Q2 FY21	Q2 FY22
Service Center Based Distribution Segment:		
Net sales	$ 515,690	$ 587,218
Operating income	$ 42,654	$ 67,450
Non-routine costs	7,772	-
Adjusted segment operating income	**$ 50,426**	**$ 67,450**
Fluid Power & Flow Control Segment:		
Net sales	$ 235,597	$ 289,656
Operating income	$ 26,647	$ 36,426
Non-routine costs	-	-
Adjusted segment operating income	**$ 26,647**	**$ 36,426**
Corporate and other expense, net (1)	$ 71,723	$ 25,699
Asset Impairment - Service Center Based Distribution	49,528	-
Adjusted corporate and other expense, net (1)	**$ 22,195**	**$ 25,699**

Note: (1) Includes intangible amortization expense.

Appendix: Reconciliation of Adjusted Net Income and EPS

	Three Months Ended December 31, 2020				
(dollar amount in thousands)	**Pre-tax**	**Tax Effect**	**Net of Tax**	**Per Share Diluted Impact**	**Tax Rate**
Net loss and net loss per share	**$ (10,168)**	**$ (4,834)**	**$ (5,334)**	**$ (0.14)**	**47.5%**
Impairment expense	49,528	11,769	37,759	0.97	23.8%
Non-routine costs	7,772	1,847	5,925	0.15	23.8%
Adjusted net income and net income per share	**$ 47,132**	**$ 8,782**	**$ 38,350**	**$ 0.98**	**18.6%**

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Appendix: Reconciliation of Adjusted Gross Margin

(dollar amount in thousands)	Three Months Ended Q2 FY21	Three Months Ended Q2 FY22
Net Sales	**$ 751,287**	**$ 876,874**
Gross Profit	209,534	257,625
Non-routine costs in cost of sales	7,368	-
Adjusted Gross Profit	$ 216,902	$ 257,625
Adjusted Gross Margin	**28.9%**	**29.4%**

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Appendix: Reconciliation of Adjusted SD&A Expense

(dollar amount in thousands)	Three Months Ended	
	Q2 FY21	**Q2 FY22**
SD&A (Operating Expense)	$ 162,428	$ 179,448
Non-routine costs	403	-
Adjusted SD&A (Adjusted Operating Expense)	$ 162,025	$ 179,448

Appendix: Reconciliation of EBITDA and Adjusted EBITDA

	Three Months Ended December 31	
(dollar amount in thousands)	**Q2 FY21**	**Q2 FY22**
Net Income	**$ (5,334)**	**$ 57,026**
Interest expense, net	7,658	7,007
Income tax expense	(4,834)	15,013
Depreciation and amortization of property	5,209	5,436
Amortization of intangibles	8,276	8,084
EBITDA	**$ 10,975**	**$ 92,566**
Goodwill & intangible impairment	49,528	-
Non-routine costs (income)	7,772	-
Adjusted EBITDA	**$ 68,275**	**$ 92,566**

Appendix: Reconciliation of Adjusted EBITDA Margin

(dollar amount in thousands)	Three Months Ended December 31 Q2 FY21	Q2 FY22
Net Sales	**$ 751,287**	**$ 876,874**
Adjusted EBITDA	68,275	92,566
Adjusted EBITDA Margin	**9.1%**	**10.6%**

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**

	Three Months Ended December 31									
(dollar amount in thousands)	**Q2 FY13**	**Q2 FY14**	**Q2 FY15**	**Q2 FY16**	**Q2 FY17**	**Q2 FY18**	**Q2 FY19**	**Q2 FY20**	**Q2 FY21**	**Q2 FY22**
Cash provided by Operating Activities	$ 4,939	$ 15,707	$ 19,274	$ 18,355	$ 3,794	$ 11,744	$ 53,783	$ 54,881	$ 77,514	$ 32,622
Capital Expenditures	(2,951)	(2,555)	(4,706)	(2,625)	(3,711)	(5,124)	(3,923)	(7,019)	(4,852)	(3,889)
Free Cash Flow	$ 1,988	$ 13,152	$ 14,568	$ 15,730	$ 83	$ 6,620	$ 49,860	$ 47,862	$ 72,662	$ 28,733

	Six Months Ended December 31									
(dollar amount in thousands)	**1H FY13**	**1H FY14**	**1H FY15**	**1H FY16**	**1H FY17**	**1H FY18**	**1H FY19**	**1H FY20**	**1H FY21**	**1H FY22**
Cash provided by Operating Activities	$28,886	$ 32,663	$ 1,173	$ 33,445	$ 45,658	$ 21,184	$ 65,580	$ 104,899	$ 159,356	$ 81,264
Capital Expenditures	(6,843)	(4,126)	(7,806)	(5,737)	(6,710)	(11,460)	(7,096)	(11,965)	(8,449)	(7,510)
Free Cash Flow	$22,043	$ 28,537	$ (6,633)	$ 27,708	$ 38,948	$ 9,724	$ 58,484	$ 92,934	$ 150,907	$ 73,754

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22
Net Income	$ 38,031	$ (82,777)	$ 29,989	$ 34,784	$ (5,334)	$ 56,063	$ 59,244	$ 52,969	$ 57,026
Interest expense, net	9,583	8,805	8,088	7,653	7,658	7,608	7,673	7,390	7,007
Income tax expense	11,346	(2,550)	10,090	10,048	(4,834)	12,453	14,638	14,567	15,013
Depreciation and amortization	5,394	5,380	5,199	5,352	5,209	5,080	5,139	5,427	5,436
Amortization of intangibles	10,195	10,048	9,882	9,726	8,276	8,236	8,127	8,121	8,084
EBITDA	**$ 74,549**	**$ (61,094)**	**$ 63,248**	**$ 67,563**	**$ 10,975**	**$ 89,440**	**$ 94,821**	**$ 88,474**	**$ 92,566**
Goodwill & intangible impairment		131,000			49,528				
Non-routine costs (income)		5,997	1,540		7,772	(2,609)			
Adjusted EBITDA	**$ 74,549**	**$ 75,903**	**$ 64,788**	**$ 67,563**	**$ 68,275**	**$ 86,831**	**$ 94,821**	**$ 88,474**	**$ 92,566**
Trailing 4-Quarter EBITDA	**324,921**	**316,228**	**293,458**	**282,803**	**276,529**	**287,457**	**317,490**	**338,401**	**362,692**
Current portion of long-term debt	$ 73,771	$ 78,642	$ 78,646	$ 78,651	$ 78,638	$ 78,644	$ 43,525	$ 88,401	$ 40,182
Long-term debt	874,423	864,758	855,143	792,827	783,076	773,404	784,855	730,307	681,266
Total Debt	$ 948,194	$ 943,400	$ 933,789	$ 871,478	$ 861,714	$ 852,048	$ 828,380	$ 818,708	$ 721,448
Cash	128,149	165,464	268,551	271,060	288,775	304,016	257,745	247,313	154,843
Net Debt	$ 820,045	$ 777,936	$ 665,238	$ 600,418	$ 572,939	$ 548,032	$ 570,635	$ 571,395	$ 566,605
Net Leverage Ratio	**2.5**	**2.5**	**2.3**	**2.1**	**2.1**	**1.9**	**1.8**	**1.7**	**1.6**

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