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Fiscal Q3 2022 Recap

April 28, 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 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 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 strong F3Q22 results and raised F2022 guidance** reflecting positive demand and pricing momentum, operational execution, and traction with internal initiatives that we expect to sustain.
- **Underlying demand and growth opportunities strengthened in the quarter** with organic daily sales rates up ~7% sequentially and 2-YEAR YoY STACK growth exceeding 15%; positive momentum sustaining in April.
- **Gross margin remains firm and near recent highs** inclusive of a 67 bps unfavorable YoY LIFO impact and ongoing inflationary pressures, reflecting solid execution and margin countermeasures.
- **Sustaining strong cost leverage across the business** as productivity gains, system investments, and process enhancements supporting growth requirements.
- **Achieved an +11% EBITDA margin, up 150 bps from F3Q19 and nearly 300 bps over the past 5 years;** highlights strong operating leverage and internal initiatives; interim annual EBITDA margin targets within reach.
- **Free cash generation up YoY and sequentially in F3Q22** inclusive of ongoing working capital investment; balance sheet in favorable position to support growth and shareholder returns moving forward.

Fiscal Q3 2022 Key Financial Highlights

- **Sales up 16.6% YoY**
  - Up 14.7% on an organic daily basis
  - Acquisitions +0.4%, currency -0.1%, selling days +1.6%
- **Net Income of $68.3M and EPS of $1.75**
  - EPS up 27.4% from prior-year adjusted EPS of $1.37
  - Includes $7.4M pre-tax ($0.14/sh) of LIFO expense in F3Q22 vs. $0.8M ($0.02/sh) in F3Q21
- **Gross margin 29.3%, down 10 bps vs. prior-year of 29.4%**
  - Includes an unfavorable 67 bps YoY impact due to higher LIFO expense
- **SD&A expense 19.5% of sales vs. prior-year adjusted SD&A expense of 20.9%**
  - Up 9% YoY on an organic, constant currency basis
- **EBITDA of $108.6M, up 25.1% vs. prior-year adjusted EBITDA of $86.8M**
  - Includes a net $6.6M unfavorable YoY impact due to higher LIFO expense
  - 11.1% EBITDA margin up 75 bps YoY including an unfavorable 67 bps YoY impact due to higher LIFO expense
- **Operating cash flow of $52.6M; free cash flow of $48.4M or 71% of net income**
  - Year-to-date free cash flow of $122M or 68.5% of net income inclusive of growth-focused working capital investment

Note: Prior-year fiscal 3Q adjusted results exclude $2.6M pre-tax ($0.05 per share) of non-routine income.

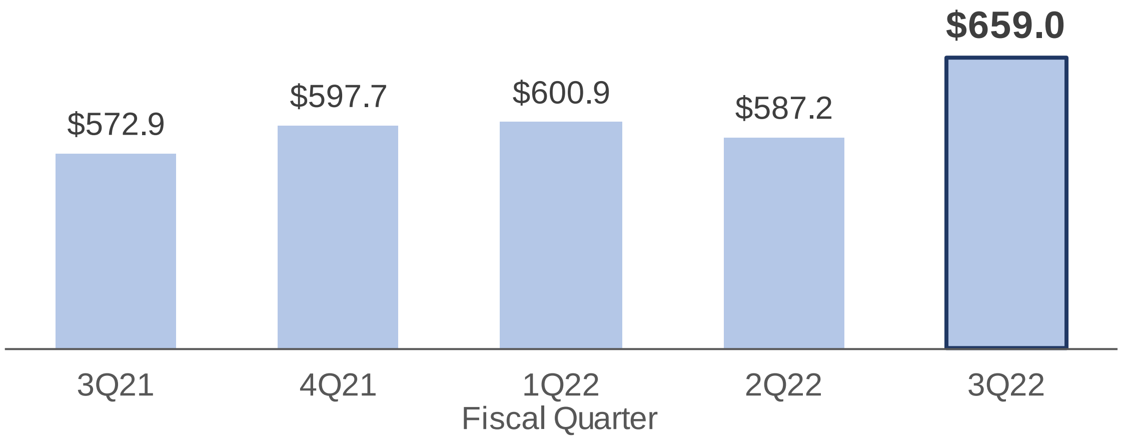
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Underlying Demand	• *Demand remains robust and strengthened during F3Q22; seeing healthy break-fix activity, greater capital spending and project activity, local account growth, and new business opportunities*	• *Sequential sales growth and 2-Year STACK YoY growth accelerated vs. prior quarter trends; organic sales month to date in April up by a low double-digit percent YoY*
2. End-Market Trends	• *End-market demand remains broadly positive; underlying growth continuing to improve across heavy industrial and later-cycle verticals, providing incremental growth tailwind*	• *25 of top 30 industry verticals up YoY in F3Q22; strongest 2-Year STACK YoY growth across metals, technology, mining, utilities, chemicals, building materials, machinery, and freight transportation*
3. Inflation & Pricing	• *Inflationary pressures persisting across the industry with ongoing supplier price increases and greater LIFO expense headwinds; strong execution across Applied during F3Q22 as price actions, channel execution, and countermeasures provided support*	• *F3Q22 gross margin of 29.3% remained near record F2Q22 levels of 29.4% despite greater LIFO expense ($7.4M in F3Q22 vs. $4.7M in F2Q22); price contributed ~400 bps to sales growth in F3Q22*
4. Supply Chain	• *Supply chain dynamics remain challenging with little sign of improvement to date; greater customer supply chain requirements and investments position Applied well over the medium to long term*	• *Industry position, inventory availability, and engineered solutions focus driving incremental growth opportunities with organic daily sales up 15% on a 2-Year STACK YoY basis during F3Q22 vs. 6% in F2Q22; operational inventories up 15% YTD on an organic basis*
5. Operating Costs	• *Seeing strong cost leverage despite ongoing inflationary headwinds reflecting enhanced internal processes and operational efficiencies from system investments and our shared services model*	• *F3Q22 incremental EBIT margins at ~17% despite higher LIFO expense YoY; SD&A expense up 9% YoY on an organic basis during F3Q22 including higher incentive compensation*
6. Automation Expansion	• *Underlying demand and order trends remain robust; deploying strategic organic investments into new U.S. markets; related M&A pipeline remains active and full*	• *Organic growth across automation business up low double digits YoY in F3Q22 and above 20% on a 2-Year STACK basis; annualized sales running at ~$150M currently*
7. Cycle Positioning	• *Demand indications remain positive; well positioned given technical industry position and engineered solution capabilities, exposure to customer capital spending and secular investments, diversified addressable market, and significant balance sheet flexibility*	• *Order rates remain solid into April following a strong end to F3Q22; technical position and expanding solutions (i.e. automation) supporting greater secular growth capture, and ongoing margin expansion; balance sheet net leverage at 1.4x vs. pre-COVID levels of ~2.5x*

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

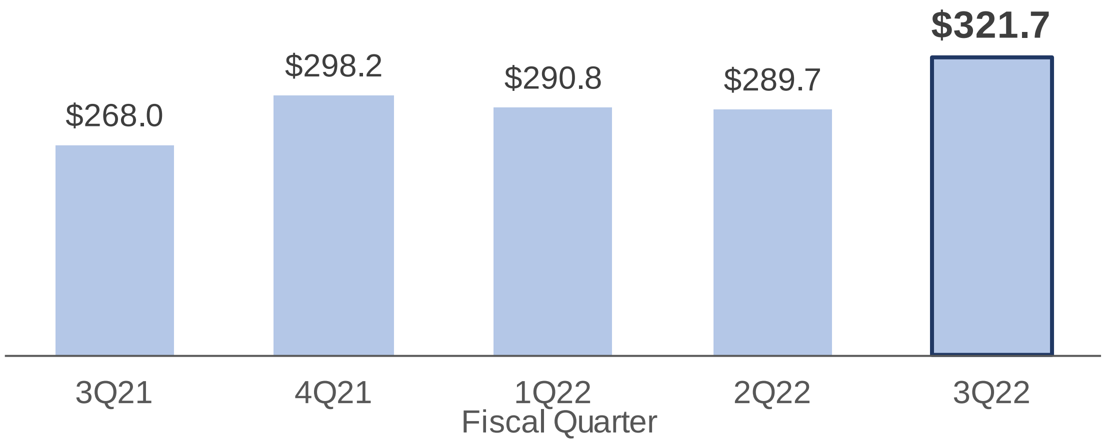


- **Sales up 15.0% YoY in F3Q22**
  - Organic + 13.6%
  - Currency - 0.2%
  - Selling days + 1.6%
- Segment sales growth benefiting from greater break-fix MRO activity, stronger local account growth, sales process initiatives, and ongoing pricing actions
- **2-YEAR YoY STACK** trend strongest across lumber & wood, aggregates & mining, pulp & paper, building materials, and machinery
- Segment operating income of $81.6M in F3Q22

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 20.0% YoY in F3Q22**
  - Organic + 17.1%
  - Acquisitions + 1.3%
  - Selling days + 1.6%
- Segment benefiting from strong demand across technology, off-highway mobile, life sciences, chemical, metals, and machinery industries; emerging strength across refinery and petro-chemical end markets
- Segment sales up 17% organically on **2-YEAR YoY STACK** basis; backlog remains robust with orders tied to equipment optimization, automation, and technology demand
- Segment operating income of $40.6M in F3Q22

Fiscal Q3 2022 Margin and Expense Highlights

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

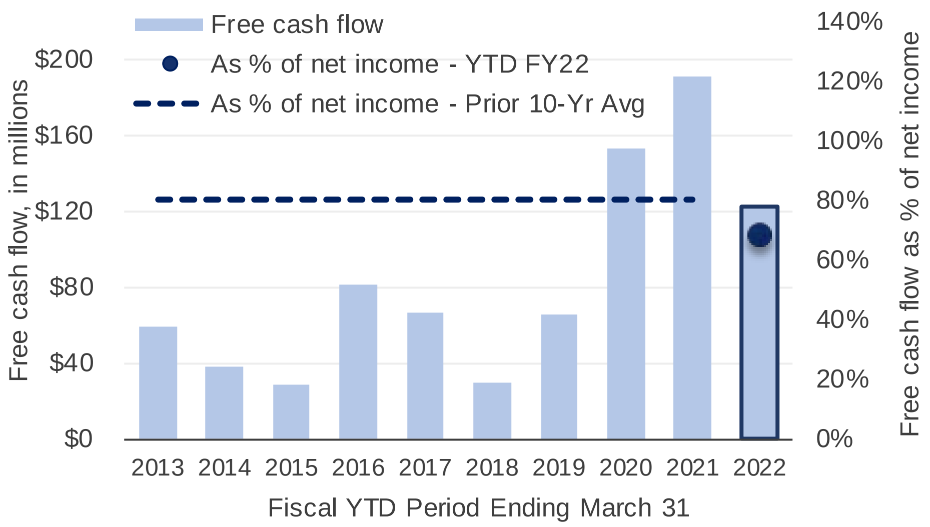
$ in millions	Q3 22	Q3 21 (1)	Chg YoY	*LIFO Impact YoY*
Gross Profit	**$287.3**	$247.2	16.2%	*(2.7%)*
Gross Margin	**29.3%**	29.4%	(10) bps	*(67) bps*
SD&A Expense	**$191.5**	$175.4	9.2%	
% of Sales	**19.5%**	20.9%	133 bps	
EBITDA	**$108.6**	$86.8	25.1%	*(7.6%)*
EBITDA Margin	**11.1%**	10.3%	75 bps	*(67) bps*
Memo:				
LIFO Expense	**$7.4**	$0.8		

- **Gross margin down 10 bps YoY**
  - Includes an unfavorable 67 bps YoY impact due to LIFO
  - Down 10 bps sequentially including a unfavorable 28 bps LIFO impact
  - Price actions, channel execution, effective freight management, and ongoing margin initiatives providing support
- **Adjusted SD&A expense up 9.2% YoY**
  - Up 9% YoY on an organic, constant currency basis
  - 19.5% of sales vs. 20.9% in the prior-year period
  - Reflects strong expense control, operational discipline, and efficiency gains
- **EBITDA margin of 11.1% up 75 bps YoY**
  - Includes an unfavorable 67 bps YoY impact due to LIFO

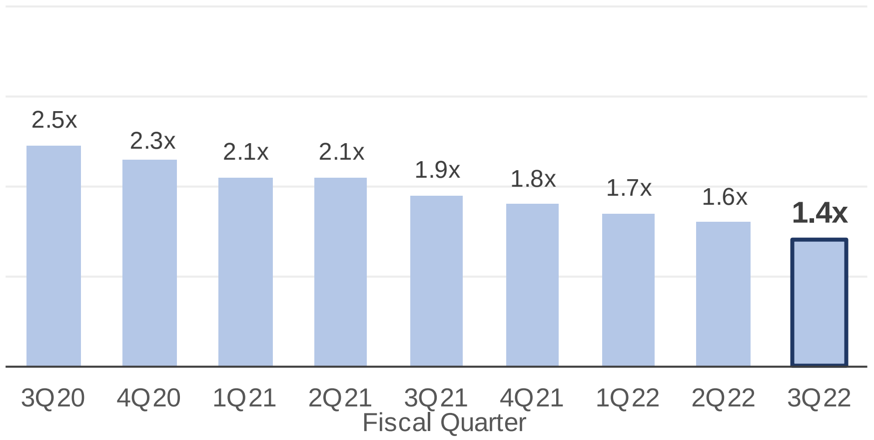
Note: (1) F3Q21 excludes $2.6M of non-routine income in SD&A.

Cash Flow and Balance Sheet

Free Cash Flow (in Millions) - Fiscal YTD Period



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F3Q22 cash from operations of $52.6M; free cash of $48.4M**
  - YTD cash from operations of $134M; free cash of $122M (68.5% of net income)
  - Ongoing traction with working capital initiatives balancing growth investment
  - Operational inventory up 15% YTD on an organic basis
- **Net leverage ratio at 1.4x as of March 31, 2022**
  - Below prior-year level of 1.9x
  - Total debt down ~$350M since early 2018
- **Strong liquidity to support growth** *(figures below as of 3/31/22)*
  - $188M of cash on hand
  - $457M of available capacity under revolver
    - Additional $500M accordion option available
  - $180M of available capacity on uncommitted shelf facility
  - $62M of available capacity under AR securitization facility

Updated Fiscal 2022 Guidance

Fiscal 2022 Guidance

	Prior (1/27/22)	Current (4/28/22)
Total Sales - YoY % change	11.5% - 12.5%	**14.8% - 15.3%**
Organic - YoY % change	10.5% - 11.5%	13.6% - 14.1%
EBITDA Margin	10.1% - 10.3%	**10.5% - 10.6%**
YoY bps change	30 - 50	70 - 90
Diluted EPS	$5.70 - $5.90	**$6.15 - $6.25**
YoY % change	20% - 24%	30% - 32%
Additional Assumptions:		
Depreciation & amortization expense	$54	$54
Interest & other expense	$27	$25
Effective tax rate	22.0%	22.5%

Updated Considerations:

- Raising FY2022 sales, EBITDA margin, and EPS guidance to reflect F3Q22 performance and an ongoing favorable outlook
- Implied F4Q22 guidance:
  - Sales: High single-digit YoY increase
  - EBITDA Margin: 10.6% at mid-point
  - EPS: $1.59 to $1.69
- Other F4Q22 assumptions and considerations:
  - Firm underlying demand environment vs. F3Q22
  - Gross margins slightly below F3Q22 levels
  - Low double-digit incremental margins
    - Negatively impacted by notable YoY LIFO headwind
    - Assumes $8M to $9M of LIFO expense in F4Q22 vs. LIFO income of $3.7M in F4Q21

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 March 31 Q3 FY21	Q3 FY22
Service Center Based Distribution Segment:		
Net sales	$ 572,892	$ 658,998
Operating income	**$ 65,553**	**$ 81,640**
Fluid Power & Flow Control Segment:		
Net sales	$ 268,045	$ 321,664
Operating income	**$ 30,829**	**$ 40,586**
Corporate and other expense, net (1)	$ 21,915	$ 26,383
Non-routine income	(2,609)	-
Adjusted corporate and other expense, net (1)	**$ 24,524**	**$ 26,383**

Note: (1) Includes intangible amortization expense.

Appendix: Reconciliation of Adjusted Net Income and EPS

	Three Months Ended March 31, 2021				
(dollar amount in thousands)	**Pre-tax**	**Tax Effect**	**Net of Tax**	**Per Share Diluted Impact**	**Tax Rate**
Net income and net income per share	**$ 68,516**	**$ 12,453**	**$ 56,063**	**$ 1.42**	**18.2%**
Non-routine income	(2,609)	(613)	(1,996)	(0.05)	23.5%
Adjusted net income and net income per share	**$ 65,907**	**$ 11,840**	**$ 54,067**	**$ 1.37**	**18.0%**

Appendix: Reconciliation of Adjusted SD&A Expense

	Three Months Ended March 31	
(dollar amount in thousands)	**Q3 FY21**	**Q3 FY22**
SD&A (Operating Expense)	$ 172,758	$ 191,481
Non-routine income	(2,609)	-
Adjusted SD&A (Adjusted Operating Expense)	$ 175,367	$ 191,481

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Appendix: Reconciliation of EBITDA and Adjusted EBITDA

	Three Months Ended March 31	
(dollar amount in thousands)	**Q3 FY21**	**Q3 FY22**
Net Income	**$ 56,063**	**$ 68,306**
Interest expense, net	7,608	5,852
Income tax expense	12,453	21,216
Depreciation and amortization of property	5,080	5,352
Amortization of intangibles	8,236	7,891
EBITDA	**$ 89,440**	**$ 108,617**
Non-routine costs (income)	(2,609)	-
Adjusted EBITDA	**$ 86,831**	**$ 108,617**

Appendix: Reconciliation of Adjusted EBITDA Margin

	Three Months Ended March 31	
(dollar amount in thousands)	**Q3 FY21**	**Q3 FY22**
Net Sales	**$ 840,937**	**$ 980,662**
Adjusted EBITDA	86,831	108,617
Adjusted EBITDA Margin	**10.3%**	**11.1%**

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

	Three Months Ended March 31									
(dollar amount in thousands)	**Q3 FY13**	**Q3 FY14**	**Q3 FY15**	**Q3 FY16**	**Q3 FY17**	**Q3 FY18**	**Q3 FY19**	**Q3 FY20**	**Q3 FY21**	**Q3 FY22**
Cash provided by Operating Activities	$40,170	$ 11,663	$ 38,139	$ 57,851	$ 32,848	$ 26,694	$ 11,586	$ 64,725	$ 44,053	$ 52,559
Capital Expenditures	(2,993)	(2,366)	(3,203)	(3,704)	(5,077)	(6,438)	(4,615)	(4,258)	(3,728)	(4,164)
Free Cash Flow	$37,177	$ 9,297	$ 34,936	$ 54,147	$ 27,771	$ 20,256	$ 6,971	$ 60,467	$ 40,325	$ 48,395

	Nine Months Ended March 31									
(dollar amount in thousands)	**YTD FY13**	**YTD FY14**	**YTD FY15**	**YTD FY16**	**YTD FY17**	**YTD FY18**	**YTD FY19**	**YTD FY20**	**YTD FY21**	**YTD FY22**
Cash provided by Operating Activities	$69,056	$ 44,326	$ 39,312	$ 91,296	$ 78,506	$ 47,878	$ 77,166	$ 169,624	$ 203,409	$ 133,823
Capital Expenditures	(9,836)	(6,492)	(11,009)	(9,441)	(11,787)	(17,898)	(11,711)	(16,223)	(12,177)	(11,674)
Free Cash Flow	$59,220	$ 37,834	$ 28,303	$ 81,855	$ 66,719	$ 29,980	$ 65,455	$ 153,401	$ 191,232	$ 122,149

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Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22
Net Income	$ (82,777)	$ 29,989	$ 34,784	$ (5,334)	$ 56,063	$ 59,244	$ 52,969	$ 57,026	$ 68,306
Interest expense, net	8,805	8,088	7,653	7,658	7,608	7,673	7,390	7,007	5,852
Income tax expense	(2,550)	10,090	10,048	(4,834)	12,453	14,638	14,567	15,013	21,216
Depreciation and amortization	5,380	5,199	5,352	5,209	5,080	5,139	5,427	5,436	5,352
Amortization of intangibles	10,048	9,882	9,726	8,276	8,236	8,127	8,121	8,084	7,891
EBITDA	**$ (61,094)**	**$ 63,248**	**$ 67,563**	**$ 10,975**	**$ 89,440**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**
Goodwill & intangible impairment	131,000			49,528					
Non-routine costs (income)	5,997	1,540		7,772	(2,609)				
Adjusted EBITDA	**$ 75,903**	**$ 64,788**	**$ 67,563**	**$ 68,275**	**$ 86,831**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**
Trailing 4-Quarter EBITDA	**316,228**	**293,458**	**282,803**	**276,529**	**287,457**	**317,490**	**338,401**	**362,692**	**384,478**
Current portion of long-term debt	$ 78,642	$ 78,646	$ 78,651	$ 78,638	$ 78,644	$ 43,525	$ 88,401	$ 40,182	$ 40,166
Long-term debt	864,758	855,143	792,827	783,076	773,404	784,855	730,307	681,266	681,197
Total Debt	$ 943,400	$ 933,789	$ 871,478	$ 861,714	$ 852,048	$ 828,380	$ 818,708	$ 721,448	$ 721,363
Cash	165,464	268,551	271,060	288,775	304,016	257,745	247,313	154,843	188,084
Net Debt	$ 777,936	$ 665,238	$ 600,418	$ 572,939	$ 548,032	$ 570,635	$ 571,395	$ 566,605	$ 533,279
Net Leverage Ratio	**2.5**	**2.3**	**2.1**	**2.1**	**1.9**	**1.8**	**1.7**	**1.6**	**1.4**