Fiscal Q4 2022 Recap and FY23 Outlook Investor Presentation

August 11, 2022

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; Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **F4Q22 outperformance further validates our differentiated industry position,** and reflects accelerating growth, operational execution, and ongoing progress with internal initiatives during the quarter.

- **Underlying demand strengthened in F4Q22 with solid growth during June;** average daily sales increased ~19% YoY and ~9% sequentially; order rates remain positive into early F1Q23.

- **Macro uncertainty partially balanced by company position;** structural tailwinds across industrial sector, favorable end-market mix, order backlog, and self-help initiatives provide support entering FY23.

- **Incremental margins benefiting from strong growth, margin initiatives, and sustained cost leverage;** reflects business position and systems / process enhancements, and helping drive stronger returns on capital.

- **Sustaining EBITDA margin expansion** despite meaningful LIFO expense headwinds (~140 bps YoY in F4Q22); establishing new intermediate EBITDA margin target of 12%+.

- **Balance sheet supports growth and shareholder returns in FY23;** net leverage at 1.2x with balance sheet capacity over $1B; M&A pipeline active with opportunities across Automation, Fluid Power, and Flow Control.

Fiscal Q4 2022 Key Financial Highlights

- **Sales up 18.5% YoY**
  - Up 18.7% on an organic basis
  - Acquisitions +0.3%, currency -0.5%

- **Net Income of $79.1M and EPS of $2.02**
  - EPS up 34.4% from prior year of $1.51
  - Includes $10.8M pre-tax ($0.22/sh) of LIFO expense in F4Q22 vs. $3.7M ($0.07/sh) of LIFO income in F4Q21

- **Gross margin 28.9%, down 47 bps vs. prior year of 29.4%**
  - Includes an unfavorable 136 bps YoY impact due to higher LIFO expense

- **SD&A expense 18.6% of sales vs. prior year of 20.3%**
  - Up 8.5% YoY on an organic, constant currency basis

- **EBITDA of $120.0M, up 26.5% vs. prior year of $94.8M**
  - Includes a net $14.5M unfavorable YoY impact due to higher LIFO expense
  - 11.3% EBITDA margin up 72 bps YoY including an unfavorable 136 bps YoY impact due to higher LIFO expense

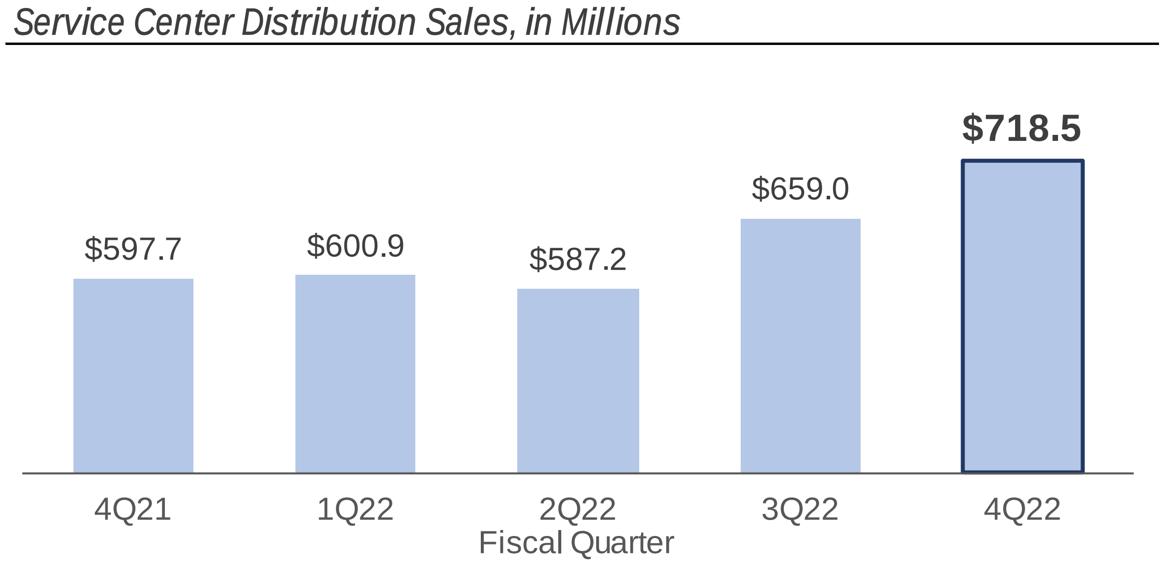
- **Operating cash flow of $53.7M; free cash flow of $47.3M or 60% of net income**
  - Full-year FY22 free cash flow of $169M or 66% of net income inclusive of growth-focused working capital investment

Current Investor Discussion Points

Discussion Point	Update	Detail
1. Underlying Demand	• *Demand remains favorable and strengthened during F4Q22; order rates and backlog continue to increase with little sign of slowing to date despite incremental macro uncertainty*	• *F4Q22 YoY organic sales growth of ~19% represented the highest quarterly sales growth during FY22; underlying volume growth accelerated during the quarter with trends strongest in June*
2. End-Market Trends	• *Breadth of positive growth remains wide across core end markets with sequential momentum building within most verticals, including incremental growth contribution from heavy industrial verticals*	• *25 of top 30 industry verticals up YoY in F4Q22; strongest growth across metals, aggregates, pulp & paper, energy, mining, chemicals, refineries, lumber & wood, and machinery*
3. Inflation & Pricing	• *Inflationary pressures persisting with ongoing supplier price increases and greater LIFO expense; price actions, channel execution, and other countermeasures continue to provide support*	• *LIFO expense of $10.8M in F4Q22 vs. LIFO income of $3.7M in F4Q21 represented a 136 bps headwind on margins during the quarter; price contributed ~500 bps to YoY sales growth in F4Q22*
4. Supply Chain	• *Supply chain challenges remain with little sign of improvement to date; greater customer supply chain requirements and investments continue to position Applied well over the medium to long term*	• *Industry position, service capabilities, and complementary technical solutions driving incremental growth opportunities; component lead times and shipment delays created some headwind to FP & FC segment sales growth during F4Q22*
5. Operating Costs	• *Seeing sustained cost leverage despite inflationary headwinds reflecting enhanced internal processes and operational efficiencies from system investments and our shared services model*	• *F4Q22 incremental EBIT margins at ~17% including a significant YoY LIFO expense headwind during the quarter; SD&A expense as a percent of sales remains at record lows*
6. FY23 Outlook	• *Mindful of increased economic uncertainty, but remain constructive given structural demand tailwinds across core end markets and channels, self-help growth opportunities, and sustained pricing contribution near-term*	• *Sales F1Q23 to date up by a mid-teens percent YoY; FY23 sales guidance of 3% to 7% assumes slowing underlying sales trends as the year progresses given current macro uncertainty*
7. Capital Deployment	• *Balance sheet in solid position to support growth initiatives and shareholder returns going forward; M&A pipeline remains active across Automation, Flow Control, and Fluid Power*	• *Deployed $213M in FY22 toward M&A, debt pay down, dividends, and share buybacks; includes $140M of debt pay down; announced new 1.5M share repurchase program*

Segment Results – Service Center Based Distribution

<u>Segment Overview</u>: *Representing 67% of fiscal 2022 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*

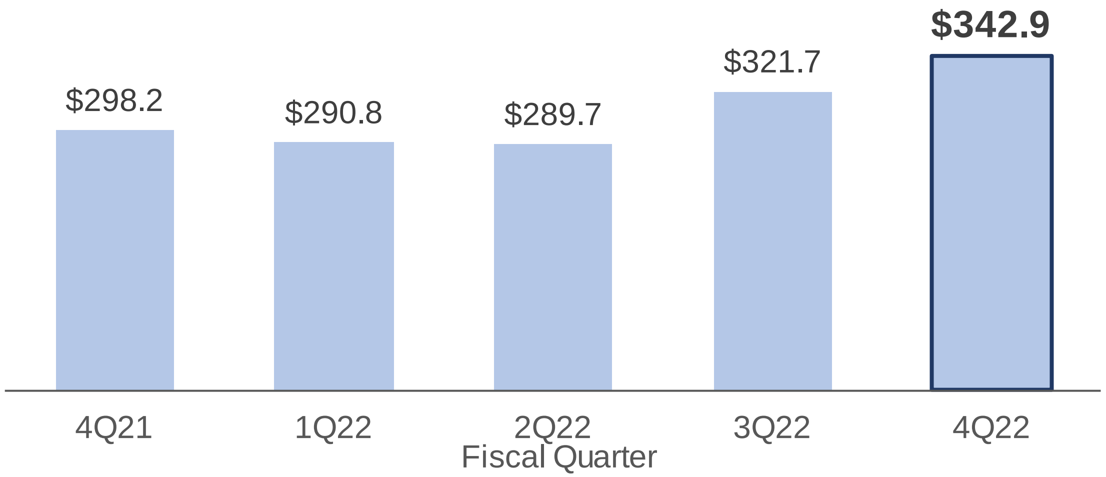


- **Sales up 20.2% YoY in F4Q22**
  - Organic + 21.0%
  - Currency - 0.8%
- Sales growth continuing to benefit from favorable break-fix MRO activity, sales process initiatives, and ongoing pricing actions, as well as incremental growth contribution from heavy industry verticals
- Strongest growth across mining, metals, pulp & paper, energy, aggregates, rubber & plastics, and lumber & wood
- Segment operating income of $88.1M in F4Q22

Segment Results – Fluid Power & Flow Control

Segment Overview: *Representing 33% of fiscal 2022 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 advanced automation products and solutions.*

Fluid Power & Flow Control Sales, in Millions



- **Sales up 15.0% YoY in F4Q22**
  - Organic + 14.0%
  - Acquisitions + 1.0%
- End-market growth most favorable across metals, chemicals, refining, utilities, pulp & paper, and mining; ongoing demand strength across technology verticals and automation, partially offset by supply chain bottlenecks
- Segment backlog expanded further during the quarter with no relevant signs of order cancellations or deferred customer spending to date
- Segment operating income of $44.8M in F4Q22

Fiscal Q4 2022 Margin and Expense Highlights

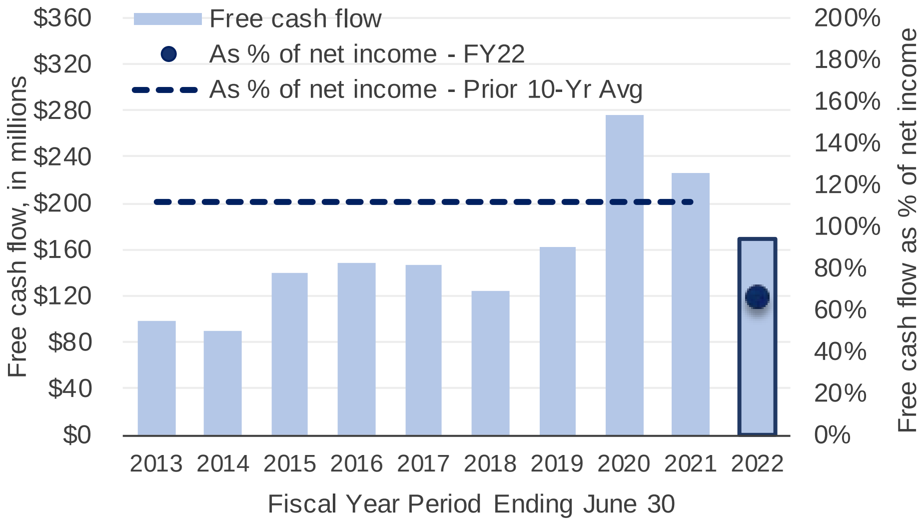
Gross Profit, SD&A, and EBITDA Metrics

$ in millions	**Q4 22**	**Q4 21**	**Chg YoY**	***LIFO Impact YoY***
Gross Profit	**$306.6**	$263.0	16.6%	*(5.5%)*
Gross Margin	**28.9%**	29.4%	(47) bps	*(136) bps*
SD&A Expense	**$197.4**	$181.9	8.5%	
% of Sales	**18.6%**	20.3%	170 bps	
EBITDA	**$120.0**	$94.8	26.5%	*(15.3%)*
EBITDA Margin	**11.3%**	10.6%	72 bps	*(136) bps*
Memo:				
LIFO Expense (Income)	**$10.8**	($3.7)		

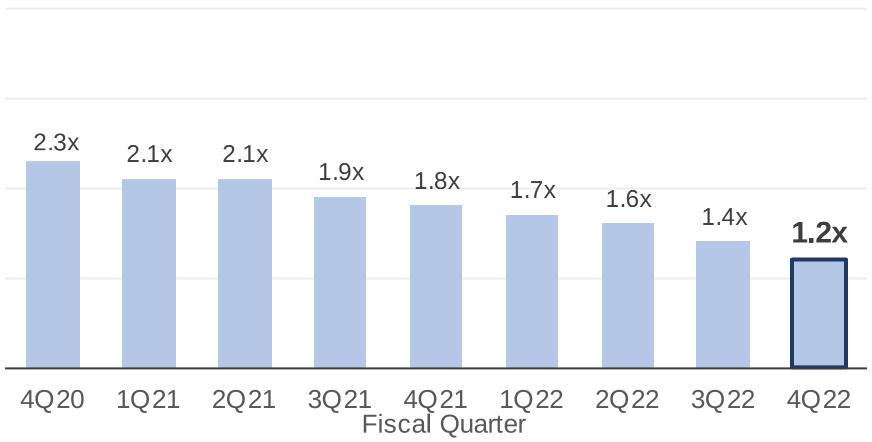
- **Gross margin down 47 bps YoY**
  - Includes an unfavorable 136 bps YoY impact due to LIFO
  - Down 41 bps sequentially including an unfavorable 32 bps LIFO impact
  - Price actions, channel execution, effective freight management, and ongoing margin initiatives providing support
- **SD&A expense up 8.5% YoY**
  - 18.6% of sales vs. 20.3% in the prior-year period
  - Reflects strong expense control, operational discipline, and efficiency gains
  - Includes slight favorability tied to self-insurance performance and lower deferred compensation expense
- **EBITDA margin of 11.3% up 72 bps YoY**
  - Includes an unfavorable 136 bps YoY impact due to LIFO

Cash Flow and Balance Sheet

Free Cash Flow (in Millions) - Fiscal Year Period



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F4Q22 cash from operations of $53.7M; free cash of $47.3M**
  - Full-year FY22 cash from operations of $188M; free cash of $169M
  - Full-year FY22 free cash at 65.8% of net income
  - Ongoing traction with working capital initiatives balancing growth investment
- **Net leverage ratio at 1.2x as of June 30, 2022**
  - Below prior-year level of 1.8x
  - Total debt down ~30% since early 2018
- **Strong balance sheet capacity to support growth** *(as of 6/30/22)*
  - $185M of cash on hand
  - $490M 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

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Fiscal 2023 Guidance and Outlook Assumptions

	Fiscal 2023 Guidance
Total Sales - YoY % change	**3% - 7%**
EBITDA Margin	**10.8% - 11.1%**
Diluted EPS	**$6.65 - $7.30**
Additional Assumptions:	
Depreciation & amortization expense	$53 - $54
Interest & other expense	$28 - $29
Effective tax rate	22.5% - 23.5%

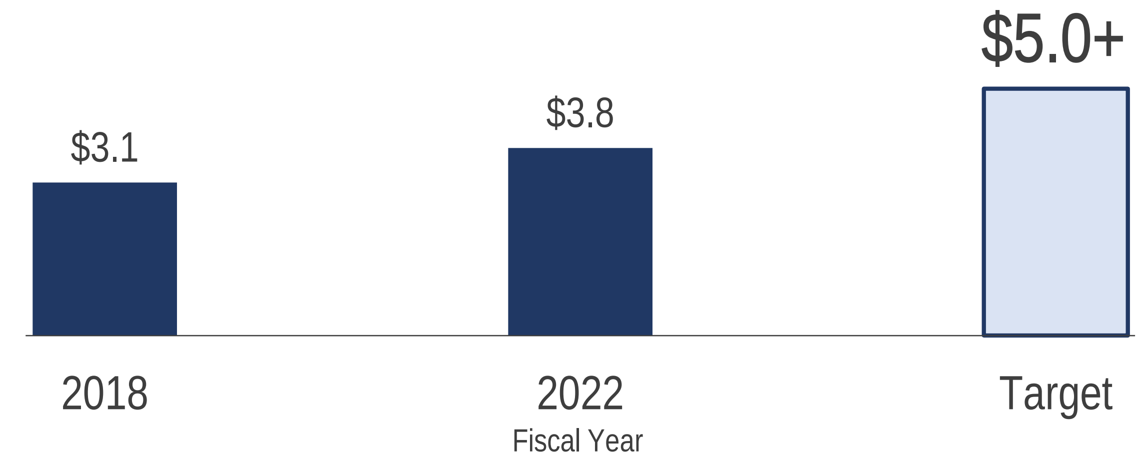
Fiscal 2023 Guidance Assumptions:

- Slowing industrial activity as the year progresses considering greater macro headwinds and general uncertainty
- Support from favorable industry position, end-market mix, internal initiatives, new growth opportunities, and price contribution
- Mid-point assumes average 1H YoY sales growth in the high single-digits, and average 2H YoY sales growth in the low single-digits
- Expect low double-digit YoY organic sales growth in F1Q23
- Persisting inflationary and supply chain headwinds
    - Ongoing YoY LIFO expense headwinds near-term
- Stronger cash generation YoY
- Excludes potential incremental M&A contribution

Note: $ amount in millions except EPS.

Intermediate Financial Objectives

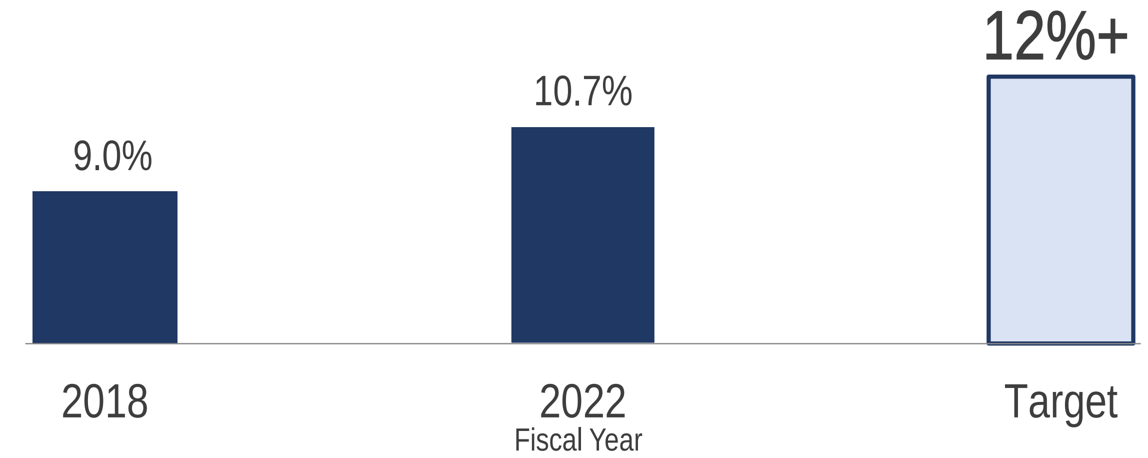
Net Sales – Grow to $5+ Billion



Strategic Drivers & Considerations

- Mid Single-Digit Plus Organic Growth on Average Over an 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 Annual Growth on Average From Accretive Acquisitions
  - *Primary Focus on Automation, Flow Control, and Fluid Power*
- High Single-Digit Sales CAGR Over Horizon

EBITDA Margins – Expand to 12%+



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 of Cost Discipline and Accountability
- Expansion of Higher Margin Products and Solutions
- Double-Digit EPS CAGR Over Horizon

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

Fiscal Period	Q1	Q2	Q3	Q4	Year
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 June 30 Q4 FY21	Q4 FY22
Service Center Based Distribution Segment:		
Net sales	$ 597,667	$ 718,517
Operating income	**$ 67,098**	**$ 88,138**
Fluid Power & Flow Control Segment:		
Net sales	$ 298,221	$ 342,942
Operating income	**$ 38,445**	**$ 44,827**
Corporate and other expense, net (1)	$ 24,442	$ 23,741

Note: (1) Includes intangible amortization expense.

Appendix: Reconciliation of EBITDA

(dollar amount in thousands)	Three Months Ended June 30 Q4 FY21	Three Months Ended June 30 Q4 FY22
Net Income	**$ 59,244**	**$ 79,113**
Interest expense, net	7,673	6,014
Income tax expense	14,638	21,580
Depreciation and amortization of property	5,139	5,461
Amortization of intangibles	8,127	7,783
EBITDA	**$ 94,821**	**$ 119,951**

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Appendix: Reconciliation of EBITDA Margin

(dollar amount in thousands)	Three Months Ended June 30 Q4 FY21	 Q4 FY22
Net Sales	**$ 895,888**	**$ 1,061,459**
EBITDA	94,821	119,951
EBITDA Margin	**10.6%**	**11.3%**

Appendix: Reconciliation of Free Cash Flow

	Three Months Ended June 30									
(dollar amount in thousands)	**Q4 FY13**	**Q4 FY14**	**Q4 FY15**	**Q4 FY16**	**Q4 FY17**	**Q4 FY18**	**Q4 FY19**	**Q4 FY20**	**Q4 FY21**	**Q4 FY22**
Cash provided by Operating Activities	$ 42,341	$ 65,784	$ 117,695	$ 70,718	$ 86,113	$ 99,426	$ 103,435	$ 127,090	$ 38,288	$ 53,747
Capital Expenditures	(2,378)	(13,698)	(3,924)	(3,689)	(5,258)	(5,332)	(7,259)	(3,892)	(3,675)	(6,450)
Free Cash Flow	$ 39,963	$ 52,086	$ 113,771	$ 67,029	$ 80,855	$ 94,094	$ 96,176	$ 123,198	$ 34,613	$ 47,297

	Year Ended June 30									
(dollar amount in thousands)	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Cash provided by Operating Activities	$ 111,397	$ 110,110	$ 157,007	$ 162,014	$ 164,619	$ 147,304	$ 180,601	$ 296,714	$ 241,697	$ 187,570
Capital Expenditures	(12,214)	(20,190)	(14,933)	(13,130)	(17,045)	(23,230)	(18,970)	(20,115)	(15,852)	(18,124)
Free Cash Flow	$ 99,183	$ 89,920	$ 142,074	$ 148,884	$ 147,574	$ 124,074	$ 161,631	$ 276,599	$ 225,845	$ 169,446

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Net Income	$ 29,989	$ 34,784	$ (5,334)	$ 56,063	$ 59,244	$ 52,969	$ 57,026	$ 68,306	$ 79,113
Interest expense, net	8,088	7,653	7,658	7,608	7,673	7,390	7,007	5,852	6,014
Income tax expense	10,090	10,048	(4,834)	12,453	14,638	14,567	15,013	21,216	21,580
Depreciation and amortization	5,199	5,352	5,209	5,080	5,139	5,427	5,436	5,352	5,461
Amortization of intangibles	9,882	9,726	8,276	8,236	8,127	8,121	8,084	7,891	7,783
EBITDA	**$ 63,248**	**$ 67,563**	**$ 10,975**	**$ 89,440**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**
Goodwill & intangible impairment			49,528						
Non-routine costs (income)	1,540		7,772	(2,609)					
Adjusted EBITDA	**$ 64,788**	**$ 67,563**	**$ 68,275**	**$ 86,831**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**
Trailing 4-Quarter EBITDA	**293,458**	**282,803**	**276,529**	**287,457**	**317,490**	**338,401**	**362,692**	**384,478**	**409,608**
Current portion of long-term debt	$ 78,646	$ 78,651	$ 78,638	$ 78,644	$ 43,525	$ 88,401	$ 40,182	$ 40,166	$ 40,174
Long-term debt	855,143	792,827	783,076	773,404	784,855	730,307	681,266	681,197	649,150
Total Debt	$ 933,789	$ 871,478	$ 861,714	$ 852,048	$ 828,380	$ 818,708	$ 721,448	$ 721,363	$ 689,324
Cash	268,551	271,060	288,775	304,016	257,745	247,313	154,843	188,084	184,474
Net Debt	$ 665,238	$ 600,418	$ 572,939	$ 548,032	$ 570,635	$ 571,395	$ 566,605	$ 533,279	$ 504,850
Net Leverage Ratio	**2.3**	**2.1**	**2.1**	**1.9**	**1.8**	**1.7**	**1.6**	**1.4**	**1.2**