APPLIED Industrial Technologies®

Fiscal Q2 2023 Recap

January 26, 2023

- The Premier Provider of Advanced Motion, Power, Control, & Automation Solutions to Critical Industrial Infrastructure -

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,” “target,” “objectives,” “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 (such as the inflationary environment and supply chain strains), 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 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

- **Sustaining notable growth with organic sales up 21% and EPS up 41% in F2Q23**; industry position, internal initiatives, strategic evolution, and execution supporting continued outgrowth and margin expansion.
- **Underlying demand resilient across both segments through quarter end;** structural and secular tailwinds across legacy and new markets, company-specific opportunities, and backlog providing support.
- **EBITDA margins achieve new quarterly record at 11.8%;** driving ongoing countermeasures to offset inflationary headwinds, as well as controlling costs and leveraging operational enhancements.
- **Announced acquisition of Automation, Inc. during F2Q23;** further expands scaling automation platform across key verticals and geographies; automation growth pipeline remains favorable.
- **Raising fiscal 2023 guidance to reflect** strong F2Q23 performance and increased F2H23 outlook; mindful of broader macro uncertainty and potential slower industrial activity industry wide.
- **Significant long-term potential given industry position, cash generation, and balance sheet capacity;** making notable early progress toward intermediate objectives of $5B in sales and 12% EBITDA margins.

Fiscal Q2 2023 Key Financial Highlights

- **Sales up 20.9% YoY**
  - Up 21.1% on an organic basis
  - Acquisitions +0.5%, currency -0.7%

- **Net Income of $80.5M and EPS of $2.05**
  - EPS up 40.8% from prior year of $1.46
  - Includes $8.9M pre-tax ($0.17/sh) of LIFO expense in F2Q23 vs. $4.7M ($0.09/sh) in F2Q22

- **Gross margin 29.1%, down 28 bps vs. prior year of 29.4%; up 22 bps sequentially**
  - Includes an unfavorable 39 bps YoY impact due to higher LIFO expense

- **SD&A expense 18.4% of sales vs. prior year of 20.5%**
  - Up 9.0% YoY on an organic, constant currency basis

- **EBITDA of $125.5M, up 35.6% vs. prior year of $92.6M**
  - Includes a net $4.2M unfavorable YoY impact due to higher LIFO expense
  - 11.8% EBITDA margin up 128 bps YoY including an unfavorable 39 bps YoY impact due to higher LIFO expense

- **Operating cash flow of $62.9M; free cash flow of $55.6M**
  - Inclusive of ongoing growth-focused working capital investment

Current Investor Discussion Points

Discussion Point	Update	Detail
1. Underlying Demand	• *Strong sales growth trends through F2Q23 reflecting a productive U.S. manufacturing backdrop, as well as ongoing traction with growth initiatives and backlog support*	• *F2Q23 YoY organic sales growth over 21% vs. 19% in F1Q23; average daily sales up 4% on an organic basis vs. F1Q23 and above normal seasonality; Jan to date up by a low-twenty pecent YoY*
2. End-Market Trends	• *Breadth of growth remains favorable, particularly when considering difficult prior-year comparisons; some slowing in select markets, but customer feedback remains fairly positive*	• *25 of top 30 industry verticals up YoY in F2Q23; strongest growth across food & beverage, pulp & paper, fabricated metals, energy, aggregates, and mining*
3. Inflation & Pricing	• *Inflationary pressures persisting with ongoing supplier price increases, though number of price increase announcements continues to moderate from elevated FY22 levels, as expected*	• *LIFO expense of $8.9M in F2Q23 vs. $4.7M in F2Q22 represented a 39 bps YOY headwind on margins during the quarter; estimated pricing contribution to YoY sales growth in F2Q23 was in the mid single digits, relatively similar to F1Q23 levels*
4. Growth Tailwinds	• *Growth profile more resilient and favorable vs. prior cycles reflecting a diverse mix of growth tailwinds tied to our channel strategy, business evolution in recent years, and internal initiatives*	• *Influenced by our technical industry position, more diversified end-market mix, exposure to secular tailwinds (U.S. manufacturing investments, reshoring, infrastructure) and government stimulus, ongoing automation build out, and sales force initiatives*
5. Operating Costs	• *Sustaining strong cost leverage despite ongoing inflationary headwinds reflecting enhanced internal processes and operational efficiencies from system investments and shared services model*	• *F2Q23 incremental EBIT margins at ~19% including YoY LIFO expense headwinds; SD&A expense up 9% YoY vs. a 21% YoY sales increase, and at record lows as a percent of sales*
6. Fiscal 2H23 Outlook	• *Strong F1H23 performance supporting improved F2H23 outlook relative to prior expectations; balanced by ongoing economic uncertainty, normalizing order rates, more difficult comparisons, and sustained inflationary pressures near term*	• *Increasing FY23 organic sales growth guidance to 13% to 15% (prior 6% to 10%); assumes F2H23 YoY organic sales growth in the high single digits at the mid-point of guidance*
7. Capital Allocation	• *Balance sheet and liquidity in solid position to support growth initiatives and shareholder returns; M&A remains priority with an increasingly active pipeline across focus areas*	• *Net leverage at 1.0x; expect stronger free cash generation going forward; announced acquisition of Automation, Inc. in early Nov 2022; increased quarterly dividend for the 14th time since 2010*

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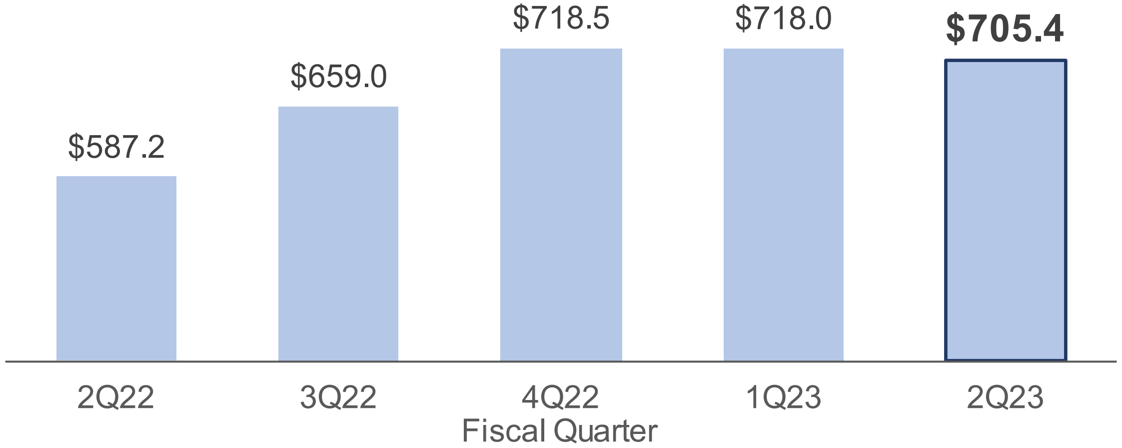
Segment Results – Service Center Based Distribution

Segment Overview: *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*

Service Center Distribution Segment Sales, in Millions



- **Sales up 20.1% YoY in F2Q23**
  - Organic + 21.1%
  - Currency - *1.0%*

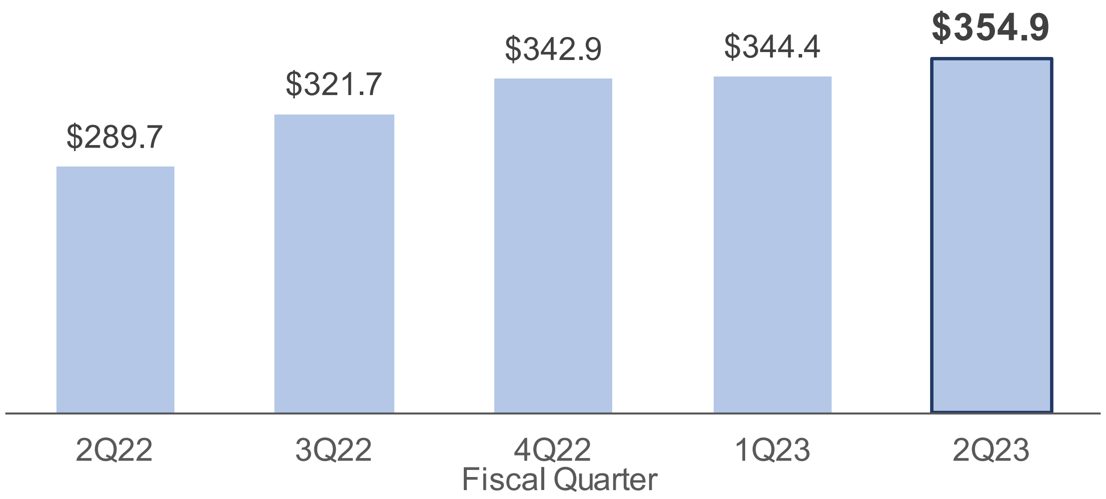
- Segment benefiting from favorable break-fix MRO activity, sales process initiatives, and ongoing pricing actions; secular growth and supply chain investments across U.S. manufacturing sector providing support

- Segment operating income of $86.5M in F2Q23

Segment Results – Engineered Solutions

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 focused on machine vision, robotics, motion, & digital technologies .*

Engineered Solutions Segment Sales, in Millions



- **Sales up 22.5% YoY in F2Q23**
  - Organic + 21.1%
  - Acquisitions + 1.4%

- Technical and engineering capabilities, backlog, automation demand, and diverse end-market mix supporting favorable growth backdrop; no material signs of order cancellations

- Segment operating income of $51.6M in F2Q23

Fiscal Q2 2023 Margin and Expense Highlights

Gross Profit, SD&A, and EBITDA Metrics

$ in millions	**Q2 23**	**Q2 22**	**Chg YoY**	***LIFO Impact YoY***
Gross Profit	**$308.5**	$257.6	19.7%	*(1.6%)*
Gross Margin	**29.1%**	29.4%	(28) bps	*(39) bps*
SD&A Expense	**$195.6**	$179.4	9.0%	
% of Sales	**18.4%**	20.5%	202 bps	
EBITDA	**$125.5**	$92.6	35.6%	*(4.5%)*
EBITDA Margin	**11.8%**	10.6%	128 bps	*(39) bps*
Memo:				
LIFO Expense	**$8.9**	$4.7		

- **Gross margin down 28 bps YoY**
  - Includes an unfavorable 39 bps YoY impact due to LIFO
  - Up 22 bps sequentially compared to F1Q23
  - Price actions, channel execution, effective freight management, and ongoing margin initiatives providing support
- **SD&A expense up 9.0% YoY**
  - 18.4% of sales vs. 20.5% in the prior-year period
  - Reflects expense control, operational discipline, and efficiency gains
- **EBITDA margin of 11.8% up 128 bps YoY**
  - Includes an unfavorable 39 bps YoY impact due to LIFO

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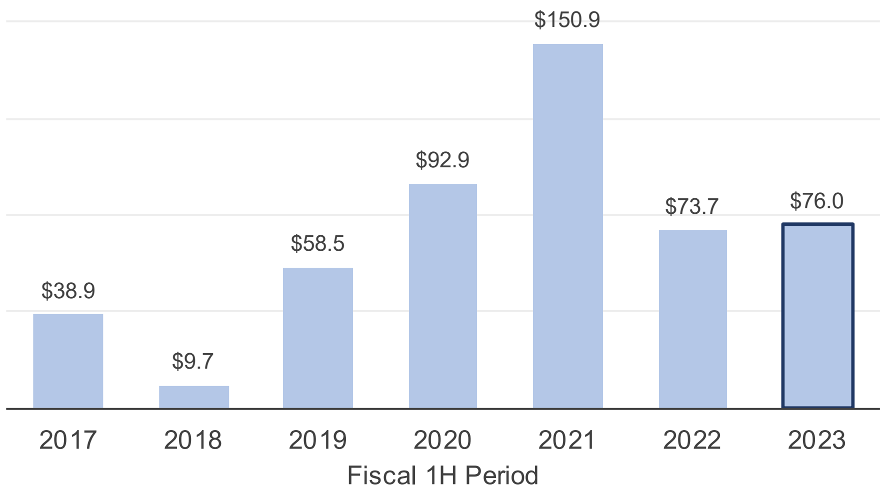
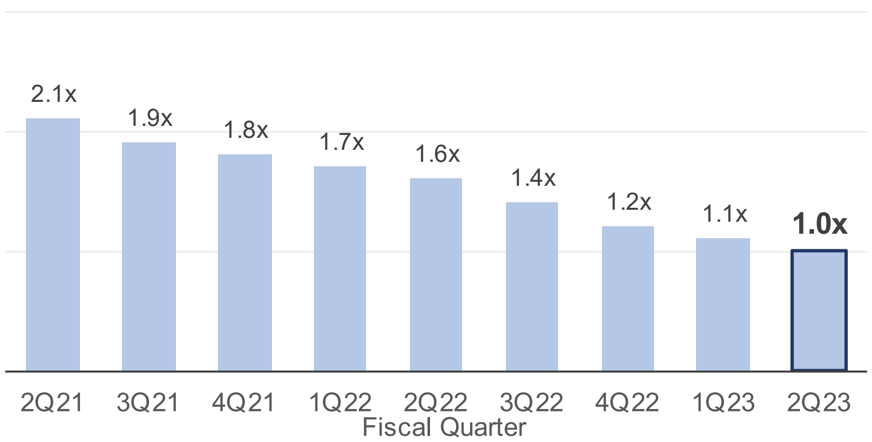
Cash Flow and Balance Sheet

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



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F2Q23 cash from operations of $62.9M; free cash of $55.6M**
  - Free cash at 69.1% of net income in the quarter, and up 93.6% YoY
  - F1H23 free cash of $76.0M, 48.3% of net income
  - Inclusive of ongoing working capital growth investment YTD
- **Net leverage ratio at 1.0x as of December 31, 2022**
  - Below prior-year level of 1.6x
  - Total debt down ~40% since early 2018
- **Strong balance sheet capacity to support growth** *(as of 12/31/22)*
  - $166M of cash on hand
  - $490M of available capacity under revolver
    - Additional $500M accordion option available
  - $220M of available capacity on uncommitted shelf facility
  - $62M of available capacity under AR securitization facility

Fiscal 2023 Guidance

Fiscal 2023 Guidance

	Prior (10/27/22)			Current (1/26/23)		
Total Sales - YoY % change	5%	-	9%	**13%**	**-**	**15%**
EBITDA Margin	10.9%	-	11.2%	**11.5%**	**-**	**11.7%**
Diluted EPS	$6.90	-	$7.55	**$8.10**	**-**	**$8.50**
Additional Assumptions:						
Depreciation & amortization expense	$53	-	$54	$53	-	$54
Interest & other expense	$30	-	$31	$28	-	$29
Effective tax rate	22.5%	-	23.5%	22.5%	-	23.5%

Updated Considerations:

- Raising FY2023 guidance to reflect strong F2Q23 performance and an increase to F2H23 assumptions
- Sales growth now expected at 13% to 15%
  - Similar range on an organic basis as ~50 bps of M&A contribution is offset by foreign currency headwinds
- Assumes high single digit YoY organic sales growth in F2H23 at the mid-point of guidance on difficult comparisons
- Expect slower growth industry wide into F2H23 considering macro headwinds, general uncertainty, and slowing order rates
- Support from favorable industry position, end-market mix, internal initiatives, and new growth opportunities
- F3Q23 assumptions:
  - Sales up by a low to mid-teen percent YoY
  - Gross margins relatively unchanged sequentially
  - Incremental margins at a mid-teen percent
    - Includes considerations tied to annual merit pay increase (Jan 1), ongoing inflationary pressures, and slower sales growth

Note: $ amount in millions except EPS.

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

Fiscal Period	Q1	Q2	Q3	Q4	Year
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**
2024	**63.0**	**61.0**	**63.5**	**64.0**	**251.5**

Appendix: Net Sales and Operating Income by Segment

(dollar amount in thousands)	Three Months Ended December 31 Q2 FY22	Three Months Ended December 31 Q2 FY23
Service Center Based Distribution Segment:		
Net sales	$ 587,218	$ 705,392
Operating income	**$ 67,450**	**$ 86,484**
Egineered Solutions Segment:		
Net sales	$ 289,656	$ 354,888
Operating income	**$ 36,426**	**$ 51,626**
Corporate and other expense, net (1)	$ 25,699	$ 25,217

Note: (1) Includes intangible amortization expense.

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Appendix: Reconciliation of EBITDA

(dollar amount in thousands)	Three Months Ended December 31 Q2 FY22	Three Months Ended December 31 Q2 FY23
Net Income	**$ 57,026**	**$ 80,457**
Interest expense, net	7,007	6,185
Income tax expense	15,013	25,493
Depreciation and amortization of property	5,436	5,552
Amortization of intangibles	8,084	7,814
EBITDA	**$ 92,566**	**$ 125,501**

Appendix: Reconciliation of EBITDA Margin

(dollar amount in thousands)	Three Months Ended December 31 Q2 FY22	Q2 FY23
Net Sales	**$ 876,874**	**$ 1,060,280**
EBITDA	92,566	125,501
EBITDA Margin	**10.6%**	**11.8%**

Appendix: Reconciliation of Free Cash Flow

	Three Months Ended September 30						
(dollar amount in thousands)	**Q1 FY17**	**Q1 FY18**	**Q1 FY19**	**Q1 FY20**	**Q1 FY21**	**Q1 FY22**	**Q1 FY23**
Cash provided by Operating Activities	$ 41,864	$ 9,440	$ 11,797	$ 50,018	$ 81,842	$ 48,642	$ 25,943
Capital Expenditures	(2,999)	(6,336)	(3,173)	(4,946)	(3,597)	(3,621)	(5,554)
Free Cash Flow	**$ 38,865**	**$ 3,104**	**$ 8,624**	**$ 45,072**	**$ 78,245**	**$ 45,021**	**$ 20,389**

	Three Months Ended December 31						
(dollar amount in thousands)	**Q2 FY17**	**Q2 FY18**	**Q2 FY19**	**Q2 FY20**	**Q2 FY21**	**Q2 FY22**	**Q2 FY23**
Cash provided by Operating Activities	$ 3,794	$ 11,744	$ 53,783	$ 54,881	$ 77,514	$ 32,622	$ 62,880
Capital Expenditures	(3,711)	(5,124)	(3,923)	(7,019)	(4,852)	(3,889)	(7,263)
Free Cash Flow	$ 83	$ 6,620	$ 49,860	$ 47,862	$ 72,662	$ 28,733	$ 55,617

	Six Months Ended December 31						
(dollar amount in thousands)	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Cash provided by Operating Activities	$ 45,658	$ 21,184	$ 65,580	$ 104,899	$ 159,356	$ 81,264	$ 88,823
Capital Expenditures	(6,710)	(11,460)	(7,096)	(11,965)	(8,449)	(7,510)	(12,817)
Free Cash Flow	$ 38,948	$ 9,724	$ 58,484	$ 92,934	$ 150,907	$ 73,754	$ 76,006

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
Net Income	$ (5,334)	$ 56,063	$ 59,244	$ 52,969	$ 57,026	$ 68,306	$ 79,113	$ 76,880	$ 80,457
Interest expense, net	7,658	7,608	7,673	7,390	7,007	5,852	6,014	6,480	6,185
Income tax expense	(4,834)	12,453	14,638	14,567	15,013	21,216	21,580	22,164	25,493
Depreciation and amortization	5,209	5,080	5,139	5,427	5,436	5,352	5,461	5,481	5,552
Amortization of intangibles	8,276	8,236	8,127	8,121	8,084	7,891	7,783	7,705	7,814
EBITDA	**$ 10,975**	**$ 89,440**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**	**$ 118,710**	**$ 125,501**
Goodwill & intangible impairment	49,528								
Non-routine costs (income)	7,772	(2,609)							
Adjusted EBITDA	**$ 68,275**	**$ 86,831**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**	**$ 118,710**	**$ 125,501**
Trailing 4-Quarter EBITDA	**276,529**	**287,457**	**317,490**	**338,401**	**362,692**	**384,478**	**409,608**	**439,844**	**472,779**
Current portion of long-term debt	$ 78,638	$ 78,644	$ 43,525	$ 88,401	$ 40,182	$ 40,166	$ 40,174	$ 181	$ 25,189
Long-term debt	783,076	773,404	784,855	730,307	681,266	681,197	649,150	649,103	624,052
Total Debt	$ 861,714	$ 852,048	$ 828,380	$ 818,708	$ 721,448	$ 721,363	$ 689,324	$ 649,284	$ 649,241
Cash	288,775	304,016	257,745	247,313	154,843	188,084	184,474	147,575	165,538
Net Debt	$ 572,939	$ 548,032	$ 570,635	$ 571,395	$ 566,605	$ 533,279	$ 504,850	$ 501,709	$ 483,703
Net Leverage Ratio	**2.1**	**1.9**	**1.8**	**1.7**	**1.6**	**1.4**	**1.2**	**1.1**	**1.0**

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