Fiscal Q3 2023 Recap

April 27, 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 Adjusted Earnings per Share (EPS); Adjusted Net Income; 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; EBITDA; Adjusted EBITDA; Free Cash Flow; Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **Reported record quarterly results** on solid +15% sales growth and ongoing margin expansion; executing well within an evolving macro backdrop reflecting our industry position and internal growth opportunities.
- **Underlying demand backdrop remains healthy;** rate of sales growth moderating as customer activity normalizes against difficult comparisons; support from structural and secular tailwinds across core markets.
- **Gross margins expanded YoY and sequentially** primarily reflecting broad-based execution, ongoing inflationary countermeasures, and internal initiatives.
- **EBITDA margin expansion momentum sustaining;** primarily reflecting strong operating leverage and internal initiatives; driving notable progress toward intermediate annual EBITDA margin targets.
- **Acquired Advanced Motion Systems Inc. in late March;** further expands scaling automation platform across key verticals and geographies; automation growth pipeline remains favorable.
- **Adjusting fiscal 2023 guidance to reflect F3Q23 performance;** mindful of broader macro uncertainty, difficult F4Q23 comparisons, and slower industrial activity industry wide near term.

Fiscal Q3 2023 Key Financial Highlights

- **Sales up 15.4% YoY**
  - Up 15.0% on an organic basis
  - Acquisitions +0.7%, currency -0.3%
- **Net Income of $97.2M and EPS of $2.47**
- **Non-GAAP Adjusted Net Income of $93.5M and Adjusted EPS of $2.38**
  - Excludes a net $3.7M tax benefit from the release of a deferred tax valuation allowance
  - Adjusted EPS up 36.3% from the prior year
  - Includes $8.2M pre-tax ($0.16/sh) of LIFO expense in F3Q23 vs. $7.4M ($0.14/sh) in F3Q22
- **Gross margin 29.4%, up 13 bps vs. prior year of 29.3%; up 33 bps sequentially**
  - Includes an unfavorable 7 bps YoY impact due to higher LIFO expense
- **SD&A expense 18.2% of sales vs. prior year of 19.5%**
  - Up 7% YoY on an organic, constant currency basis
- **EBITDA of $140.3M, up 29.2% vs. prior year of $108.6M**
  - 12.4% EBITDA margin up 132 bps YoY including an unfavorable 7 bps YoY impact due to higher LIFO expense
- **Operating cash flow of $75.2M; free cash flow of $67.2M**
  - Free cash flow up 39% from the prior year and 21% sequentially

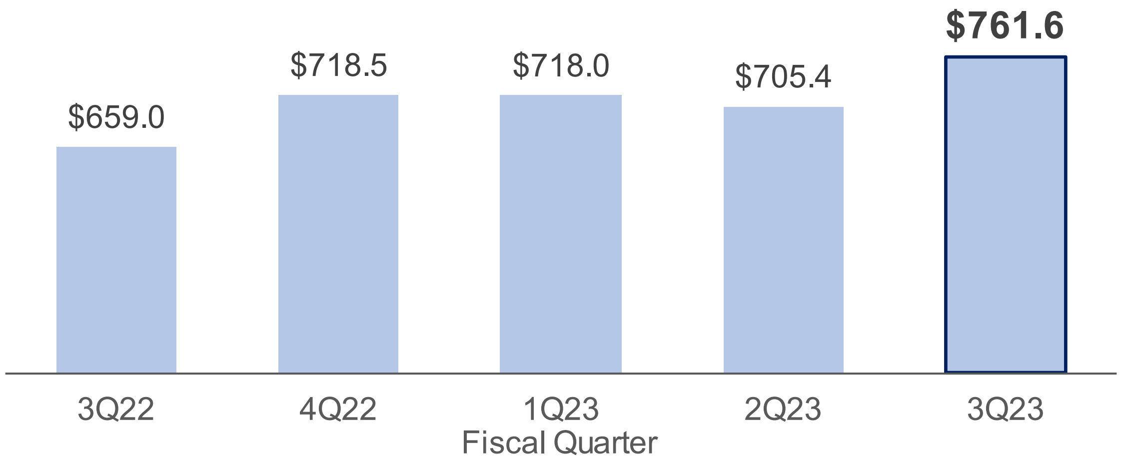
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Underlying Demand	• *Customer feedback remains generally healthy and supported by traction with our growth initiatives and industry position; industry activity normalizing from recent robust levels, as expected*	• *F3Q23 YoY organic sales growth of 15% vs. 21% in F2Q23; average daily sales up ~1% on an organic basis vs. F2Q23; April to date up by a high single-digit percent YoY*
2. End-Market Trends	• *Demand remains generally stable within most core end markets; seeing some slowing in lower-tier verticals, partially reflecting normalizing activity on more difficult comparisons*	• *22 of top 30 industry verticals up YoY in F3Q23; strongest growth across food & beverage, pulp & paper, aggregates, chemicals, energy, lumber & wood, and mining*
3. Inflation & Pricing	• *Broader inflationary pressures persisting with ongoing supplier price increases, though the number of price increase announcements continues to moderate as expected*	• *LIFO expense of $8.2M in F3Q23 vs. $7.4M in F3Q22; estimated pricing contribution to YoY sales growth in F3Q23 was in the mid single digits, relatively consistent with F2Q23 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. Near-term Outlook	• *Expect ongoing moderation in the rate of sales growth through the balance of FY23 and potentially into early FY24; reflects normalizing market demand and more difficult comparisons*	• *Updated FY23 organic sales growth guidance assumes low single to mid single digit organic sales growth in F4Q23, and sequential daily sales trends below normal seasonal patterns*
6. Macro Sensitivity	• *Track record of executing across all macro environments, including strong margin/cost discipline and counter-cyclical cash flow; more favorable growth profile vs. prior cycles*	• *Showing solid outperformance vs. moderating macro industrial indicators (U.S. IP, CU, ISM); average decremental margins during the prior two industrial downcycles in the low double digits*
7. Capital Allocation	• *Balance sheet and liquidity in solid position to support growth initiatives and shareholder returns; M&A remains top priority with an increasingly active pipeline across focus areas*	• *Net leverage at 0.9x; acquired Advanced Motion Systems Inc. in late March 2023; dividend growth and opportunistic share buybacks remain in scope going forward*

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*

Service Center Distribution Segment Sales, in Millions



- **Sales up 15.6% YoY in F3Q23**
  - Organic + 16.1%
  - Currency - *0.5*%

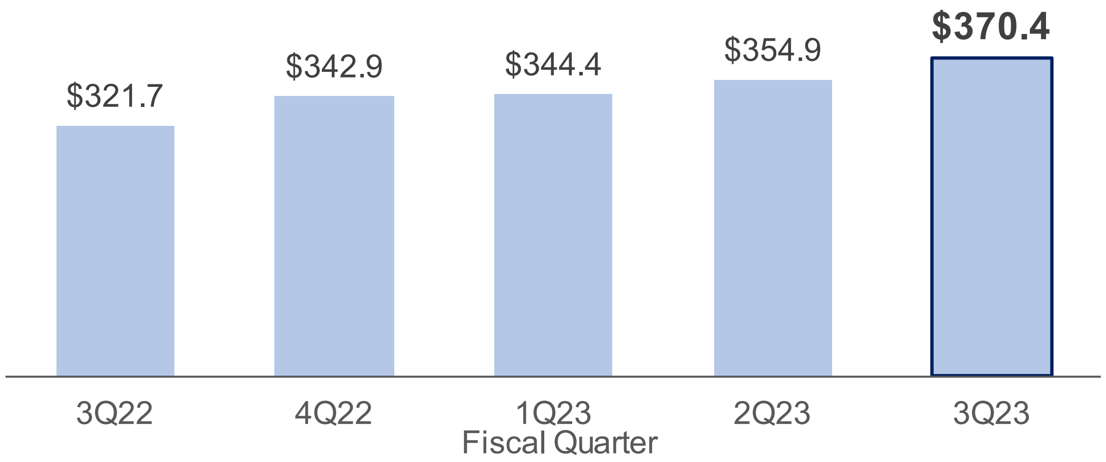
- Ongoing benefits from market position, sales process initiatives, and pricing actions; secular growth and supply chain investments providing additional support; some signs of moderating demand in certain end markets.

- Segment operating income of $103.1M in F3Q23

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 15.2% YoY in F3Q23**
  - Organic + 13.1%
  - Acquisitions + 2.1%
- Technical and engineering capabilities, backlog, and diverse end-market mix supporting growth, partially offset by slower activity across technology sector, and ongoing supply chain constraints.
- Segment operating income of $51.9M in F3Q23

Fiscal Q3 2023 Margin and Expense Highlights

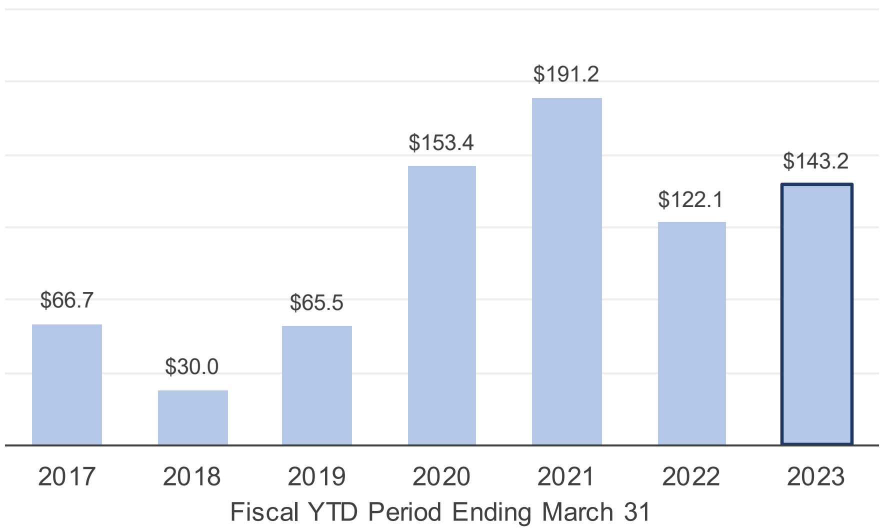
Gross Profit, SD&A, and EBITDA Metrics

$ in millions	**Q3 23**	**Q3 22**	**Chg YoY**	***LIFO Impact YoY***
Gross Profit	**$333.1**	$287.3	15.9%	*(0.3%)*
Gross Margin	**29.4%**	29.3%	13 bps	*(7) bps*
SD&A Expense	**$206.2**	$191.5	7.7%	
% of Sales	**18.2%**	19.5%	131 bps	
EBITDA	**$140.3**	$108.6	29.2%	*(0.7%)*
EBITDA Margin	**12.4%**	11.1%	132 bps	*(7) bps*
Memo:				
LIFO Expense	**$8.2**	$7.4		

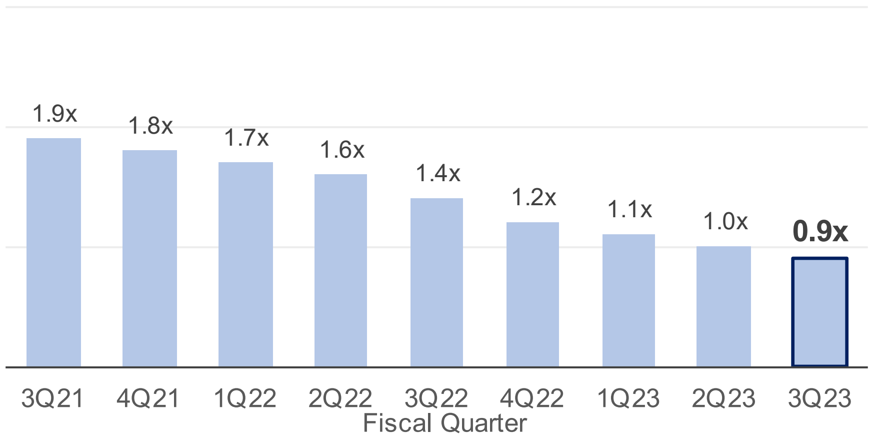
- **Gross margin up 13 bps YoY**
  - Includes an unfavorable 7 bps YoY impact due to LIFO
  - Up 33 bps sequentially compared to F2Q23
  - Price actions, channel execution, effective freight management, and ongoing margin initiatives providing support
- **SD&A expense up 7.7% YoY**
  - 18.2% of sales vs. 19.5% in the prior-year period
  - Primarily reflects cost control, operational discipline, efficiency gains, and execution of internal initiatives
- **EBITDA margin of 12.4% up 132 bps YoY**
  - Includes an unfavorable 7 bps YoY impact due to LIFO

Cash Flow and Balance Sheet

Free Cash Flow (in Millions) - Fiscal YTD Period



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F3Q23 cash from operations of $75.2M; free cash of $67.2M**
  - Free cash at 71.9% of adjusted net income in the quarter, and up 38.9% YoY
  - YTD free cash of $143.2M, 57.1% of adjusted net income
  - Inclusive of ongoing working capital growth investment YTD

- **Net leverage ratio at 0.9x as of March 31, 2023**
  - Below prior-year level of 1.4x
  - Total debt down 40% since early 2018

- **Strong balance sheet capacity to support growth** *(as of 3/31/23)*
  - $182M of cash on hand
  - $516M 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 (1/26/23)	Current (4/27/23)
Total Sales - YoY % change	13% - 15%	**14% - 15%**
EBITDA Margin	11.5% - 11.7%	**11.7% - 11.8%**
Adjusted Diluted EPS[(1)]	$8.10 - $8.50	**$8.47 - $8.60**
Additional Assumptions:		
Depreciation & amortization expense	$53 - $54	$53
Interest & other expense	$28 - $29	$24
Effective tax rate	22.5% - 23.5%	23.5%

(1) Excludes a net tax benefit of $3.7M in F3Q23 from a deferred tax valuation allowance adjustment

Updated Considerations:

- Tightening FY2023 sales guidance to high-end of prior range, and raising FY2023 EBITDA margin and EPS guidance to reflect F3Q23 performance
- Implied F4Q23 guidance:
  - Sales: Low to mid single-digit YoY increase
  - EBITDA Margin: 11.6% at the mid-point
  - EPS: $2.07 to $2.20
- Other F4Q23 assumptions and considerations:
  - More difficult comparisons
  - Expect moderating growth industry wide near term considering macro headwinds and general uncertainty
  - Gross margins down slightly from F3Q23 levels
  - Low double-digit incremental margins

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 March 31 Q3 FY22	Q3 FY23
Service Center Based Distribution Segment:		
Net sales	$ 658,998	$ 761,599
Operating income	**$ 81,640**	**$ 103,083**
Egineered Solutions Segment:		
Net sales	$ 321,664	$ 370,436
Operating income	**$ 40,586**	**$ 51,917**
Corporate and other expense, net [1]	$ 26,383	$ 28,089

Note: (1) Includes intangible amortization expense.

Appendix: Reconciliation of Adjusted Net Income and EPS

	Three Months Ended March 31, 2023				
(dollar amount in thousands)	**Pre-tax**	**Tax Effect**	**Net of Tax**	**Per Share Diluted Impact**	**Tax Rate**
Net income and net income per share	**$ 122,280**	**$ 25,093**	**$ 97,187**	**$ 2.47**	**20.5%**
Tax valuation allowance adjustment, net	-	3,657	(3,657)	(0.09)	3.0%
Adjusted net income and net income per share	**$ 122,280**	**$ 28,750**	**$ 93,530**	**$ 2.38**	**23.5%**

Appendix: Reconciliation of EBITDA

(dollar amount in thousands)	Three Months Ended March 31 Q3 FY22	Q3 FY23
Net Income	**$ 68,306**	**$ 97,187**
Interest expense, net	5,852	4,773
Income tax expense	21,216	25,093
Depreciation and amortization of property	5,352	5,565
Amortization of intangibles	7,891	7,670
EBITDA	**$ 108,617**	**$ 140,288**

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Appendix: Reconciliation of EBITDA Margin

(dollar amount in thousands)	Three Months Ended March 31 Q3 FY22	Three Months Ended March 31 Q3 FY23
Net Sales	**$ 980,662**	**$ 1,132,035**
EBITDA	108,617	140,288
EBITDA Margin	**11.1%**	**12.4%**

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

	Three Months Ended March 31						
(dollar amount in thousands)	**Q3 FY17**	**Q3 FY18**	**Q3 FY19**	**Q3 FY20**	**Q3 FY21**	**Q3 FY22**	**Q3 FY23**
Cash provided by Operating Activities	$ 32,848	$ 26,694	$ 11,586	$ 64,725	$ 44,053	$ 52,559	$ 75,204
Capital Expenditures	(5,077)	(6,438)	(4,615)	(4,258)	(3,728)	(4,164)	(7,992)
Free Cash Flow	$ 27,771	$ 20,256	$ 6,971	$ 60,467	$ 40,325	$ 48,395	$ 67,212

	Nine Months Ended March 31						
(dollar amount in thousands)	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Cash provided by Operating Activities	$ 78,506	$ 47,878	$ 77,166	$ 169,624	$ 203,409	$ 133,823	$164,027
Capital Expenditures	(11,787)	(17,898)	(11,711)	(16,223)	(12,177)	(11,674)	(20,809)
Free Cash Flow	$ 66,719	$ 29,980	$ 65,455	$ 153,401	$ 191,232	$ 122,149	$143,218

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Net Income	$ 56,063	$ 59,244	$ 52,969	$ 57,026	$ 68,306	$ 79,113	$ 76,880	$ 80,457	$ 97,187
Interest expense, net	7,608	7,673	7,390	7,007	5,852	6,014	6,480	6,185	4,773
Income tax expense	12,453	14,638	14,567	15,013	21,216	21,580	22,164	25,493	25,093
Depreciation and amortization	5,080	5,139	5,427	5,436	5,352	5,461	5,481	5,552	5,565
Amortization of intangibles	8,236	8,127	8,121	8,084	7,891	7,783	7,705	7,814	7,670
EBITDA	**$ 89,440**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**	**$ 118,710**	**$ 125,501**	**$ 140,288**
Goodwill & intangible impairment									
Non-routine costs (income)	(2,609)								
Adjusted EBITDA	**$ 86,831**	**$ 94,821**	**$ 88,474**	**$ 92,566**	**$ 108,617**	**$ 119,951**	**$ 118,710**	**$ 125,501**	**$ 140,288**
Trailing 4-Quarter EBITDA	**287,457**	**317,490**	**338,401**	**362,692**	**384,478**	**409,608**	**439,844**	**472,779**	**504,450**
Current portion of long-term debt	$ 78,644	$ 43,525	$ 88,401	$ 40,182	$ 40,166	$ 40,174	$ 181	$ 25,189	$ 25,196
Long-term debt	773,404	784,855	730,307	681,266	681,197	649,150	649,103	624,052	597,006
Total Debt	$ 852,048	$ 828,380	$ 818,708	$ 721,448	$ 721,363	$ 689,324	$ 649,284	$ 649,241	$ 622,202
Cash	304,016	257,745	247,313	154,843	188,084	184,474	147,575	165,538	182,127
Net Debt	$ 548,032	$ 570,635	$ 571,395	$ 566,605	$ 533,279	$ 504,850	$ 501,709	$ 483,703	$ 440,075
Net Leverage Ratio	**1.9**	**1.8**	**1.7**	**1.6**	**1.4**	**1.2**	**1.1**	**1.0**	**0.9**

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