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Industrial Technologies®

Fiscal Q3 2024 Recap

April 25, 2024

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Non-GAAP Financial Measures

This presentation sets forth certain non-GAAP financial measures including 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; Free Cash Flow; Net Leverage Ratio are set forth in the appendix to this presentation.

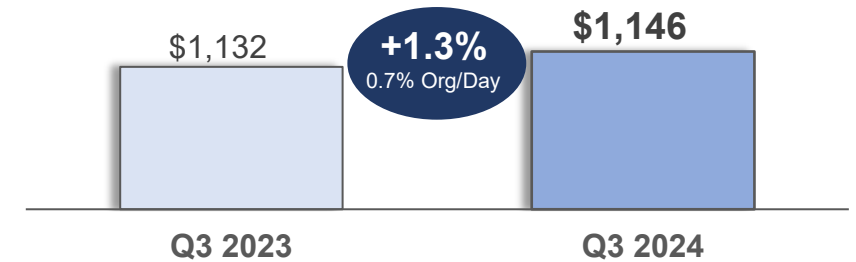
Primary Messages from Management

- 🌀 **Sales exceeded our expectations and returned to modest YoY organic growth in F3Q24** with support from internal growth initiatives and secular tailwinds; YoY trends improved as the quarter progressed.
- 🌀 **Sales growth led by shorter-cycle core U.S. Service Center operations** where our technical industry position and internal initiatives are augmenting steady break-fix demand; favorable indicator for broader business.
- 🌀 **Modest sales declines in the Engineered Solutions (ES) segment** were supported by firm demand across process flow control markets; segment favorably positioned into FY25.
- 🌀 **YTD gross margins up 40 bps and EBITDA margins up 20 bps**; F3Q24 trends adversely impacted by some transitory expense deleveraging on modest sales growth, unfavorable mix, and growth positioning.
- 🌀 **Announced agreement to acquire Grupo Kopar**; will expand automation platform into Mexico and add 200 associates to our growing automation team.
- 🌀 **Adjusting FY24 guidance to reflect F3Q24 performance and ongoing mixed demand near term**; reiterate constructive fundamental outlook but mindful of macro headwinds and timing of sales rebound in ES segment.

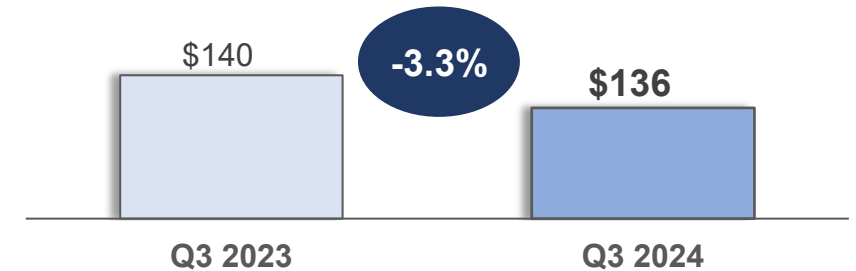
Fiscal Q3 2024 Key Financial Highlights

- **Sales up 1.3% YoY**
 - Up 0.7% on an organic daily basis
 - Acquisitions +1.2%, currency +0.2%, selling days -0.8%
- **Net Income of \$97.2M and EPS of \$2.48**
 - EPS up 4.0% from prior-year adjusted EPS
 - Includes \$4.8M pre-tax (\$0.10/sh) of LIFO expense
 - Favorable impact YoY from reduced net interest expense and a lower tax rate
- **Gross margin 29.5%, up 8 bps vs. prior year of 29.4%**
 - Includes a favorable 30 bps YoY impact due to lower LIFO expense
- **SD&A expense 18.9% of sales vs. prior year of 18.2%**
 - Up 3.4% YoY on an organic, constant currency basis
- **EBITDA of \$135.7M, down 3.3% vs. prior year of \$140.3M**
 - 11.8% EBITDA margin down 56 bps YoY
 - Adversely impacted YoY by expense deleveraging, unfavorable mix, growth positioning, and prior-year cost favorability
- **Operating cash of \$84.2M; free cash of \$76.7M**
 - YTD free cash up 64% YoY, and 84% of adjusted net income

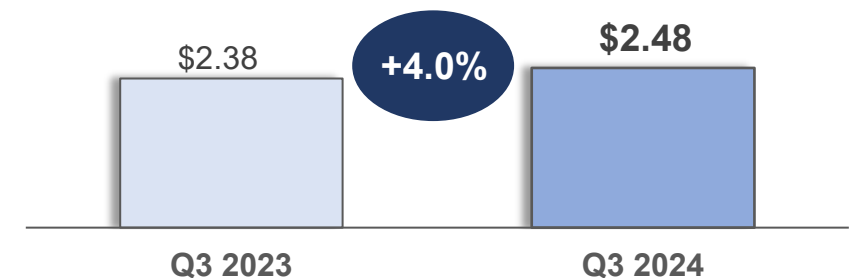
Sales, \$ in millions



EBITDA, \$ in millions

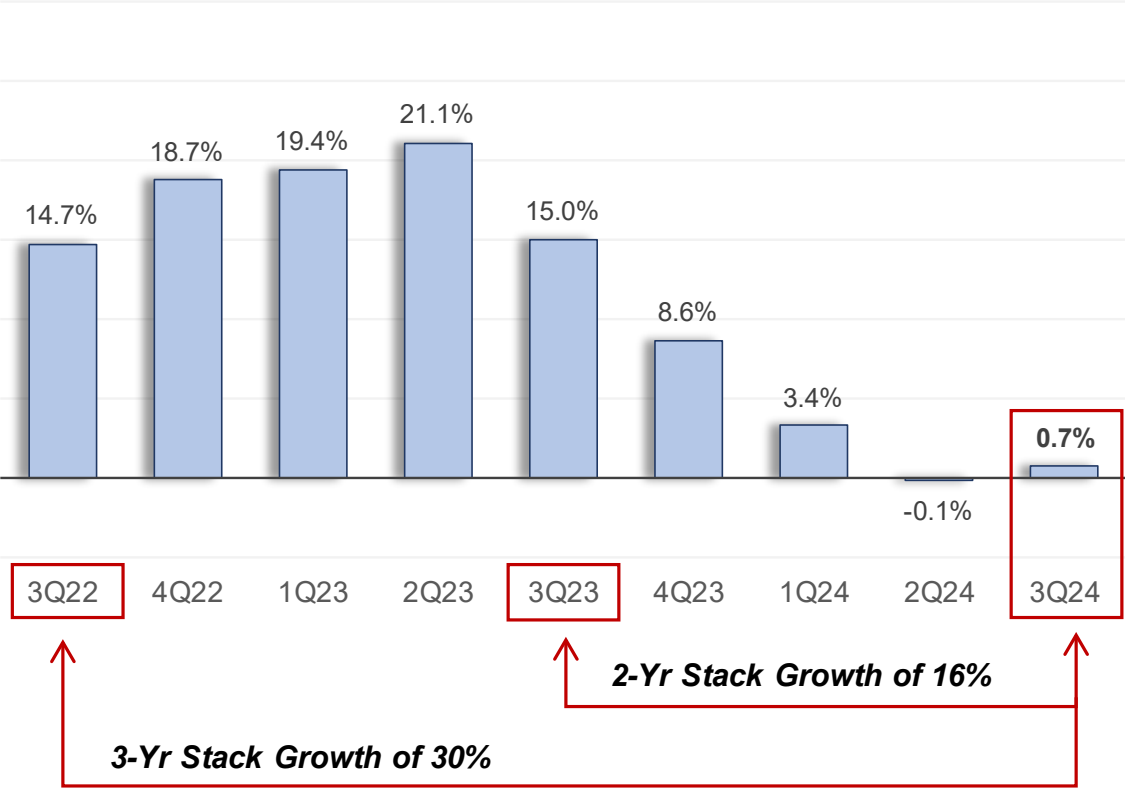


Earnings Per Share



Organic Sales Growth Trend and Investor Discussion Points

Year-over-Year Organic % Change in Sales Per Day



F3Q24 Sales Growth Detail

- Up ~1% YoY on an organic daily basis; above expectations with trends improving through the quarter
- Organic growth led by Service Center segment sales increasing ~3% YoY, including by a mid single-digit percent in the month of March
- Average daily sales up more than 2% sequentially, 16% on a 2-year YoY stack basis, and 30% on a 3-year YoY stack basis
- Estimated price contribution in the low single-digits percent
- 15 of top 30 industry verticals up YoY in F3Q24 compared to 18 during F2Q24 *
- Strongest growth across food & beverage, metals, utilities, mining, lumber & wood; offset by softer trends in machinery, energy, pulp & paper, fabricated metals, aggregates
- Support from secular tailwinds; internal sales initiatives and industry position continue to drive new growth opportunities

* Based on largest 30 industry verticals for fiscal 2023

Other Investor Discussion Points

Discussion Point	Update	Detail
Underlying Demand →	<p><i>Customer activity remains mixed as firm technical MRO spending balanced by muted OEM channel and engineered system shipments; improving short-cycle indicators and Service Center growth a favorable indicator</i></p> <ul style="list-style-type: none"> • <i>Customer activity remains mixed as firm technical MRO spending balanced by muted OEM channel and engineered system shipments; improving short-cycle indicators and Service Center growth a favorable indicator</i> 	<ul style="list-style-type: none"> • <i>SC segment organic daily sales +2.6% YoY in F3Q24 with YoY trends improving each month; ES segment organic daily sales -3.2% YoY in F3Q24; U.S. ISM PMI improved during the quarter including a reading above 50 (expansion) in March</i>
Inflation & Pricing →	<p><i>While moderating from heightened levels, inflationary pressures persisting including ongoing supplier price increases; partially reflects industrywide labor constraints, and other non-material inflationary factors</i></p> <ul style="list-style-type: none"> • <i>While moderating from heightened levels, inflationary pressures persisting including ongoing supplier price increases; partially reflects industrywide labor constraints, and other non-material inflationary factors</i> 	<ul style="list-style-type: none"> • <i>Estimated price contribution to YoY sales growth in the low single-digits during F3Q24 and similar to last quarter; magnitude of supplier price increases YTD remains elevated vs. historical levels</i>
Margins Trends →	<p><i>Making progress YTD toward interim EBITDA margin goal of 13% including gross margin improvement; F3Q24 EBITDA margin trends impacted by expense deleveraging, mix, growth positioning, and prior-year favorability</i></p> <ul style="list-style-type: none"> • <i>Making progress YTD toward interim EBITDA margin goal of 13% including gross margin improvement; F3Q24 EBITDA margin trends impacted by expense deleveraging, mix, growth positioning, and prior-year favorability</i> 	<ul style="list-style-type: none"> • <i>YTD gross margins up 40 bps and EBITDA margins up 20 bps inclusive of 10-20 bps of unfavorable mix; EBITDA margins down YoY in F3Q24, but expected to be flat to up YoY in F4Q24; positioning business to accelerate growth in FY25</i>
Near-term Outlook →	<p><i>Expect industrial activity to remain mixed near term; see potential for reaccelerating growth in FY25 considering easing comparisons, potential tech sector rebound, automation pipeline, infrastructure stimulus, and heightened technical MRO customer requirements</i></p> <ul style="list-style-type: none"> • <i>Expect industrial activity to remain mixed near term; see potential for reaccelerating growth in FY25 considering easing comparisons, potential tech sector rebound, automation pipeline, infrastructure stimulus, and heightened technical MRO customer requirements</i> 	<ul style="list-style-type: none"> • <i>April sales trending down by a low single-digit percent YoY month to date; updated FY24 organic sales growth guidance assumes organic daily sales are -1% to +2% YoY in F4Q23 and below normal seasonal patterns</i>
Capital Allocation →	<p><i>Strong cash generation YTD bolstering capacity for growth investments and shareholder returns; M&A pipeline remains active; ongoing scope for share buybacks moving forward</i></p> <ul style="list-style-type: none"> • <i>Strong cash generation YTD bolstering capacity for growth investments and shareholder returns; M&A pipeline remains active; ongoing scope for share buybacks moving forward</i> 	<ul style="list-style-type: none"> • <i>Announced agreement to acquire Grupo Kopar, expanding automation platform into Mexico; deployed \$18M on share buybacks during F3Q24 following \$11M in F2Q24</i>

Segment Results – Service Center Based Distribution

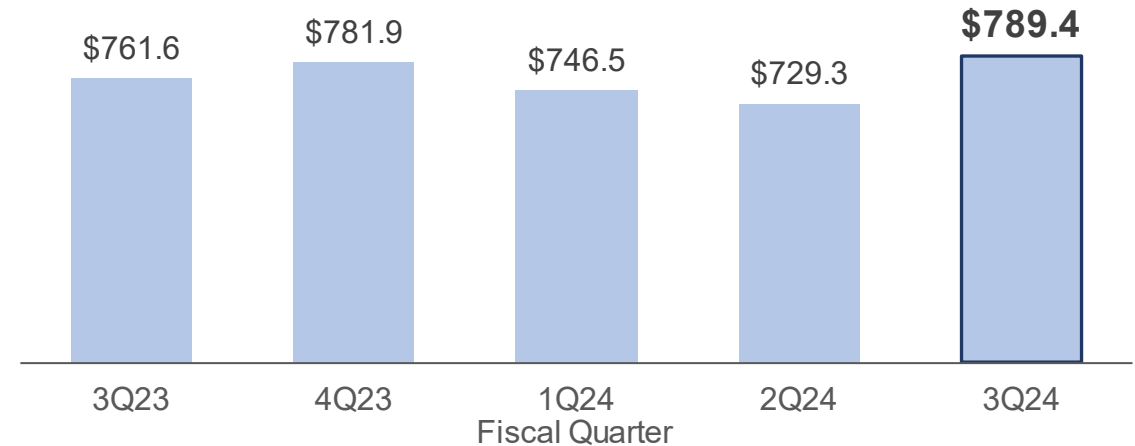
Segment Overview: Representing 67% of fiscal 2023 sales - the segment includes our core distribution operations including ~400 local service centers across North America, Australia, and New Zealand, primarily focused on our technical bearings, power transmission, and fluid power MRO product and solution offerings, as well as other industrial supplies for scheduled maintenance and repairs of customers' machinery, equipment, and facilities

- **Sales up 3.6% YoY in F3Q24**

- Organic + 2.6%
- Acquisitions + 1.5%
- Currency + 0.3%
- Selling days - 0.8%

- Segment organic sales growth strengthened as the quarter progressed with average daily sales up 4% sequentially vs. F2Q24, and by a mid single-digit percent during March
- Continue to benefit from market position, sales initiatives, and firm demand for technical MRO support across the U.S. manufacturing sector; includes solid growth across national accounts and fluid power MRO in the U.S.
- Segment operating income of \$100.5M in F3Q24

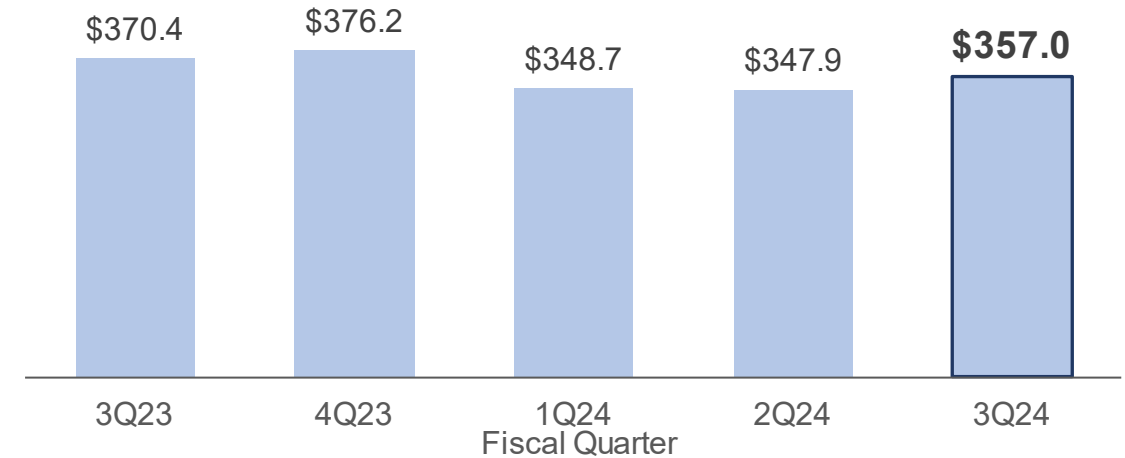
Service Center Distribution Segment Sales, in Millions



Segment Results – Engineered Solutions

Segment Overview: Representing 33% of fiscal 2023 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 across off-highway mobile, industrial, and technology verticals, 2) our specialty flow control products and engineered solutions supporting mission-critical process infrastructure, and 3) our advanced automation products and solutions focused on machine vision, robotics, motion, & digital technologies

Engineered Solutions Segment Sales, in Millions



- **Sales down 3.6% YoY in F3Q24**

- Organic – 3.2%
- Acquisitions + 0.4%
- Selling days – 0.8%

- Stronger growth across process flow control markets offset by lower fluid power OEM sales against a difficult prior-year comparison, as well as ongoing (albeit easing) declines within automation operations
- Technology sector YoY headwind abating as comparisons ease and underlying market demand stabilizes; Automation operations positioned favorably in FY25 considering business pipeline and expanding platform
- Segment operating income of \$49.5M in F3Q24

Fiscal Q3 2024 Margin and Expense Highlights

Gross Profit, SD&A, and EBITDA Metrics

<i>\$ in millions</i>	Q3 24	Q3 23	Chg YoY	LIFO Impact YoY
Gross Profit	\$338.2	\$333.1	1.5%	1.0%
Gross Margin	29.5%	29.4%	8 bps	30 bps
SD&A Expense	\$217.0	\$206.2	5.3%	
% of Sales	18.9%	18.2%	(72) bps	
EBITDA	\$135.7	\$140.3	(3.3%)	2.5%
EBITDA Margin	11.8%	12.4%	(56) bps	30 bps
Memo: LIFO Expense	\$4.8	\$8.2		

- **Gross margin up 8 bps YoY**

- Includes a favorable 30 bps YoY impact due to lower LIFO expense
- Includes unfavorable YoY mix from lower Engineered Solutions segment sales including higher-margin solutions sales, as well as national account growth
- Support from ongoing channel execution, effective freight management, and margin initiatives
- YTD gross margins up 40 bps YoY

- **SD&A expense up 5.3% YoY**

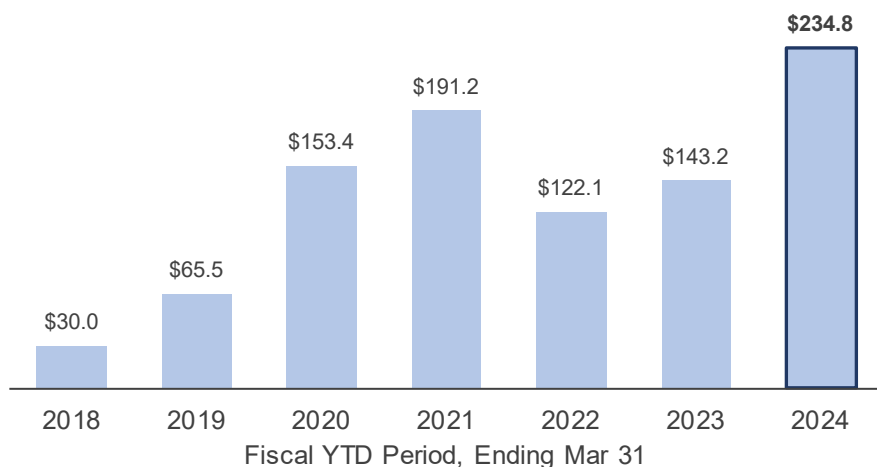
- Up 3.4% on an organic, constant currency basis
- 18.9% of sales vs. 18.2% in the prior-year period
- Efficiency gains and reduced variable expense offset by higher employee costs, deferred compensation expense, growth positioning, and professional fees
- YoY trend also negatively impacted by prior-year period cost favorability
- YTD SD&A expense up ~2% on an organic, constant currency basis

- **EBITDA margin of 11.8% down 56 bps YoY**

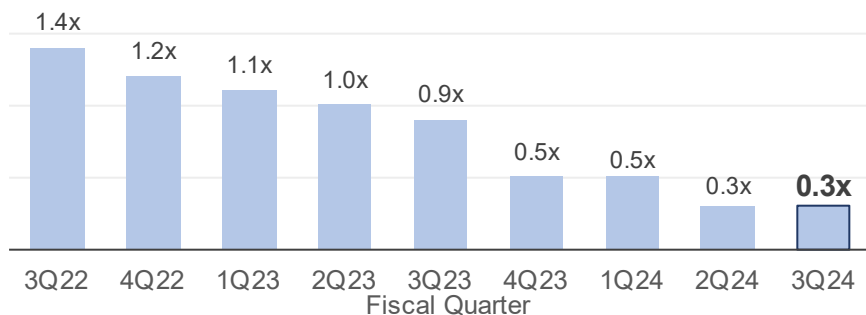
- YoY trend adversely impacted by expense deleveraging on modest sales growth, unfavorable mix, higher professional fees, growth positioning, and difficult prior-year comparison

Cash Flow and Balance Sheet

Free Cash Flow (in Millions) - Fiscal YTD Period



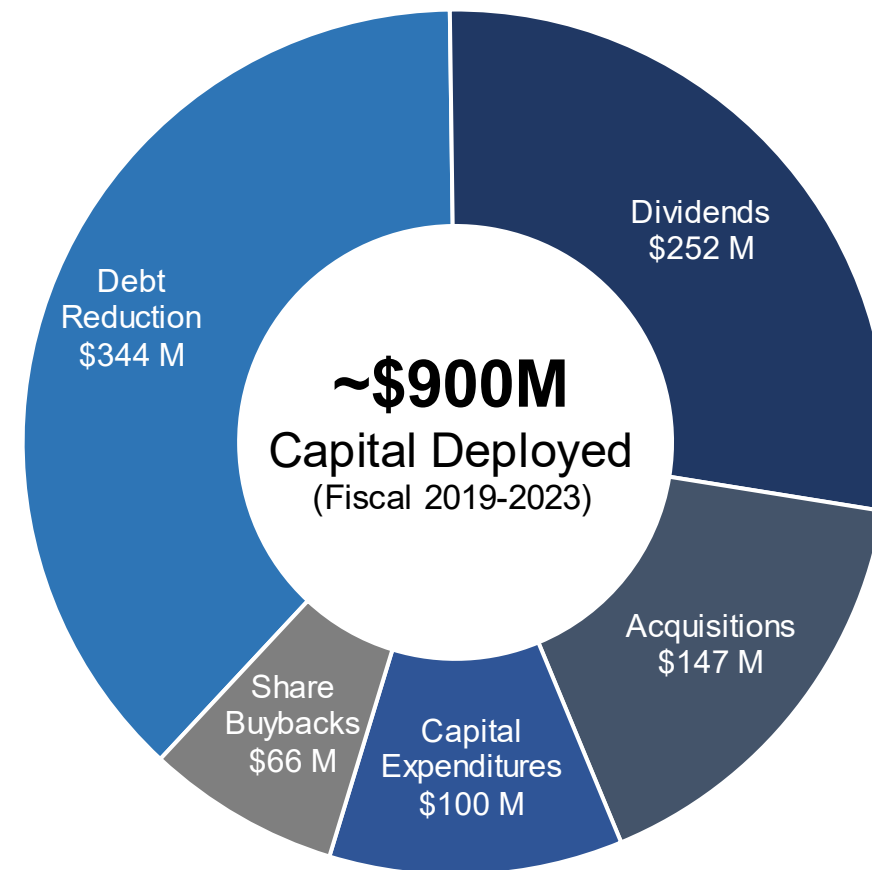
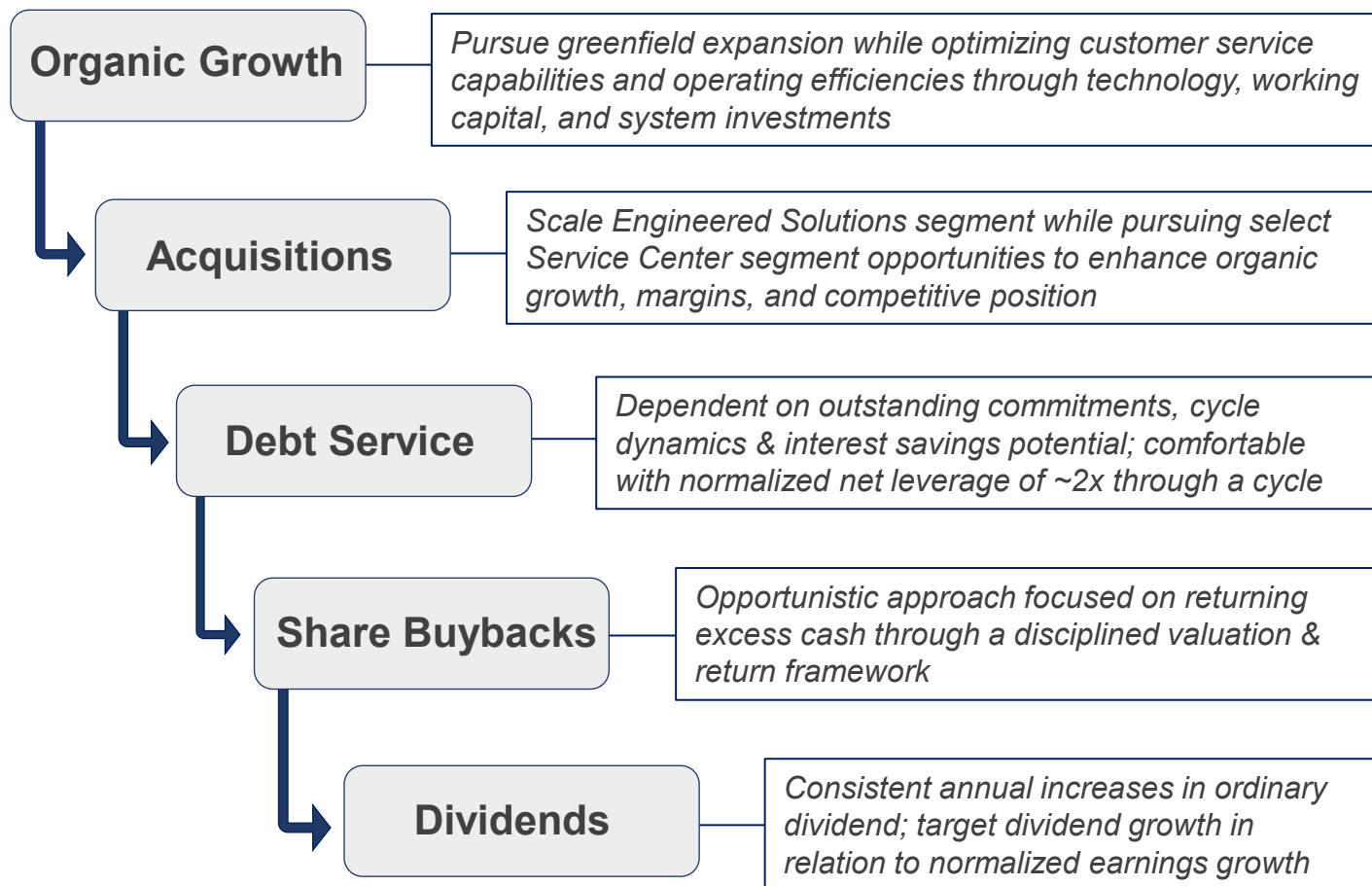
Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **F3Q24 cash from operations of \$84.2M; free cash of \$76.7M**
 - Free cash at 79% of net income in the quarter, and up 14% YoY
 - YTD free cash of \$234.8M, up 64% YoY and at record levels
 - YoY cash flow growth reflects sustained earnings growth, enhanced margin profile, and ongoing progress on working capital initiatives
- **Net leverage ratio at 0.3x as of March 31, 2024**
 - Below prior-year level of 0.9x, unchanged sequentially
 - Total net debt down over 70% since early 2018
- **Strong balance sheet capacity to support growth (as of 3/31/24)**
 - \$457M of cash on hand
 - \$516M of available capacity under revolver
 - Additional \$500M accordion option available
 - \$245M of available capacity on uncommitted shelf facility
 - \$62M of available capacity under AR securitization facility

Capital Allocation

Capital Allocation Priorities & Strategy



- \$134M capital deployed YTD in fiscal 2024
- Includes \$21M on acquisitions, \$29M on share buybacks, and \$42M on dividends

Fiscal 2024 Guidance and Outlook Assumptions



Fiscal 2024 Guidance

	Prior (1/25/24)	Current (4/25/24)
Total Sales - YoY % change	1.0% - 3.0%	1.5% - 2.5%
EBITDA Margin	12.1% - 12.3%	12.0% - 12.1%
Adjusted Diluted EPS ⁽¹⁾	\$9.35 - \$9.70	\$9.55 - \$9.70
Additional Assumptions:		
Depreciation & amortization expense	\$53 - \$54	\$52
Interest & other expense	\$6.0 - \$7.0	\$0.0 - \$2.0
Effective tax rate	23.0% - 24.0%	22.5%

(1) Excludes a tax benefit of \$3.0M in F2Q24 from a deferred tax valuation allowance adjustment

Updated Considerations:

- Tightening FY2024 sales guidance; assuming ongoing moderation in underlying industrial activity and muted sales growth recovery in Engineered Solutions segment near term
- Adjusting EBITDA margin guidance to primarily reflect F3Q24 performance, as well as F4Q24 sales outlook and slightly higher LIFO expense assumptions
- Implied F4Q24 guidance:
 - Organic Sales/Day (YoY Chg): -1% to +2%
 - EBITDA Margin: 12.0% to 12.4%
 - EPS: \$2.44 to \$2.59
- Other F4Q24 assumptions and considerations:
 - Gross margins flat to up slightly from F3Q24 levels
 - Potential support from easing comparisons, cost controls, reduced professional fees, more favorable mix, and ongoing new growth opportunities

Note: \$ amount in millions except EPS.

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

Fiscal Period	Q1	Q2	Q3	Q4	Year
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
2025	64.0	62.0	63.0	63.5	252.5

Appendix: Net Sales and Operating Income by Segment

<i>(dollar amount in thousands)</i>	Three Months Ended Mar 31	
	Q3 FY23	Q3 FY24
<i>Service Center Based Distribution Segment:</i>		
Net sales	\$ 761,599	\$ 789,356
Operating income	\$ 103,083	\$ 100,470
<i>Engineered Solutions Segment:</i>		
Net sales	\$ 370,436	\$ 357,034
Operating income	\$ 51,917	\$ 49,511
Corporate and other expense, net ⁽¹⁾	\$ 28,089	\$ 28,775

Note: (1) Includes intangible amortization expense.

Appendix: Reconciliation of EBITDA

<i>(dollar amount in thousands)</i>	Three Months Ended	
	Mar 31	
	Q3 FY23	Q3 FY24
Net Income	\$ 97,187	\$ 97,217
Interest expense, net	4,773	265
Income tax expense	25,093	25,448
Depreciation and amortization of property	5,565	5,802
Amortization of intangibles	7,670	6,951
EBITDA	\$ 140,288	\$ 135,683

Appendix: Reconciliation of EBITDA Margin

<i>(dollar amount in thousands)</i>	Three Months Ended Mar 31	
	Q3 FY23	Q3 FY24
Net Sales	\$ 1,132,035	\$ 1,146,390
EBITDA	140,288	135,683
EBITDA Margin	12.4%	11.8%

Appendix: Reconciliation of Free Cash Flow

	Three Months Ended September 30						
<i>(dollar amount in thousands)</i>	Q1 FY18	Q1 FY19	Q1 FY20	Q1 FY21	Q1 FY22	Q1 FY23	Q1 FY24
Cash provided by Operating Activities	\$ 9,440	\$ 11,797	\$ 50,018	\$ 81,842	\$ 48,642	\$ 25,943	\$ 66,209
Capital Expenditures	(6,336)	(3,173)	(4,946)	(3,597)	(3,621)	(5,554)	(4,340)
Free Cash Flow	\$ 3,104	\$ 8,624	\$ 45,072	\$ 78,245	\$ 45,021	\$ 20,389	\$ 61,869

	Three Months Ended December 31						
<i>(dollar amount in thousands)</i>	Q2 FY18	Q2 FY19	Q2 FY20	Q2 FY21	Q2 FY22	Q2 FY23	Q2 FY24
Cash provided by Operating Activities	\$ 11,744	\$ 53,783	\$ 54,881	\$ 77,514	\$ 32,622	\$ 62,880	\$101,758
Capital Expenditures	(5,124)	(3,923)	(7,019)	(4,852)	(3,889)	(7,263)	(5,523)
Free Cash Flow	\$ 6,620	\$ 49,860	\$ 47,862	\$ 72,662	\$ 28,733	\$ 55,617	\$ 96,235

	Three Months Ended March 31						
<i>(dollar amount in thousands)</i>	Q3 FY18	Q3 FY19	Q3 FY20	Q3 FY21	Q3 FY22	Q3 FY23	Q3 FY24
Cash provided by Operating Activities	\$ 26,694	\$ 11,586	\$ 64,725	\$ 44,053	\$ 52,559	\$ 75,204	\$ 84,192
Capital Expenditures	(6,438)	(4,615)	(4,258)	(3,728)	(4,164)	(7,992)	(7,491)
Free Cash Flow	\$ 20,256	\$ 6,971	\$ 60,467	\$ 40,325	\$ 48,395	\$ 67,212	\$ 76,701

	Nine Months Ended March 31						
<i>(dollar amount in thousands)</i>	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Cash provided by Operating Activities	\$ 47,878	\$ 77,166	\$ 169,624	\$ 203,409	\$ 133,823	\$164,027	\$252,159
Capital Expenditures	(17,898)	(11,711)	(16,223)	(12,177)	(11,674)	(20,809)	(17,354)
Free Cash Flow	\$ 29,980	\$ 65,455	\$ 153,401	\$ 191,232	\$ 122,149	\$143,218	\$234,805

Appendix: Reconciliation of Net Leverage Ratio

<i>(dollar amount in thousands)</i>	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Net Income	\$ 68,306	\$ 79,113	\$ 76,880	\$ 80,457	\$ 97,187	\$ 92,215	\$ 93,826	\$ 91,228	\$ 97,217
Interest expense, net	5,852	6,014	6,480	6,185	4,773	4,201	1,320	1,917	265
Income tax expense	21,216	21,580	22,164	25,493	25,093	30,322	25,103	24,373	25,448
Depreciation and amortization	5,352	5,461	5,481	5,552	5,565	5,668	5,717	6,048	5,802
Amortization of intangibles	7,891	7,783	7,705	7,814	7,670	7,616	7,393	7,257	6,951
EBITDA	\$ 108,617	\$ 119,951	\$ 118,710	\$ 125,501	\$ 140,288	\$ 140,022	\$ 133,359	\$ 130,823	\$ 135,683
Adjusted EBITDA	\$ 108,617	\$ 119,951	\$ 118,710	\$ 125,501	\$ 140,288	\$ 140,022	\$ 133,359	\$ 130,823	\$ 135,683
Trailing 4-Quarter EBITDA	384,478	409,608	439,844	472,779	504,450	524,521	539,170	544,492	539,887
Current portion of long-term debt	\$ 40,166	\$ 40,174	\$ 181	\$ 25,189	\$ 25,196	\$ 25,170	\$ 25,171	\$ 25,159	\$ 25,107
Long-term debt	681,197	649,150	649,103	624,052	597,006	596,926	596,883	571,854	571,862
Total Debt	\$ 721,363	\$ 689,324	\$ 649,284	\$ 649,241	\$ 622,202	\$ 622,096	\$ 622,054	\$ 597,013	\$ 596,969
Cash	188,084	184,474	147,575	165,538	182,127	344,036	360,415	412,855	456,533
Net Debt	\$ 533,279	\$ 504,850	\$ 501,709	\$ 483,703	\$ 440,075	\$ 278,060	\$ 261,639	\$ 184,158	\$ 140,436
Net Leverage Ratio	1.4	1.2	1.1	1.0	0.9	0.5	0.5	0.3	0.3