APPLIED Industrial Technologies®

We Keep Industry Running

Fiscal Q1 2020 Recap

October 30, 2019

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 “expect,” “outlook,” “guidance,” “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, and other risk factors identified in Applied's most recent periodic report and other filings made with the Securities and Exchange Commission. 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 - Adjusted Earnings per Share (EPS), Adjusted Net Income, Adjusted Selling Distribution and Administrative (SD&A) Expense, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, 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 EPS, Adjusted Net Income, Adjusted SD&A, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Free Cash Flow, and Net Leverage Ratio are set forth in the appendix to this presentation.

Primary Messages from Management

- **Executing** in a softer end-market backdrop with ongoing gross margin improvement, cost actions, and strong free cash generation.
- **Free cash flow** of $45M up notably YoY and 113% of adjusted net income; realizing benefits from working capital initiatives in a slower environment.
- **Organic daily sales** down 5% YoY but trending in line with guidance assumptions and showing signs of stabilization.
- **Gross margin** expanded YoY, providing further evidence of sustained execution and self-help opportunities.
- **SD&A expense** impacted by an extra payroll day, recent acquisitions, and timing of cost adjustments; expected to moderate as a percent of sales going forward.
- **Fluid Power & Flow Control** segment sales stabilizing with easier comparisons ahead; technology end-market orders and backlog improving.
- **FY20 guidance reaffirmed** (excluding non-routine expense in Q1).

Fiscal Q1 2020 Key Financial Highlights

- **Sales down 0.9% YoY**
  - Down 5.2% days adjusted organic
  - Acquisitions +2.8%, days +1.6%, currency -0.1%

- **Net Income of $38.8M and EPS of $1.00**

- **Non-GAAP Adjusted Net Income of $39.9M and EPS of $1.02**
  - Excludes $1.5M (pre-tax) of non-routine expense from recent cost actions

- **Gross margin of 29.4% up 23 bps YoY**
  - Up 8 bps YoY excluding LIFO expense ($0.4M vs. $1.7M in prior year period)

- **Adjusted SD&A expense 22.1% of sales vs. 21.5% in prior year**
  - Adversely impacted by extra payroll day and acquisitions, but benefit of cost rationalization initiatives started to ramp across the quarter
  - Down 2.4% YoY on a organic per day basis

- **Adjusted EBITDA of $78.2M**
  - 9.1% of sales, down 41 bps YoY

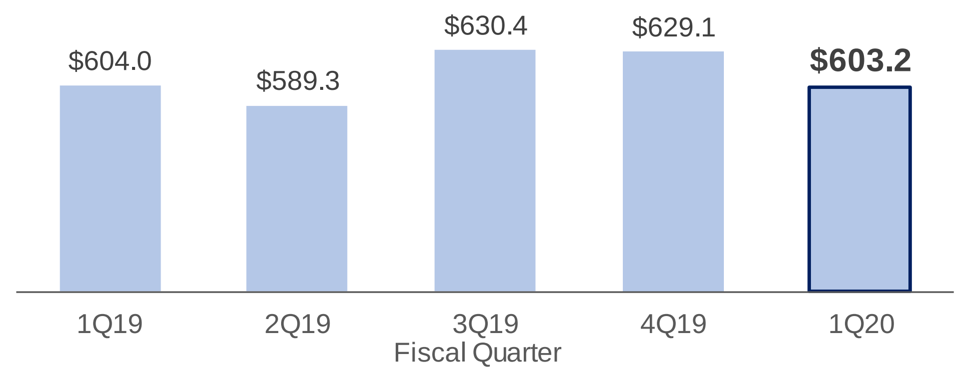
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Industrial Demand	• *Customer activity remains subdued across key end markets; some signs of stabilization in recent months*	• *22 of top 30 industry verticals down YoY; Mid-single digit organic sales declines consistent through Q1*
2. Inflation & Pricing	• *Supplier increases continue but at more modest pace; offsetting through pricing traction, margin initiatives*	• *Q1 gross margin up 23 bps YoY (up 8 bps excluding LIFO impact)*
3. Cash Generation	• *Working capital initiatives and slower demand environment driving strong cash generation*	• *Q1 Cash from Operations $50M; Free Cash Flow $45M = 113% of adjusted net income and seasonally strong*
4. Fluid Power Trends	• *OEM demand and build activity softer, but balanced by firming demand in tech end market*	• *Fluid Power sales declines moderating in Q1 with tech end-market orders and backlog improving*
5. SD&A Expense	• *Q1 impacted by extra payroll day, acquisitions, and timing of cost adjustments*	• *Down 2.4% YoY per day organic; cost actions improved SD&A later in Q1 with benefit expected to ramp in Q2*
6. Outlook	• *Cycle uncertainty remains but running in line with FY20 outlook provided mid-August*	• *Reiterate FY20 guidance; organic daily sales trending down low-single digits YoY in October*
7. M&A Update	• *Remains high priority with pipeline active*	• *Solid start to late August acquisition of Olympus Controls with automation growth opportunities emerging*

Segment Results – Service Center Based Distribution

Segment Overview: *Representing 71% of fiscal 2019 sales - the segment includes our legacy distribution operations including ~430 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 emergency repairs of customers' machinery and equipment. The segment also includes our upstream oil & gas focused operations centered primarily within the Permian Basin.*

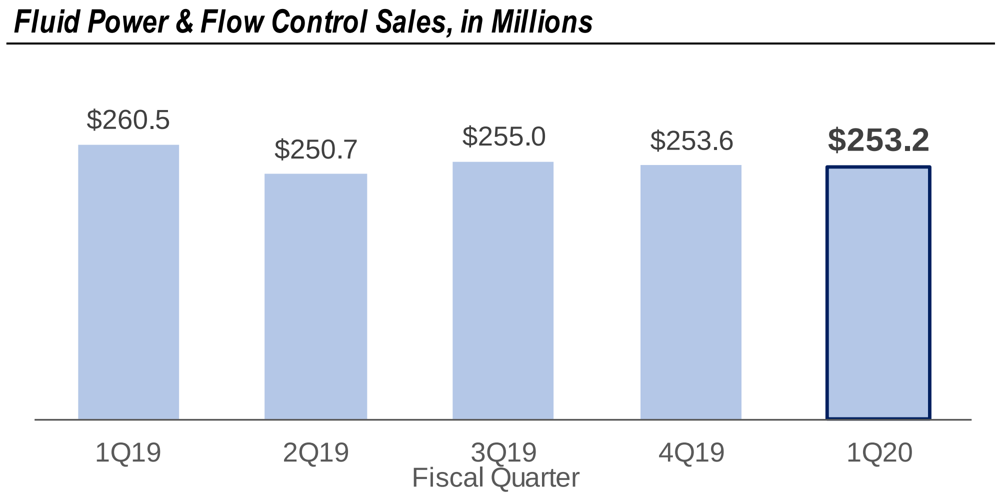
Service Center Distribution Sales, in Millions



- **Sales down 0.1% YoY**
  - Days Adj. Organic - 3.5% *(Up 4% on a two-year stack basis)*
  - Selling Days +1.6%
  - Currency - 0.2%
  - Acquisitions +2.0%
- **Sales decline reflects slower manufacturing activity and customer spending discipline across primary end markets, combined with difficult prior year comparisons**
- **Weaker demand most notable within metals, mining, oil & gas, chemicals, and transportation end markets**

Segment Results – Fluid Power & Flow Control

Segment Overview: *Representing 29% of fiscal 2019 sales - the segment consists of 1) our legacy 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 following our acquisition of Olympus Controls in August 2019.*



- **Sales down 2.8% YoY**
  - Days Adj. Organic - 9.0%
  - Selling Days +1.6%
  - Acquisitions +4.6%

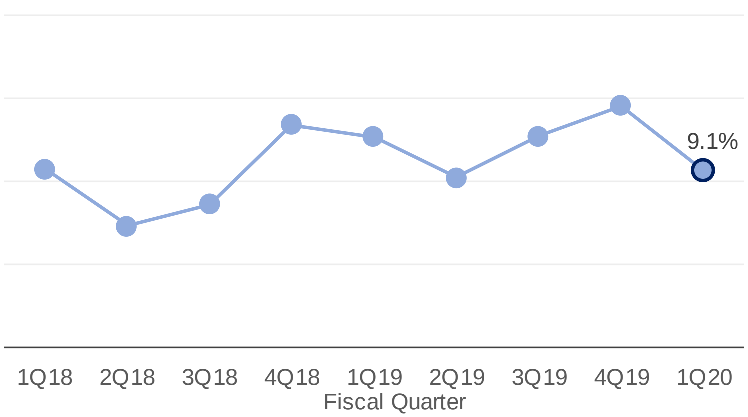
- **Sales decline reflects slower Flow Control sales, weaker industrial OEM activity, and technology end-market headwinds**

- **Declines moderated as quarter progressed reflecting slightly easier comparisons and easing technology end-market headwinds**
  - Technology end-market orders improving with backlog higher YoY

Margin and Expense Highlights

$ in millions	**Q1 20**	**Q1 19**	**Chg YoY**	**Excluding LIFO Chg YoY**
Gross Profit	**$251.5**	$251.9	(0.2%)	(0.7%)
Gross Margin	**29.4%**	29.1%	23 bps	8 bps
Adj. SD&A Expense	**$188.8**	$185.5	1.8%	
% of Sales	**22.1%**	21.5%	(60) bps	
Adj. EBITDA	**$78.2**	$82.5	(5.2%)	(6.6%)
Adj. EBITDA Margin	**9.1%**	9.5%	(41) bps	(56) bps
Memo:				
LIFO Expense	**$0.4**	$1.7		

Adjusted EBITDA Margin

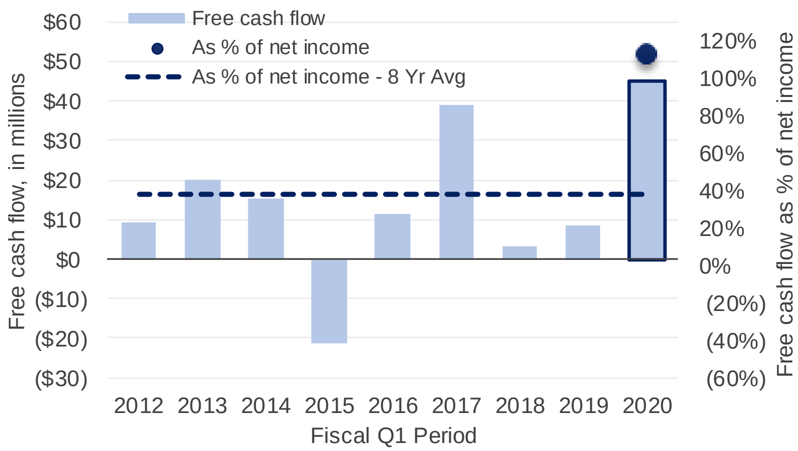


Note: Adjusted SD&A and adjusted EBITDA metrics exclude $1.5M and $2.3M of pre-tax restructuring expense in fiscal Q1 20 and Q3 19, respectively

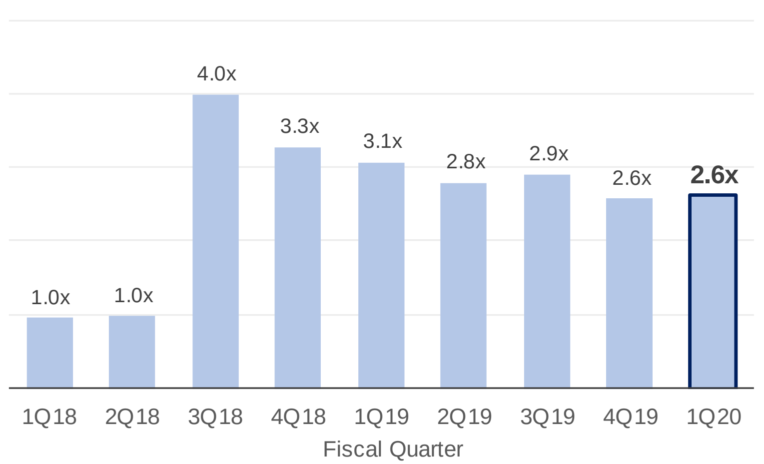
- **Gross margin up 23 bps YoY, up 21 bps sequentially**
  - Excluding LIFO expense, up 8 bps YoY
  - Ongoing price traction and internal initiatives helping offset broader inflation
- **Adj. SD&A expense up 1.8% YoY excluding $1.5M of non-routine cost**
  - Down 2.4% YoY on an organic per day basis
  - Non-routine expense reflects recent cost actions in response to slower environment and ongoing self-help margin initiatives
- **Adj. EBITDA margin down 41 bps YoY**
- **Expect SD&A to ease as a percent of sales reflecting benefit of recent cost actions and ongoing margin initiatives**

Cash Flow and Balance Sheet

Fiscal Q1 Free Cash Flow



Net Leverage Ratio (Net Debt to Trailing EBITDA)



- **Q1 20 cash from operations of $50M; free cash flow of $45M**
  - Free cash seasonally strong and up notably YoY
  - 113% of adjusted net income
  - Reflects traction with working capital initiatives and slower environment

- **Net leverage ratio at ~2.6x**
  - Below prior year of 3.1x
  - Debt outstanding down nearly $110M since financing FCX acquisition in early calendar 2018
  - Funded Olympus Controls acquisition in quarter with cash on hand

Fiscal 2020 Outlook and Guidance

REAFFIRM FISCAL 2020 GUIDANCE

- **Sales down 2% to up 2%**
  - Days adjusted organic ➡ - 5% to -1%
  - Acquisitions ➡ + 2%
  - Selling Days ➡ + 1%

- **Non-GAAP EPS of $4.20 to $4.50**
  (excludes non-routine expense in Q1)

- **Free cash flow of $200M to $220M**

- **Other assumptions:**
  - Interest expense ➡ $37M to $38M
  - Tax rate ➡ 25% to 26%
  - Diluted share count ➡ 39M

Applied Industrial Technologies®

Key Investment Considerations

- **Strong and consistent free cash generation with upside potential**
  - *Improving margin profile and working capital (intermediate target 20% of sales vs. 22%-23% currently)*
- **Consistent margin improvement supported by self-help initiatives**
  - *Target gross margin expansion, high-teen incremental margins over an upcycle*
- **History of cost discipline and margin / earnings support in slowdown**
  - *See ongoing self-help opportunities and reinforcing expense focus given demand uncertainty*
- **Share gain opportunity and competitive moat from technical focus**
  - *Technical / engineering capabilities and service solutions increasingly critical across customer base*
- **Enhanced growth profile and earnings power versus prior cycles**
  - *Fluid Power & Flow Control now 30% of sales; Adj. EBITDA margin up 130 bps vs. prior peak levels*
- **Market position creates opportunities around automation and IIoT**
  - *Emerging automation growth opportunities post August 2019 acquisition of Olympus Controls*
- **Disciplined capital deployment on M&A**
  - *Remain focused on accretive M&A with proprietary pipeline active, supporting growth profile*

Appendix: Reconciliation of Adjusted Net Income and EPS

(in thousands except per share amounts)	Net Income Impact Q1 FY20	Net Income Impact Q1 FY19	Per Share - Diluted Impact Q1 FY20	Per Share - Diluted Impact Q1 FY19
Net Income and Net Income Per Share	$ 38,799	$ 48,938	$ 1.00	$ 1.24
Non-routine costs	1,104	-	0.02	-
Adjusted Net Income and Adjusted EPS	$ 39,903	$ 48,938	$ 1.02	$ 1.24

Appendix: Reconciliation of Adjusted SD&A Expense

(in thousands)	Q1 FY20	Q1 FY19
SD&A Expense	$ 190,294	$ 185,514
Non-routine costs	1,455	-
Adjusted SD&A Expense	$ 188,839	$ 185,514

Appendix: Reconciliation of EBITDA and Adjusted EBITDA

(in thousands)	**Q1 FY20**	**Q1 FY19**
Net Income	$ 38,799	$ 48,938
Interest expense, net	10,059	10,476
Income tax expense	12,308	7,164
Depreciation and amortization of property	5,223	4,981
Amortization of intangibles (including impairment)	10,374	10,921
EBITDA	$ 76,763	$ 82,480
Non-routine costs	1,455	-
Adjusted EBITDA	$ 78,218	$ 82,480

Appendix: Reconciliation of Adjusted EBITDA Margin

(dollar amount in thousands)	**Q1 FY18**	**Q2 FY18**	**Q3 FY18**	**Q4 FY18**	**Q1 FY19**	**Q2 FY19**	**Q3 FY19**	**Q4 FY19**	**Q1 FY20**
Net Sales	$ 680,701	$ 667,187	$ 827,665	$ 897,721	$ 864,515	$ 840,038	$ 885,443	$ 882,743	$ 856,404
Adjusted EBITDA	62,306	56,511	72,248	87,001	82,480	76,048	84,596	87,558	78,218
Adjusted EBITDA Margin	**9.2%**	**8.5%**	**8.7%**	**9.7%**	**9.5%**	**9.1%**	**9.6%**	**9.9%**	**9.1%**

Appendix: Reconciliation of Free Cash Flow

	Three Months Ended September 30								
(in thousands)	**Q1 FY12**	**Q1 FY13**	**Q1 FY14**	**Q1 FY15**	**Q1 FY16**	**Q1 FY17**	**Q1 FY18**	**Q1 FY19**	**Q1 FY20**
Cash provided by Operating Activities	$ 16,401	$ 23,947	$ 16,956	$(18,101)	$ 15,090	$ 41,864	$ 9,440	$ 11,797	$ 50,018
Capital expenditures	(7,142)	(3,892)	(1,571)	(3,100)	(3,112)	(2,999)	(6,336)	(3,173)	(4,946)
Free Cash Flow	**$ 9,259**	**$ 20,055**	**$ 15,385**	**$(21,201)**	**$ 11,978**	**$ 38,865**	**$ 3,104**	**$ 8,624**	**$ 45,072**

APPLIED Industrial Technologies®

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q1 FY18	Q2 FY18	Q3 FY18 (1)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
Net Income	$ 33,721	$ 30,950	$ 36,592	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799
Interest expense, net	2,166	2,139	8,216	10,964	10,476	9,578	9,947	10,187	10,059
Income tax expense	16,661	13,646	12,927	19,859	7,164	11,724	9,283	22,317	12,308
Depreciation and amortization of property	3,927	4,081	4,713	5,077	4,981	5,038	5,026	5,191	5,223
Amortization of intangibles (including impairment)	5,831	5,695	9,800	10,739	10,921	10,991	41,505	10,060	10,374
EBITDA	$ 62,306	$ 56,511	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 82,296	$ 87,558	$ 76,763
Trailing 4-Quarter EBITDA	223,987	232,700	249,501	278,066	298,240	317,777	327,825	328,382	322,665
Current portion of long-term debt	$ 5,595	$ 6,378	$ 19,182	$ 19,183	$ 19,184	$ 44,184	$ 44,163	$ 49,036	$ 93,912
Long-term debt	285,175	306,579	1,017,327	944,522	953,216	923,410	937,536	908,850	859,172
Total Debt	$ 290,770	$ 312,957	$1,036,509	$ 963,705	$ 972,400	$ 967,594	$ 981,699	$ 957,886	$ 953,084
Cash	77,769	85,324	43,523	54,150	56,408	79,827	47,367	108,219	98,204
Net Debt	$ 213,001	$ 227,633	$ 992,986	$ 909,555	$ 915,992	$ 887,767	$ 934,332	$ 849,667	$ 854,880
Net Leverage Ratio	**1.0**	**1.0**	**4.0**	**3.3**	**3.1**	**2.8**	**2.9**	**2.6**	**2.6**

(1) The increase in the Net Leverage Ratio during Q3 FY18 reflects the financing of our FCX acquisition

APPLIED Industrial Technologies®

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

	Q1	Q2	Q3	Q4	Year
2018	63.0	61.0	63.5	64.0	251.5
2019	63.0	62.0	63.0	63.5	251.5
2020	**64.0**	**62.0**	**64.0**	**63.5**	**253.5**