Applied Industrial Technologies®

We Keep Industry Running

Fiscal Q2 2020 Recap

January 23, 2020

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Non-GAAP Financial Measures

This presentation sets forth certain non-GAAP financial measures - Adjusted Net Income, EBITDA, EBITDA Margin, 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 Net Income, EBITDA, EBITDA Margin, 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** on earnings commitments in a subdued end-market backdrop reflecting margin focus and cost discipline.
- **Free cash flow** at $48M and 126% of net income in Q2; on track to hit fiscal 2020 target of $200M to $220M (+30% YoY at midpoint).
- **Organic sales** down 4% YoY in Q2 and impacted by unusually weak customer activity during December.
- **End-market weakness** remains broad based but primarily concentrated in metals, mining, oil & gas, machinery, and process-related industries.
- **SD&A expense** down 3.4% YoY on an organic basis in Q2, highlighting strong expense control including benefits from recent cost actions.
- **FY20 guidance** updated following YTD performance and ongoing end-market uncertainty; new EPS mid-point of $4.30 (prior $4.35).

Fiscal Q2 2020 Key Financial Highlights

- **Sales down 0.8% YoY**
  - Down 4.0% on an organic basis
  - Acquisitions +3.2%; selling days and currency both neutral this quarter

- **Net Income of $38.0M and EPS of $0.97**

- **Gross margin of 28.9%, unchanged YoY**
  - Largely unchanged YoY excluding LIFO expense ($1.9M vs. $2.7M in prior year period)
  - Down 23 bps sequentially excluding LIFO expense ($0.4M in Q1 2020)

- **SD&A expense 21.9% of sales vs. 21.7% in prior year**
  - Down 3.4% YoY organically excluding +3.8% from M&A and -0.1% from currency
  - Reflects strong cost discipline and benefits from recent cost actions

- **EBITDA of $74.5M**
  - 8.9% of sales, down 11 bps YoY
  - 9.2% of sales excluding non-cash LIFO expense

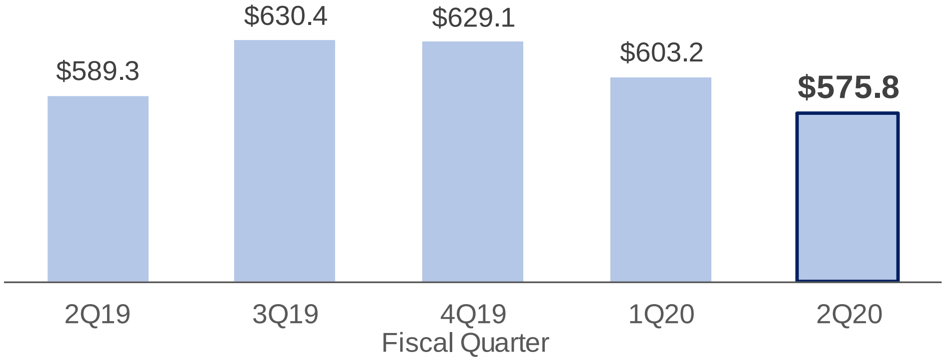
Current Investor Discussion Points

Discussion Point	Update	Detail
1. Industrial Demand	• *End-market demand remains subdued; trends weakened in Dec following stabilization in Oct and Nov*	• *20 of top 30 industry verticals down YoY; most notable declines in metals, mining, oil & gas, and machinery verticals*
2. Inflation & Pricing	• *Supplier price increases continue, but at more modest pace*	• *Q2 gross margin unchanged YoY*
3. Cash Generation	• *Working capital initiatives and slower demand environment driving strong cash generation*	• *YTD Cash from Operations $105M; Free Cash Flow $93M = 119% of adjusted net income*
4. Cost Control	• *Solid execution on recent cost actions and ongoing expense discipline in the current soft demand environment*	• *SD&A expense down 3.4% YoY on an organic basis in Q2*
5. Outlook	• *Expect tepid demand near term as customers slowly rebound from an evolving trade/production backdrop*	• *Organic daily sales trending down mid-single digits YoY Jan month-to-date*
6. Capital Deployment	• *M&A top priority, but opportunistic with debt reduction, dividend increases, and share buybacks*	• *M&A pipeline remains active, increased dividend for 11th time since 2010; cash generation provides ample flexibility*

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.*

Service Center Distribution Sales, in Millions

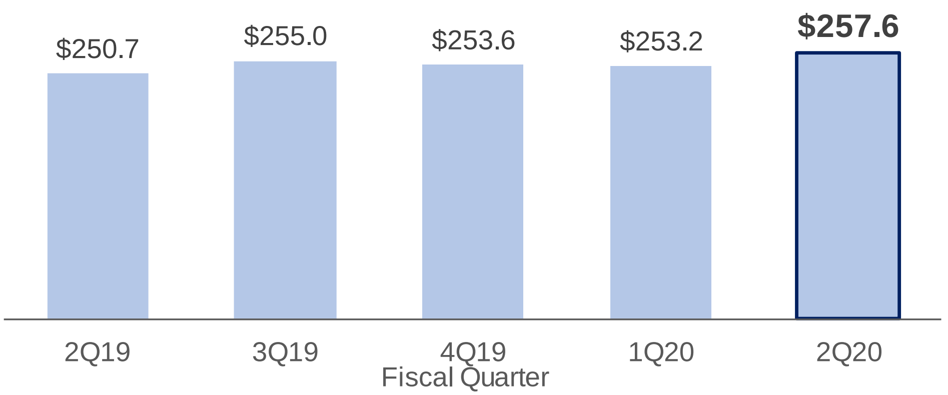


- **Sales down 2.3% YoY**
  - Organic - 3.5%
  - Acquisitions +1.2%
- **Sales decline reflects slower manufacturing activity and customer spending discipline across primary end markets**
- **Weaker demand most notable in metals, mining, oil & gas, and machinery end markets; segment results also impacted by slower international sales across Canada and Mexico**

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.*

Fluid Power & Flow Control Sales, in Millions



- **Sales up 2.7% YoY**
  - Organic - 4.9%
  - Acquisitions +7.6%

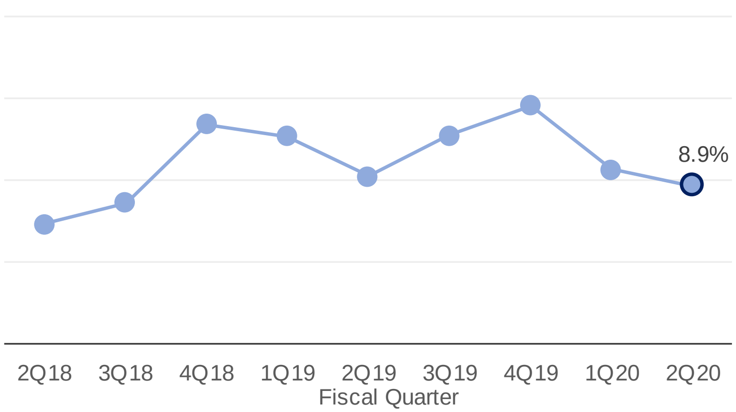
- **Sales decline primarily reflects slower demand within flow control end markets and weaker industrial OEM activity**

- **Segment sales showing some stabilization with YoY declines moderating and organic daily sales up slightly vs. Q1 2020**

Margin and Expense Highlights

$ in millions	Q2 20	Q2 19	Chg YoY	Excluding LIFO Chg YoY
Gross Profit	**$241.2**	$242.9	(0.7%)	(1.0%)
Gross Margin	**28.9%**	28.9%	4 bps	(5) bps
SD&A Expense	**$182.5**	$181.9	0.3%	
% of Sales	**21.9%**	21.7%	(24) bps	
EBITDA	**$74.5**	$76.0	(2.0%)	(2.9%)
EBITDA Margin	**8.9%**	9.1%	(11) bps	(20) bps
Memo:				
LIFO Expense	**$1.9**	$2.7		

Adjusted EBITDA Margin

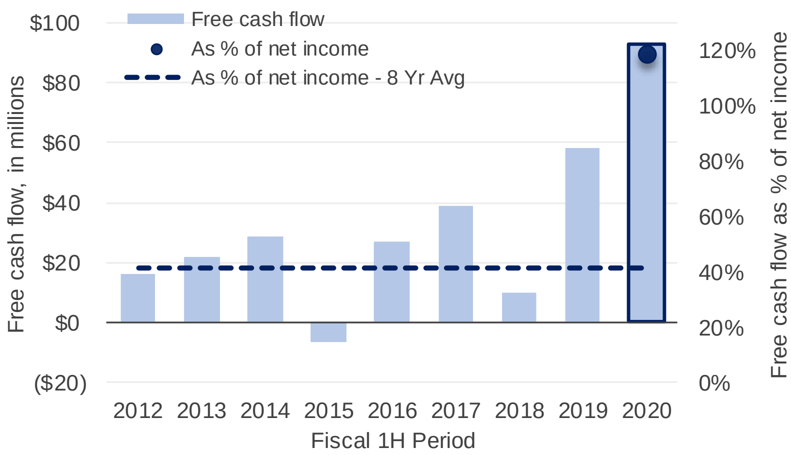


Note: Adjusted EBITDA margin excludes $1.5M and $2.3M of pre-tax restructuring expense in fiscal Q1 20 and Q3 19, respectively.

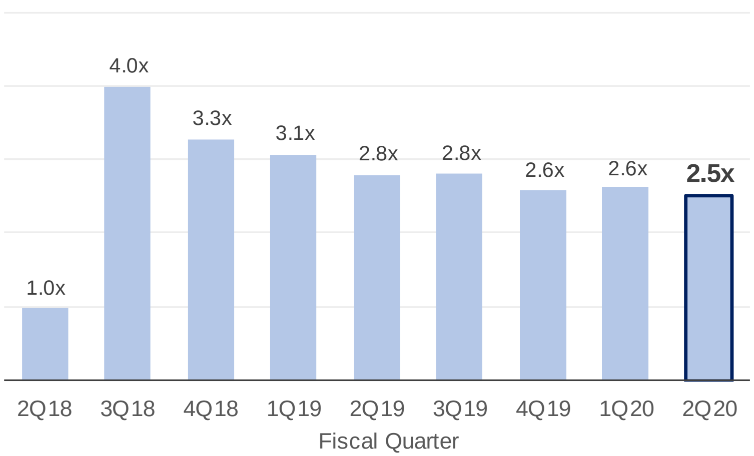
- **Gross margin up 4 bps YoY**
  - Excluding LIFO expense, down 5 bps YoY
- **SD&A expense up 0.3% YoY**
  - Down 3.4% YoY on an organic basis
  - Strong execution on recent cost actions; remain diligent with cost focus in current environment
- **EBITDA margin down 11 bps YoY**

Cash Flow and Balance Sheet

Free Cash Flow - Fiscal 1H Period



Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)



- **1H 20 cash from operations of $104.9M; free cash flow of $92.9M**
  - Free cash 119.3% of adjusted net income
  - Reflects ongoing traction with working capital initiatives and slower environment

- **Net leverage ratio at 2.5x**
  - Below prior year of 2.8x
  - Debt outstanding down nearly $115M since financing FCX acquisition in early calendar 2018

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Fiscal 2020 Outlook and Guidance

- **Updating following YTD performance and ongoing end-market uncertainty**

- **Sales down 2% to flat** *(prior down 2% to up 2%)*
  - Days adjusted organic ➡ - 5% to -3% *(prior -5% to -1%)*
  - Acquisitions ➡ + 2%
  - Selling Days ➡ + 1%

- **Non-GAAP EPS of $4.20 to $4.40** *(prior $4.20 to $4.50)* (excludes non-routine expense in Q1)

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

- **Other assumptions:**
  - Interest expense ➡ $38M *(prior $37M to $38M)*
  - Tax rate ➡ 24% to 25% *(prior 25% to 26%)*
  - Diluted share count ➡ 39M

Appendix: Reconciliation of EBITDA and Adjusted EBITDA

(dollar amount in thousands)	**Q2 FY18**	**Q3 FY18**	**Q4 FY18**	**Q1 FY19**	**Q2 FY19**	**Q3 FY19**	**Q4 FY19**	**Q1 FY20**	**Q2 FY20**
Net Income	$ 30,950	$ 36,592	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031
Interest expense, net	2,139	8,216	10,964	10,476	9,578	9,947	10,187	10,059	9,583
Income tax expense	13,646	12,927	19,859	7,164	11,724	9,283	22,317	12,308	11,346
Depreciation and amortization of property	4,081	4,713	5,077	4,981	5,038	5,026	5,191	5,223	5,394
Amortization of intangibles (including impairment)	5,695	9,800	10,739	10,921	10,991	41,505	10,060	10,374	10,195
EBITDA	$ 56,511	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 82,296	$ 87,558	$ 76,763	$ 74,549
Non-routine costs						2,300		1,455	
Adjusted EBITDA	**$ 56,511**	**$ 72,248**	**$ 87,001**	**$ 82,480**	**$ 76,048**	**$ 84,596**	**$ 87,558**	**$ 78,218**	**$ 74,549**

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Appendix: Reconciliation of Adjusted EBITDA Margin

(dollar amount in thousands)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Net Sales	$ 667,187	$ 827,665	$ 897,721	$ 864,515	$ 840,038	$ 885,443	$ 882,743	$ 856,404	$833,375
Adjusted EBITDA	56,511	72,248	87,001	82,480	76,048	84,596	87,558	78,218	74,549
Adjusted EBITDA Margin	**8.5%**	**8.7%**	**9.7%**	**9.5%**	**9.1%**	**9.6%**	**9.9%**	**9.1%**	**8.9%**

Appendix: Reconciliation of Adjusted Net Income

(dollar amount in thousands)		**Six Months Ended 12/31/2019**
Net Income	$	76,830
Non-routine costs		1,104
Adjusted Net Income	**$**	**77,934**

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Appendix: Reconciliation of Free Cash Flow

	Three Months Ended September 30								
(dollar amount 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**

	Three Months Ended December 31								
(dollar amount in thousands)	**Q2 FY12**	**Q2 FY13**	**Q2 FY14**	**Q2 FY15**	**Q2 FY16**	**Q2 FY17**	**Q2 FY18**	**Q2 FY19**	**Q2 FY20**
Cash provided by Operating Activities	$ 13,815	$ 4,939	$ 15,707	$ 19,274	$ 18,355	$ 3,794	$ 11,744	$ 53,783	$ 54,881
Capital expenditures	(6,880)	(2,951)	(2,555)	(4,706)	(2,625)	(3,711)	(5,124)	(3,923)	(7,019)
Free Cash Flow	**$ 6,935**	**$ 1,988**	**$ 13,152**	**$ 14,568**	**$ 15,730**	**$ 83**	**$ 6,620**	**$ 49,860**	**$ 47,862**

	Six Months Ended December 31								
(dollar amount in thousands)	**1H FY12**	**1H FY13**	**1H FY14**	**1H FY15**	**1H FY16**	**1H FY17**	**1H FY18**	**1H FY19**	**1H FY20**
Cash provided by Operating Activities	$ 30,216	$ 28,886	$ 32,663	$ 1,173	$ 33,445	$ 45,658	$ 21,184	$ 65,580	$ 104,899
Capital expenditures	(14,022)	(6,843)	(4,126)	(7,806)	(5,737)	(6,710)	(11,460)	(7,096)	(11,965)
Free Cash Flow	**$ 16,194**	**$ 22,043**	**$ 28,537**	**$ (6,633)**	**$ 27,708**	**$ 38,948**	**$ 9,724**	**$ 58,484**	**$ 92,934**

Appendix: Reconciliation of Net Leverage Ratio

(dollar amount in thousands)	Q2 FY18	Q3 FY18 [1]	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Net Income	$ 30,950	$ 36,592	$ 40,362	$ 48,938	$ 38,717	$ 16,535	$ 39,803	$ 38,799	$ 38,031
Interest expense, net	2,139	8,216	10,964	10,476	9,578	9,947	10,187	10,059	9,583
Income tax expense	13,646	12,927	19,859	7,164	11,724	9,283	22,317	12,308	11,346
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Amortization of intangibles (including impairment)	5,695	9,800	10,739	10,921	10,991	41,505	10,060	10,374	10,195
EBITDA	$ 56,511	$ 72,248	$ 87,001	$ 82,480	$ 76,048	$ 82,296	$ 87,558	$ 76,763	$ 74,549
Non-routine costs						2,300		1,455	
Adjusted EBITDA	**$ 56,511**	**$ 72,248**	**$ 87,001**	**$ 82,480**	**$ 76,048**	**$ 84,596**	**$ 87,558**	**$ 78,218**	**$ 74,549**
Trailing 4-Quarter EBITDA	232,700	249,501	278,066	298,240	317,777	330,125	330,682	326,420	324,921
Current portion of long-term debt	$ 6,378	$ 19,182	$ 19,183	$ 19,184	$ 44,184	$ 44,163	$ 49,036	$ 93,912	$ 73,771
Long-term debt	306,579	1,017,327	944,522	953,216	923,410	937,536	908,850	859,172	874,423
Total Debt	$ 312,957	$1,036,509	$ 963,705	$ 972,400	$ 967,594	$ 981,699	$ 957,886	$ 953,084	$ 948,194
Cash	85,324	43,523	54,150	56,408	79,827	47,367	108,219	98,204	128,149
Net Debt	$ 227,633	$ 992,986	$ 909,555	$ 915,992	$ 887,767	$ 934,332	$ 849,667	$ 854,880	$ 820,045
Net Leverage Ratio	**1.0**	**4.0**	**3.3**	**3.1**	**2.8**	**2.8**	**2.6**	**2.6**	**2.5**

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

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**