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*We Keep Industry Running*

# Fiscal Q1 2021 Recap

**October 28, 2020**

# 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,” “project” “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, 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; 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 Earnings per Share (EPS); Adjusted Net Income; 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

- **Solid execution across Applied®** with operating model functioning well amid early signs of an end-market recovery and traction from ongoing growth initiatives.
- **Underlying demand gradually improving,** with YoY declines moderating and daily sales rates up sequentially through F1Q21.
- **Stronger maintenance and break-fix demand** slowly materializing as customers increase facility utilization and production levels, though uncertainty remains.
- **Gross margins slightly above expectations** reflecting ongoing benefits from internal initiatives and easing mix headwinds from firming local account sales.
- **Results reflect effective cost control** during F1Q21 with a 15% YoY organic decline in SD&A and high single-digit decremental margins on operating income.
- **Free cash generation** of $78M (225% of net income) in F1Q21; balance sheet supportive with $271M of cash on hand and net debt down 30% YoY at Sept 30.

# Fiscal Q1 2021 Key Financial Highlights

- **Sales down 12.7% YoY**
  - Down 13.4% on an organic basis
  - Acquisitions +1.1%, currency -0.4%, selling days neutral this quarter

- **Net Income of $34.8M and EPS of $0.89**
  - Down from adjusted net income of $39.9M and adjusted EPS of $1.02 in F1Q20

- **Gross margin of 28.9% vs. the prior year of 29.4%**
  - Down 40 bps YoY excluding LIFO expense ($1.1M vs. $0.4M in F1Q20)
  - Sequentially up 13 bps; up 17 bps excluding LIFO expense ($1.1M vs. $0.8M in F4Q20)

- **SD&A expense 21.9% of sales vs. prior year of 22.1%(1)**
  - Down 15% YoY on an organic basis
  - Reflects strong cost discipline, resilient operating model, and recent cost actions

- **EBITDA of $67.6M**
  - 9.0% of sales, down 10 bps YoY(1)

*(1) Prior year excludes non-routine expense of $1.5M*

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# Current Investor Discussion Points

| Discussion Point | Update | Detail |
|---|---|---|
| **1. Underlying Demand** | • *Gradual improvement sequentially through quarter end; customers increasing maintenance and break-fix activity as industrial production levels starting to rebound* | • *F1Q21 organic sales -13.4% YoY vs. -18.4% in F4Q20 with YoY declines improving each month; F1Q21 daily sales up 2% sequentially* |
| **2. End-Market Trends** | • *Weakness remains concentrated in "heavy" industries, though underlying trends improved sequentially across several end-markets* | • *20 of top 30 industry verticals down YoY in F1Q21 vs. 28 down in F4Q20; greatest improvement in food & beverage, aggregates, technology, chemicals, transportation, lumber & wood, and pulp & paper* |
| **3. Sales Outlook** | • *Increasingly constructive but uncertainty remains entering seasonally slower Nov/Dec period, combined with evolving pandemic, macro, and geopolitical backdrop* | • *Organic sales to date in October down by a mid-teens percent YoY; assuming normal seasonal patterns for the balance of the quarter, would expect F2Q21 organic sales to decline 13%-14% YoY* |
| **4. Decremental Margins** | • *F1Q21 favorability driven by sequential sales improvement, firm gross margins, and cost execution; includes initial roll-off of temporary cost actions* | • *F1Q21 decremental margins of 9.5%; expect low double-digit to low teen decrementals in F2Q21 assuming a 13%-14% organic sales decline and ongoing gradual roll-off of temporary cost actions* |
| **5. Liquidity** | • *Strong free cash generation in F1Q21 ($78M, 225% of net income) provides additional support and flexibility in FY21* | • *$271M cash on hand,~$250M undrawn revolver (additional $250M accordion), $140M available on uncommitted shelf agreement as of Sept 30, 2020* |
| **6. Capital Deployment** | • *Remain prudent near term in light of ongoing macro uncertainty, but opportunistic given recent strong cash generation and strategic growth initiatives* | • *Paid down $62M (7%) of debt in F1Q21; acquired Advanced Control Solutions (ACS) in early October, a provider of next generation automation solutions* |
| **7. M&A** | • *Recent ACS acquisition further expands automation platform and engineered solution strengths; M&A pipeline remains active* | • *Expect approximately $6M of sales contribution from ACS in F2Q21; pipeline focused on tuck-in automation and fluid power opportunities near term* |

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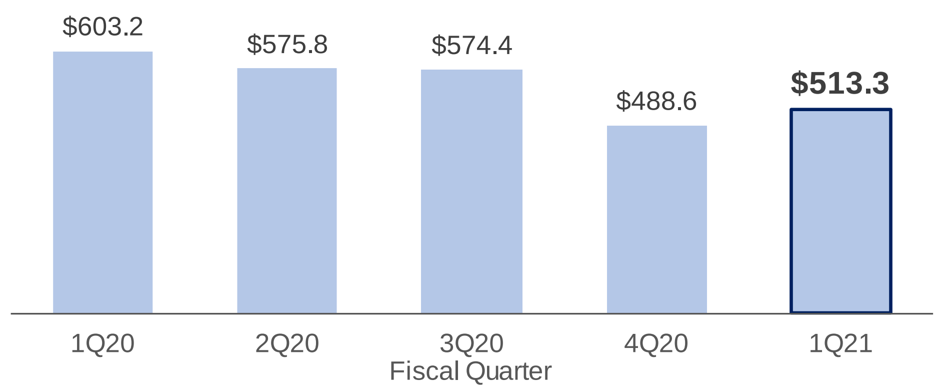
# Segment Results – Service Center Based Distribution

Segment Overview: *Representing 69% of fiscal 2020 sales - the segment includes our legacy distribution operations including ~420 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*

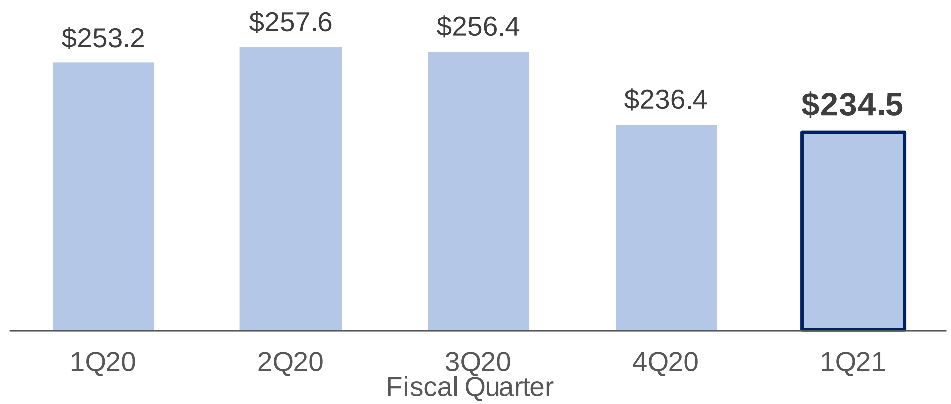



- **Sales down 14.9% YoY in F1Q21**
  - Organic - 14.4%
  - Currency - 0.5%
- **Declines reflect weaker industrial end-market demand from the impact of COVID-19, but improved as the quarter progressed**
- **Customers gradually increasing production, expanding facility access, and requiring maintenance and break/fix support, including at local accounts**
- **Weakness remains greatest within heavy industries but stabilizing; positive momentum in food & beverage, pulp & paper, aggregates, and lumber & wood**
- **Segment operating income of $49.9M in F1Q21**

# Segment Results – Fluid Power & Flow Control

**Segment Overview:** *Representing 31% of fiscal 2020 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 automation products and solutions.*

*Fluid Power & Flow Control Sales, in Millions*



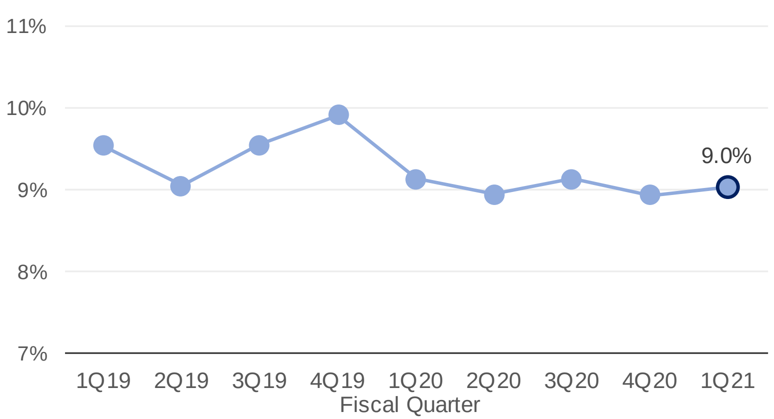

- **Sales down 7.4% YoY in F4Q20**
  - o Organic - 11.2%
  - o Acquisitions + 3.8%
- **Demand remains below prior year levels across industrial, off-highway mobile, process-related end markets**
- **Partially offset by growth in technology, life sciences, and food & beverage end markets, as well as growth initiatives and firm automation-related sales**
- **Segment operating income of $25.9M in F1Q21**

# Margin and Expense Highlights

*Gross Profit, SD&A, and EBITDA Metrics*

| *$ in millions* | Q1 21 | Q1 20[1] | Chg YoY | Excluding LIFO Chg YoY |
|---|---|---|---|---|
| Gross Profit | **$215.8** | $251.5 | (14.2%) | (13.9%) |
| Gross Margin | **28.9%** | 29.4% | (51) bps | (40) bps |
| SD&A Expense | **$163.5** | $188.8 | (13.4%) | |
| % of Sales | **21.9%** | 22.1% | 19 bps | |
| EBITDA | **$67.6** | $78.2 | (13.6%) | (12.6%) |
| EBITDA Margin | **9.0%** | 9.1% | (10) bps | 0 bps |
| ***Memo:*** | | | | |
| LIFO Expense | **$1.1** | $0.4 | | |

*Adjusted EBITDA Margin*

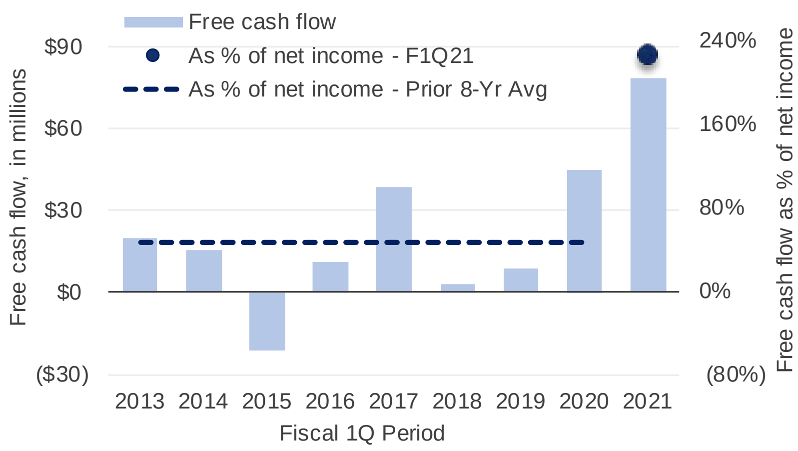



*(1) Prior year excludes non-routine expense of $1.5M*

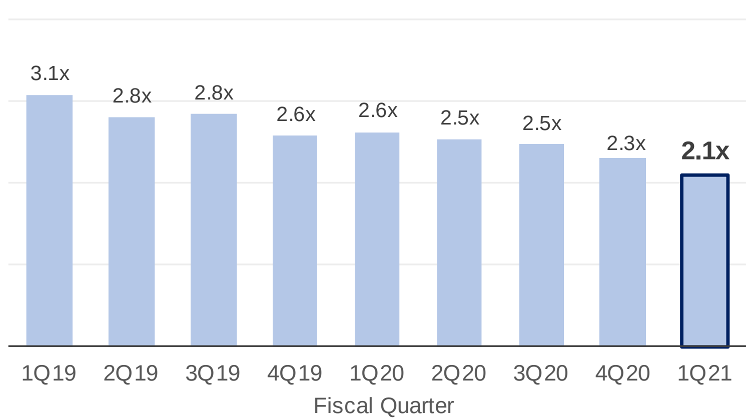
- **Gross margin down 51 bps YoY**
  - Excluding LIFO expense, down 40 bps YoY
  - Decline reflects unfavorable mix tied to softer local service center sales and the weaker volume environment
  - Up 13 bps sequentially; 17 bps excluding LIFO
  - Ongoing support from margin initiatives, stable price/cost dynamics, and favorable Fluid Power & Flow Control performance
- **SD&A down 13.4% YoY**
  - Down 15% YoY on an organic basis
  - Reflects cost actions and execution
  - Remain diligent in current environment, but gradually rolling off temporary cost actions to align with recent performance, internal opportunities, and growth initiatives
- **EBITDA margin down 10 bps YoY [1]**

# Cash Flow and Balance Sheet Leverage

*Free Cash Flow (in Millions)*




*Net Leverage Ratio (Net Debt to Trailing Adjusted EBITDA)*



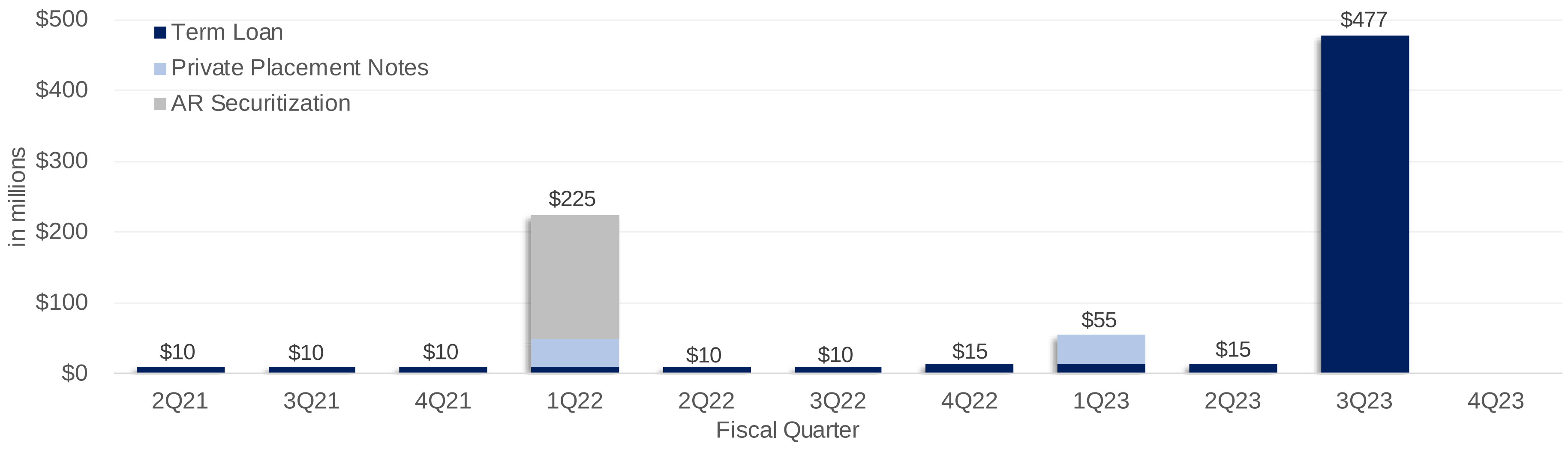

- **F1Q21 cash from operations of $81.8M; free cash flow of $78.2M**
  - Free cash 225% of net income
  - Reflects ongoing traction with working capital initiatives and benefit of slower macro environment
  - F1Q21 free cash could represent high point of fiscal 2021 assuming a sustainable recovery and resulting working capital requirements

- **Net leverage ratio at 2.1x**
  - Below prior year of 2.6x and F4Q20 of 2.3x
  - Net debt down 30% YoY
  - Paid down $62M of debt in F1Q21
  - Total debt down over $200M since early 2018

# Debt Outstanding and Maturity Schedule, as of 9/30/20

- **$871M of debt outstanding**
  - ~$600M net of $271M of cash on hand
- **~$250M of available capacity under undrawn revolver**
- **$140M of available capacity on uncommitted shelf facility**

***Debt Maturity Schedule***



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

| | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| 2019 | 63.0 | 62.0 | 63.0 | 63.5 | 251.5 |
| 2020 | 64.0 | 62.0 | 64.0 | 63.5 | 253.5 |
| **2021** | **64.0** | **62.0** | **63.0** | **63.5** | **252.5** |

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# Appendix: Net Sales and Operating Income by Segment

| *(dollar amount in thousands)* | Three Months Ended September 30 Q1 FY20 | Q1 FY21 |
|---|---|---|
| ***Service Center Based Distribution Segment:*** | | |
| Net sales | $ 603,160 | $ 513,284 |
| Operating income | $ 60,360 | $ 49,901 |
| Non-routine costs | 1,455 | - |
| **Adjusted segment operating income** | **$ 61,815** | **$ 49,901** |
| ***Fluid Power & Flow Control Segment:*** | | |
| Net sales | $ 253,244 | $ 234,523 |
| Operating income | $ 26,857 | $ 25,861 |
| Non-routine costs | - | - |
| **Adjusted segment operating income** | **$ 26,857** | **$ 25,861** |
| **Corporate and other expense, net (1)** | **$ 26,051** | **$ 23,454** |

*(1) Includes intangible amortization expense*

# Appendix: Reconciliation of Adjusted Net Income and EPS

| | Three Months Ended September 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Pre-tax | Tax Effect | Net of Tax | Per Share Diluted Impact | Tax Rate |
| **Net income and net income per share** | **$ 44,832** | **$ 10,048** | **$ 34,784** | **$ 0.89** | **22.4%** |
| Non-routine costs | - | - | - | - | - |
| **Adjusted net income and net income per share** | **$ 44,832** | **$ 10,048** | **$ 34,784** | **$ 0.89** | **22.4%** |

| | Three Months Ended September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Pre-tax | Tax Effect | Net of Tax | Per Share Diluted Impact | Tax Rate |
| **Net income and net income per share** | **$ 51,107** | **$ 12,308** | **$ 38,799** | **$ 1.00** | **24.1%** |
| Non-routine costs | 1,455 | 351 | 1,104 | 0.03 | 24.1% |
| **Adjusted net income and net income per share** | **$ 52,562** | **$ 12,659** | **$ 39,903** | **$ 1.02** | **24.1%** |

# Appendix: Reconciliation of EBITDA and Adjusted EBITDA

| *(dollar amount in thousands)* | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 |
|---|---|---|---|---|---|---|---|---|---|
| Net Income | $ 48,938 | $ 38,717 | $ 16,535 | $ 39,803 | $ 38,799 | $ 38,031 | $ (82,777) | $ 29,989 | $ 34,784 |
| Interest expense, net | 10,476 | 9,578 | 9,947 | 10,187 | 10,059 | 9,583 | 8,805 | 8,088 | 7,653 |
| Income tax expense | 7,164 | 11,724 | 9,283 | 22,317 | 12,308 | 11,346 | (2,550) | 10,090 | 10,048 |
| Depreciation and amortization of property | 4,981 | 5,038 | 5,026 | 5,191 | 5,223 | 5,394 | 5,380 | 5,199 | 5,352 |
| Amortization of intangibles | 10,921 | 10,991 | 9,911 | 10,060 | 10,374 | 10,195 | 10,048 | 9,882 | 9,726 |
| **EBITDA** | **$ 82,480** | **$ 76,048** | **$ 50,702** | **$ 87,558** | **$ 76,763** | **$ 74,549** | **$ (61,094)** | **$ 63,248** | **$ 67,563** |
| Goodwill & intangible impairment | | | 31,594 | | | | 131,000 | | |
| Non-routine costs | | | 2,300 | | 1,455 | | 5,997 | 1,540 | |
| **Adjusted EBITDA** | **$ 82,480** | **$ 76,048** | **$ 84,596** | **$ 87,558** | **$ 78,218** | **$ 74,549** | **$ 75,903** | **$ 64,788** | **$ 67,563** |

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# Appendix: Reconciliation of Adjusted EBITDA Margin

| *(dollar amount in thousands)* | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 |
|---|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **$ 864,515** | **$ 840,038** | **$ 885,443** | **$ 882,743** | **$ 856,404** | **$ 833,375** | **$ 830,797** | **$ 725,076** | **$ 747,807** |
| Adjusted EBITDA | 82,480 | 76,048 | 84,596 | 87,558 | 78,218 | 74,549 | 75,903 | 64,788 | 67,563 |
| **Adjusted EBITDA Margin** | **9.5%** | **9.1%** | **9.6%** | **9.9%** | **9.1%** | **8.9%** | **9.1%** | **8.9%** | **9.0%** |

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# Appendix: Reconciliation of Free Cash Flow

| | Three Months Ended Sept 30 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(dollar amount in thousands)* | **Q1 FY13** | **Q1 FY14** | **Q1 FY15** | **Q1 FY16** | **Q1 FY17** | **Q1 FY18** | **Q1 FY19** | **Q1 FY20** | **Q1 FY21** |
| Cash provided by Operating Activities | $ 23,947 | $ 16,956 | $ (18,101) | $ 15,090 | $ 41,864 | $ 9,440 | $ 11,797 | $ 50,018 | $ 81,842 |
| Capital Expenditures | (3,892) | (1,571) | (3,100) | (3,112) | (2,999) | (6,336) | (3,173) | (4,946) | (3,597) |
| **Free Cash Flow** | $ 20,055 | $ 15,385 | $ (21,201) | $ 11,978 | $ 38,865 | $ 3,104 | $ 8,624 | $ 45,072 | $ 78,245 |

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# Appendix: Reconciliation of Net Leverage Ratio

| *(dollar amount in thousands)* | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 | Q1 FY21 |
|---|---|---|---|---|---|---|---|---|---|
| **Net Income** | $ 48,938 | $ 38,717 | $ 16,535 | $ 39,803 | $ 38,799 | $ 38,031 | $ (82,777) | $ 29,989 | $ 34,784 |
| Interest expense, net | 10,476 | 9,578 | 9,947 | 10,187 | 10,059 | 9,583 | 8,805 | 8,088 | 7,653 |
| Income tax expense | 7,164 | 11,724 | 9,283 | 22,317 | 12,308 | 11,346 | (2,550) | 10,090 | 10,048 |
| Depreciation and amortization of property | 4,981 | 5,038 | 5,026 | 5,191 | 5,223 | 5,394 | 5,380 | 5,199 | 5,352 |
| Amortization of intangibles | 10,921 | 10,991 | 9,911 | 10,060 | 10,374 | 10,195 | 10,048 | 9,882 | 9,726 |
| **EBITDA** | $ 82,480 | $ 76,048 | $ 50,702 | $ 87,558 | $ 76,763 | $ 74,549 | $ (61,094) | $ 63,248 | $ 67,563 |
| Goodwill & intangible impairment | | | 31,594 | | | | 131,000 | | |
| Non-routine costs | | | 2,300 | | 1,455 | | 5,997 | 1,540 | |
| **Adjusted EBITDA** | $ 82,480 | $ 76,048 | $ 84,596 | $ 87,558 | $ 78,218 | $ 74,549 | $ 75,903 | $ 64,788 | $ 67,563 |
| **Trailing 4-Quarter EBITDA** | 298,240 | 317,777 | 330,125 | 330,682 | 326,420 | 324,921 | 316,228 | 293,458 | 282,803 |
| Current portion of long-term debt | $ 19,184 | $ 44,184 | $ 44,163 | $ 49,036 | $ 93,912 | $ 73,771 | $ 78,642 | $ 78,646 | $ 78,651 |
| Long-term debt | 953,216 | 923,410 | 937,536 | 908,850 | 859,172 | 874,423 | 864,758 | 855,143 | 792,827 |
| Total Debt | $ 972,400 | $ 967,594 | $ 981,699 | $ 957,886 | $ 953,084 | $ 948,194 | $ 943,400 | $ 933,789 | $ 871,478 |
| Cash | 56,408 | 79,827 | 47,367 | 108,219 | 98,204 | 128,149 | 165,464 | 268,551 | 271,060 |
| Net Debt | $ 915,992 | $ 887,767 | $ 934,332 | $ 849,667 | $ 854,880 | $ 820,045 | $ 777,936 | $ 665,238 | $ 600,418 |
| **Net Leverage Ratio** | **3.1** | **2.8** | **2.8** | **2.6** | **2.6** | **2.5** | **2.5** | **2.3** | **2.1** |

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