



# 2023 Investor Day

May 18, 2023 • Boston

# Forward-Looking Statements

## Safe Harbor Statement

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding future financial performance, operating performance, growth in free cash flow, organic and total revenue growth, operating margin growth, price/cost impact, statements regarding diluted income per share, product line simplification activities and enterprise initiatives, restructuring expenses and related benefits, expected dividend increases and payout ratio, growth in after-tax return on invested capital, expected total shareholder returns, timing and amount of share repurchases, future market capitalization, end market economic and regulatory conditions, expected impact of acquisitions or divestitures, the Company's sustainability strategy, talent management strategy and leadership pipeline, D&I goals, product development, environmental goals and the Company's related guidance. These statements are subject to certain risks, uncertainties, and other factors which could cause actual results to differ materially from those anticipated. Important risks that could cause actual results to differ materially from the Company's expectations include those that are detailed in ITW's Form 10-K for 2022 and subsequent reports filed with the SEC.

## Non-GAAP Measures

The Company uses certain non-GAAP measures in discussing the Company's performance. The reconciliation of those measures to the most comparable GAAP measures is detailed in ITW's Form 10-K for 2022 and the appendix of this presentation, which are available at [www.itw.com](http://www.itw.com). The estimated guidance of after-tax return on invested capital and free cash flow is based on assumptions that are difficult to predict and reconciliations of these forward-looking estimates to their most directly comparable GAAP estimates have been omitted due to the unreasonable efforts required for such reconciliations and the lack of reliable forward-looking information.

# Presenters



**Scott Santi**  
Chairman & CEO

40  
Years  
With ITW

CEO Since  
2012



**Chris O'Herlihy**  
Vice Chairman

34  
Years  
With ITW

Vice Chairman Since  
2015



**Michael Larsen**  
SVP & CFO

10  
Years  
With ITW

CFO Since  
2013

# Presenters



**Axel Beck**

EVP Food Equipment

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**34**

Years  
With ITW



**Xavi Gracia**

EVP Automotive OEM

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**17**

Years  
With ITW



**Patty Hartzell**

EVP Test & Measurement  
and Electronics

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**25**

Years  
With ITW



# Agenda

ITW's Enterprise Strategy Ten Years In

Our Next Phase (2023-2030)

Enterprise Strategy Execution: Segment Perspectives

- Food Equipment
- Automotive OEM
- Test & Measurement and Electronics

2023-2030 Performance Framework and 2030 Performance Goals

Closing Remarks

Break

Q&A

# What You'll Hear Today

- Over the last 10 years, through the execution of our Enterprise Strategy we have demonstrated that ITW has the most powerful and competitive business model in the industrial arena.
- We have significant opportunity to continue to improve on our path to ITW's full potential as reflected in our new 2030 enterprise performance goals.
- The ITW Business Model and our Enterprise Strategy framework will be as formidable of a competitive advantage and performance differentiator in the next phase of our evolution as it has been over the last decade ... if not more so.

A close-up photograph of the ITW logo, which consists of the letters 'ITW' in a stylized, three-dimensional, metallic font. The logo is mounted on a light-colored, textured wall. The lighting creates strong shadows, emphasizing the depth and metallic sheen of the letters.

Never stronger.

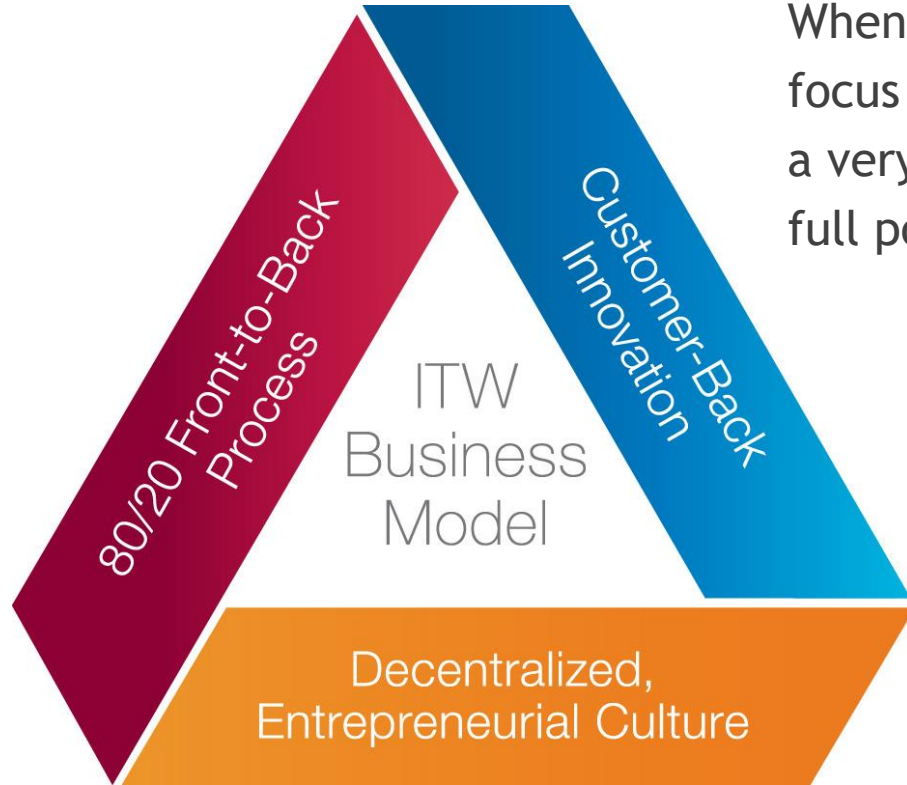
Never better positioned  
for the future.



# ITW's Enterprise Strategy – *10 Years In*

Scott Santi, *Chairman and CEO*

# ITW's Enterprise Strategy



When we launched our Enterprise Strategy in 2012, our simple idea was to focus the entire company on leveraging what we believed at the time to be a very powerful but significantly underutilized ITW Business Model to its full potential:

- **Best-In-Class Business Model = Best-In-Class Performance**
- **“Do What We Say” Execution**





# Best-in-Class Business Model = Best-in-Class Performance

|                                    | 2012                | 2022    |                    |
|------------------------------------|---------------------|---------|--------------------|
| Revenue                            | \$17.9B             | \$15.9B | (11%) <sup>1</sup> |
| Operating Margin                   | 15.9%               | 23.8%   | +790 bps           |
| After-tax ROIC <sup>2</sup>        | 14.5% <sup>3</sup>  | 29.1%   | +1460 bps          |
| Earnings Per Share                 | \$3.21 <sup>2</sup> | \$9.77  | 3x                 |
| Dividends Declared Per Share       | \$1.48              | \$5.06  | 3.4x               |
| Market Capitalization <sup>4</sup> | \$23B               | \$70B   | 3x                 |

<sup>1</sup> Revenue decline reflects ~\$5B in divestitures.

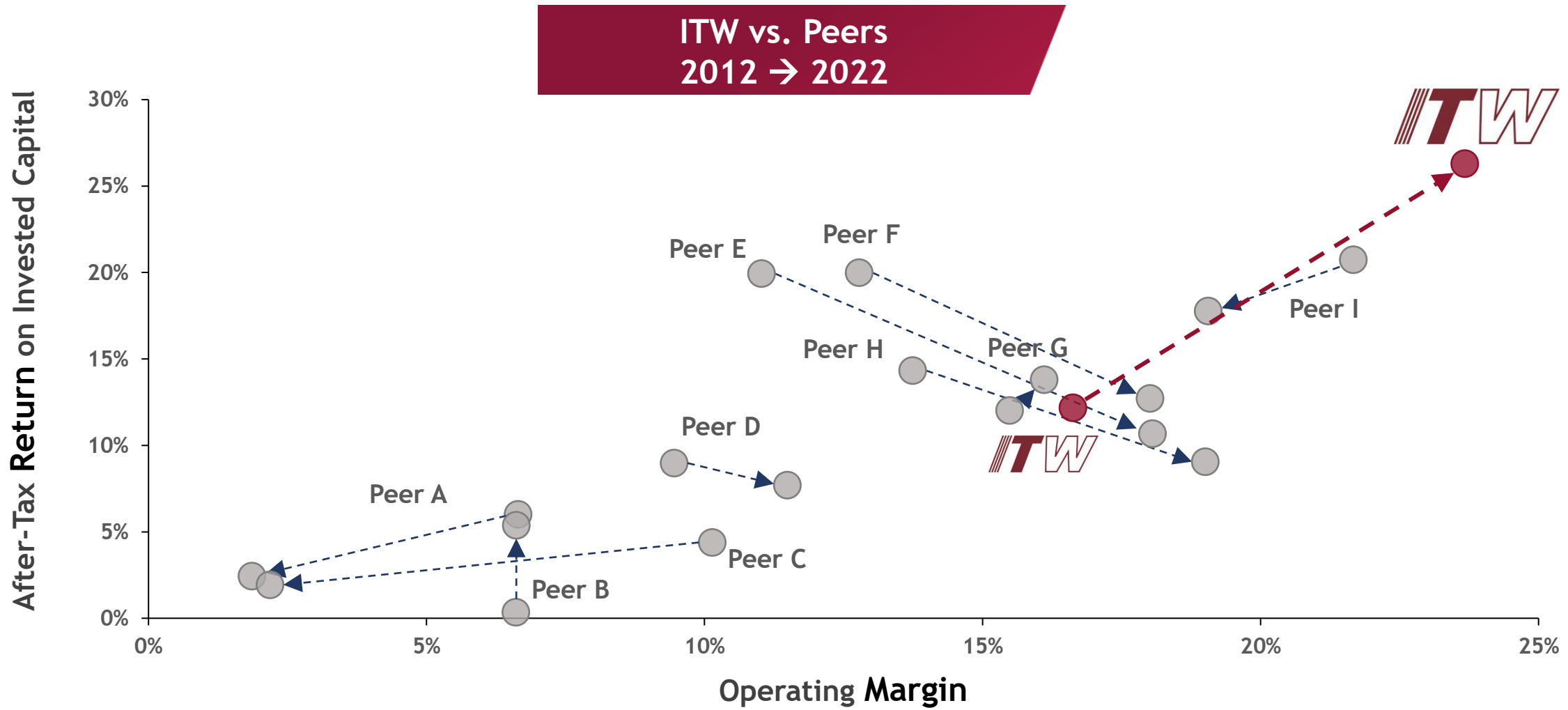
<sup>2</sup> After-tax return on average invested capital (ROIC) and 2012 Adjusted EPS are non-GAAP measures. Refer to the 2022 Form 10-K and the appendix of this presentation.  
As reported in the 2013 Form 10-K.

<sup>4</sup> As of January 1, 2012 and January 11, 2023



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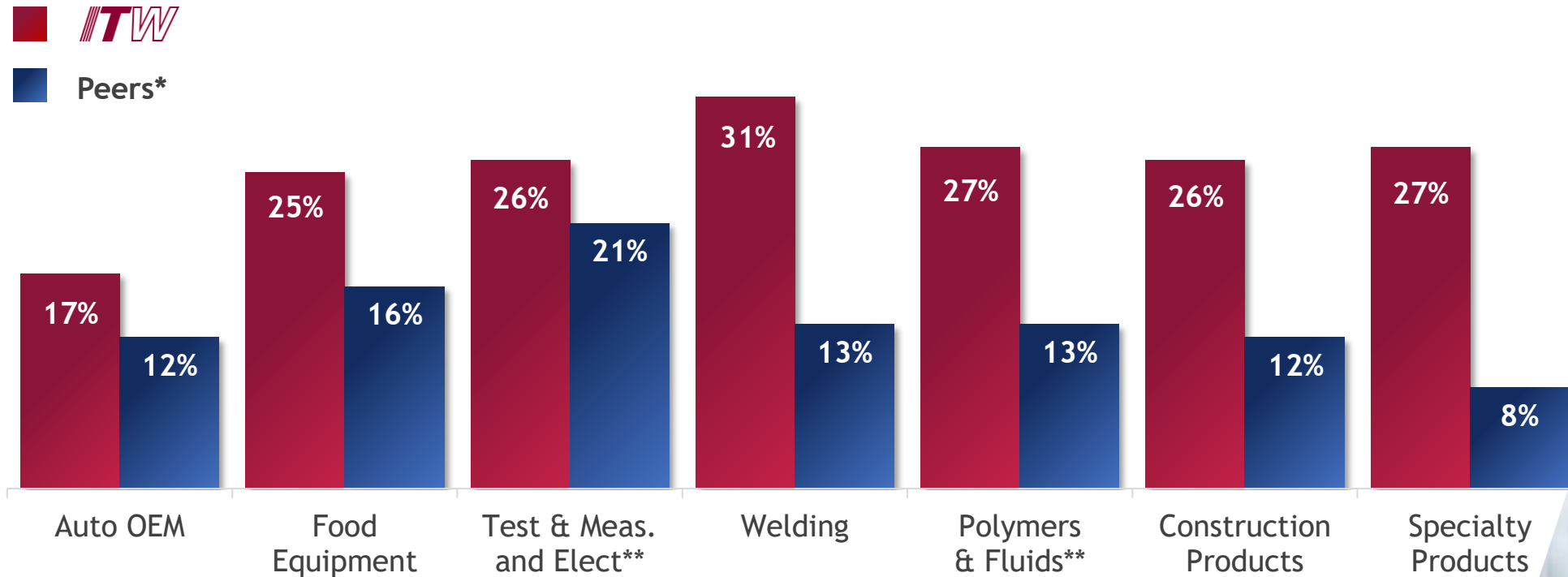
# Best-in-Class Business Model = Best-in-Class Performance



Source: Bloomberg. Peers include 3M, Dover, Eaton, Emerson, General Electric, Honeywell, Johnson Controls, Parker Hannifin, and Stanley Black & Decker.

# Best-in-Class Business Model = Best-in-Class Performance

## Operating Margin vs. Major Market Peers by Segment



\* See appendix for listing of segment peers.

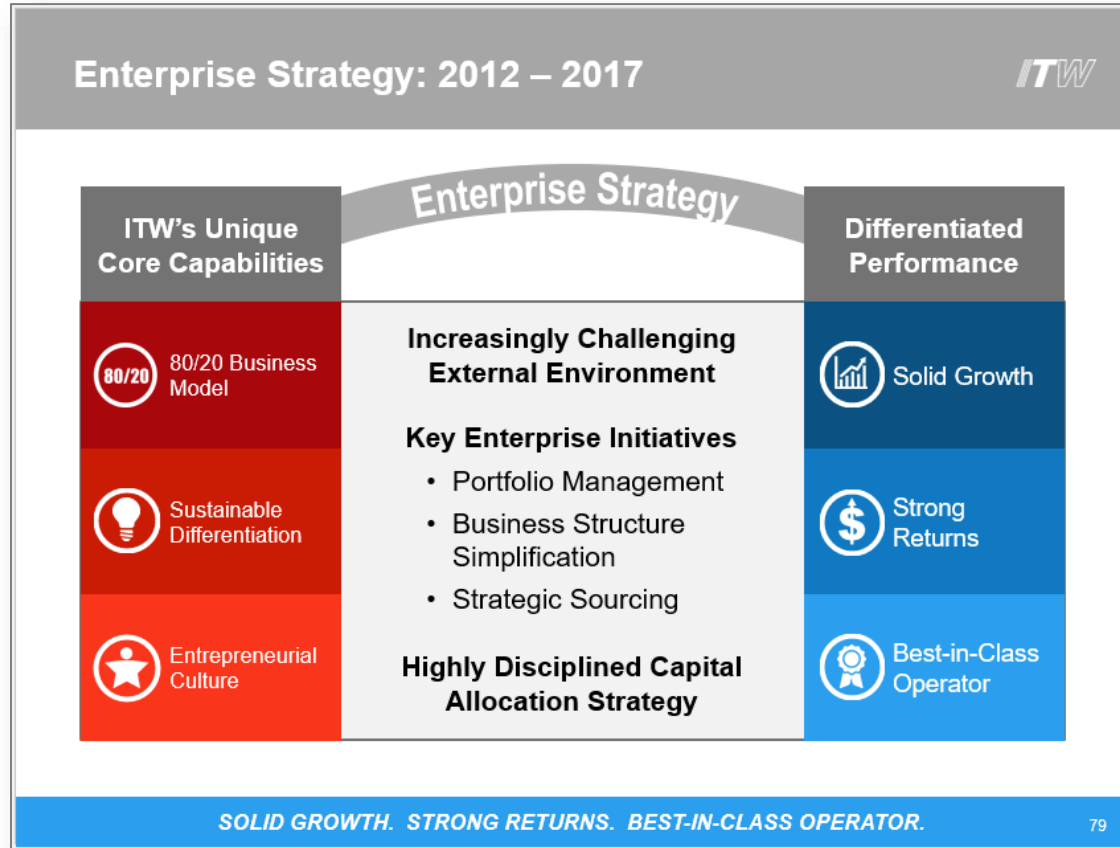
\*\* Test & Measurement and Electronics and Polymers & Fluids exclude 190 bps and 220 bps, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets.



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# “Do What We Say” Execution

From our December 2012 Investor Day:



“We will be more focused, more efficient, and more streamlined in order to deliver profitable growth and strong returns in an increasingly challenging external environment.”





# “Do What We Say” Execution

## What We Said in 2012:

### Portfolio Management

“We will divest commoditized businesses and PLS commoditized product lines.”

### Business Structure Simplification

“We will simplify and scale up operating structure to improve focus and enhance global competitiveness.”

### Strategic Sourcing

“We will leverage purchasing scale to enhance profitability and global competitiveness.”

## What We Did:

- Divested ~\$5B in revenue
- PLS'd >\$750M in revenue

- 800+ P&L's → 84 Divisions

- ~\$900M savings

PLS = Product Line Simplification



# “Do What We Say” Execution

**Leverage the ITW  
Business Model to  
Full Potential**

## What We Said in 2012:

“We will expect and achieve excellence in the practice of the ITW Business Model everywhere in the company every day.”

**Disciplined  
Capital Allocation  
Strategy**

“We will focus on investments that drive organic growth and/or improve margins ... while continuing strong return to shareholders via dividends.”

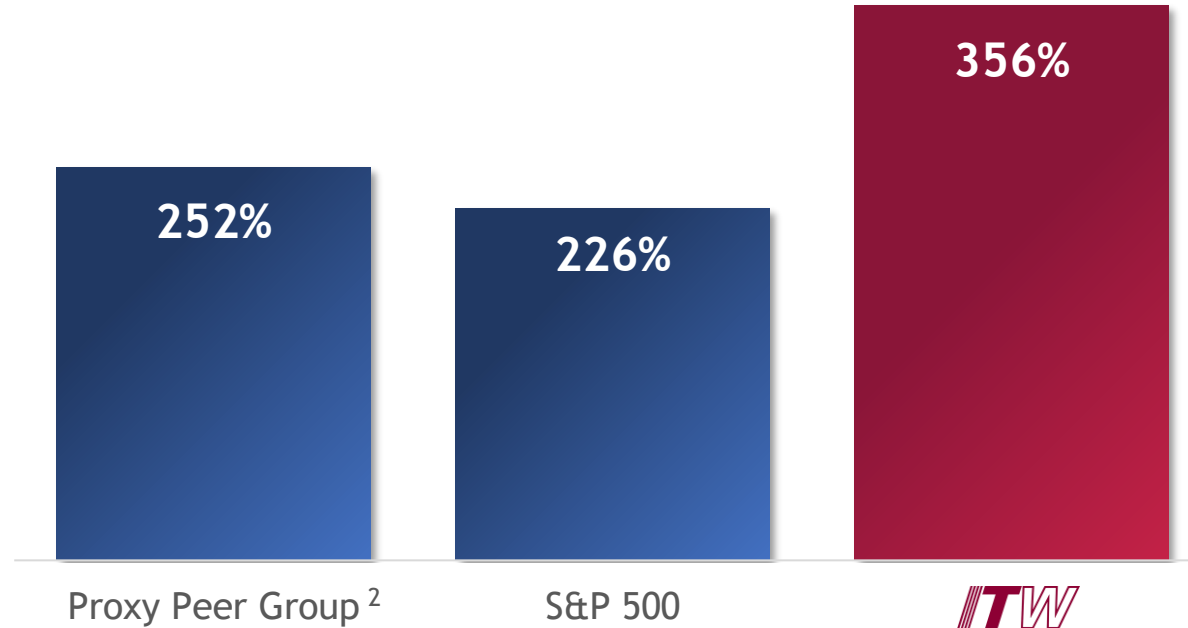
## What We Did:

- Today, the best we’ve ever been ... by far
  - Peer Group #1 operating margin
  - Consistent 35-40% incremental margins
  - Accelerated organic growth
- 
- Peer Group #1 ROIC
  - Dividends/share 3.4x
  - 59 years of consecutive dividend increases
  - Added high-quality acquisitions, (EF&C and MTS)



# Best-in-Class Business Model = Best-in-Class Performance

## Total Shareholder Returns (2012-2022)<sup>1</sup>



**ITW delivered 16.4% compound annual TSR  
to our shareholders (2012-2022)**

<sup>1</sup> TSR includes reinvested dividends.

<sup>2</sup> See 2022 Form 10-K for proxy peer group definition.

# Shareholder Value Created 2012-2022

|                                   |                                   |
|-----------------------------------|-----------------------------------|
| Increase in Market Capitalization | <b>+\$47 Billion</b>              |
| Dividends Paid Out                | <b><u>+\$11 Billion</u></b>       |
| Total                             | <b><u><u>\$58 Billion</u></u></b> |





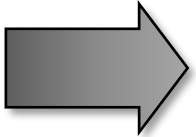
# **ITW 2012-2022:**

**From “Middle of The Pack”  
To a Best-in-Class Industrial Company.**

**Where Do We Go From Here?**

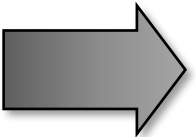
# Where Do We Go From Here?

## Our Next Phase: 2023-2030



We have significant room for further improvement on our path to ITW's full potential:

- New 2030 Performance Goals



ITW's differentiated Business Model and Enterprise Strategy framework will be as powerful and competitively differentiating in our next phase as it was during the previous decade ... if not more so.



# As Powerful and Differentiated in our Next Phase ... if not more so

**1** Volatility, risk, and the pace of change in the global operating environment will continue to increase. **We are built for this.**

**2** Most of **the heavy lifting** we had to do in the past decade to transform the company **is behind us.** We enter our next phase essentially focused on two things:

- Driving consistent high-quality above-market organic growth (our “80”).
- Extending ITW’s long-term organic growth potential through high-quality, financially prudent acquisitions.



## 1a) We are Built for This

Our defining competitive advantage is the **ITW Business Model**, not a legacy industry position or a core technology.

- Can move in and out of markets as their characteristics evolve and new opportunities emerge.
- We have earned the right to be a diversified industrial company - a huge advantage in balancing and mitigating external risk.



**Volatility, Risk, and the  
Pace Of Change Will Only  
Continue To Increase**



## 1b) We are Built for This

Unmatched ability to read, react, respond, and evolve.

- Uniquely enabled by ITW's highly decentralized “flexibility within a framework” operating culture.
- Allows us to be a fast adaptor rather than have to commit to a strategy built on the impossible task of accurately predicting the future.

The image shows the ITW logo, consisting of the letters 'ITW' in a stylized, three-dimensional font, mounted on a light-colored, textured wall. The logo is made of a metallic material, possibly aluminum, and has a brushed finish. The letters are slightly shadowed, giving them a sense of depth.

**Volatility, Risk, and the  
Pace Of Change Will Only  
Continue To Increase**

## 1c) We are Built for This

**Highly efficient cash generator, best-in-class margins, and “fortress” balance sheet.**

- Strongest, most resilient financial profile in the industrial company arena.
- Uniquely capable of remaining invested in executing our long-term strategy and in our people during periods of external economic stress.
- ITW’s ability to consistently execute and invest through the ups and downs of the business cycle is now a defining competitive advantage for the company.

The ITW logo is a large, three-dimensional, metallic-looking emblem mounted on a light-colored, textured wall. The letters are stylized and blocky, with a brushed metal finish and a slight shadow cast behind them.

**Volatility, Risk, and the  
Pace Of Change Will Only  
Continue To Increase**

# Q2 2020 - The Depth of the Global Pandemic

ITW's entrepreneurial "read and react" culture and highly resilient financial profile were on full display:

- Communicated a pandemic framework with just three components and our teams around the world quickly and decisively mobilized.
- Highly resilient financial performance:
  - Revenue **Dropped 29% virtually overnight**
  - Operating Margin **17.5%**
  - Operating Cash Flow **\$737 Million**



## 2) Most of the Heavy Lifting Is Behind Us

### Our “To Do” List in 2012

1. Reshape ITW’s business portfolio
2. Simplify and scale up our operating structure
3. Bring the quality of our 80/20 execution to unprecedented levels across the company
4. Implement a robust enterprise leadership development and talent management system
5. Define and strengthen the unique ITW culture
6. Reinvigorate Customer-Back Innovation focus and capability
7. Build organic growth into a core ITW strength on par with our world-class financial performance and operational capabilities
8. Add selective high-quality acquisitions that extend ITW’s long-term organic growth potential





# We Enter our Next Phase Essentially Focused on 2 Things ...

- ~~1. Reshape ITW's business portfolio~~
- ~~2. Simplify and scale up our operating structure~~
- ~~3. Bring the quality of our 80/20 execution to unprecedented levels across the company~~
- ~~4. Implement a robust enterprise leadership development and talent management system~~
- ~~5. Define and strengthen the unique ITW culture~~
- ~~6. Reinvigorate Customer Back Innovation focus and capability~~
- 7. Build organic growth into a core ITW strength on par with our world-class financial performance and operational capabilities**
- 8. Add selective high-quality acquisitions that extend ITW's long-term organic growth potential**

**Never stronger. Never better positioned for the future.**



# ITW's Enterprise Strategy - Next Phase (2023-2030)

Chris O'Herlihy, *Vice Chairman*

# ITW's Enterprise Strategy — Next Phase (2023-2030)

## Key priorities:

### 1. Execute on ITW's growth agenda

- Consistent 4%+ high-quality organic growth at the enterprise level
- High-quality acquisitions that extend ITW's long-term organic growth potential

### 2. Sustain foundational strengths we have built over the past decade

- High-quality ITW Business Model practice throughout the company
- Quality/depth of leadership bench and pipeline

**Results in Double-Digit Compound Annual TSR**



# ITW's Growth Agenda – Organic Growth

Organic Growth is our Core Growth Engine and Top Priority

## Our Target:

Consistent 4%+ high-quality organic growth through the cycle

- High-quality = 35-40% incremental margins

## By 2030:

Organic growth execution skills that are **on par with** our world-class financial performance and operating capabilities



# ITW's Growth Agenda – Organic Growth

## Segment Organic Growth Targets:

|                          |             |
|--------------------------|-------------|
| Market Growth/Price      | <b>1-2%</b> |
| Net Market Penetration   | <b>1-2%</b> |
| Customer-Back Innovation | <b>2-3%</b> |
| <hr/>                    |             |
| Total                    | <b>4-7%</b> |

**More Than Enough Growth Potential to Deliver Consistent  
4%+ Organic Growth at the Enterprise Level**





# ITW's Growth Agenda – Organic Growth

After 10 years of work, we are well-positioned to achieve our 4%+ organic growth target ... and we are delivering on it.

- ✓ Portfolio management
- ✓ Sustainable differentiation
- ✓ Plenty of room to grow in every segment
- ✓ Best-in-class customer-facing performance
- ✓ Strategic sales excellence / Go-to-market investments
- ✓ Customer-Back Innovation focus and investments
- ✓ Going forward, it is the #1 focus of the entire organization



# Customer-Back Innovation

**We innovate from the Customer Back, not the R&D center out.  
We are the go-to problem solvers for our “80” customers.**

- Has fueled decades of profitable growth at ITW
- Currently contributes ~2% to annual organic growth (up from ~1% in 2019)
- Higher probability, higher velocity, higher rate of return
- Every project we work on is tied to a known customer pain point or opportunity
- ~1,700 patent applications annually
- Roughly half of ITW revenues are covered by patents or proprietary trade secrets

**Customer-Back Innovation is the Most Impactful Driver of  
4%+ Organic Growth Through the Cycle**



# Acquisitions to Extend ITW's Long-Term Organic Growth Potential

## Only if High Conviction / High Quality:

- Worth our time and effort
- Can contribute to ITW's long-term organic growth target (4%+)
- Can achieve ITW-caliber margins and returns over time

## Two Types:

- Bolt-ons to existing segments
- New platforms / segment build-outs



# Segment Build-Out Examples



Welding

- We started with Miller Electric in 1994
- Added 10+ bolt-on acquisitions
- Revenue grew from ~\$350M to \$1.9B in 2022; 25% through acquisitions.
- Today, organic growth of 7%+ (2019-2022 avg.)
- Operating margin from ~12% to ~31% in 2022



INSTRON®



Test & Measurement  
and Electronics

- We started with Instron in 2005
- Added ~18 bolt-on acquisitions
- Revenue grew from ~\$280M to \$2.8B in 2022; 55% through acquisitions.
- Today, organic growth of 6.5% (2019-2022 avg.)
- Operating margin from ~9% to ~26%<sup>1</sup> in 2022

<sup>1</sup> Excludes 190 bps of unfavorable operating margin impact of amortization expense related to intangible assets.

# Challenges with Larger Acquisitions (\$1B+)

- All acquisitions consume leadership time, energy, and effort. Larger acquisitions require exponentially more.
- Are likely to require significant portfolio actions to ultimately get the pieces we want.



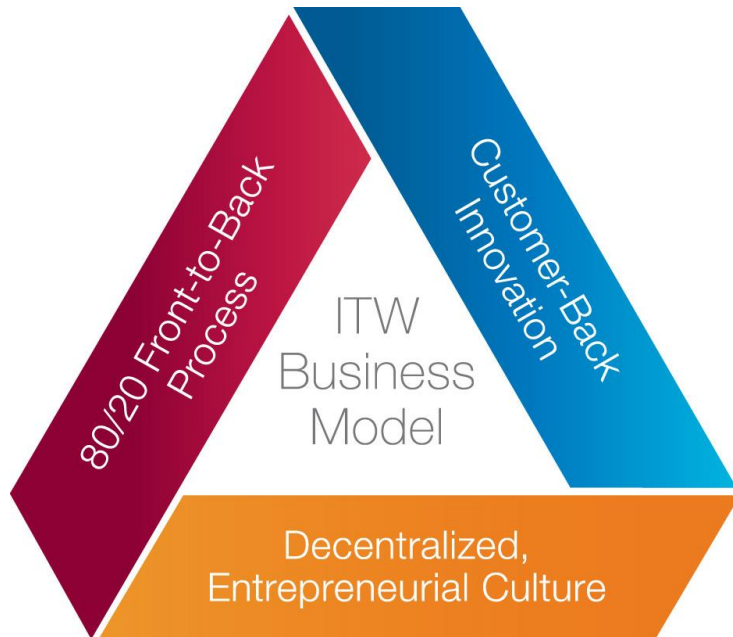


# Sustaining Foundational Strengths We've Built Over the Past Decade

- 1** High-Quality ITW Business Model Practice Throughout the Company, Everywhere, Every Day
- 2** Quality / Depth of Leadership Bench and Pipeline



# 1. Sustaining High-Quality ITW Business Model Practice Throughout the Company



The quality of ITW Business Model practice has never been better.

## Elements:

- 80/20 Front-to-Back practice
- Customer-Back Innovation
- Decentralized, entrepreneurial culture

**The ITW Business Model is our Core Competitive Advantage and the Source of our Differentiated Performance**



# 80/20 Front-to-Back: How We Operate

**ITW's 80/20 Front-to-Back process is a unique and proprietary methodology used as the core operating system in all ITW divisions.**

- Improves all aspects of the business:
  - Heavily data-driven
  - Intense focus on the “80” / Minimize cost and distraction from the “20”
  - 3 to 5 year cycle of continuous implementation
- Results in:
  - Strategic clarity on “where to play / how to win”
  - Best-in-class customer-facing performance
  - Best-in-class financial performance
  - High-quality organic growth



# Culture: How We Execute

Our culture is **entrepreneurial**.

- In our decentralized divisional structure, our leaders run real businesses
  - They are empowered to think and act like owners
- Division leaders have full functional control and P&L responsibility (no matrix)

Our culture drives **accountability and ownership**.

- Decision-making is done close to the customer
- Planning and goal setting is bottom-up (in alignment with our Enterprise Strategy)

Performance metrics are **simple, clear, and consistent** across the enterprise.



## 2. Sustaining Quality / Depth of Leadership Pipeline

Our highly effective and customized approach to talent management provides us with a sustainable pipeline of leaders with expertise in the ITW Business Model.

- This remains a major focus area and is core to our future success.
- **ITW Business Model expertise** takes time and **specific experiences** to develop.
- We identify and **develop our own talent** as we can't hire for business model expertise on the outside.
- We continue to focus on **building more diversity** within the pipeline.
- Our Executive Leadership Team manages the top 200 leaders and all moves involving them.





# Our Next Phase: 2023-2030

The **ITW Business Model** and our **Enterprise Strategy** will be as formidable of a competitive advantage and performance differentiator in our next phase as it has been over the last decade ... or even more so.

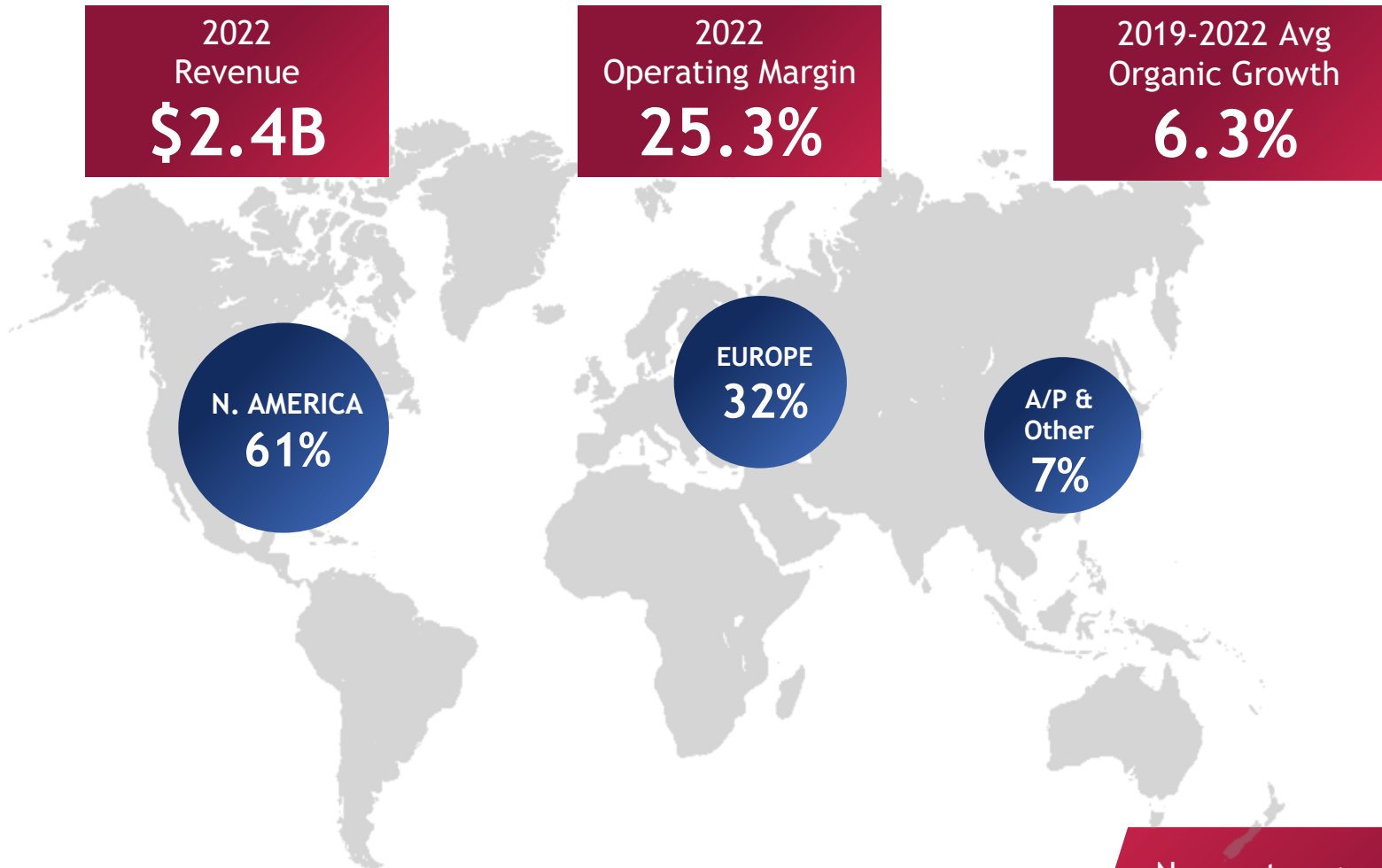


# ITW Food Equipment

Axel Beck, *Executive Vice President*

# ITW Food Equipment

Leading global supplier of innovative Food Equipment and Service solutions for the Commercial Food Service and Food Retail end markets where quality & lifetime service is a critical factor



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# Products

## Warewash ~30%



**HOBART**

## Cooking ~20%



**BAXTER**

**VULCAN**

**BONNET**

## Refrigeration ~15%



**Traulsen**

**FOSTER**

**KAIIRAK**

## Food Machines ~5%



**HOBART**

## Service ~30%



**HOBART**



# End Markets

## Institutional

~50%

Education  
Health Care  
Business & Industry



## Restaurants

~35%

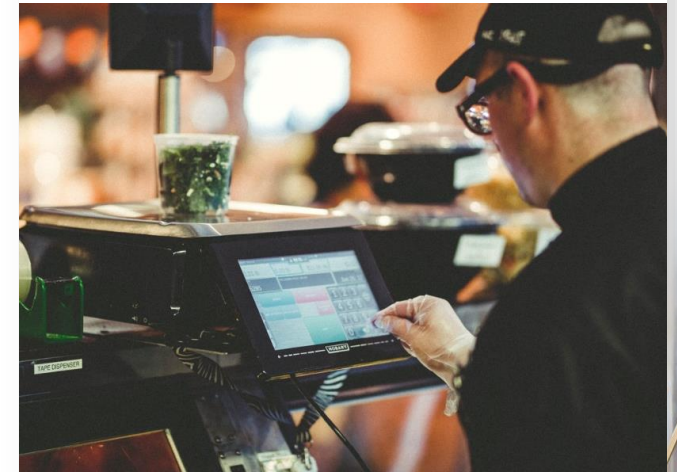
Full-Service Restaurants  
Quick Serve Chains  
Lodging & Casinos



## Retail

~15%

Supermarkets  
Mass Merchandisers  
Convenience Stores





## Market Trends

- Labor availability and cost
- Sustainability
- Total cost of ownership
- Increasing food safety standards / enforcement
- Food quality / new concepts

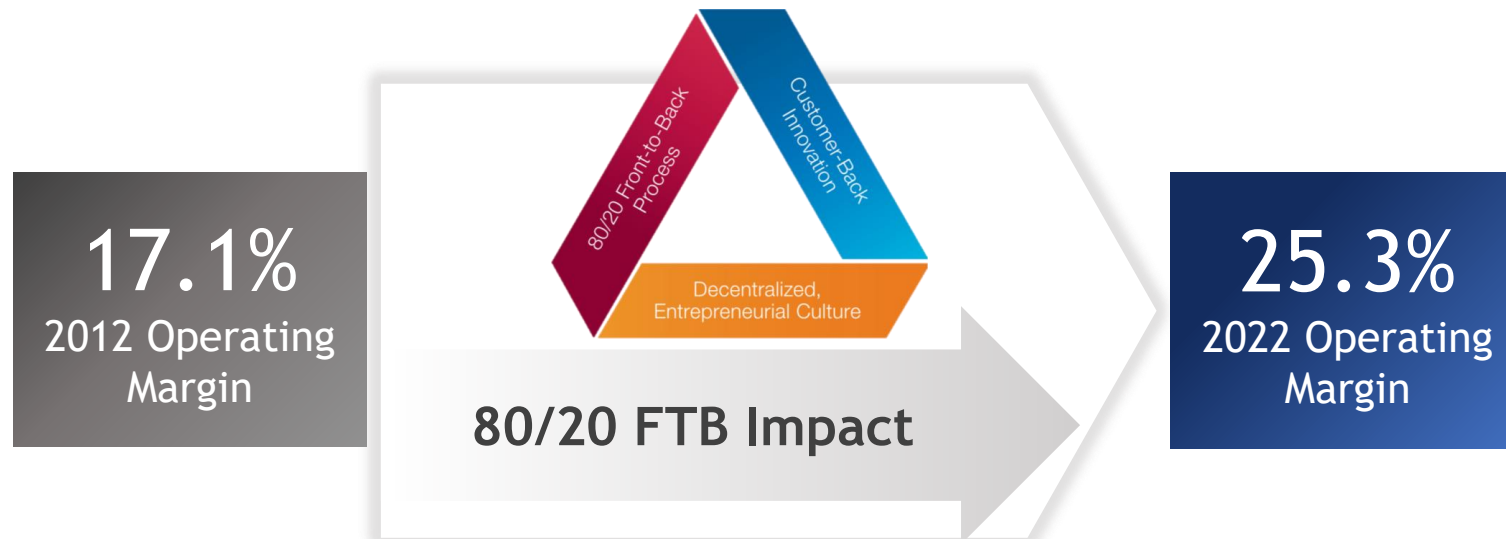
## Our Differentiation

- Strong innovation track record:  
~1,500 patents (granted & pending)
- Highest quality service & unique in the industry
- Highly regarded and trusted brands
- Safest, most durable & reliable equipment
- Leadership in Sustainability
- Best-in-class delivery performance



# Preparing for High-Quality Growth (2012-2017)

- Radically simplify products, customers and operations
- Develop deep understanding of key profit levers
- Establish clarity on “where to play” and “how to win”
- Achieve leadership in customer-facing performance



# Pivot to Growth (2017-2022)

## What We Saw ...

- Fragmented sales and marketing structure
- Inconsistent CBI process
- Underleveraged equipment + service differentiation

## What We Did ...

- Focused intensely on key “80” markets
- Strategic sales excellence
- Re-invigorated CBI process
- Integrated product + service offerings

## What We Got ...

- 2%+ CBI growth contribution
- Share gain: 1-2% per year



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# Warewash North America

2017 Revenue  
**\$202M**

7% CAGR

2022 Revenue  
**\$275M at above-segment margin**

## Products

- Under Counters
- Hood Type
- Rack Conveyors



## Markets

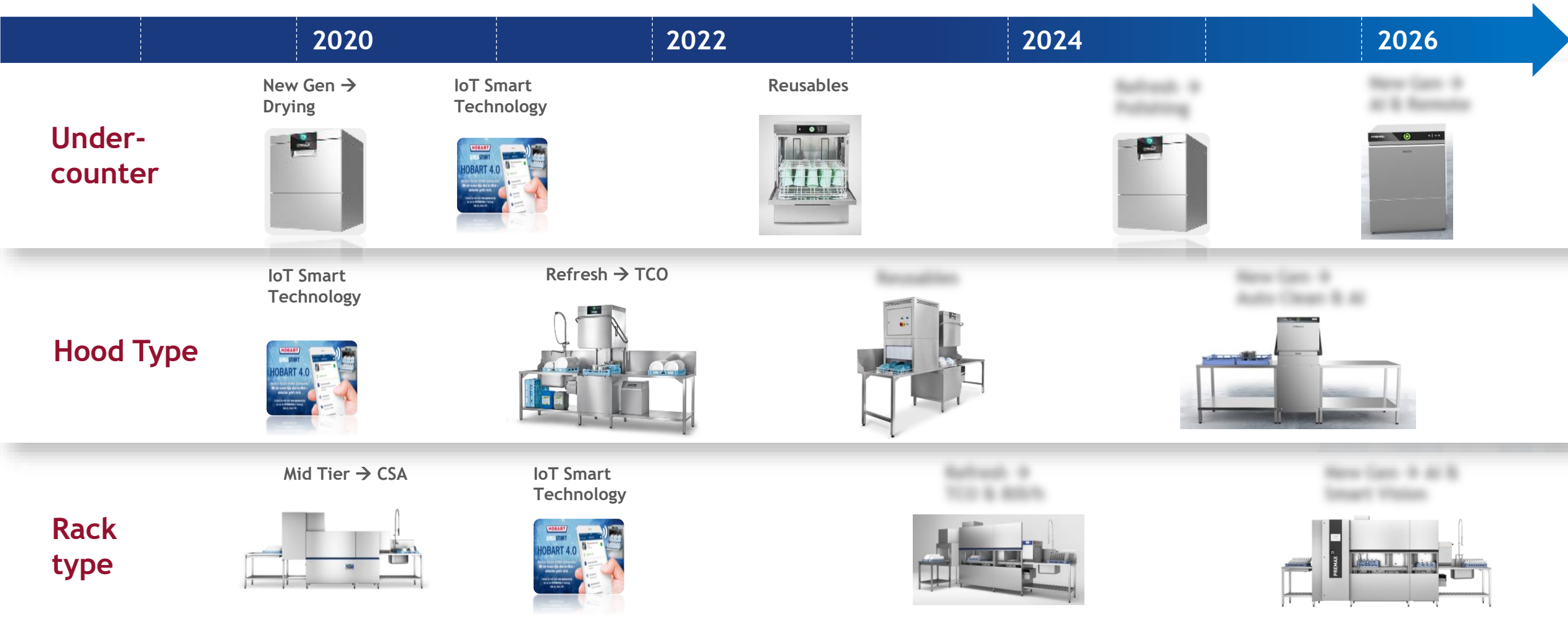
**60%**  
Institutional

**30%**  
Restaurant & Lodging

**10%**  
Retail



# Serial Innovation



Outcome: CBI Contributes 2-3%-pts to Growth

Never stronger. Never better positioned for the future.

# Customer-Back Innovation: Sustainability

## Customer/Market

- QSR chains
- Fast casual restaurants sink replacement

### Pain Points:

- Food safety
- Sustainability
- Total cost of ownership

## Our Innovations

- Safe & reliable sanitization
- Clean & dry plastic ware
- Energy savings
- Reduced labor/ cleaning time

## Outcome

- **Unique** industry solution for **reusable plastic ware**
- 3-year Warewash revenue growth \$40M

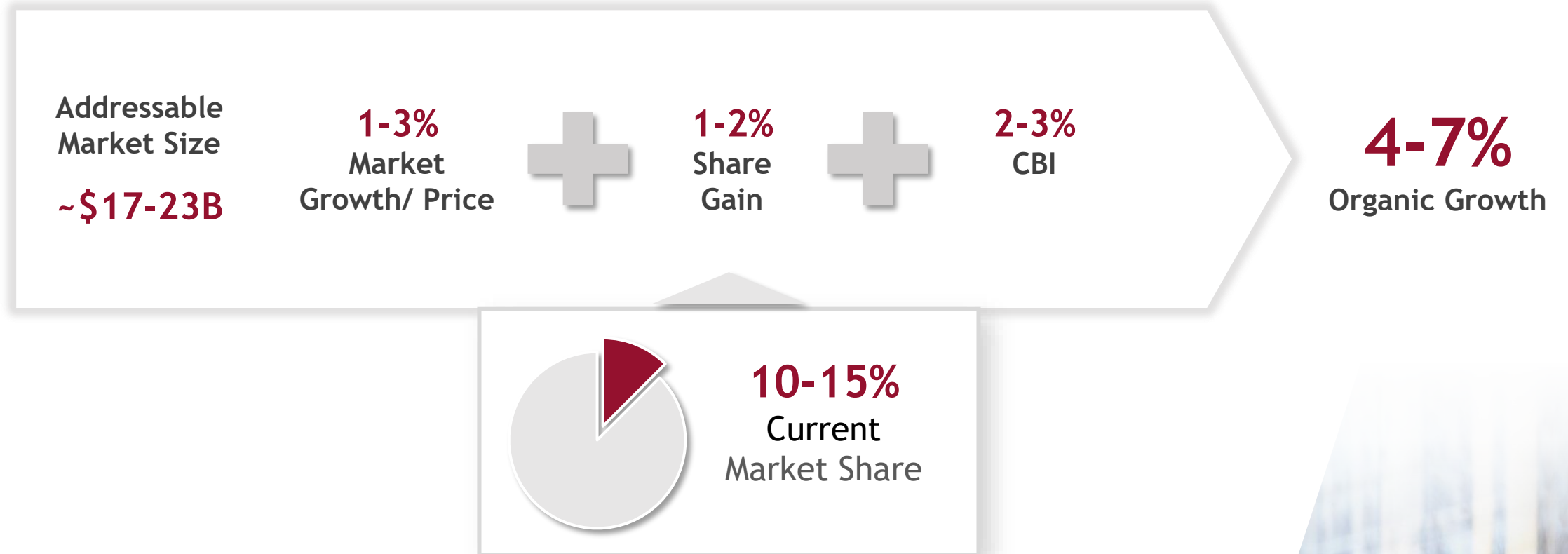


**HOBART**





# Next Phase Growth Opportunity for ITW Food Equipment



**Positioned For High-Quality Organic Growth**



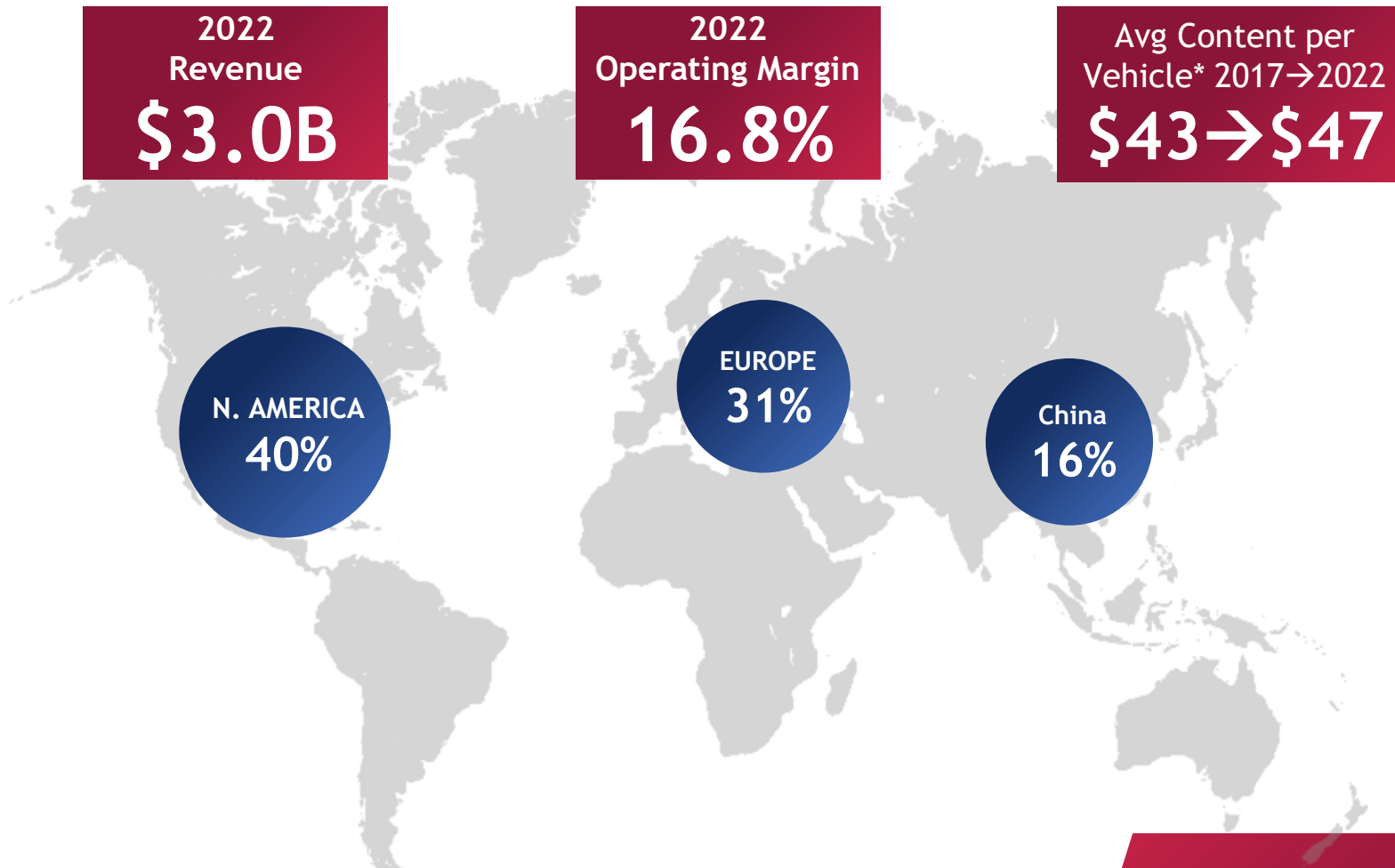
A close-up photograph of a person wearing a black quilted jacket, seen from the side, plugging a white and black charging cable into the charging port of a blue car. The car's charging port is open, and the cable is being inserted. The background is slightly blurred, showing the car's body and a side mirror.

# ITW Automotive OEM

Xavi Gracia, *Executive Vice President*

# ITW Automotive OEM

Highly focused niche supplier of components and fasteners to global auto OEMs. Focused only on opportunities where we can differentiate by providing unique innovations on a global scale with world-class consistency.



\* Content per vehicle in N. America, Europe and China combined.

# Products

## Fasteners (ICE + EV)

Plastic, stamped metal and cold headed fasteners

- Interior & Exterior panels and trims fixing
- Electrical wiring fixing
- Fastening of components to frame



## High Value Components (ICE + EV)

- Fuel filler housings
- Exterior & interior door handles
- Coolant regulators
- Air registers



## Electric Vehicles

- Charge ports
- Deep drawn battery cans
- Thermal management connectors



## Market Trends

- Transition from ICE to EV vehicles
- New EV entrants
- Growing use of electronics for connectivity (“smart components”)
- Increasing safety standards
- Continued focus on light-weighting for higher vehicle efficiency

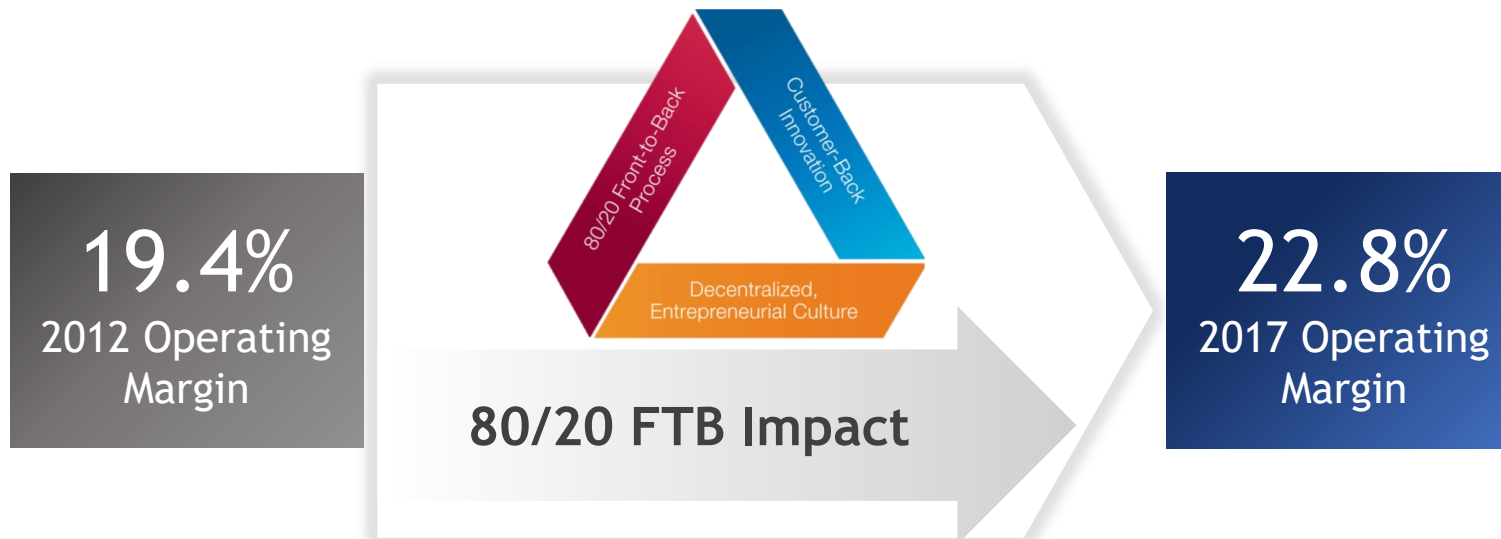
## Our Differentiation

- Deep engineering relationships with “80” OEMs (ICE and EV)
- Track record of Customer-Back Innovation: ~3,200 patents (granted & pending)
- Best-in-class high volume at quality mfg. capability and proprietary process know-how
- Ability to serve globally with local mfg.
- Strong engineering and manufacturing footprint in high-growth China market



# Preparing for High-Quality Growth (2012-2017)

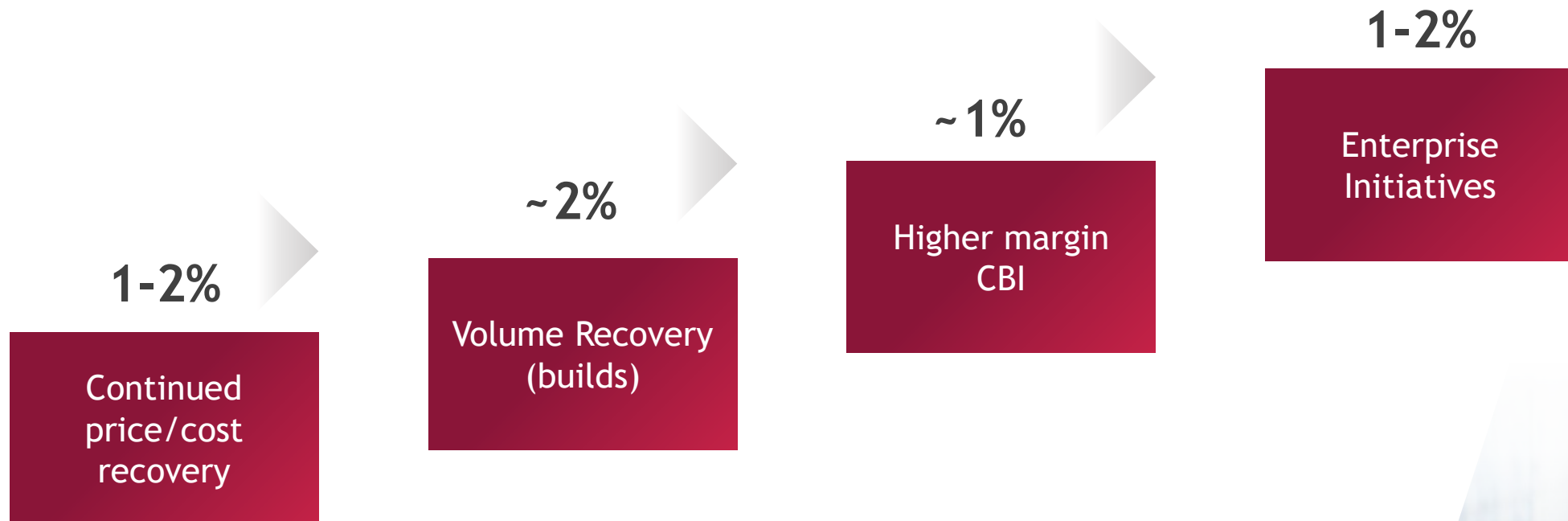
- Radically simplify products, customers and operations
- Develop deep understanding of key profit levers
- Establish clarity on “where to play” and “how to win”
- Achieve leadership in customer-facing performance





# Margin Impacted by Cost Inflation and 12% Decline in Builds\*

## Operating Margin Improvement Plan



**Low- to Mid-20% Margins by 2026**



# Pivot to Growth (2017-2022)

## What We Saw ...

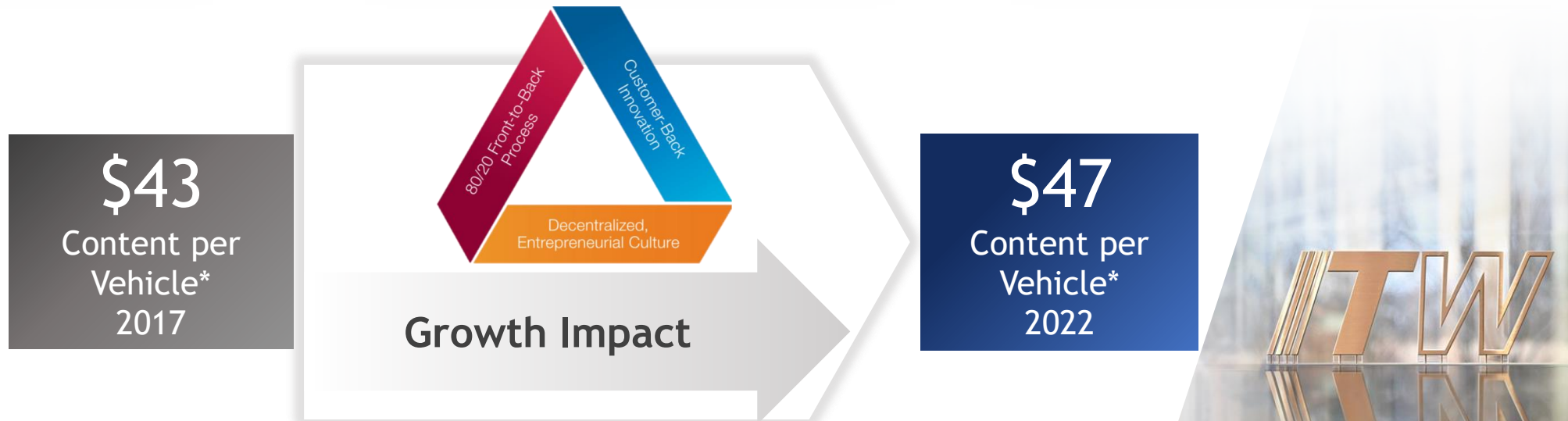
- CBI initiatives contributing < 1%
- Lack of strategic marketing capabilities at a time when industry is rapidly changing

## What We Did ...

- Extensive CBI focus
- Resourced and invested in strategic marketing at each division

## What We Got ...

- CBI 2%+ per year
- 2% Annual penetration gain (\$ per vehicle)

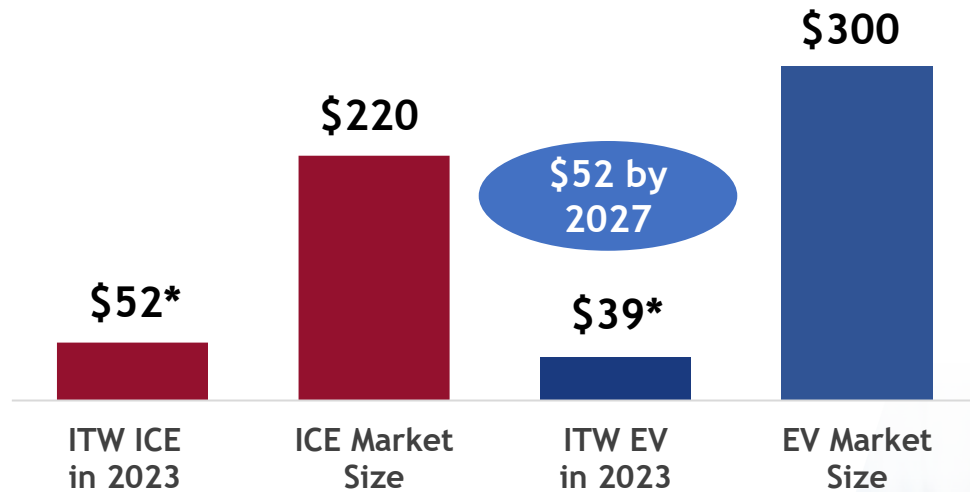


# The EV Opportunity for ITW

## “80” Applications



## ITW Relevant Content Per Vehicle\*



**~\$400M Business in 2023 → \$1B+ by 2027**



# China Plastic Components

2016 Revenue  
**\$76M**

24% CAGR

2022 Revenue  
**\$200M at above-avg. segment margin**

## Products

- Fuel filler housing
- EV charge ports
- Flush exterior door handles
- Latches & actuators
- Pressure release valves
- Dampers



## China Market Position

### China Plastic Components

| 2022                   | % Builds   | ITW<br>% Revenue | ITW<br>\$/Car |
|------------------------|------------|------------------|---------------|
| <b>Traditional ICE</b> | <b>79%</b> | <b>65%</b>       | <b>\$6</b>    |
| <b>BEV</b>             | <b>21%</b> | <b>35%</b>       | <b>\$13</b>   |

**2022 China Revenue  
with Domestic OEM's: ~50%**



# Customer-Back Innovation: EV's



Smart Charge Port  
~\$18/vehicle opportunity

- Innovations address customer needs and pain points:
  - Remote actuation with improved flap motion
  - Lighting & status indication
  - Vehicle communication
  - All-weather performance
- **35 patents** granted and filed

**CBI Drives EV Penetration**



# Next Phase Growth Opportunity for ITW Automotive OEM

Addressable  
Market Size  
(through 2030)

**58-70M  
builds\***

**1-2%**  
Market  
Growth/Price



**2-3%**  
Share  
Gain



**2%+**  
CBI

**4-7%**  
Organic Growth

**Positioned For High-Quality Organic Growth**





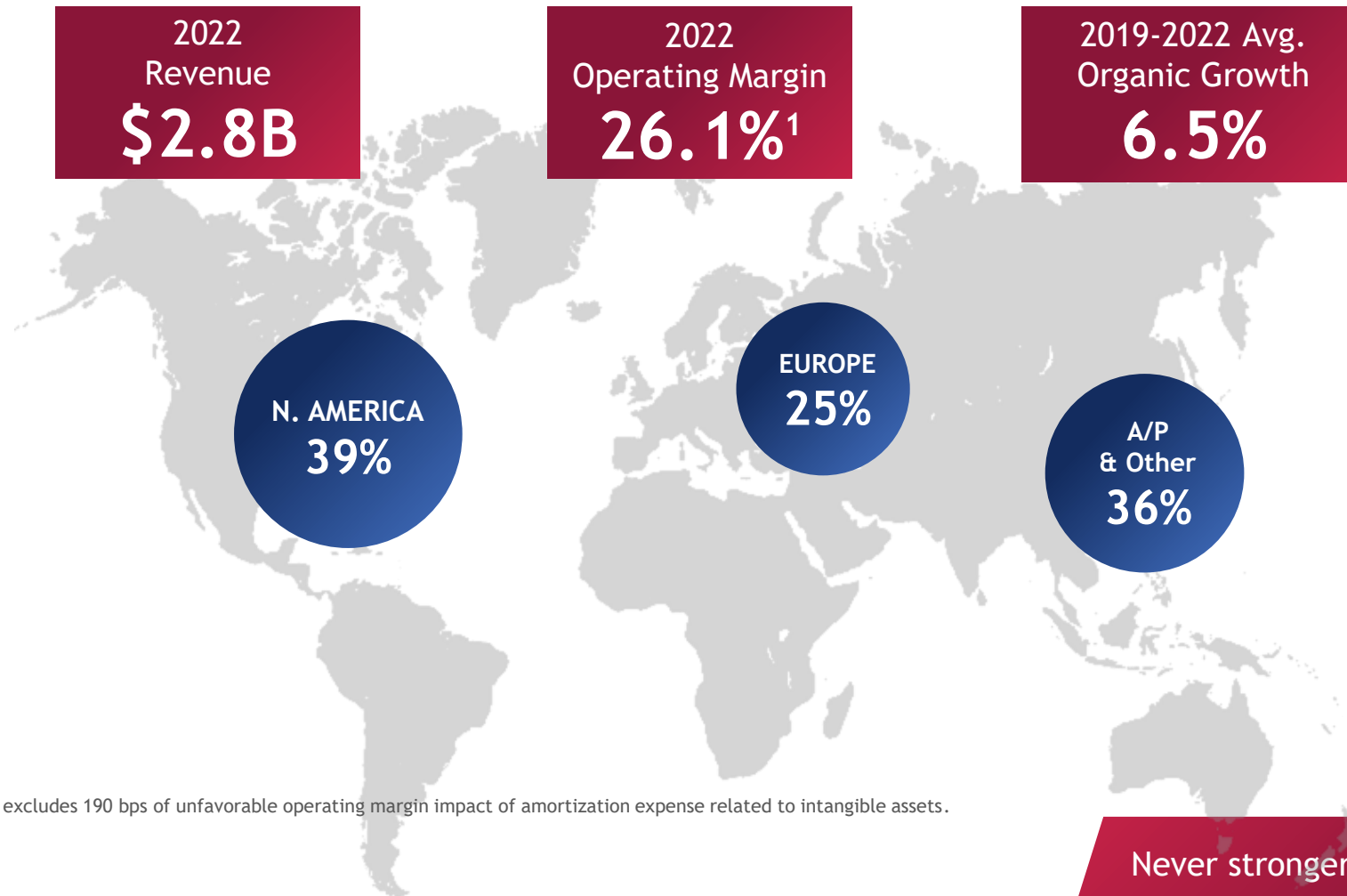


# ITW Test & Measurement and Electronics

Patty Hartzell, *Executive Vice President*

# ITW Test and Measurement / Electronics (T&M/E)

Leading global supplier of innovative equipment, services and related consumables focused on demanding R&D, process improvement, and quality control applications.



Never stronger. Never better positioned for the future.

# Products

**Testing  
Equipment**  
~30%



**Semiconductor  
Mfg. Products**  
~20%



**Electronics  
Equipment**  
~20%



**Weighing &  
Inspection**  
~15%



**Service**  
~15%



**Innovative Solutions That Solve our Customers' Most Challenging  
Test, Measurement, and Manufacturing Problems**



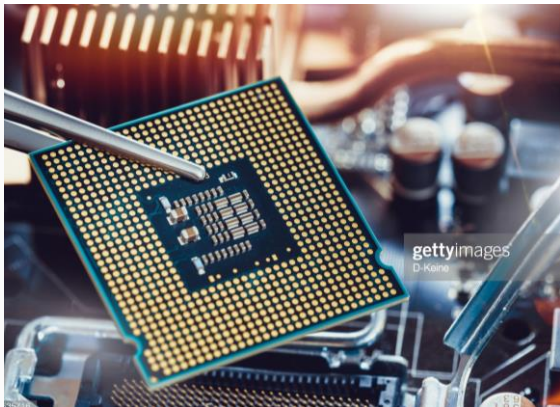


# End Markets

## Semiconductor & Electronics Mfg.

25-30%

Chips  
Electronic Devices  
Printed Circuit Boards



## Biomedical

10-15%

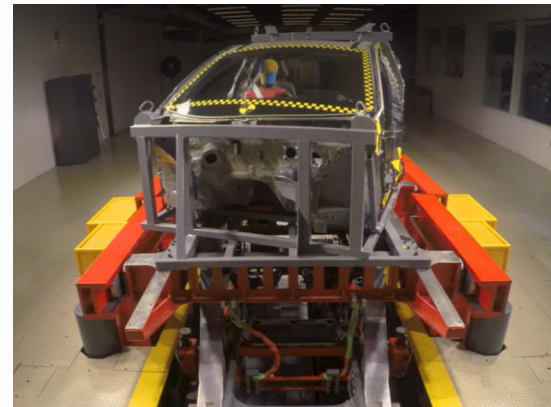
Medical Packaging  
Medical Devices  
Pharmaceutical



## Automotive

15-20%

EV Applications  
Durability & Performance  
Safety Systems



## Other Industrial

25-30%

Aerospace  
Manufacturing  
Logistics  
Food & Beverage



## Market Trends

- More stringent global quality standards
- Increasing focus on product safety /protecting brand reputation
- Increasing regulation
- Advanced new material R&D
- Growing use of electronics (Auto, IoT, AI, 5G, Industry 4.0, etc.)
- Speed of innovation / shortened product life cycles
- Production challenges - throughput and up-time

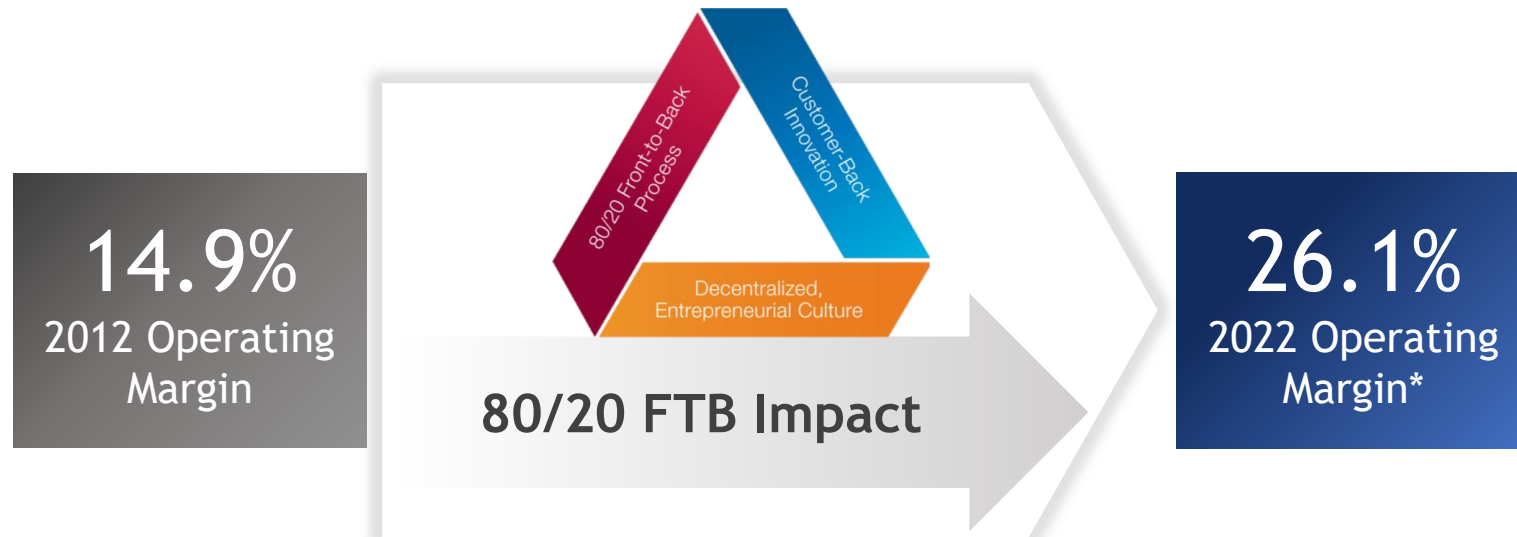
## Our Differentiation

- Market leading technology and product differentiation; 3,500 patents (granted & pending)
- Highly regarded and trusted brands
- Global scale with local service capability
- Best-in-class quality & delivery performance



# Preparing for High-Quality Growth (2012-2017)

- Radically simplify products, customers and operations
- Develop deep understanding of key profit levers
- Establish clarity on “where to play” and “how to win”
- Achieve leadership in customer-facing performance



\* 2022 operating margin excludes 190 bps of acquisition-related amortization expense.



# Pivot to Growth (2017-2022)

## What We Saw ...

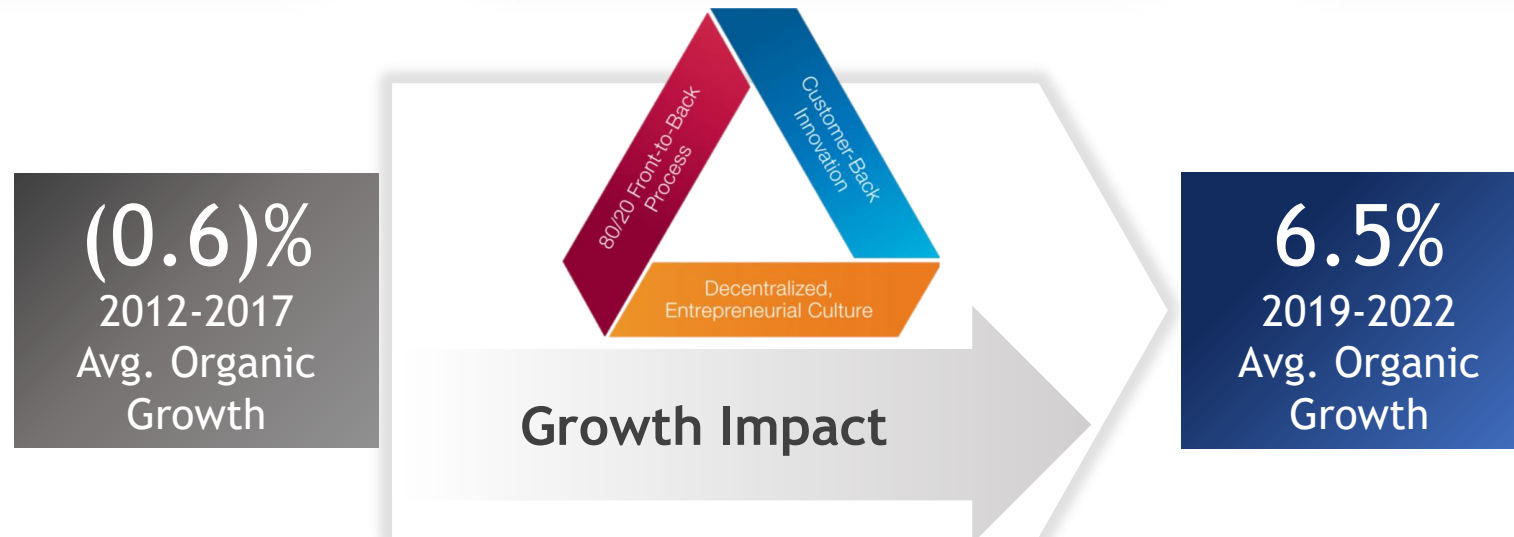
- <1% contribution from CBI initiatives
- Lack of sales focus and capability

## What We Did ...

- High quality implementation of CBI framework
- Strategic sales excellence

## What We Got ...

- CBI 2%-pts
- Market penetration 1-2%-pts



# Brooks® Instrument

2017 Revenue  
**\$224M**

10% CAGR

2022 Revenue  
**\$356M**

## Products

- Mass Flow Controllers
- Vacuum Products
- Pressure Products



## Markets

**75%**  
Semiconductor

**25%**  
Industrial / Life Sciences



# Customer-Back Innovation: Semiconductor Mfg.

## Customer/Market

Semiconductor wafer processing equipment

### Pain Points:

- Wafer production yield
- Scaling limitations for smaller nodes
- Flexibility to change “recipes”

## Our Innovation

Pressure-based Mass Flow Controllers



- Industry best flow accuracy
- Most responsive control
- Wider flow range vs. competitive offerings

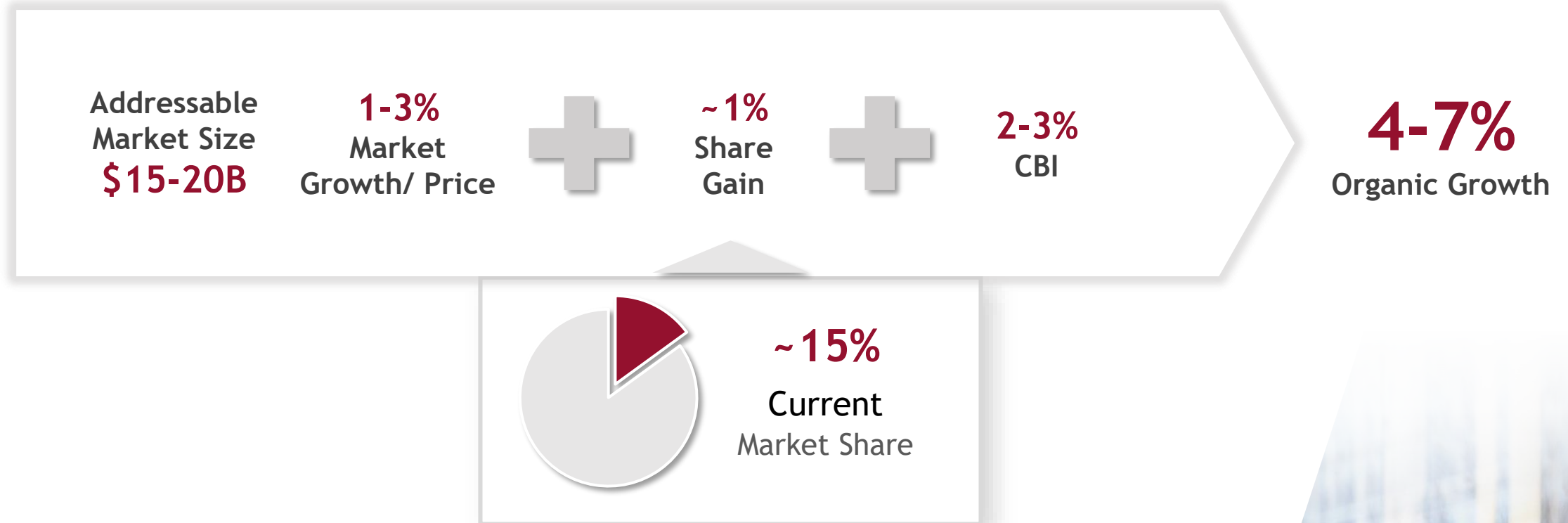
## Outcome

- Differentiated products that are designed in or specified by all ‘80’ customers
- Two patents granted; more pending
- \$100M+ growth opportunity

**CBI Unlocks Significant Share Potential**



# Next Phase Growth Opportunity for Test & Measurement and Electronics



**Positioned For High-Quality Organic Growth**





# 2023-2030 Performance Framework and 2030 Performance Goals

Michael Larsen, *SVP & CFO*



# 2023-2030 Performance Framework

- **Additional foundational elements of ITW's Enterprise Strategy**
  - Highly focused capital allocation
  - Rigorous portfolio management
  - Acquisition discipline
  - ESG Stewardship
- **“ITW in 2030” performance framework and updated performance goals**





# Highly Focused Capital Allocation

The ITW Business Model generates **significant free cash flow and our balance sheet is very strong**

- Best-in-class profitability + “Asset-light” business model = Best-in-class cash flows
- Incremental margins on growth of 35-40%
- “Fortress” balance sheet with appropriate levels of debt and top-tier credit ratings

ITW is **built to generate strong cash flow in any environment**

- Highly resilient in the face of a recession or economic “shock”
  - In the pandemic year of 2020, ITW generated \$2.6 billion of free cash flow<sup>1</sup>
- Free cash flow<sup>1</sup> as % of net income from 2012 to 2022 averaged 103%

<sup>1</sup> See appendix for GAAP to non-GAAP measures.



# Highly Focused Capital Allocation

## Principles of ITW's Capital Allocation Strategy:

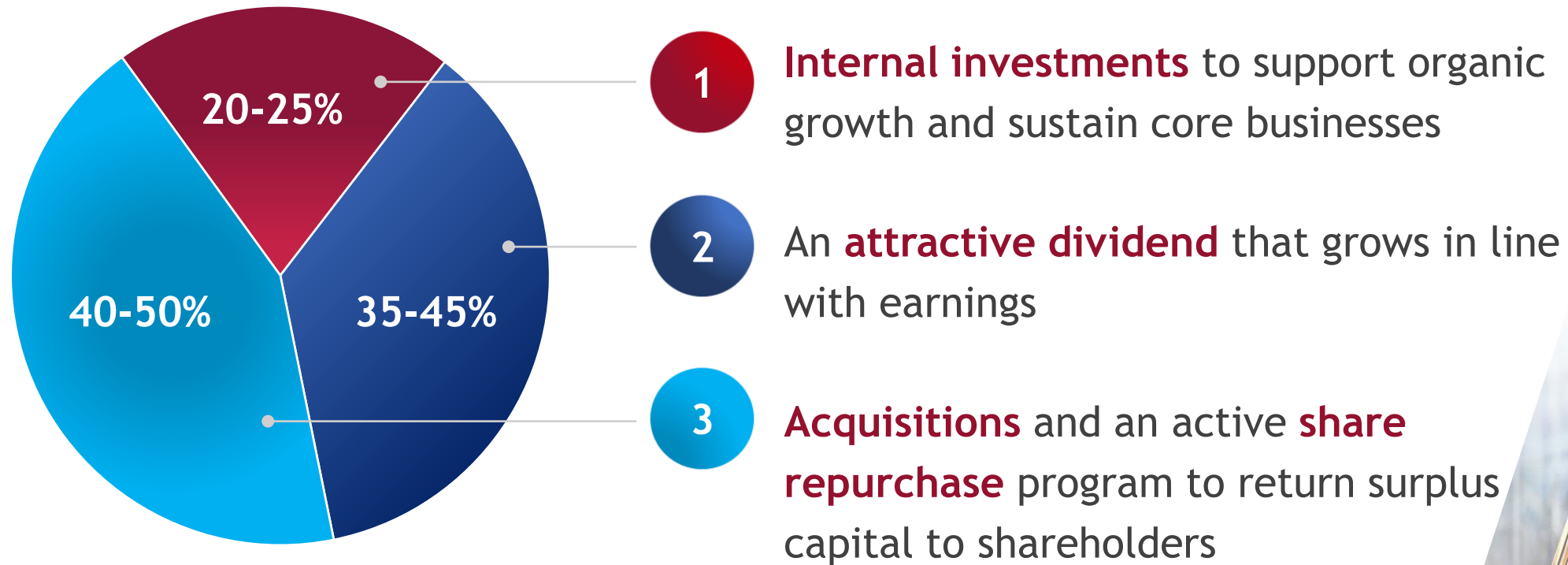
- 1 Deploy capital **only** where we can leverage the **ITW Business Model** into meaningful and **sustainable competitive advantage**
- 2 Return **surplus capital to shareholders** rather than pursue opportunities that reside outside of our competitive advantage



# Highly Focused Capital Allocation

## ITW's Capital Allocation Framework

% of Operating Cash Flow



# Highly Focused Capital Allocation

## Priority #1: Internal Investments

- Investments to **grow and support our highly profitable core businesses**
  - Capital expenditures / capacity expansions to support growth (~2.5% of revenues)
  - New products / funding for Customer-Back Innovation (~2% of revenues)
  - 80/20 FTB projects / restructuring (~0.5% of revenues)
- Every investment we make is **aligned with our strategic and financial objectives**
  - Operating cash allocated to internal investments is an outcome of how we run the businesses, not a target we set or a limitation we impose
  - Capital is allocated to discrete projects and strategies, not “lump sum” to the businesses



# Highly Focused Capital Allocation

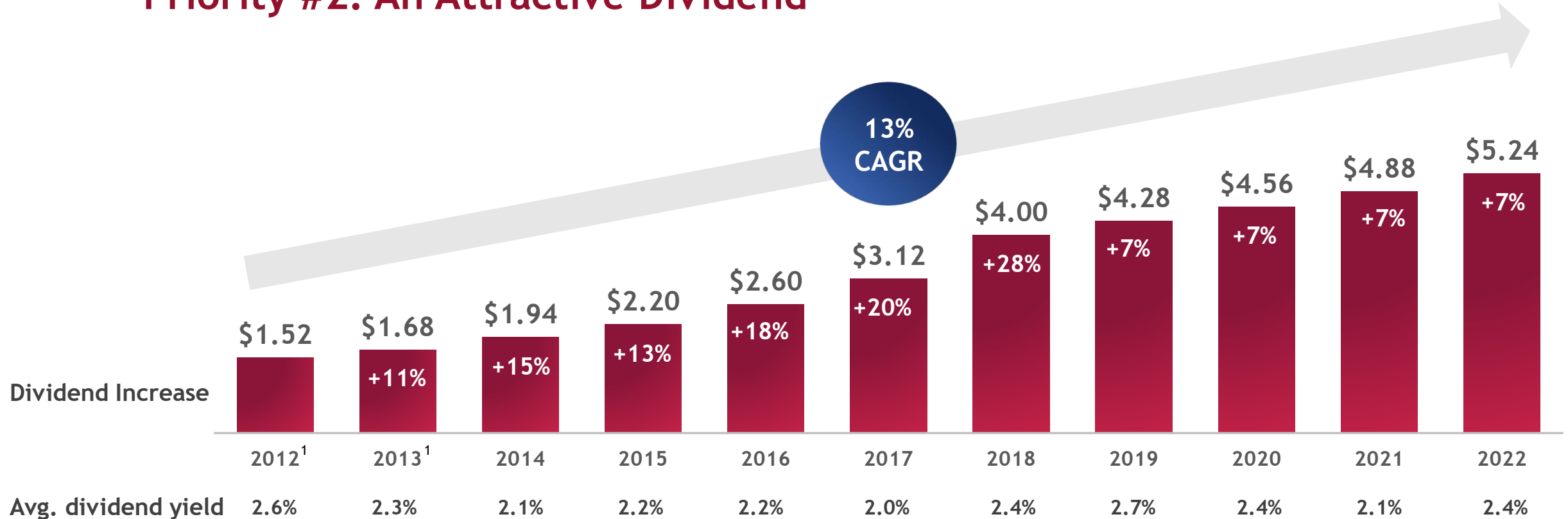
## Priority #2: An Attractive Dividend

- **Long standing commitment** (59 years) of returning cash to our shareholders via dividends
- A **key component** of our Total Shareholder Return performance (~15% of TSR from 2012 to 2022)
- Going forward: **Grow the dividend** in line with ITW's long-term operating earnings growth rate of **7%+** and continue to target a **pay-out ratio of ~50% of free cash flow**



# ITW's Dividend Since 2012

## Priority #2: An Attractive Dividend



<sup>1</sup> 2012 cash dividends included an accelerated dividend payment of \$174M in December 2012, which was originally scheduled to be paid in January 2013.



# Highly Focused Capital Allocation

## Priority #3: Acquisitions and an Active Share Repurchase Program

- **High-quality, financially prudent** acquisitions are the priority ...
- ... then we utilize an **active share repurchase program** to return surplus capital to shareholders
- **Baseline allocation** for share repurchases: **\$1.5 - \$2 billion per year** through 2030
  - Willing to periodically divert a meaningful component to a larger acquisition if and when an opportunity presents itself



# Rigorous Portfolio Management

## Key Principles of ITW's Portfolio Management Strategy:

**1** Sustainable differentiation is a **“must have”**

**2** Anything commoditized **“must go”**



# Acquisition Discipline

## Key Principles of ITW's Acquisition Strategy:

- 1 Must **extend ITW's long-term organic growth potential**
- 2 **Valuation** must always be about **what a business is worth to ITW** in the context of our strategy, not what a business is worth to someone else at a particular point in time
- 3 Must have significant **margin improvement potential** from 80/20 FTB
- 4 **ITW caliber margins** by end of year seven
- 5 **ITW caliber after-tax ROIC** by end of year ten



# MTS Acquisition Update

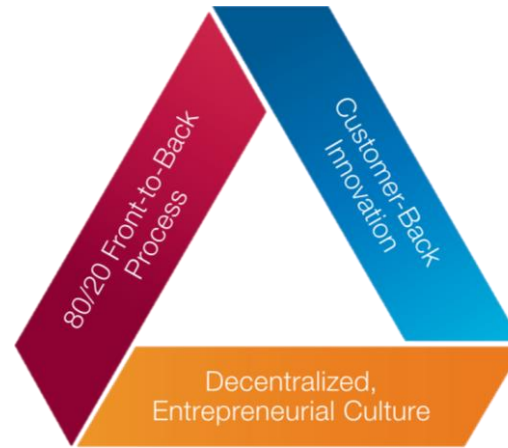
- Acquired in **December 2021** for \$750M
- **Leading supplier** of high-performance **test and simulation systems** located in Eden Prairie, Minnesota
- **Global** revenue: North America 28%, Europe 34%, Asia 38%
- **~1,500 employees** ... ~50% located outside the U.S.
- Serving customers in **diverse industrial end markets** including automotive, aerospace, biomedical, energy, civil engineering, and materials science
- 2021 revenue of \$465M and **operating margin of ~8%**



# We Demonstrated the Power of the ITW Business Model on a Similar Acquisition ...



~9%  
Operating  
Margin at  
Acquisition  
in 2005



30%+  
Operating  
Margin  
in 2022

**Instron's Organic Growth Rate is Now in the High Single Digits**



# MTS Progress Update

|  | At Acquisition | 2023     |
|--|----------------|----------|
| Standard Order Entry & Prod'n Scheduling | 4+ months      | <1 week  |
| Standard Lead Times                      | ~180 days      | <45 days |
| Operating Margin                         | ~8%            | ~13%     |





# ESG Stewardship



# ITW's Sustainability Strategy

- ITW's **commitment to sustainability** is long-standing and rooted in our core values
- **Holistic ESG vision and framework with four elements:**
  - Our Governance and Ethics
  - Our Environment
  - Our People
  - Our Communities
- Strategy and action plans are **data-driven**
- Fully aligned with ITW's commitment to being a **“Do What We Say”** company



## 2022 Sustainability Report

# Our Environment

- Committed to operating our business in a way that demonstrates our **dedication to global environmental sustainability**
- Employ a **fact-based, continuous improvement approach**
- Track record of setting and achieving **meaningful reduction goals** for Scope 1 & Scope 2 GHG emissions
  - We are approaching **Scope 3** with a view to understanding and evaluating mitigation pathways over time
- ITW's data-driven sustainability **strategy is operationalized at each of our 84 divisions**, with ongoing support and guidance from ITW management and our Board of Directors



# GHG Emissions Reduction

- **2022: Delivered on our 2017 goal of a 40% reduction** in Scope 1 & Scope 2 intensity
- **ITW's new goal: 50% absolute reduction** in Scope 1 & Scope 2 by 2030
- **“Clean-tech” products** represent ~30% of ITW revenue
  - Pipeline of Customer-Back Innovation projects that reduce the environmental impact of our customers' products



# Our People and Our Communities

- Committed to a deep and **diverse talent pipeline of ITW leaders**
  - ITW's Executive Leadership Team is 55% diverse
  - Board of Directors is 40% diverse
  - Top 1,000 leaders are 28% women and 19% ethnically diverse
- Since 2012, ITW has invested ~\$250M to help improve access to **high-quality education** and support **workforce development in underserved communities**
- Six employee-led **Employee Resource Groups** with 5,000+ members offer peer support, development opportunities and networking, and foster a culture of belonging and inclusion



# ESG Performance and 3<sup>rd</sup> Party Recognition



**Top 25% in Industrial  
Machinery**



**Rated “A” in Industrial  
Machinery Group**

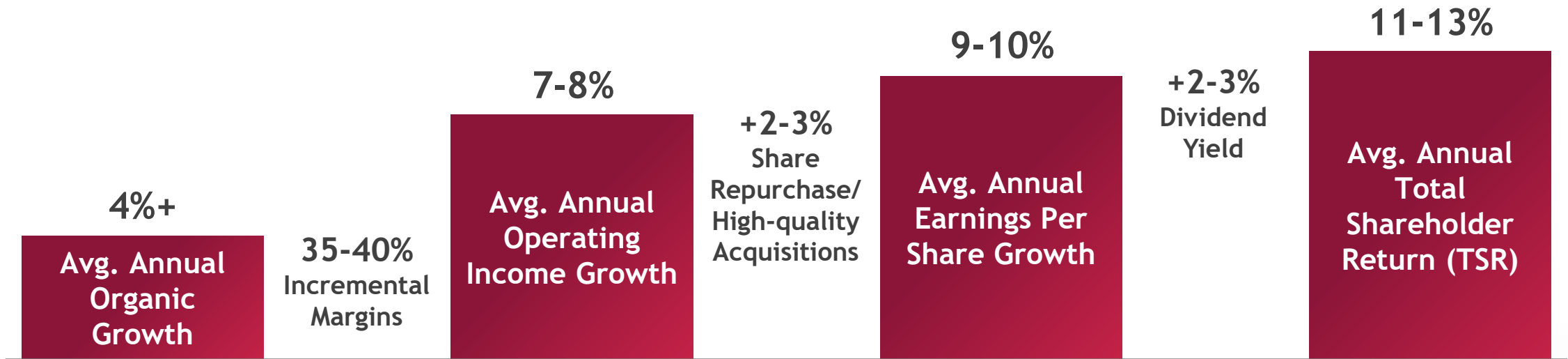




# ITW in 2030



# ITW'S 2023-2030 Total Shareholder Return Model



**A Reliable TSR Compounder ...  
in a Highly Volatile and Increasingly Uncertain World**



# New: ITW's 2030 Performance Goals



**Differentiated Performance in any Environment**





## Closing Remarks

**Scott Santi**, *Chairman and CEO*

# ITW's Next Phase: 2023-2030

**A reliable TSR compounder** ... in a highly volatile and increasingly uncertain world

1. HSD Average Annual Earnings per Share Growth
2. Increasing Annual Cash Returns to Shareholders
3. Most Resilient and Reliable



# ITW's Next Phase: 2023-2030

**A reliable TSR compounder** ... in a highly volatile and increasingly uncertain world:

## 1. HSD Average Annual Earnings per Share Growth

- a) 4%+ high-quality organic growth with best-in-class margins and returns
  - 35-40% incremental margins
  - Continued contribution from Enterprise Initiatives through 2030
- b) Margins from ~25% to ~30%
- c) High-quality financially prudent acquisitions
- d) Strong free cash flow supports meaningful annual capital allocation to share repurchases

## 2. Increasing Annual Cash Returns to Shareholders

## 3. Most Resilient and Reliable





# ITW's Next Phase: 2023-2030

**A reliable TSR compounder** ... in a highly volatile and increasingly uncertain world:

1. HSD Average Annual Earnings per Share Growth
- 2. Increasing Annual Cash Returns to Shareholders**
  - a) Strong free cash flow = HSD annual dividend increases
3. Most Resilient and Reliable



# ITW's Next Phase: 2023-2030

**A reliable TSR compounder** ... in a highly volatile and increasingly uncertain world:

1. HSD Average Annual Earnings per Share Growth
2. Increasing Annual Cash Returns to Shareholders

## 3. Most Resilient and Reliable

- a) Proven ITW Business Model = best-in-class performance in any environment
- b) Diversified high-quality business portfolio buffers macro risk/volatility
- c) Margin cushion and “fortress” balance sheet = ability to consistently execute and invest through the ups and downs of the business cycle
- d) “Do What We Say” execution



# ITW's Next Phase: 2023-2030

**A reliable TSR compounder** ... in a highly volatile and increasingly uncertain world

1. HSD Average Annual Earnings per Share Growth
2. Increasing Annual Cash Returns to Shareholders
3. Most Resilient and Reliable



# Appendix

# GAAP to Non-GAAP Reconciliations

| Diluted Earnings Per Share            | For the Year Ended December 31, 2012 |
|---------------------------------------|--------------------------------------|
| As reported in the 2013 Form 10-K     | \$ 4.72                              |
| Decorative Surfaces net gain          | 1.34                                 |
| Decorative Surfaces equity investment | (0.04)                               |
| Decorative Surfaces operating results | 0.21                                 |
| As adjusted                           | <u>\$ 3.21</u>                       |

| Segment Peer Group                 |   |
|------------------------------------|---|
| Automotive OEM                     | Enerpac Tool Group, Allison Transmission Holdings Inc., WESCO International, Inc. and BorgWarner Inc.   |
| Test & Measurement and Electronics | Ametek Inc., Fortive Corp, Keysight Technologies, Inc., Mettler-Toledo International Inc., Renishaw PLC, Spectris PLC and Thermo Fisher Scientific Inc. |
| Food Equipment                     | Middleby Corporation  |
| Polymers & Fluids                  | 3M Company, Dupont De Nemours, Inc. and Huntsman Corporation  |
| Welding                            | Kennametal Inc., Lincoln Electric Holdings, Inc. and ESAB Corporation   |
| Construction Products              | Carlisle, Crane Co., Ingersoll-Rand plc, Masco Corporation and Stanley Black & Decker, Inc.   |
| Specialty Products                 | Ball Corporation, Berry Global Group, Inc. and Amcor plc  |

# GAAP to Non-GAAP Reconciliations

| Free Cash Flow & % to Net Income<br>Dollars in millions                           | For the Years Ended December 31, |          |          |          |          |          |          |          |          |          |          |
|---|----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|   | 2012                             | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     | 2020     | 2021     | 2022     |
| Net cash provided by operating activities   | \$ 2,072                         | \$ 2,528 | \$ 1,616 | \$ 2,299 | \$ 2,302 | \$ 2,402 | \$ 2,811 | \$ 2,995 | \$ 2,807 | \$ 2,557 | \$ 2,348 |
| Less: Additions to plant and equipment  | (382)                            | (368)    | (361)    | (284)    | (273)    | (297)    | (364)    | (326)    | (236)    | (296)    | (412)    |
| Add: Tax payments related to the disposition of the Industrial Packaging business | -                                | -        | 724      | -        | -        | -        | -        | -        | -        | -        | -        |
| Free cash flow  | \$ 1,690                         | \$ 2,160 | \$ 1,979 | \$ 2,015 | \$ 2,029 | \$ 2,105 | \$ 2,447 | \$ 2,669 | \$ 2,571 | \$ 2,261 | \$ 1,936 |
| Net income (loss), as reported  | \$ 2,870                         | \$ 1,679 | \$ 2,946 | \$ 1,899 | \$ 2,035 | \$ 1,687 | \$ 2,563 | \$ 2,521 | \$ 2,109 | \$ 2,694 | \$ 3,034 |
| Less: After-tax gain on the disposition of the Finishing business                 | (368)                            | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        |
| Less: After-tax gain on the disposition of the Decorative Surfaces business       | (632)                            | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        |
| Add: After-tax loss on Wilsonart equity investment                                | 18                               | -        | -        | -        | -        | -        | -        | -        | -        | -        | -        |
| Less: After-tax gain on the disposition of the Industrial Packaging business      | -                                | -        | (1,148)  | -        | -        | -        | -        | -        | -        | -        | -        |
| Adjusted net income   | \$ 1,888                         | \$ 1,679 | \$ 1,798 | \$ 1,899 | \$ 2,035 | \$ 1,687 | \$ 2,563 | \$ 2,521 | \$ 2,109 | \$ 2,694 | \$ 3,034 |
| Free cash flow to net income conversion rate                                      | 90%                              | 129%     | 110%     | 106%     | 100%     | 125%     | 95%      | 106%     | 122%     | 84%      | 64%      |