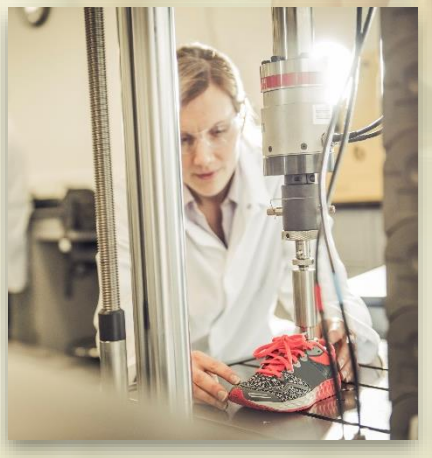
Fourth Quarter 2016 Conference Call

January 25, 2017















Forward-Looking Statements

SAFE HARBOR STATEMENT

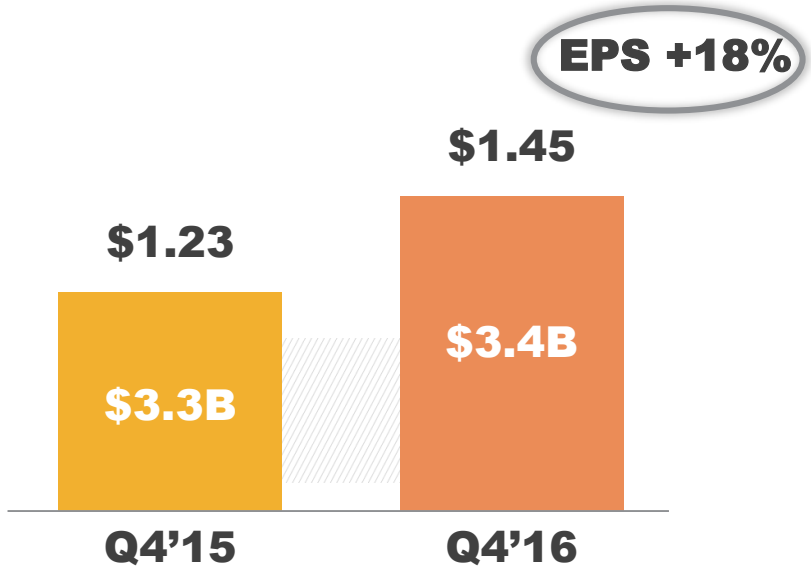
This conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the expected impact of product line simplification activities and enterprise initiatives, future financial performance, operating performance, growth in free cash flow, organic and total revenue growth, operating margin growth, growth in diluted income per share, restructuring expenses and related benefits, tax rates, exchange rates, timing and amount of share repurchases, after-tax return on invested capital, end market economic conditions, the expected impact of acquisitions on financial results and the company's related 2017 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 2015 and Form 10-Q for the third quarter of 2016.

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 press release for the fourth quarter of 2016, which is available at www.itw.com, together with this presentation.

Q4 2016 Performance

Financial Results



GAAP EPS	$1.23	$1.45	
REVENUE	$3.3B	$3.4B	
OPERATING MARGIN	20.7%	21.8%	+110 bps
-excl. EF&C		22.2%	+150 bps
AFTER-TAX ROIC*	20.1%	21.1%	+100 bps

Highlights

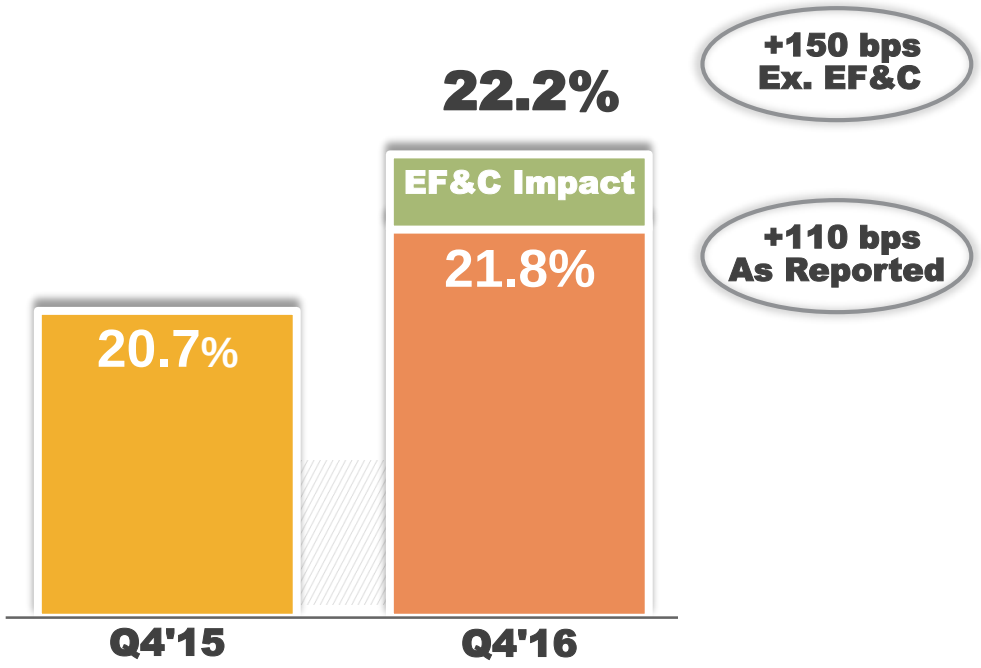
- GAAP EPS of $1.45 vs. $1.36 guidance mid-point
  - $0.03 from better than expected organic growth and margin
  - $0.06 net benefit from non-recurring items
- Total revenue growth was 4%; organic growth was 2%
  - North America flat, EMEA 3%, Asia Pacific 8% (China 19%)
  - 5 of 7 segments with positive organic growth
- Operating margin of 21.8%; 22.2% excluding EF&C
  - 130 bps of margin expansion from Enterprise Initiatives
  - All 7 segments increased operating margin
- Strong Free Cash Flow* of $593 million; 117% of Net Income

*See ITW's fourth quarter 2016 press release for the reconciliation from GAAP to non-GAAP measurements

STRONG FINISH TO 2016

Q4 2016 Operating Margin Expansion

Operating Margin



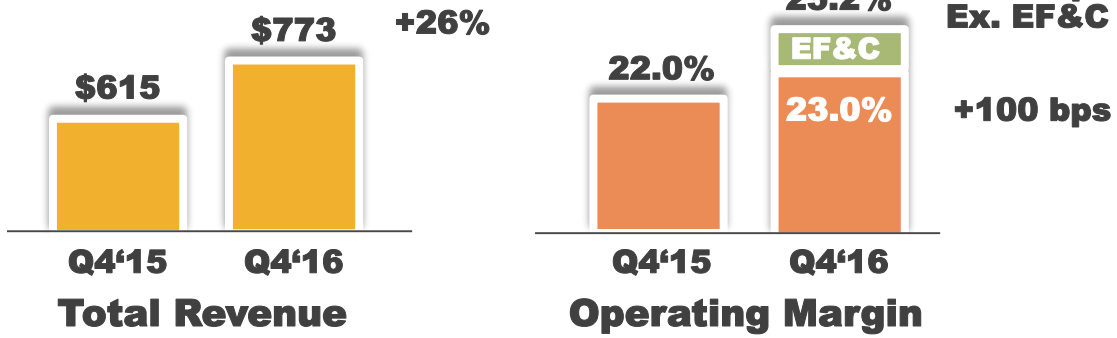
Key Margin Drivers

	Q4'16
Enterprise Initiatives	+130 bps
Price/Cost	(10)
Volume/Other	+30
Margin Expansion	+150 bps
EF&C Margin Impact	(40)
Total Margin Expansion	+110 bps

STRONG EXECUTION OF ENTERPRISE STRATEGY INITIATIVES

Segment Performance

Automotive OEM

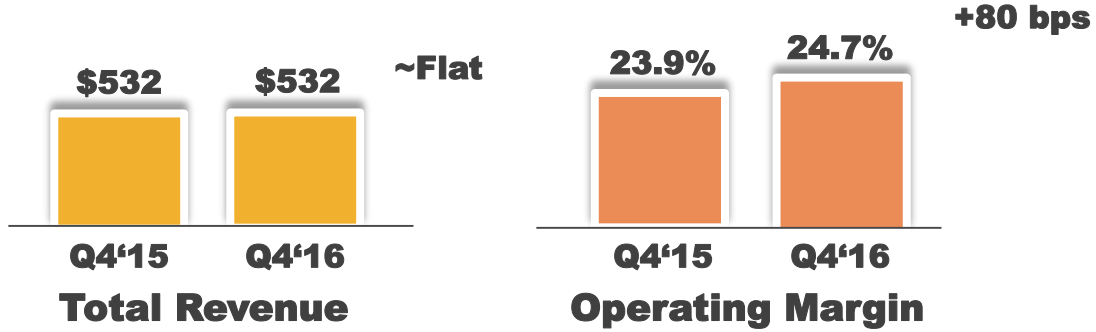


Highlights

- Total revenue growth 26%; organic growth 7%
- Organic growth by geography:
  - North America 2% vs. builds 1%; "D3" builds (3)%
  - Europe 8% vs. builds 3%
  - China 33% vs. builds 15%
- Operating margin improved 320 basis points excl. EF&C

ITW Shakeproof | ITW Global Automotive | DELTAR

Food Equipment



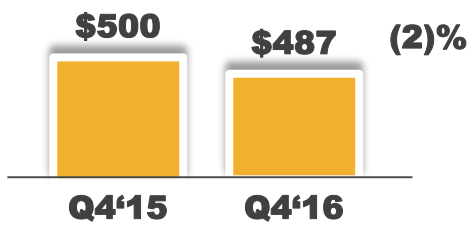
Highlights

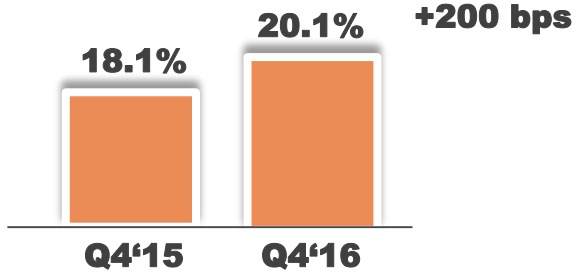
- Organic growth 3%
- North America 4%
  - Equipment 9%, Service (3)%
- International 1%
  - Equipment flat, Service 1%

HOBART | Traulsen | VULCAN

Segment Performance

Test & Measurement/Electronics

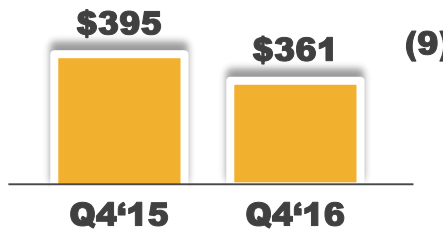


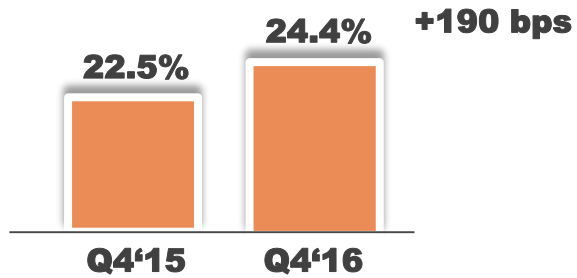


Highlights

- Organic growth ~flat
- Electronics 2%, Test & Measurement (2)%
- Operating margin improved 200 basis points; 180 basis points from Enterprise Initiatives

Welding



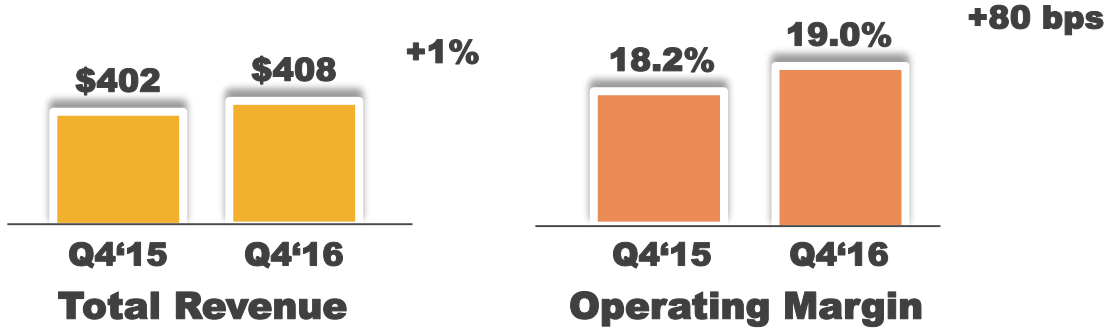


Highlights

- Organic growth (8)%; overall demand remains stable
  - Equipment and Consumables (8)%
  - North America (8)%, International (6)%
- Operating margin improved 190 basis points; 210 basis points from Enterprise Initiatives

Segment Performance

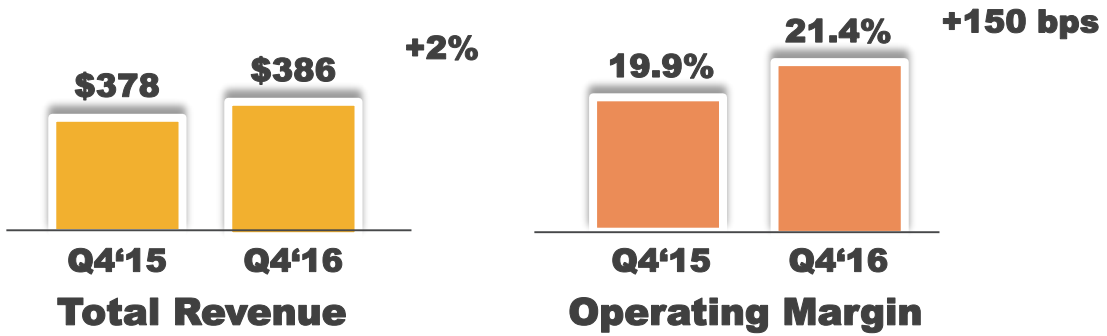
Polymers & Fluids



Highlights

- Organic growth 2%; International 3%, North America 1%
- Automotive Aftermarket 3%, Fluids (1)%, Polymers 3%
- Operating margin up 80 basis points

Construction Products

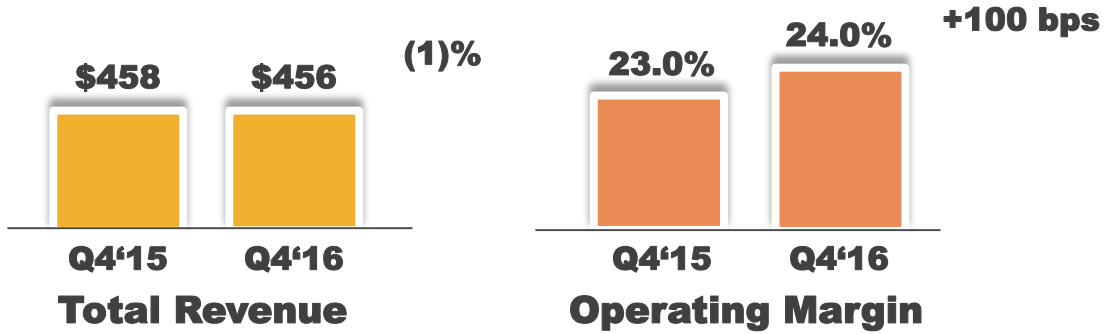


Highlights

- Organic growth 3%
- North America 4%
  - Residential/Remodel 6% and Commercial (3)%
- Europe 3%, Asia Pacific 1%
- Operating margin improved 150 basis points

Segment Performance

Specialty Products



Highlights

- Organic growth 1%; solid growth in consumer packaging
  - International 5%, North America (1)%
- Operating margin improved 100 basis points

Margin Improvement by Segment

	Operating Margin		
	FY 2016	vs. '15	vs. '12
Automotive OEM	24.1%*	(10) bps	+470 bps
Food Equipment	25.4	+170	+830
T&M and Electronics	18.9**	+260	+400
Polymers & Fluids	20.3**	+70	+450
Welding	24.9	(30)	(50)
Construction Products	22.4	+250	+1,080
Specialty Products	25.6	+230	+610

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HI-CONE we are all around

*Includes 160 basis points of margin dilution impact from EF&C acquisition
**Includes 380 bps for T&M and Electronics and 430 bps for Polymers & Fluids of unfavorable non-cash operating margin impact of amortization from acquisition-related intangible assets

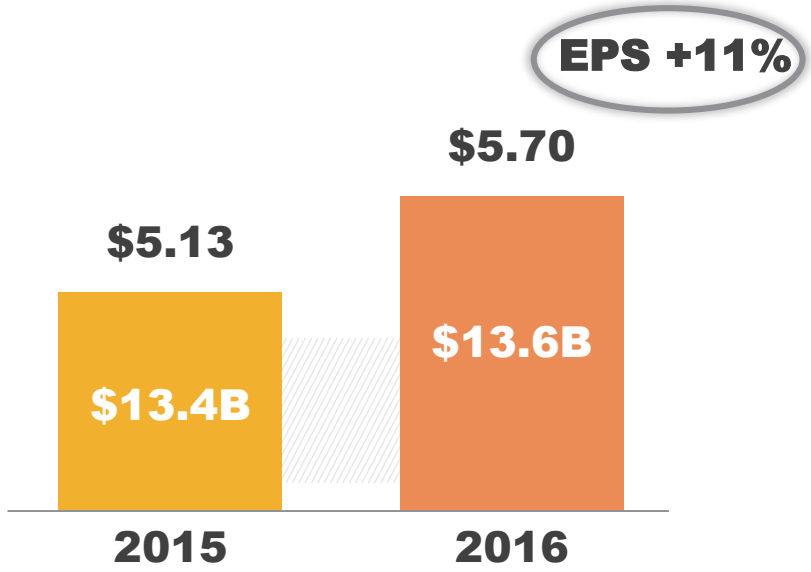
Progress on Organic Growth

Organic Revenue Growth by Segment

	FY 2016	FY 2015	Change
Automotive OEM	5.1%	5.8%	(70) bps
Food Equipment	2.8	3.4	(60)
T&M and Electronics	1.8	(5.2)	+700
Polymers & Fluids	1.3	(2.0)	+330
Welding	(9.1)	(7.6)	(150)
Construction Products	3.0	3.7	(70)
Specialty Products	1.2	(2.3)	+350
Total Organic Growth	1.2%	(0.4)%	+160 bps
# of Segments Growing	6	3	+3
"Ready to Grow" Status	~85%	60%	+25 pts

2016 Performance

Financial Results



GAAP EPS	$5.13	$5.70	+11%
REVENUE	$13.4B	$13.6B	
OPERATING MARGIN	21.4%	22.5%	+110 bps
-excl. EF&C		22.8%	+140 bps
AFTER-TAX ROIC*	20.4%	22.1%	+170 bps

Highlights

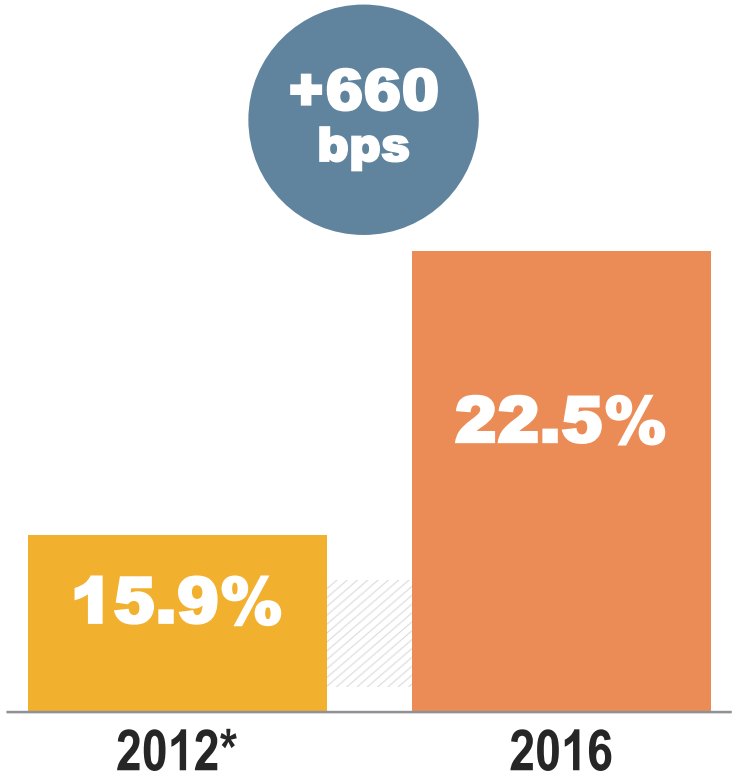
- Organic growth of 2% excluding ~1% PLS impact
  - North America 1%, EMEA 2%, Asia Pacific 3%
  - 6 of 7 segments with positive organic growth
- Record operating margin of 22.5%; 22.8% excluding EF&C
  - 130 bps of margin expansion from Enterprise Initiatives
  - 5 of 7 segments with margin expansion
- Record after-tax ROIC* of 22.1% increased 170 bps
- Record Free Cash Flow* of $2 billion; 100% of Net Income

*See ITW's fourth quarter 2016 press release for the reconciliation from GAAP to non-GAAP measurements

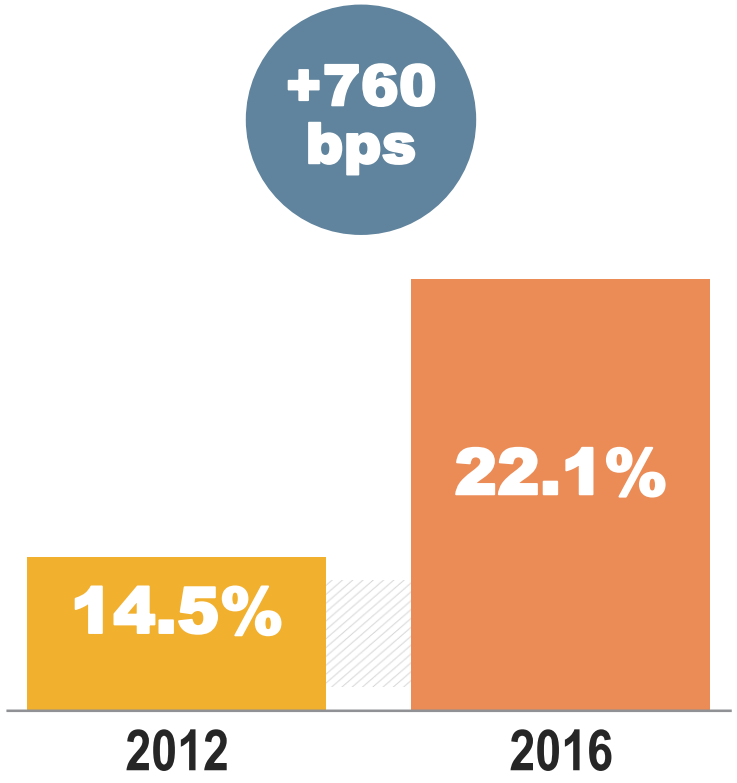
ITW DELIVERED ANOTHER YEAR OF RECORD FINANCIAL PERFORMANCE

Enterprise Strategy Progress – End of Year 4

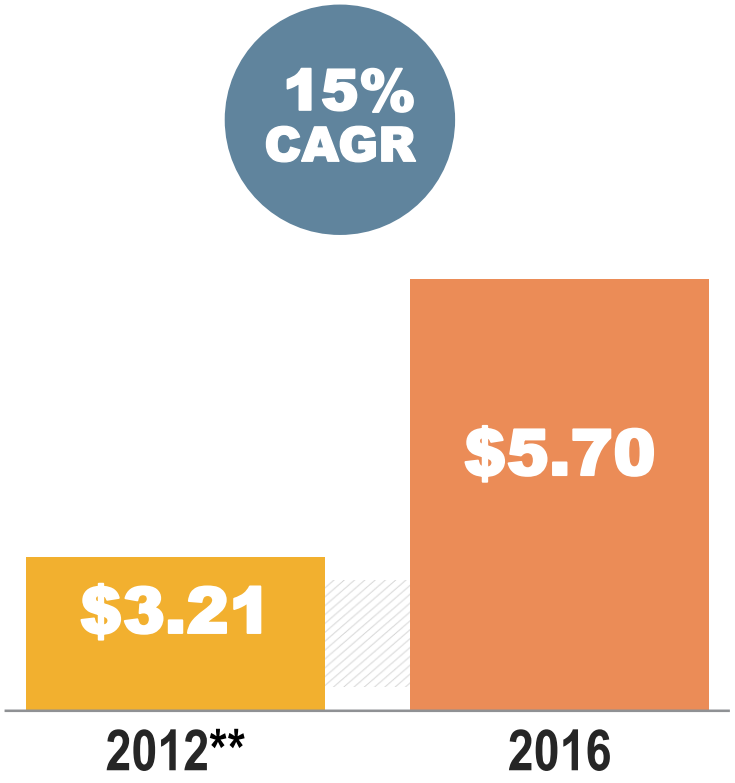
Operating Margin



After-tax ROIC**



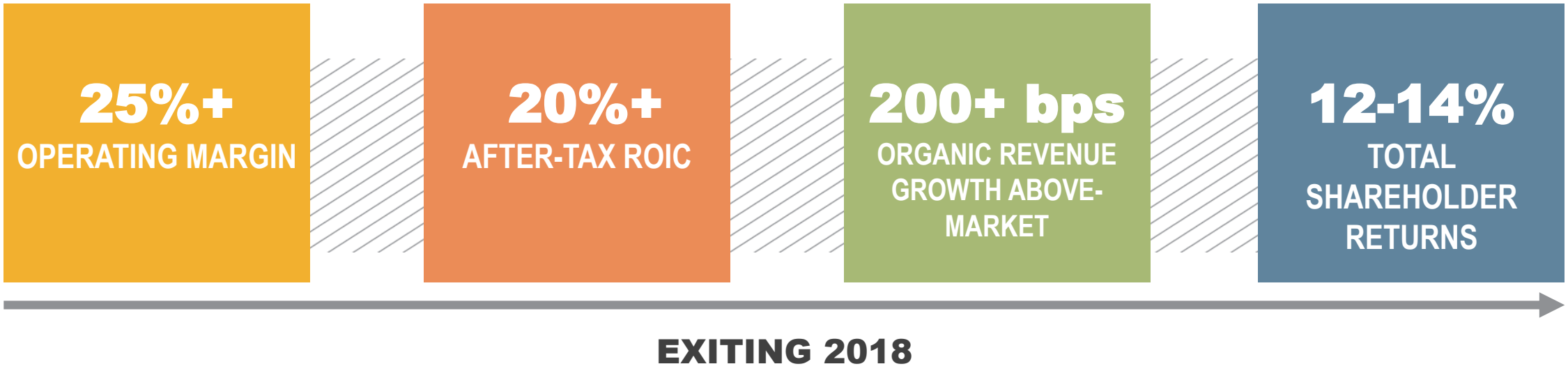
Earnings per Share



*As reported in the 2012 Form 10-K
**See ITW's fourth quarter 2016 press release for the reconciliation from GAAP to non-GAAP measurements

ITW'S PERFORMANCE IS NEARING BEST-IN-CLASS LEVELS

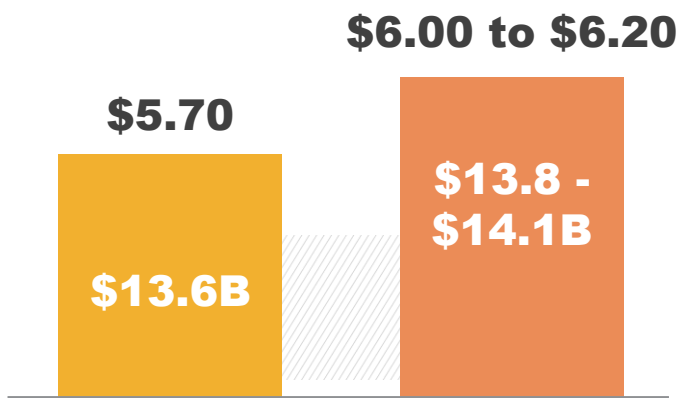
ITW's Long Term Performance Goals



CLEAR LINE OF SIGHT TO AT LEAST 200 BASIS POINTS OF ADDITIONAL STRUCTURAL MARGIN IMPROVEMENT POTENTIAL

2017 Guidance

Financial Guidance



	2016	2017E
GAAP EPS	$5.70	$6.00 to $6.20
REVENUE	$13.6B	$13.8 - $14.1B
OPERATING MARGIN	22.5%	23.5%+
AFTER-TAX ROIC*	22.1%	~23%

Highlights

- GAAP EPS growth of 7% at guidance mid-point
- Organic growth of 1.5 to 3.5%
- Record operating margin of 23.5%+
  - 100 bps of margin expansion from Enterprise Initiatives
  - ~30 bps of margin dilution from EF&C
- Record Free Cash Flow $2+ billion; 100%+ of Net Income

- First Quarter 2017 guidance:
  - GAAP EPS guidance range $1.39 - $1.49, +12% at mid-point
  - Organic growth of 1 to 2%
  - Operating margin of 22.5%+

*See ITW's fourth quarter 2016 press release for the reconciliation from GAAP to non-GAAP measurements

ITW IS WELL POSITIONED TO DELIVER STRONG RESULTS IN 2017

Q&A



