Third-Quarter 2017 Earnings Conference Call

October 23, 2017















Forward-Looking Statements

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 third quarter of 2017, which is available at www.itw.com, together with this presentation.

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, effective 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 2016.

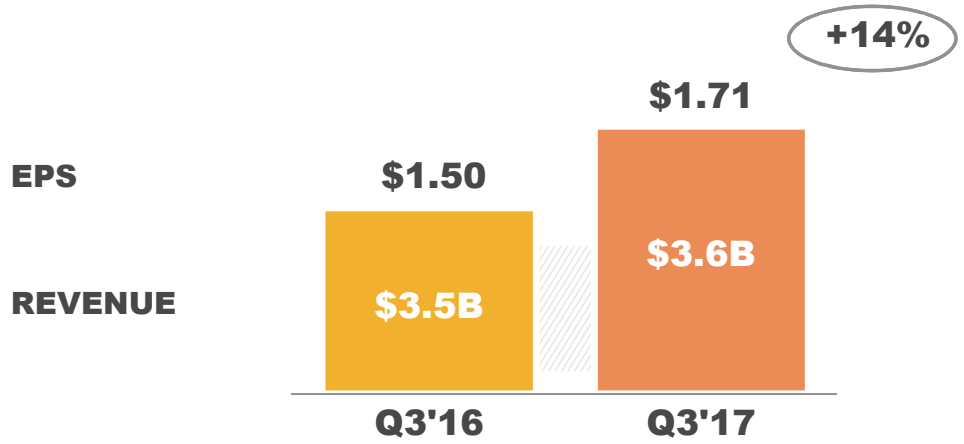
Q3 2017 Legal Settlement Impact

- **As previously disclosed, the company entered into a confidential legal settlement in 2017, resulting in a favorable pre-tax impact of $80 million on the third quarter 2017 results. The following schedule illustrates the impact of this item on the company's reported financial performance.**

$ Millions	*Q3'16 As Reported*	*Q3'17 As Reported*	*Legal Settlement*	*Q3'17 Ex. Settlement*	*Change Vs. Prior Year*
Total Revenue	$3,495	$3,615	-	-	+4%
Operating Income	$808	$961	+$80	$881	+9%
Operating Margin	23.1%	26.6%	+220 bps	24.4%	+130 bps
EPS	$1.50	$1.85	+$0.14	$1.71	+14%
After-Tax ROIC	23.0%	26.3%	+220 bps	24.1%	+110 bps

Q3 2017 Financial Performance (Ex. Favorable Legal Settlement)

Financial Results



OPERATING MARGIN	23.1%	24.4%	+130 bps
AFTER-TAX ROIC*	23.0%	24.1%	+110 bps
FCF/NET INCOME*	101%	108%	+7%-pts

Highlights

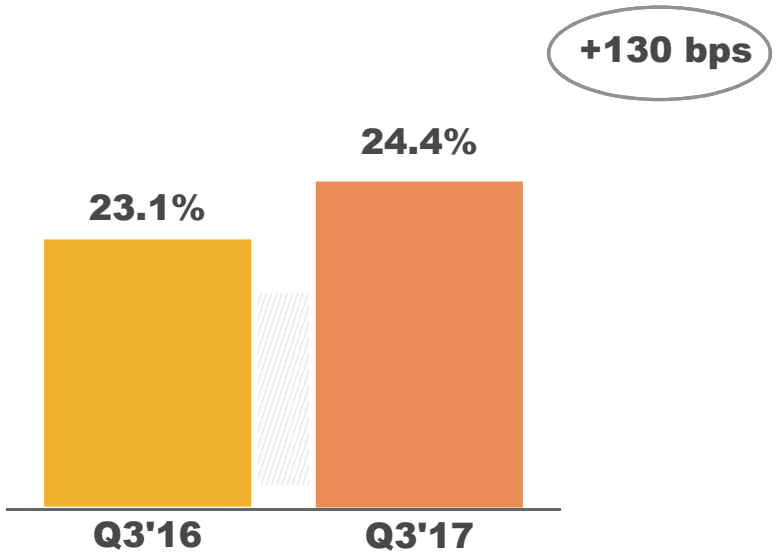
- **EPS of $1.71, an increase of 14%**
- **Total revenue grew 4%, organic growth of 2%**
  - 6 of 7 segments with positive organic growth
- **Strong progress on key performance metrics**
  - Operating income of $881 million, an increase of 9%
  - Operating margin of 24.4%, an increase of 130 bps with Enterprise Initiatives contributing 110 bps
  - After-tax ROIC* of 24.1%, an increase of 110 bps
- **Free Cash Flow* of $637 million, an increase of 17%**
  - 108% of Net Income, in line with typical seasonality
- **Announced 20% dividend increase**

**See ITW's third quarter 2017 press release for the reconciliation from GAAP to non-GAAP measures.*

ITW DELIVERED STRONG FINANCIAL RESULTS

Q3 2017 Operating Margin (Ex. Legal Settlement)

Operating Margin



Key Margin Drivers

	Q3'17
Enterprise Initiatives	+110 bps
Volume	+60
Price/Cost	(40)
Margin Expansion	+130 bps

STRONG OPERATING MARGIN PERFORMANCE

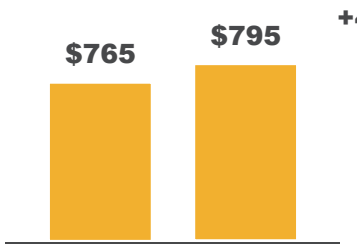
Segment Performance

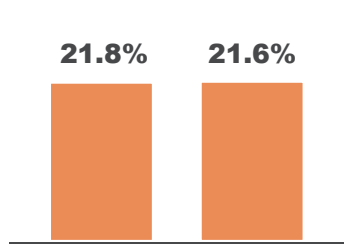
Q3'17 YTD Performance

	Organic Growth		Operating Margin		
	FY'16	Q3'17 YTD	FY'16	Q3'17 YTD	Change
Automotive OEM	5%	5%	24.1%	22.7%*	(140)* bps
Food Equipment	3	1	25.4	26.3	+90
T&M and Electronics	2	4	18.9	22.1	+320
Welding	(9)	2	24.9	27.2	+230
Polymers & Fluids	1	1	20.3	21.0	+70
Construction Products	3	3	22.4	24.0	+160
Specialty Products	1	3	25.6	27.6	+200
Total Company Ex. Settlement	1.2%	2.7%	22.5%	23.9%	+140 bps

*Excluding the impact of the 2016 acquisition of EF&C, operating margin is 24.3%, an increase of 20 basis points

Automotive OEM





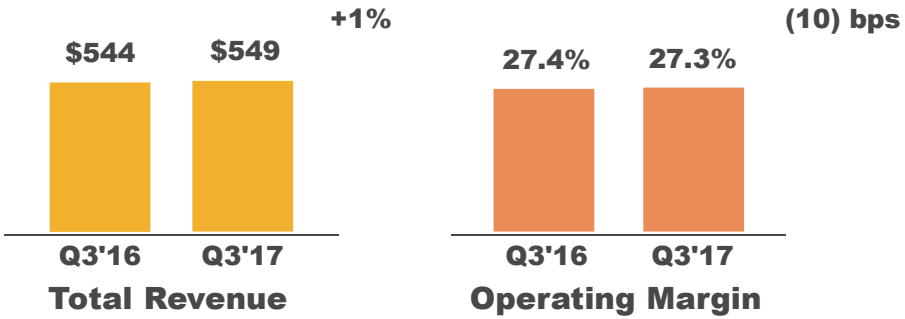
Q3 Performance

- Organic growth of 1%
- Organic growth above-market in every key geography:
  - North America (7)% vs. builds (10)%, "D3" builds (14)%
  - Europe 8% vs. builds 5%
  - China 10% vs. builds 1%

ITW Shakeproof | ITW Global Automotive | DELTAR

Q3 2017 Segment Performance

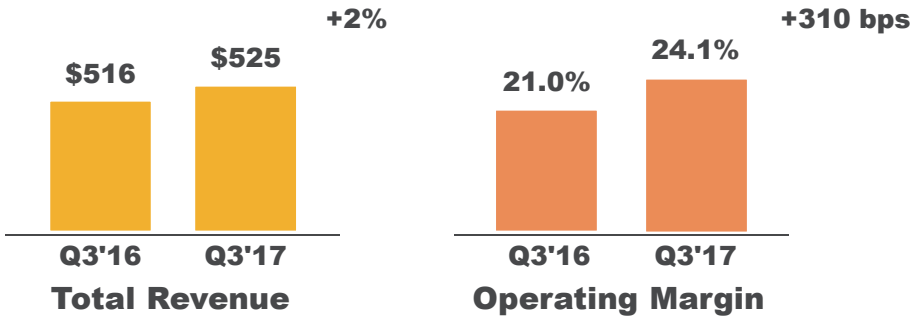
Food Equipment



Q3 Performance

- Organic revenue flat
  - North America (4)%; Equipment (6)%, Service flat
  - International 4%; Equipment 6%, Service (1)%

Test & Measurement/Electronics



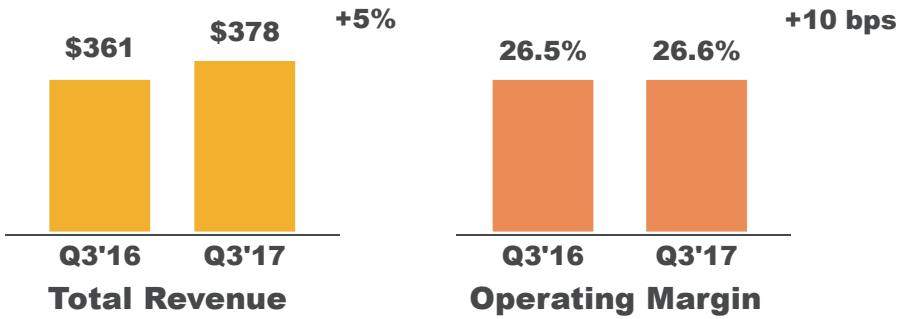
Q3 Performance

- Organic growth of 1%
  - Test & Measurement 4%
  - Electronics (3)%
- Operating Margin +310 bps driven by Enterprise Initiatives

HOBART Traulsen VULCAN INSTRON IQMA LOCK SYSTEMS INSPECTION SIMCO ION An ITW Company

Q3 2017 Segment Performance

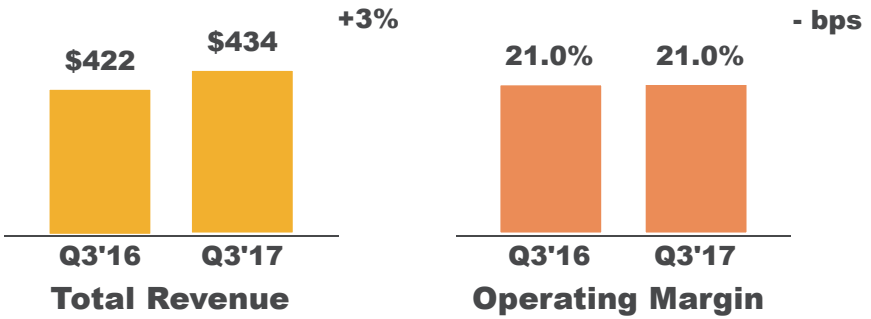
Welding



Q3 Performance

- Organic growth of 4%
  - North America 8%; Equipment 10%, Consumables 5%
  - International (11)%

Polymers & Fluids

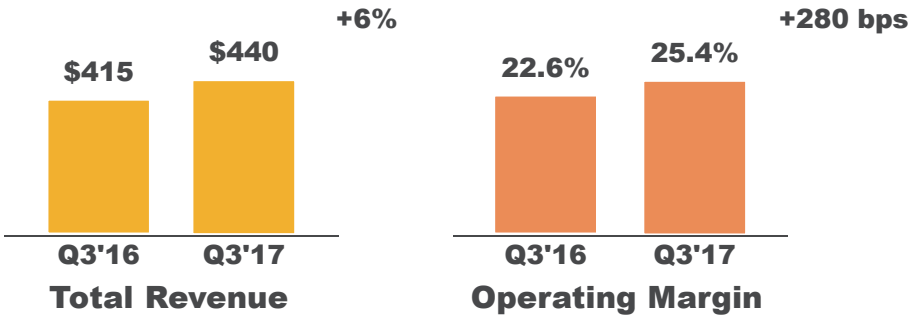


Q3 Performance

- Organic growth of 1%
  - Fluids 4%
  - Polymers (1)%
  - Automotive Aftermarket 1%

Q3 2017 Segment Performance

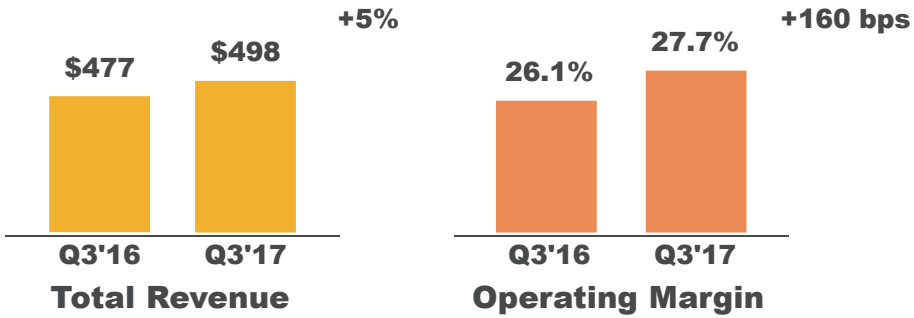
Construction Products



Q3 Performance

- Organic growth of 4%
  - North America 4%; Residential 7%, Commercial (3)%
  - Europe and Asia Pacific both 3%
- Operating Margin +280 bps due to Volume Leverage, Enterprise Initiatives and lower restructuring

Specialty Products



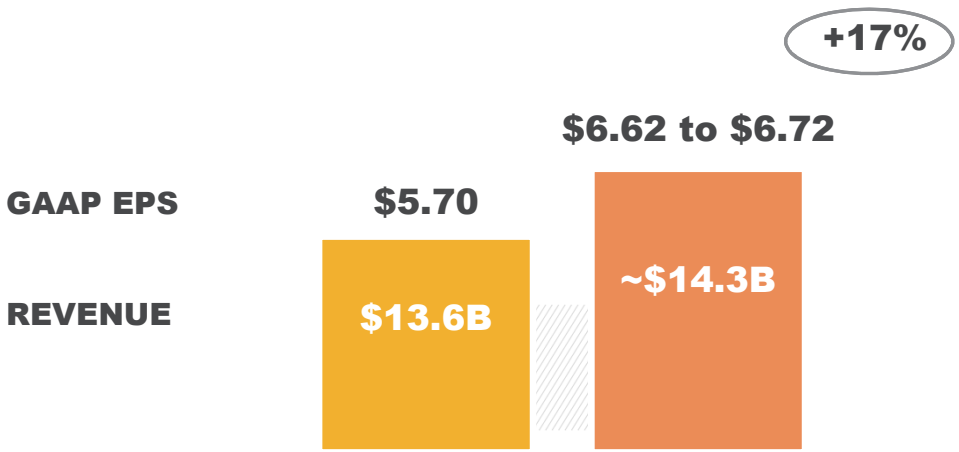
Q3 Performance

- Organic growth of 5%
  - North America 3%
  - International 7%
- Operating Margin +160 bps due to Volume Leverage and Enterprise Initiatives

Paslode · Ramset DRIVING JOBSITE SPEED · SPIT · ZIP-PAK We're Uniquely Flexible. · HI-CONE we are all around

Full-Year and Fourth-Quarter 2017 Guidance

2017 Guidance



	2016	2017E	
OPERATING MARGIN	22.5%	~24.5%	+200 bps
AFTER-TAX ROIC*	22.1%	~24%	+190 bps

Highlights

- **GAAP EPS guidance raised by $0.25 at the mid-point**
  - $0.09 Q3'17 "beat" + $0.02 margins + $0.14 legal settlement
- **Organic revenue growth of 2 to 3%**
  - ~1.3%-pt. improvement in organic growth rate year-on-year
- **Key performance metrics excluding legal settlement**
  - EPS growth of 14% at the mid-point
  - Operating margin of ~24%, an increase of ~150 bps with Enterprise Initiatives contributing ~100 bps
  - After-tax ROIC of ~23.5%, an increase of ~150 bps
- **Free Cash Flow 100%+ of Net Income**
- **Fourth Quarter 2017 guidance**
  - GAAP EPS of $1.55 to $1.65, Organic revenue growth of 2 to 3%

*See ITW's third quarter 2017 press release for the reconciliation from GAAP to non-GAAP measurements

ANOTHER STRONG YEAR FOR ITW

ITW

Q&A



