Fourth Quarter 2017 Earnings Conference Call

January 24, 2018



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 fourth 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, expected dividend payout ratio, expected repatriation, 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 2018 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.

Q4 2017 "Tax Cuts and Jobs Act" Impact

- **Following the passage of the "Tax Cuts and Jobs Act" ITW recorded a one-time tax charge of $658 million / ($1.92) EPS**
- **This schedule illustrates the impact of this one-time charge on the company's reported fourth quarter financial results**

$ Millions	*Q4'16 As Reported*	*Q4'17 As Reported*	*Tax Charge*	*Q4'17 Ex. Tax Charge*	*Change Vs. Prior Year*
Total Revenue	$3,399	$3,629	-	$3,629	+7%
Operating Income	$742	$850	-	$850	+14%
Operating Margin	21.8%	23.4%	-	23.4%	+160 bps
Tax Rate	30.0%	109.6%	+82.7%-pts	26.9%	(310) bps
Net Income (Loss)	$507	($76)	($658)	$582	+15%
EPS	$1.45	($0.22)	($1.92)	$1.70	+17%

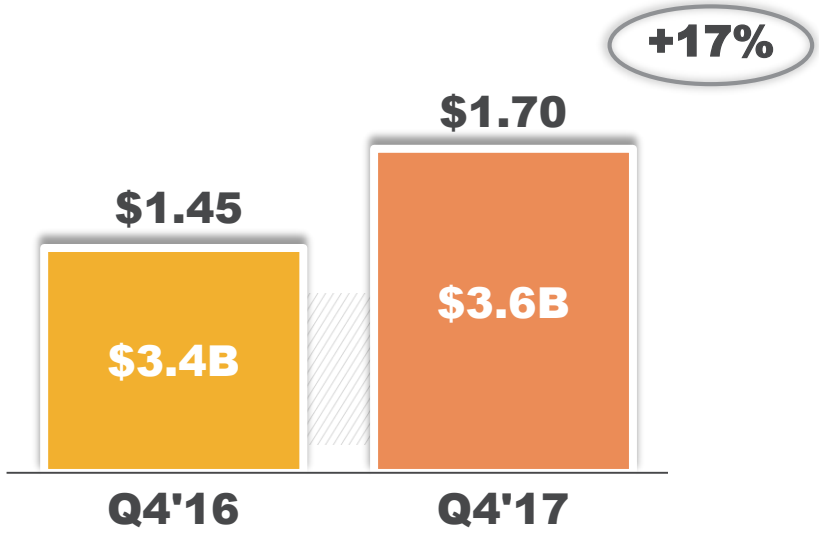
FY 2017 "Tax Cuts and Jobs Act" and Legal Settlement Impact

- Following the passage of the "Tax Cuts and Jobs Act" ITW recorded a one-time tax charge of $658 million / ($1.90) EPS
- As previously disclosed, a legal settlement resulted in a favorable one-time benefit of $95 million / $0.17 EPS
- This schedule illustrates the impact of these two one-time items on the company's reported full-year 2017 financial results

$ Millions	*2016 As Reported*	*2017 As Reported*	*Legal Item*	*Tax Charge*	*2017 Ex. Items*	*Change Vs. Prior Year*
Total Revenue	$13,599	$14,314	-	-	$14,314	+5%
Operating Income	$3,064	$3,494	+$95	-	$3,399	+11%
Operating Margin	22.5%	24.4%	+70 bps	-	23.7%	+120 bps
Tax Rate	30.0%	48.4%	-	+20.1%-pts	28.3%	(170) bps
Net Income (Loss)	$2,035	$1,687	+$59	($658)	$2,286	+12%
EPS	$5.70	$4.86	+$0.17	($1.90)	$6.59	+16%

Q4 2017 Financial Performance (Ex. Tax Charge)

Financial Results



	Q4'16	Q4'17	
EPS	$1.45	$1.70	+17%
REVENUE	$3.4B	$3.6B	
OPERATING MARGIN	21.8%	23.4%	+160 bps
AFTER-TAX ROIC*	21.1%	24.6%	+350 bps
TAX RATE	30.0%	26.9%	(310) bps

Highlights

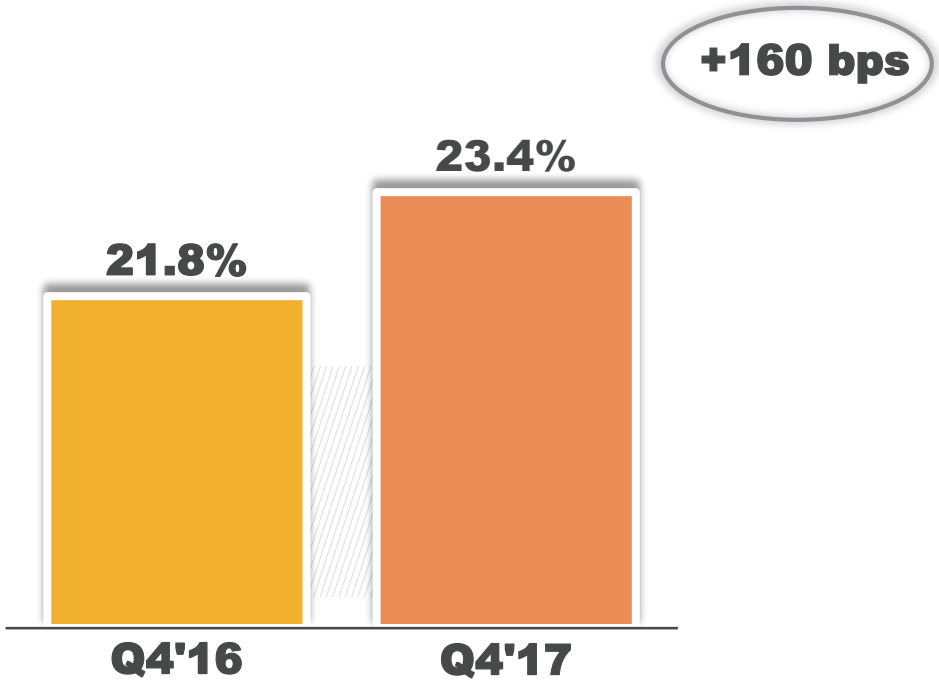
- EPS of $1.70, an increase of 17%
- Total revenue grew 7%; organic growth of 4%
  - 6 of 7 segments and all major geographies with positive organic growth
- Strong progress on key performance metrics
  - Operating income of $850 million, an increase of 14%
  - Operating margin of 23.4%, an increase of 160 bps with Enterprise Initiatives contributing 140 bps
  - After-tax ROIC* of 24.6%, an increase of 350 bps
- Free Cash Flow* of $617 million, 106% of adjusted Net Income
- Share repurchases of $250 million

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

STRONG FINISH TO 2017

Q4 2017 Operating Margin

Operating Margin



Key Margin Drivers

	Q4'17
Enterprise Initiatives	+140 bps
Volume/Other	+70
Price/Cost	(50)
Margin Expansion	+160 bps

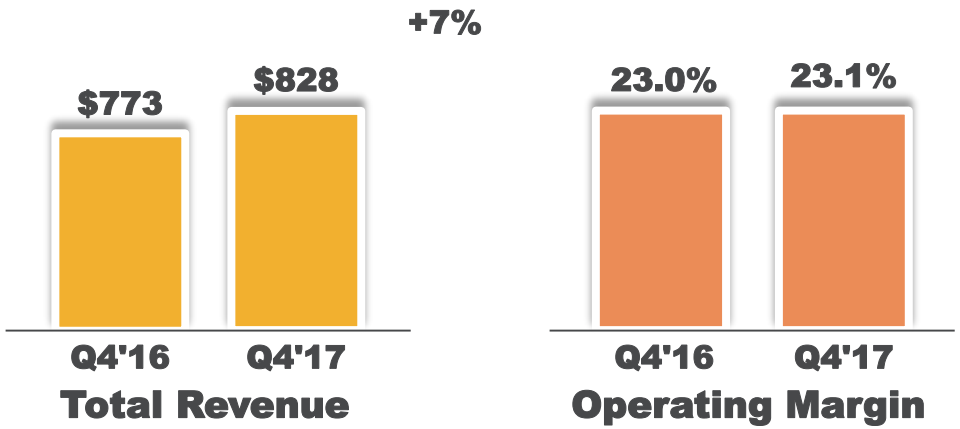
STRONG OPERATING MARGIN PERFORMANCE

Q4 2017 Segment Performance

Q4'17 Performance

	Organic Growth		Operating Margin		
	Q4'16	Q4'17	Q4'16	Q4'17	Change
Automotive OEM	7%	3%	23.0%	23.1%	+10 bps
Food Equipment	3	~flat	24.7	25.8	+110
T&M and Electronics	~flat	9	20.1	23.4	+330
Welding	(8)	6	24.4	26.4	+200
Polymers & Fluids	2	3	19.0	19.9	+90
Construction Products	3	4	21.4	23.4	+200
Specialty Products	1	5	24.0	25.9	+190
Total Company	**2%**	**4%**	**21.8%**	**23.4%**	**+160 bps**

Automotive OEM



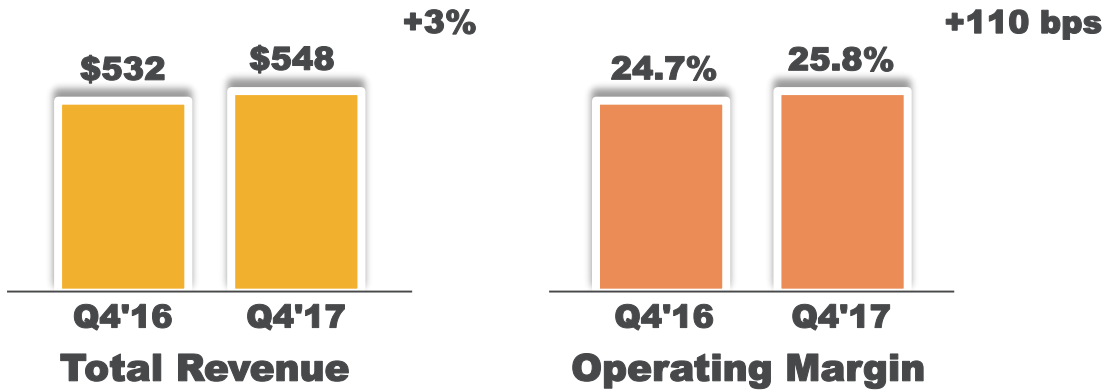
Q4/FY'17 Performance

- Organic growth of 3%; 3%-pts above-market
- Above-market growth in all geographies:
  - NA (2)% vs. builds (4)%; FY'17 (1)% vs. (4)% builds
  - Europe 7% vs. builds 6%; FY'17 8% vs. 3% builds
  - China 14% vs. builds (1)%; FY'17 17% vs. 2% builds
- Margin expansion despite expected price/cost headwind

ITW Shakeproof ITW Global Automotive DELTAR

Q4 2017 Segment Performance

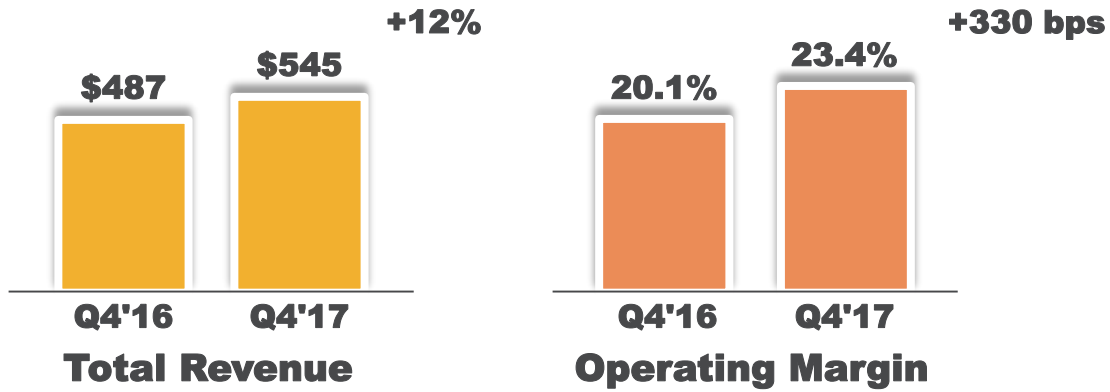
Food Equipment



Q4 Performance

- Organic revenue flat
  - North America (1)%; Equipment (2)%, Service 1%
  - International flat; Equipment (1)%, Service 3%
- Operating Margin +110 bps due to Enterprise Initiatives

Test & Measurement/Electronics

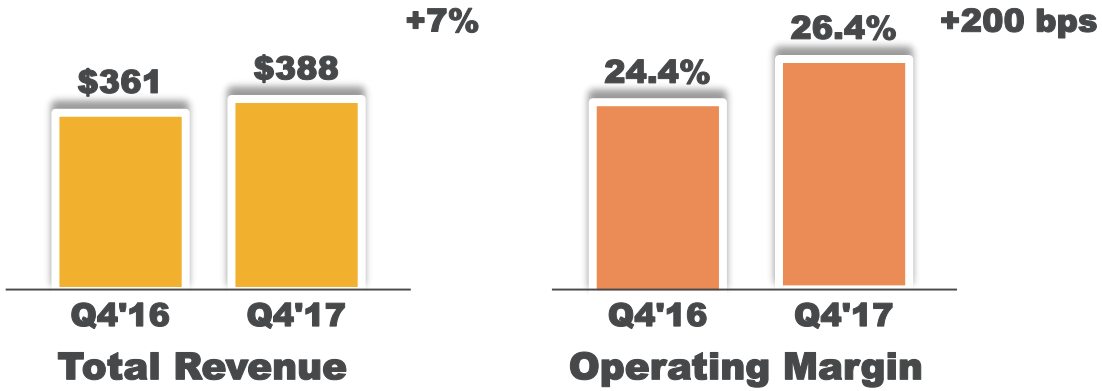


Q4 Performance

- Organic growth of 9%
  - Test & Measurement 13%
  - Electronics 4%
- Operating Margin +330 bps due to Enterprise Initiatives and volume leverage

Q4 2017 Segment Performance

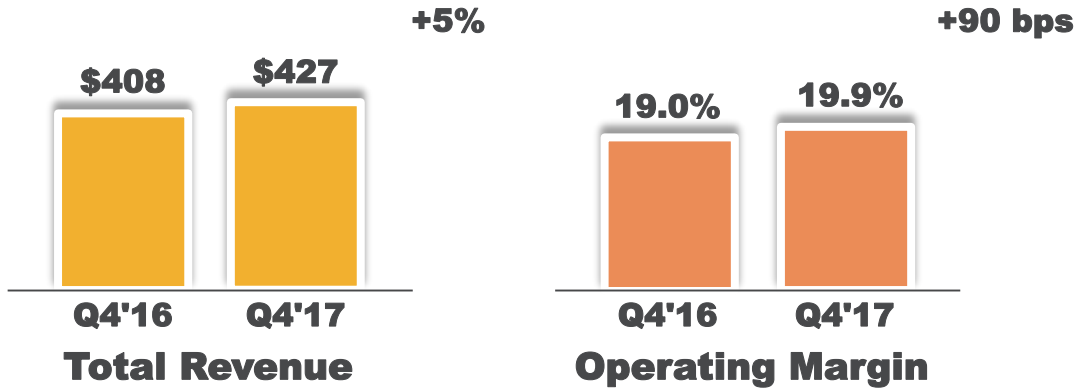
Welding



Q4 Performance

- Organic growth of 6%
  - North America 10%; Industrial 15%, Commercial 5%
  - International (10)%
- Operating Margin +200 bps due to Enterprise Initiatives and volume leverage

Polymers & Fluids

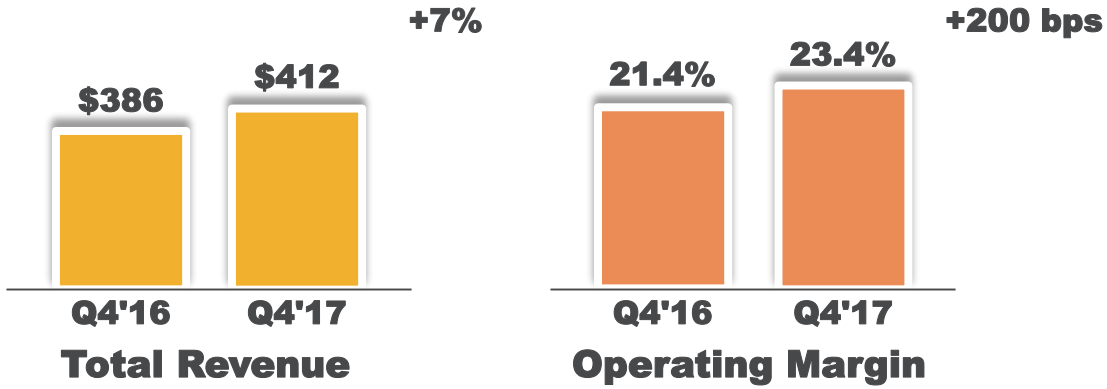


Q4 Performance

- Organic growth of 3%
  - Fluids 5%
  - Automotive Aftermarket 2%
  - Polymers 2%

Q4 2017 Segment Performance

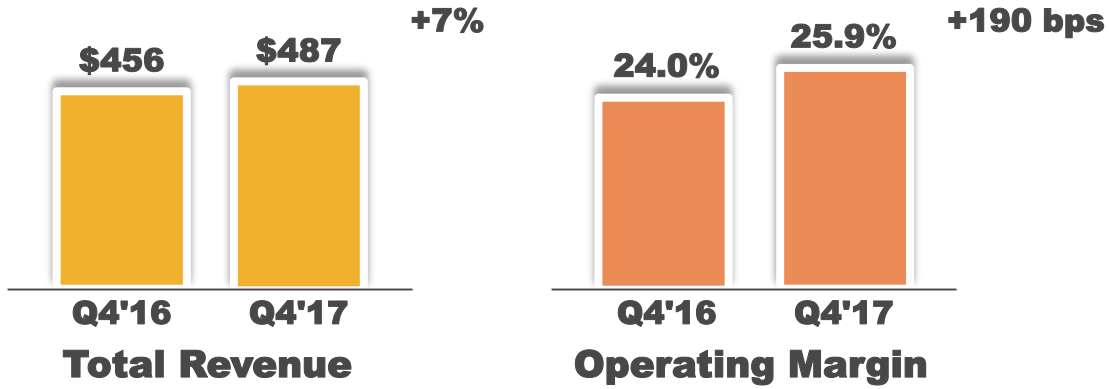
Construction Products



Q4 Performance

- Organic growth of 4%
  - North America 2%; Residential 2%, Commercial (1)%
  - Europe 5%
  - Asia Pacific 4%
- Operating Margin +200 bps due to Enterprise Initiatives

Specialty Products



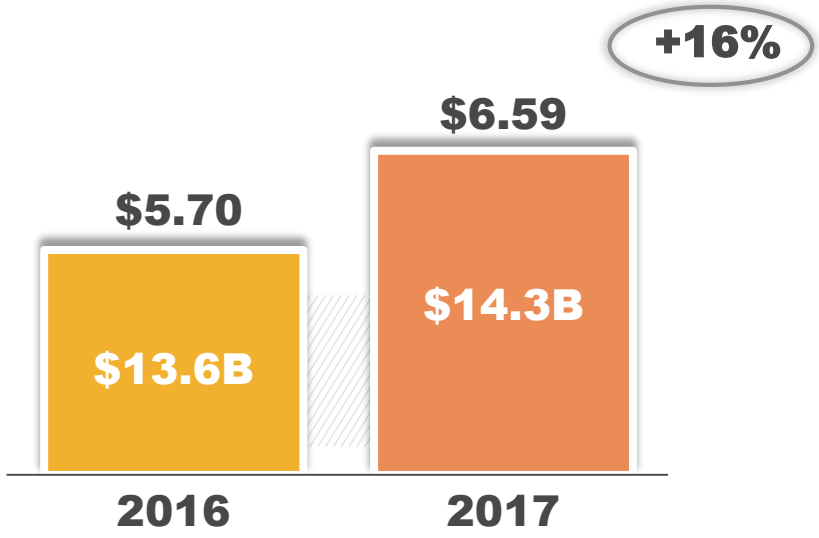
Q4 Performance

- Organic growth of 5%
  - North America 4%
  - International 6%
- Operating Margin +190 bps due to Enterprise Initiatives and volume leverage

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

2017 Financial Performance (Ex. Legal Settlement & Tax Charge)

Financial Results



	2016	2017	
OPERATING MARGIN	22.5%	23.7%	+120 bps
AFTER-TAX ROIC*	22.1%	24.4%	+230 bps
TAX RATE	30.0%	28.3%	(170) bps

Highlights

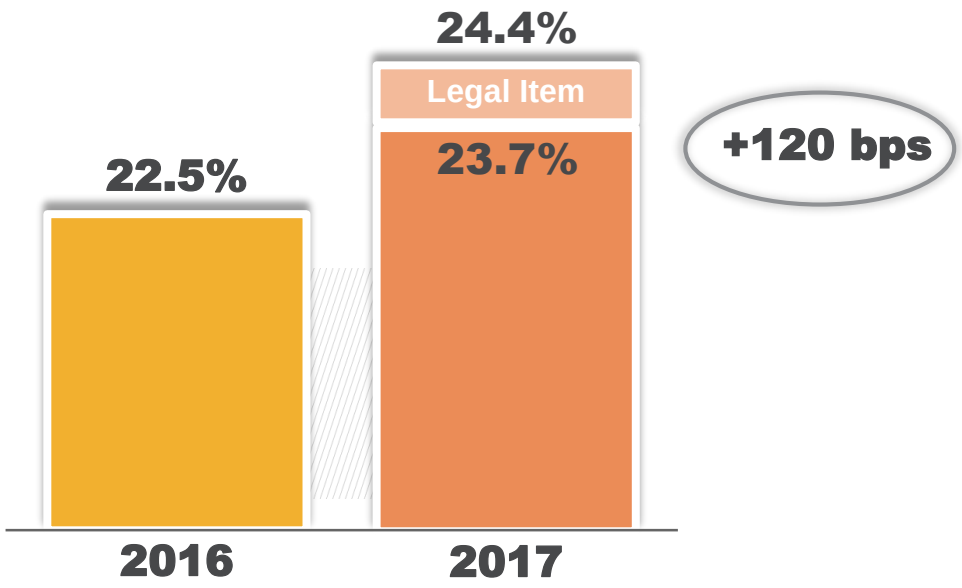
- EPS of $6.59, an increase of 16%
- Total revenue grew 5%; organic growth of 3%
  - All segments and all major geographies with positive organic growth
- Record results on key performance metrics
  - Operating income of $3.4 billion, an increase of 11%
  - Operating margin of 23.7%, an increase of 120 bps with Enterprise Initiatives contributing 120 bps
  - After-tax ROIC* of 24.4%, an increase of 230 bps
- Free Cash Flow* of $2.2 billion, an increase of 9%
- Returned $1.9+ billion to shareholders through dividends and share repurchases

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

ITW DELIVERED ANOTHER YEAR OF RECORD RESULTS

2017 Operating Margin Improvement

Operating Margin



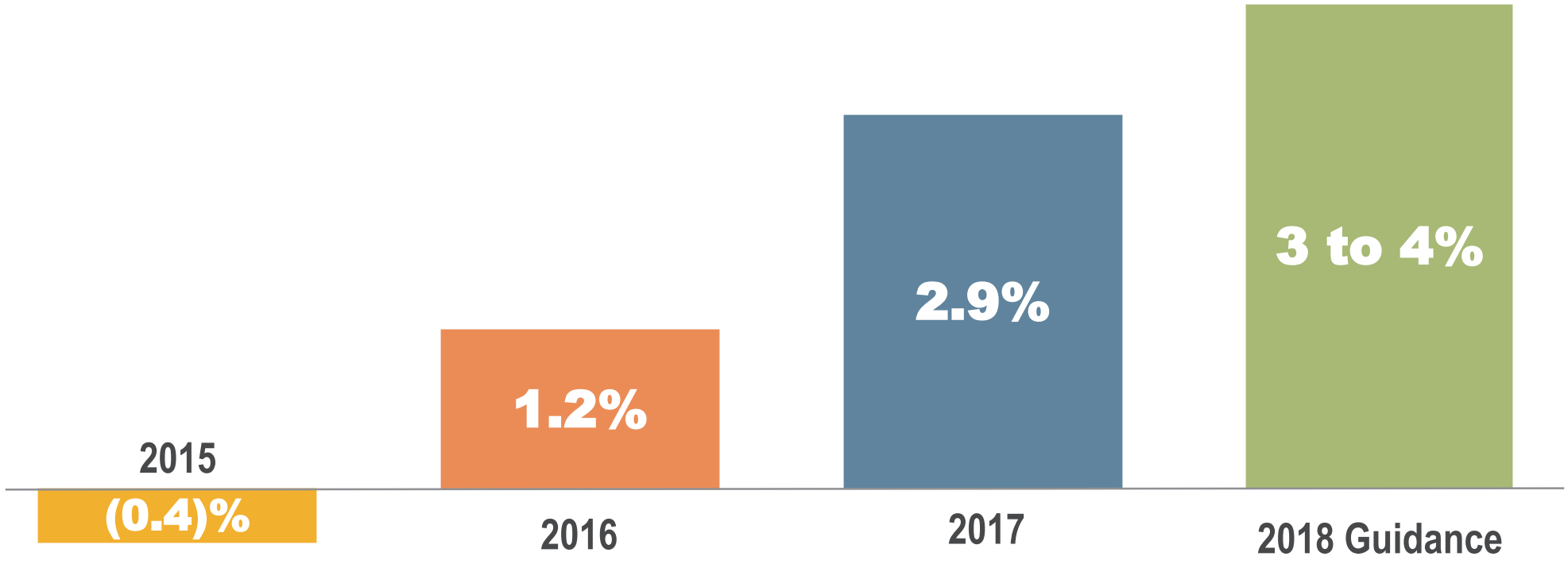
Key Margin Drivers

	2017
Enterprise Initiatives	+120 bps
Volume	+70
Price/Cost	(40)
EF&C Acquisition	(30)
Legal Item	+70 bps
Margin Expansion	+190 bps

RECORD OPERATING MARGIN PERFORMANCE

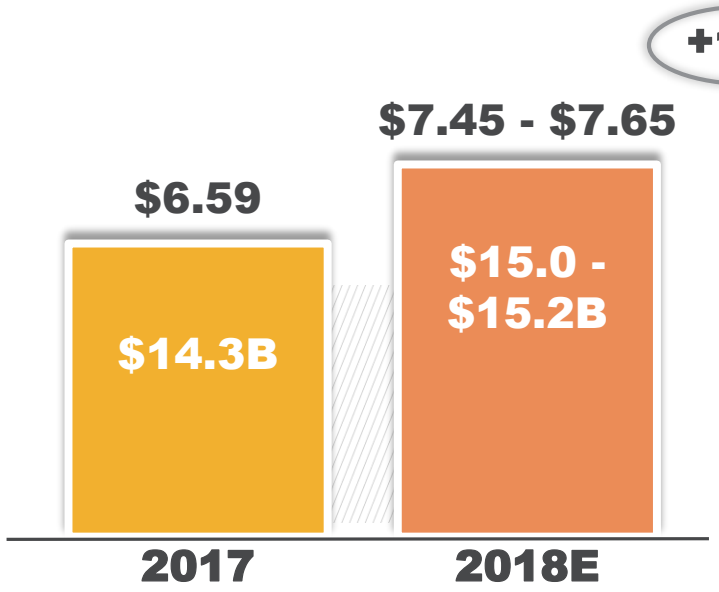
Organic Growth Acceleration

CONTINUED PROGRESS ON OUR PATH TO SUSTAINED ABOVE-MARKET ORGANIC GROWTH



2018 Guidance (2017 ex. Legal Settlement & Tax Charge)

Financial Guidance



	2017	2018E
EPS	$6.59	$7.45 - $7.65
REVENUE	$14.3B	$15.0 - $15.2B
OPERATING MARGIN	23.7%	25 - 25.5%
AFTER-TAX ROIC*	24.4%	25 - 26%
TAX RATE	28.3%	25 - 26%

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

Highlights

- **Raising GAAP EPS guidance by $0.40 / 6% at $7.55 midpoint**
  - $0.35 from lower tax rate + $0.05 from foreign currency translation
- **Total revenue growth 5 - 6%; organic growth of 3 - 4%**
- **Operating margin 25 - 25.5%; 100 bps from Enterprise Initiatives**
- **After-tax ROIC 25 - 26%; an increase of ~100 bps**
- **Free Cash Flow* 100%+ of Net Income**
  - ~$1 billion share repurchases, dividend pay-out ratio to ~50% run rate

- **First Quarter 2018 Guidance**
  - GAAP EPS of $1.80 - $1.90; 20% growth at mid-point
  - Organic revenue growth of 3 to 4%

WELL-POSITIONED FOR TOP-TIER PERFORMANCE IN 2018

Q&A

