ITW

Third Quarter 2018 Earnings Conference Call

October 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 third quarter of 2018, 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 tariffs and raw material inflation, 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, price/cost impact, 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 2017 and subsequently filed Form 10-Qs.

ITW 2018 Investor Day

SAVE THE DATE

Friday, December 7
9:00 a.m., EST

InterContinental Hotel
300 West 44th St
New York, NY

Register on our website:
Investor.itw.com

Q3 2017 Legal Settlement Impact

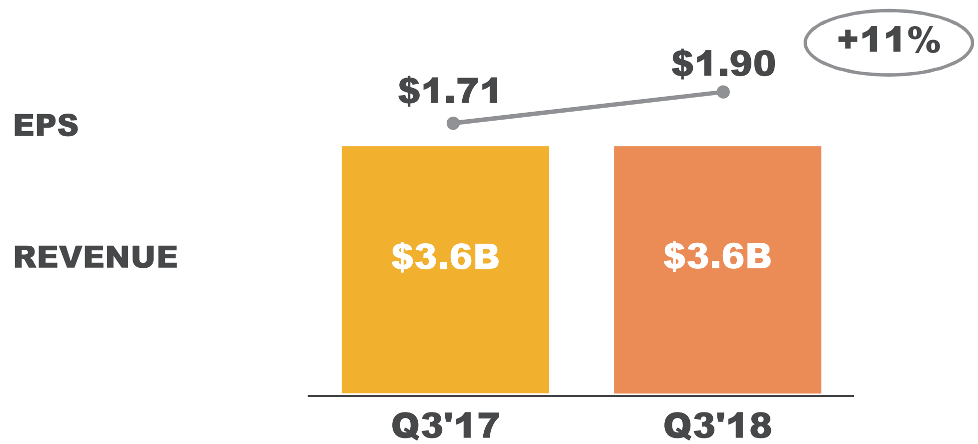
As previously disclosed, the company entered into a confidential legal settlement in 2017, resulting in a favorable pre-tax impact of $80 million on the third quarter 2017 results. The following schedule illustrates the impact of this item on the company's reported financial performance.

$ Millions	Q3'17 As Reported*	Legal Settlement	Q3'17 Ex. Settlement	Q3'18 As Reported	Change vs. Prior Year
Total Revenue	$3,615	-	$3,615	$3,613	-
Operating Income	$960	+$80	$880	$889	+1%
Operating Margin	26.6%	+230 bps	24.3%	24.6%	+30 bps
EPS	$1.85	+$0.14	$1.71	$1.90	+11%
After-Tax ROIC	26.2%	+220 bps	24.0%	28.0%	+400 bps

**The third quarter of 2017 has been restated to reflect the adoption of new accounting guidance in 2018 which resulted in the presentation of $1 million of other net periodic benefit income in Other income (expense) rather than in Operating Income, with no change in Net Income.*

Q3 2018 Financial Performance (Ex. 2017 Legal Settlement)

Financial Results



	Q3'17	Q3'18	
OPERATING MARGIN	24.3%	24.6%	+30 bps
AFTER-TAX ROIC*	24.0%	28.0%	+400 bps

Highlights

- **EPS +11% to $1.90 vs. guidance $1.80 to $1.90**
  - EPS +13% ex. $(0.03) EPS impact from foreign currency translation
- **Organic growth +2%**
  - North America +4%, International (1)%
- **Operating Margin +30 bps year-over-year and vs. Q2'18**
  - Strong execution on Enterprise Initiatives contributed 100 bps
  - Price/cost positive on a $ basis; Margin % dilution impact improved vs. Q2
- **Free Cash Flow* +17%, 116% of Net Income**
  - Share repurchases of $500 Million
- **Announced +28% dividend increase**

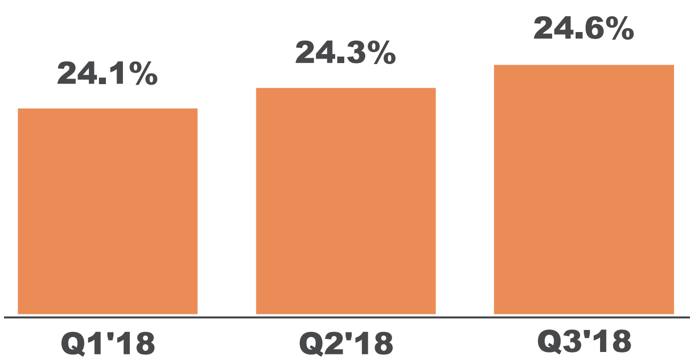
**See ITW's third quarter 2018 press release for the reconciliation from GAAP to non-GAAP measures.*

ITW DELIVERED 11% EPS GROWTH

Q3 2018 Operating Margin (Ex. 2017 Legal Settlement)

Operating Margin

+30 bps
Year-over-year



	Q1'18	Q2'18	Q3'18
Enterprise Initiatives	+110 bps	+110 bps	+100 bps
Price/Cost	(50) bps	(70) bps	(60) bps

Key Margin Drivers

	Q3'18
Enterprise Initiatives	+100 bps
Volume	+20
Price/Cost	(60)
Other	(30)
Margin Expansion	+30 bps

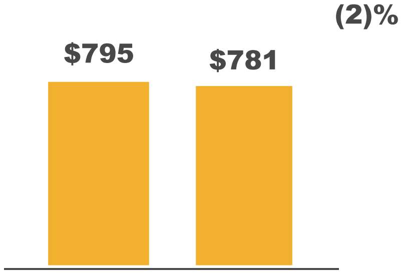
RECORD OPERATING MARGIN PERFORMANCE

Q3 2018 Segment Performance

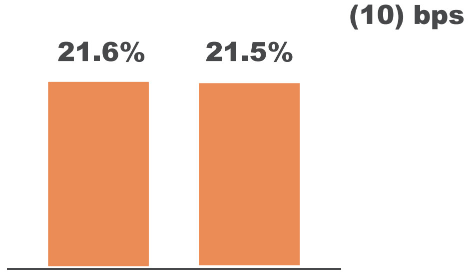
International Organic Growth

	Q2'18	Q3'18
Automotive OEM	4% →	(5)%
Food Equipment	1	3
T&M and Electronics	3	5
Welding	1	12
Polymers & Fluids	~flat →	(5)
Construction Products	2	1
Specialty Products	(2) →	(7)
Int'l Organic Growth	**2%**	**(1)%**

Automotive OEM



Total Revenue



Operating Margin

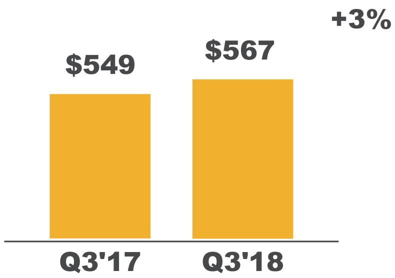
Q3 Performance

- Organic revenue ~flat
- Organic growth vs. builds by geography
  - NA 7% vs. builds 2%
  - Europe (6)% vs. builds (5)%
  - China ~flat vs. builds (4)%

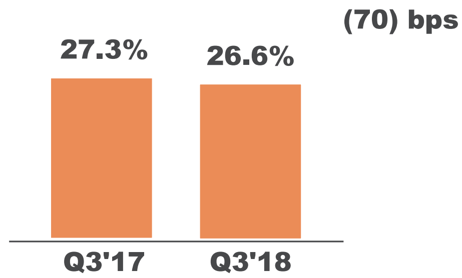
ITW Shakeproof ITW Global Automotive DELTAR

Q3 2018 Segment Performance

Food Equipment



Total Revenue

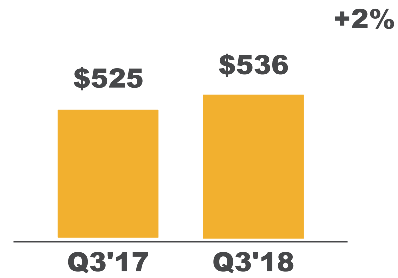


Operating Margin

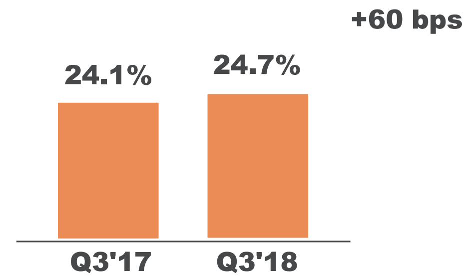
Q3 Performance

- **Organic growth of 4% vs. 1% in 1H'18**
  - North America 4%
    - Equipment 6% (10% ex. Retail), Service 2%
  - International 3%
    - Equipment 3%, Service 4%

Test & Measurement/Electronics



Total Revenue



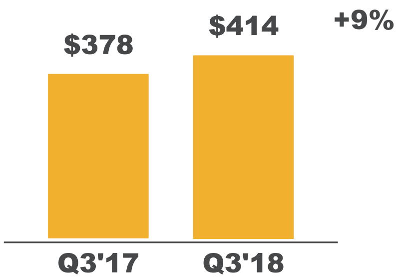
Operating Margin

Q3 Performance

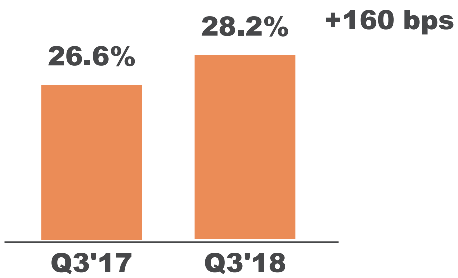
- **Organic growth of 3%**
  - Test & Measurement 7%, Instron 12%
  - Electronics (2)%

Q3 2018 Segment Performance

Welding



Total Revenue

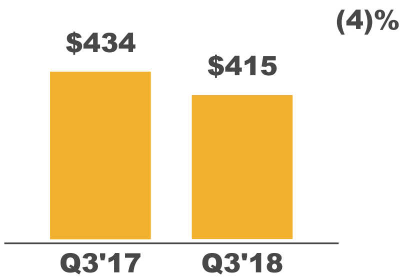


Operating Margin

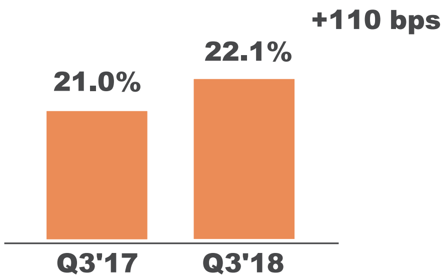
Q3 Performance

- **Organic growth of 10%**
  - Equipment 12%, Consumables 9%
  - North America 10%, International 12%
  - Oil & Gas 10%

Polymers & Fluids



Total Revenue



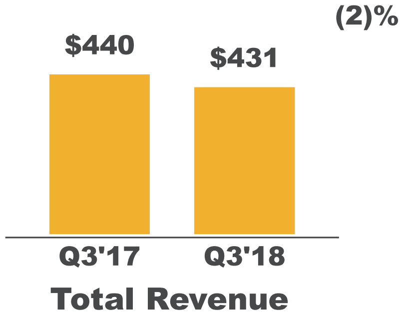
Operating Margin

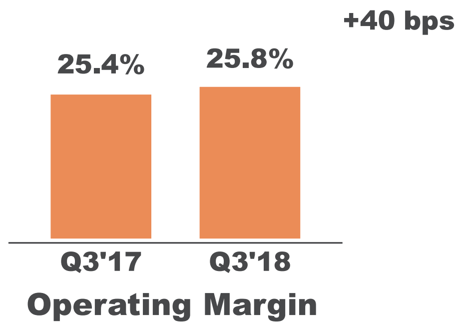
Q3 Performance

- **Organic revenue of (1)%**
  - Automotive Aftermarket 1%, Fluids and Polymers each (2)%
  - North America 3%, International (5)%

Q3 2018 Segment Performance

Construction Products

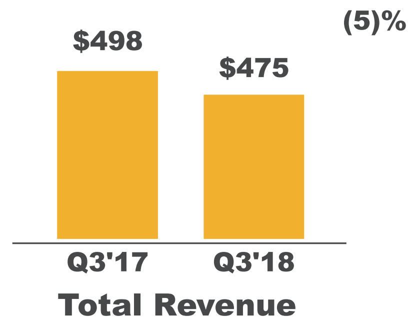


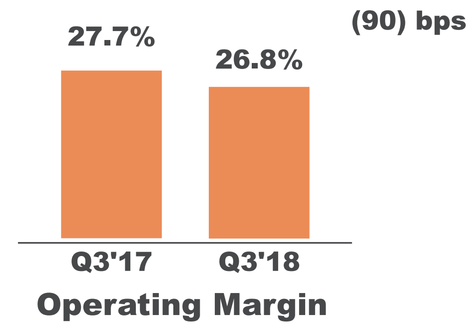


Q3 Performance

- Organic growth of 1%
  - North America ~flat
    - Residential (1)% vs. tough comp (Q3'17 was 7%)
    - Commercial 5%
  - Europe 4%, Asia Pacific (1)%

Specialty Products





Q3 Performance

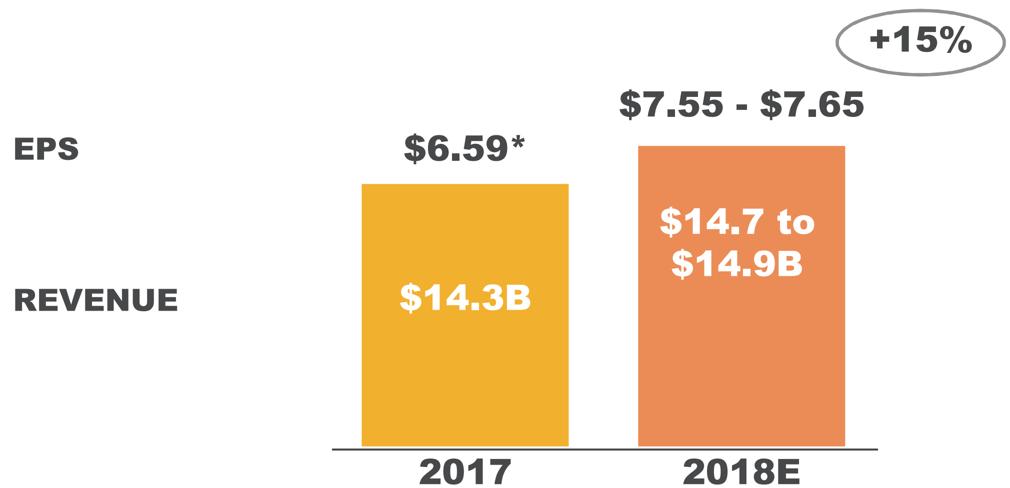
- Organic revenue of (4)%
  - North America (2)%, International (7)%
  - Consumer Packaging 5%, Equipment 7%, Consumables (6)%

Price/Cost and Tariff Update

- **Ongoing pricing actions more than offset 3% raw material cost inflation on a dollar for dollar basis**
  - Overall, price increases are beginning to catch up to raw material cost inflation (typically a one quarter lag due to notice periods/provisions)
  - Margin dilution impact showed sequential improvement in the third quarter, from (70) bps in Q2 to (60) bps in Q3
- **Continue to view tariffs as manageable as we adjust pricing to offset ~$30 million impact in 2018**
  - Impact mitigated by our global "produce where we sell" strategy and the fact that only ~2% of our spend is sourced from China
- **For 2019, we estimate ~$60 million of tariff impact based on all announced tariffs/section 301 and carryover**
  - Given our differentiated portfolio of businesses, we expect to continue to offset raw material cost inflation and tariff impact with pricing actions

2018 Guidance

Financial Guidance



	2017	2018E
OPERATING MARGIN	23.7%*	24 - 25%
AFTER-TAX ROIC	24.3%*	27 - 28%

2018 Highlights

- **Narrowed 2018 GAAP EPS guidance: $7.55 to $7.65**
  - 15% EPS growth at the mid-point (no change)
- **Solid demand in North America, International mixed**
  - Total revenue growth of 3 - 4%, organic growth of 2 - 3%
- **Strong execution and continued margin expansion**
  - 100 bps+ from Enterprise Initiatives
- **Share repurchases of approximately $2 Billion**

Q4 Guidance

- **Q4'18 GAAP EPS guidance: $1.78 to $1.88**
  - Expect organic growth of 1 - 2% at current levels of demand

**See ITW's third quarter 2018 press release for the reconciliation from GAAP to non-GAAP measures.*

ON TRACK TO DELIVER 15% EARNINGS GROWTH IN 2018

Q&A