

Bank of America Merrill Lynch Global Industrials Conference

19 March 2019

FORWARD-LOOKING STATEMENT

SAFE HARBOR STATEMENT

This presentation 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, expected dividend payout ratio, expected repatriation, growth in after-tax return on invested capital, expected total shareholder returns, effective tax rates, exchange rates, timing and amount of share repurchases, end market economic and regulatory conditions, expected impact of acquisitions and divestitures on financial results, and the Company's related 2019 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 2018.

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 2018 and the appendix of this presentation.

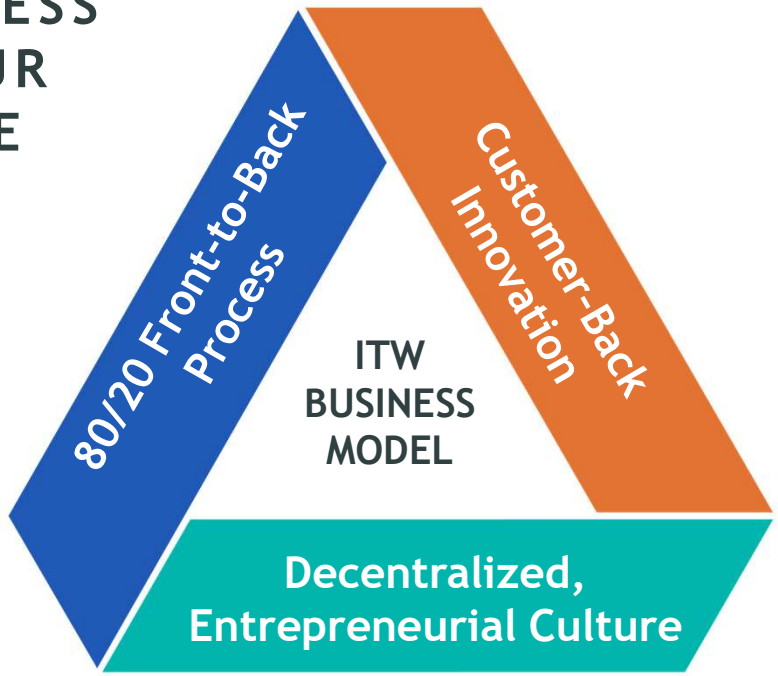


ENTERPRISE STRATEGY BEGAN IN LATE 2012

STARTED WITH A BASIC QUESTION:

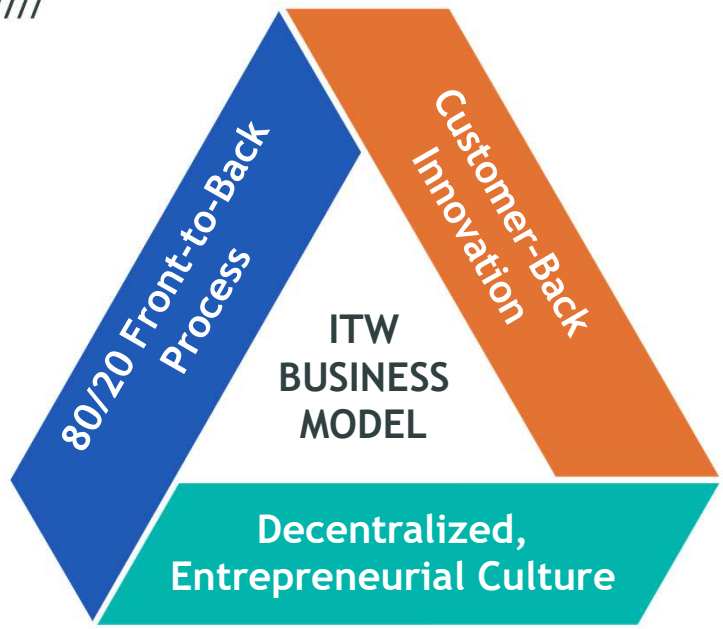
What truly differentiates ITW?

ITW'S BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE



THE ITW BUSINESS MODEL:

- A **POWERFUL** and **PROPRIETARY** set of strategic, operational and cultural practices
- Has been in a continual state of development and evolution inside ITW for over 30 years
- Is the **VALUE-ADD** from being part of ITW



THE ITW BUSINESS MODEL DELIVERS:

1

ADVANTAGED COMPETITIVE POSITION IN THE INDUSTRIES IN WHICH WE OPERATE:

- Superior performance and value for our "80" customers
- High quality growth with best-in-class margins and returns

2

ADVANTAGED PERFORMANCE FOR LONG-TERM ORIENTED INVESTORS:

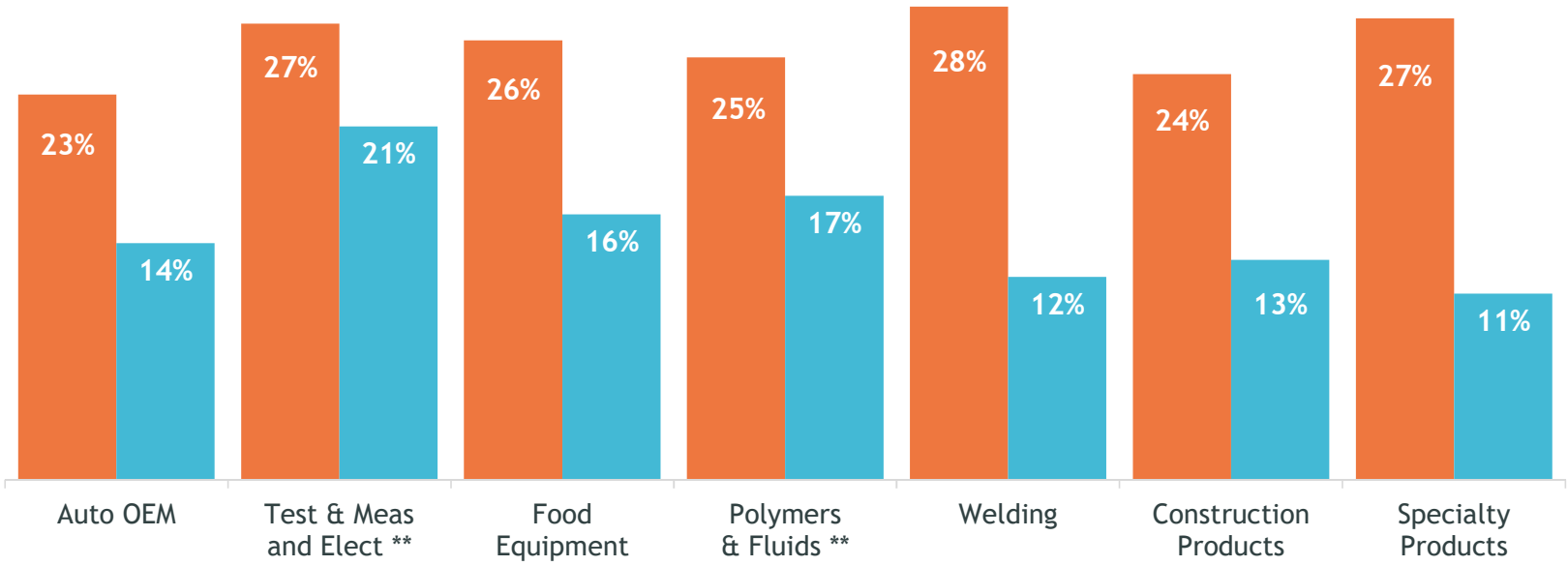
- Uniquely positioned to deliver consistent top-tier financial performance and returns over the long-term

ITW

ITW'S BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

ITW SEGMENT OPERATING MARGIN vs. PEER AVERAGE*

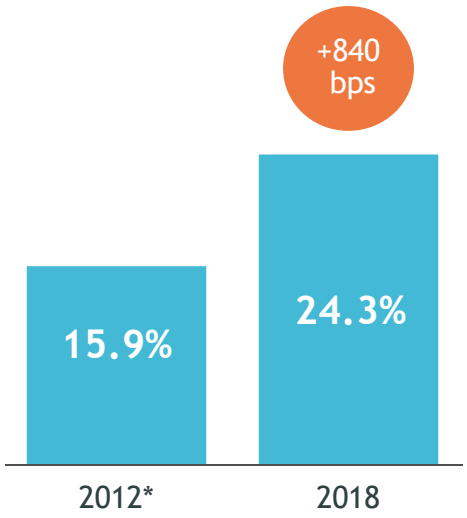
2018



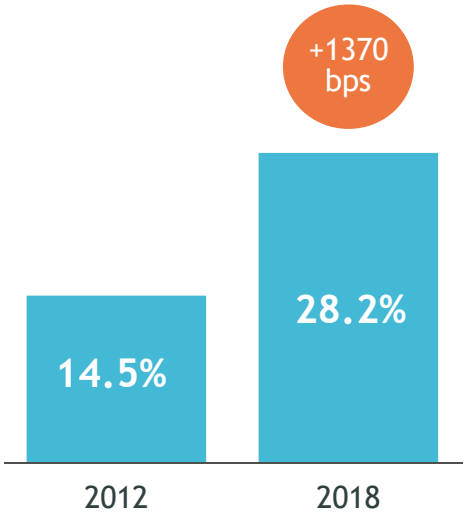
** See Appendix for listing of segment peers*
*** Test & Measurement and Electronics and Polymers & Fluids exclude 280 bps and 380 bps, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets*

2012 TO 2018 PERFORMANCE

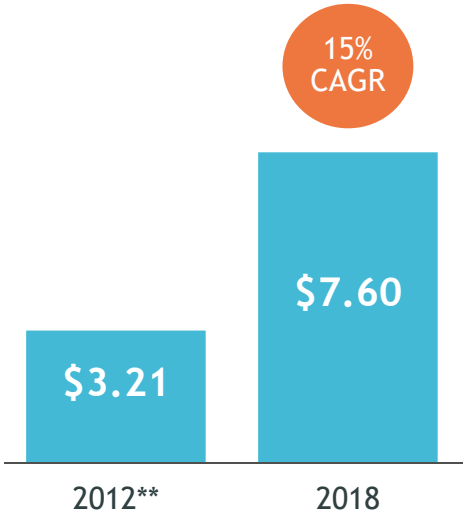
OPERATING MARGIN



AFTER-TAX ROIC**



EARNINGS PER SHARE



** As reported in the 2012 Form 10-K*
*** See Appendix for the reconciliations from GAAP to non-GAAP measures*

ITW'S ENTERPRISE STRATEGY

1 **PORTFOLIO DISCIPLINE:**
Operate only in industries where we can generate significant differentiated competitive advantage from the ITW Business Model long-term

2 **QUALITY OF 80/20 FTB PRACTICE:**
Operate with excellence in the practice of the ITW's 80/20 FTB business management process everywhere in the company every day

3 **DIFFERENTIATED PERFORMANCE:**
Deliver (1) solid growth (~**50% COMPLETE**) with (2) full-potential margins and returns (**~70% COMPLETE**) … consistently

~90% complete

~70% complete

~60% complete

More work to be done in order to achieve ITW's full potential



FINISHING THE JOB =

1-2 percentage points of additional improvement in enterprise organic growth rate

3-4 percentage points of additional structural margin improvement

ITW'S CORE BUSINESS IN 2023:



SOLID ORGANIC GROWTH WITH BEST-IN-CLASS MARGINS AND RETURNS … CONSISTENTLY

FINISHING THE JOB: WHAT IT WILL MEAN

OVER ANY 5-YEAR PERIOD:

- ✓ Organic Growth . . . Peer Group Average or Better
- ✓ EPS Growth . . . . . Top Quartile of Peer Group
- ✓ Dividend Growth . . Top Quartile of Peer Group
- ✓ Best-in-class Margins and ROIC
- ✓ Free Cash Flow 100%+ of Net Income

APPENDIX

GAAP TO NON-GAAP RECONCILIATIONS

Segment Peer Group Definitions
Automotive OEM: Actuant, Allison Transmission Holdings Inc., Anixter, Delphi and BorgWarner
Test & Measurement/Electronics: Ametek, Fortive, Keysight, Mettler-Toledo, Renishaw, Spectris and Thermo Fisher
Food Equipment: Welbilt and Middleby
Polymers and Fluids: 3M, DowDuPont and Huntsman
Welding: Kennametal, Lincoln Electric and Colfax
Construction Products: Carlisle, Crane, Ingersoll-Rand, Masco and Stanley Black and Decker
Specialty Products: Ball, Berry Plastics, and Bemis

Diluted EPS	For the Year Ended December 31, 2012
As reported	$ 4.72
Decorative Surfaces net gain	1.34
Decorative Surfaces equity investment	(0.04)
Decorative Surfaces operating results	0.21
As adjusted	$ 3.21

Cash Dividends Payout Ratio Dollars in millions	For the Year Ended December 31, 2018
Cash Dividends Paid	$ 1,124
Net cash provided by operating activities	$ 2,811
Less: Additions to plant and equipment	(364)
Free cash flow	$ 2,447
Dividend Payout Ratio	46%

Adjusted Return on Average Invested Capital	For the Years Ended	
Dollars in millions	December 31, 2012	December 31, 2018
Operating income, as reported	$ 2,475	$ 3,584
Adjustment for Decorative Surfaces	(143)	-
Adjusted operating income	2,332	3,584
Taxes (Tax rates: 2012 29.2%, 2018 24.9%)	(681)	(893)
Adjusted operating income after taxes	$ 1,651	$ 2,691
Invested capital at end of period:		
Trade receivables	$ 2,742	$ 2,622
Inventories	1,585	1,318
Net plant and equipment	1,994	1,791
Goodwill and intangible assets	7,788	5,717
Accounts payable and accrued expenses	(2,068)	(1,795)
Other, net	773	(519)
Total invested capital	$ 12,814	$ 9,134
Average invested capital	$ 13,140	$ 9,533
Adjustment for Decorative Surfaces	(274)	-
Adjustment for Industrial Packaging	(1,504)	-
Adjusted average invested capital	$ 11,362	$ 9,533
Adjusted return on average invested capital	14.5%	28.2%

2018 Operating Margin	Test & Measurement / Electronics	Polymers & Fluids
Total Operating Margin	24.1%	21.4%
Amortization expense from acquisition-related intangible assets	2.8%	3.8%
Adjusted Operating Margin %	26.9%	25.2%

ITW