



# Third Quarter 2015 Conference Call

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October 21, 2015

# 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 and timing of strategic initiatives and related benefits, future financial performance, operating performance, growth in free cash flow, organic and total revenue growth, operating margin growth, growth in diluted income per share from continuing operations, restructuring expenses and related benefits, tax rates, exchange rates, timing and amount of share repurchases, end market economic conditions, and the Company's related 2015 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 2014 and Form 10-Q for the second quarter of 2015.

## 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 are detailed in ITW's press release for the third quarter of 2015, which is available at [www.itw.com](http://www.itw.com), together with this presentation.

# Third Quarter 2015 Highlights



- **ITW delivers solid financial performance despite difficult conditions in key industrial end markets**
  - Achieved \$1.39 EPS, up 9% versus prior year; up 18% excluding \$(0.12) of currency headwinds
  - Strong execution on Enterprise Initiatives contributed 110 basis points to record operating margin of 22.7%, an increase of 180 basis points
  - Record after-tax ROIC of 21.5%, up 140 basis points\*
  - Strong free cash flow conversion of 126%
- **Substantial progress on ITW's Enterprise Strategy and solidly on-track to deliver on 2017 goals**
  - Portfolio management and internal actions are positioning ITW for future accelerated organic revenue growth
  - On-track for transition to focus on growth in 2016 and beyond
  - Continue to deliver excellent progress on operating margin and ROIC goals

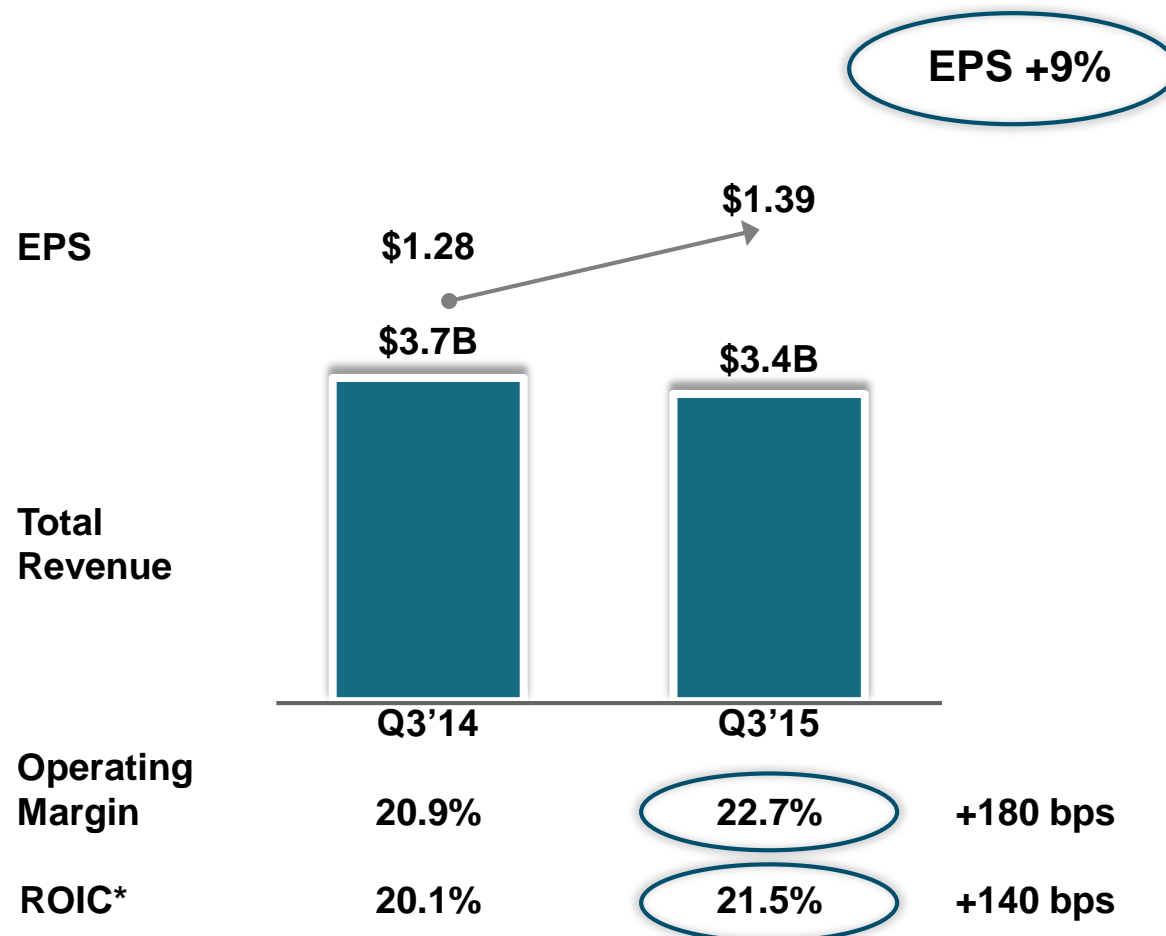
**Continued progress in year 3 of a 5 year plan to position ITW  
for solid growth with best-in-class margins and returns**

\* See ITW's Third quarter 2015 press release for the reconciliation from GAAP to non-GAAP measurements.

# Q3 2015 Financial Summary



## Q3 2015 Actuals



## Highlights

- \$1.39 EPS up 9%; +18% excluding \$(0.12) of currency impact
- Record operating margin of 22.7% as Enterprise Initiatives contribute 110 basis points
- Organic revenue down (1.7)% due to more challenging end market conditions, PLS and tough year-over-year comparisons
  - Total revenue down (9)% primarily due to currency impact
- Record after-tax ROIC of 21.5%\*
- Strong free cash flow and disciplined capital allocation
  - Year-to-date; ~\$420 million internal investments for growth and productivity, 13.4% dividend increase, \$2 billion share repurchase

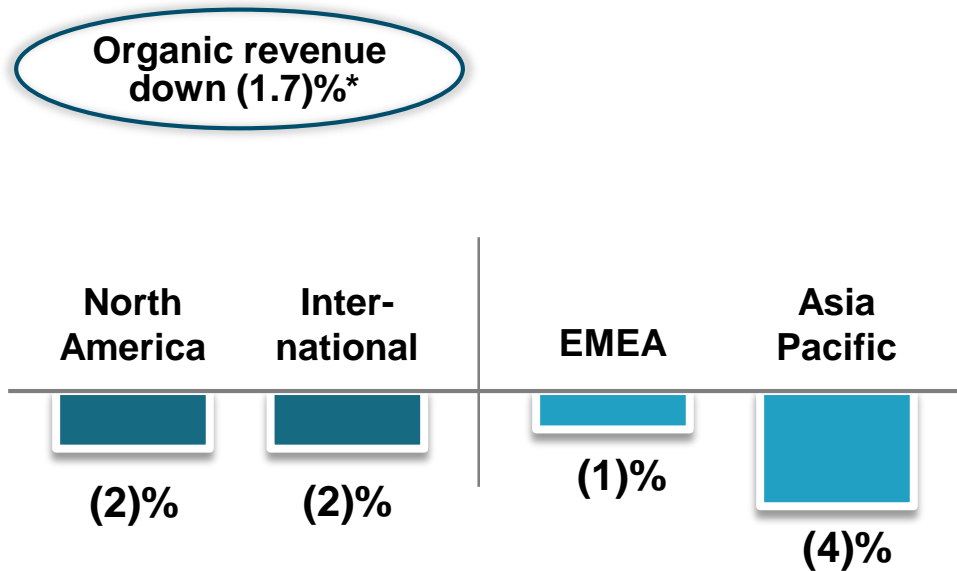
**Strong execution on Enterprise Initiatives drives solid performance**

\* See ITW's Third quarter 2015 press release for the reconciliation from GAAP to non-GAAP measurements.

# Q3 2015 Organic Revenue Growth

## Growth by Geography

## Highlights



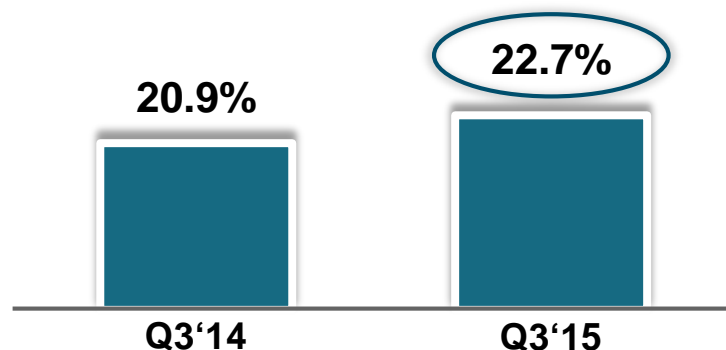
- **North America down (2)%**
  - Construction +7%, Food Equipment +6%, Automotive OEM +5%
  - Test & Measurement/Electronics (14)% and Welding (8)%
- **International down (2)%**
  - EMEA down (1)%
    - Automotive OEM +12% offset by Polymers & Fluids (10)%, Welding (9)% and Test & Measurement/Electronics (5)%
  - Asia Pacific down (4)%; China down (8)%
    - Construction +5% offset by Welding (18)%, Test & Measurement/Electronics (16)% and Automotive OEM (6)%
  - South America down (4)%; Brazil down (7)%

\*Ongoing product line simplification reduced organic growth by ~(-1) percentage-point

**Challenging end market conditions across major geographies**

# Q3 2015 Operating Margin

## Operating Margin



	OM%	V bps
Automotive OEM	25.4%	+200 bps
T&M/Electronics	16.6%	(210)
Food Equipment	26.3%	+320
Polymers & Fluids	19.0%	(120)
Welding	24.8%	(140)
Construction Products	23.1%	+420
Specialty Products	24.0%	+270 bps

## Key Drivers

	Q3 2015
Enterprise Initiatives	+110 bps
Price/Cost	+20
Volume	(40)
Other (primarily lower restructuring)	+90
<b>Margin Expansion</b>	<b>+180 bps</b>

**Enterprise Initiatives drive record operating margin performance and sustainable margin tailwind**

# Q3 2015 Segment Results

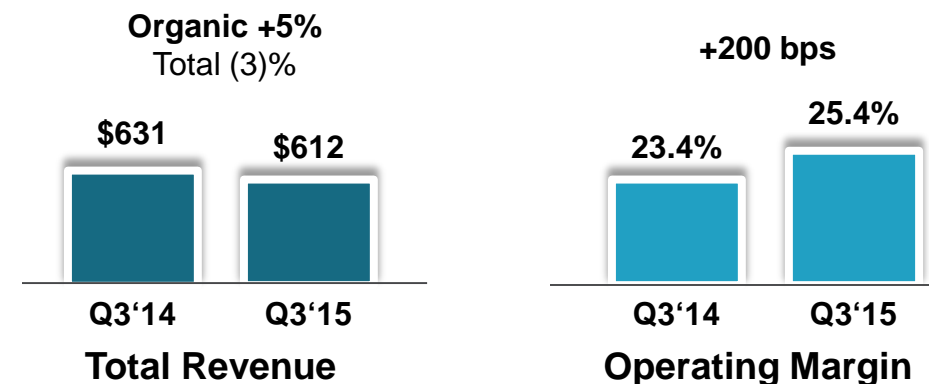
(\$'s in millions)



## Year-to-Date

	<u>Operating Margin</u>	
	<u>OM%</u>	<u>V bps</u>
Automotive OEM	25.0%	+150 bps
T&M/Electronics	15.8%	+30
Food Equipment	23.7%	+320
Polymers & Fluids	20.0%	+120
Welding	26.0%	(10)
Construction Products	19.9%	+250
Specialty Products	23.4%	+120
<b>Total Company</b>	<b>21.6%</b>	<b>+150 bps</b>

## Automotive OEM



### Highlights

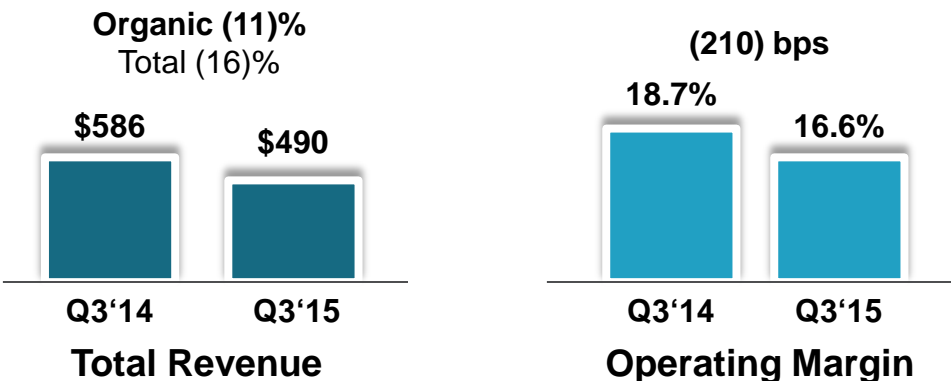
- Organic revenue growth +5% due to customer-back innovation efforts and product penetration; worldwide auto builds flat
- Organic revenue growth vs. geographic auto builds:
  - Europe +12% vs. +5%
  - N.A. +5% vs. +5%
  - China (5)% vs. (5)%

# Q3 2015 Segment Results



(\$'s in millions)

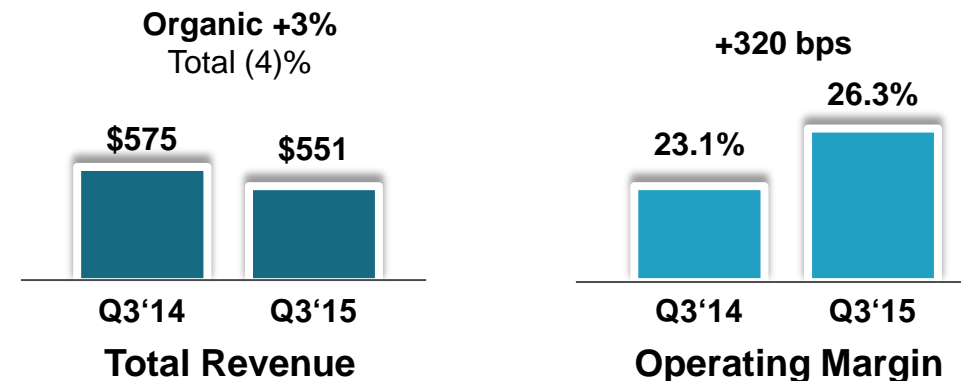
## Test & Measurement/Electronics



### Highlights

- Organic revenue down (11)% driven by difficult comparisons and weak demand for capital equipment
- Test & Measurement organic revenue down (11)%
- Electronics organic revenue down (11)%

## Food Equipment



### Highlights

- Organic revenue +3% as new product introductions were partially offset by difficult comparisons internationally
- North America +6%
  - Equipment +8%, Service +4%
- International flat on difficult equipment comparisons
  - Equipment (1)%, Service +1%



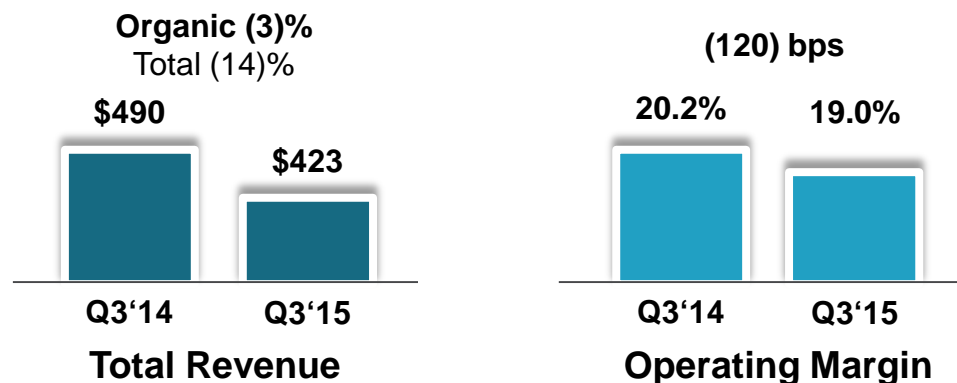


# Q3 2015 Segment Results



(\$'s in millions)

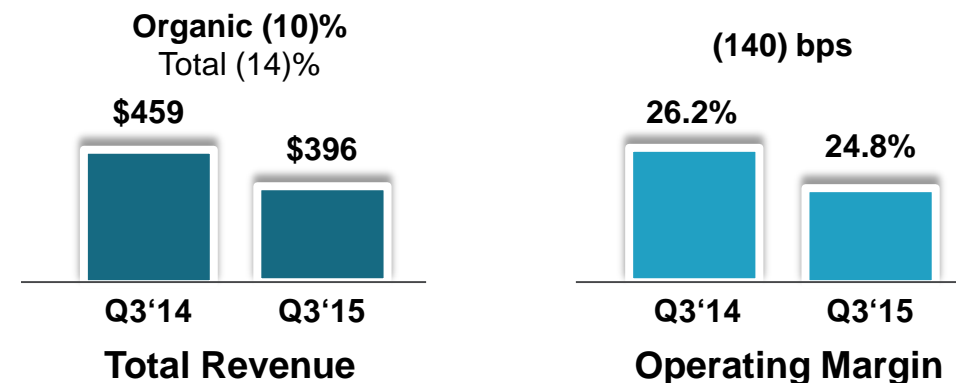
## Polymers & Fluids



### Highlights

- Organic revenue down (3)% due to market softness in Europe partially offset by new products
- Automotive Aftermarket +2%
- Polymers (8)% ... offshore wind project declines
- Fluids (4)%

## Welding



### Highlights

- Organic revenue down (10)% due to tough comparisons and sequential decline as end markets broadly deteriorate
- North America down (8)%
- International down (17)% due to declines in Europe and China

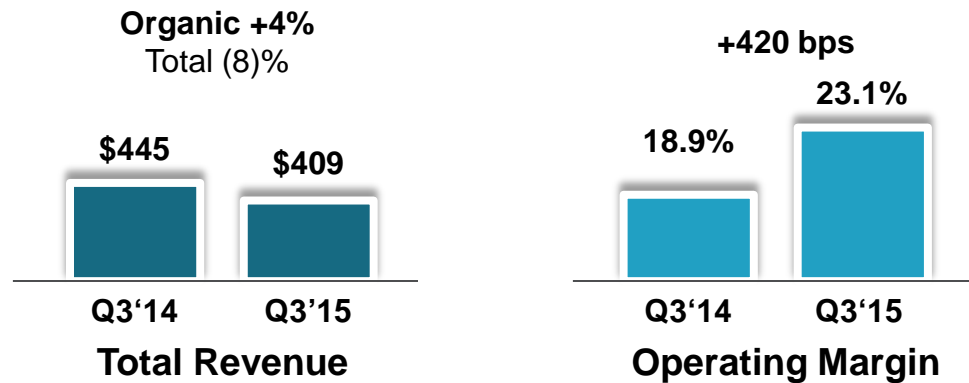


# Q3 2015 Segment Results

(\$'s in millions)



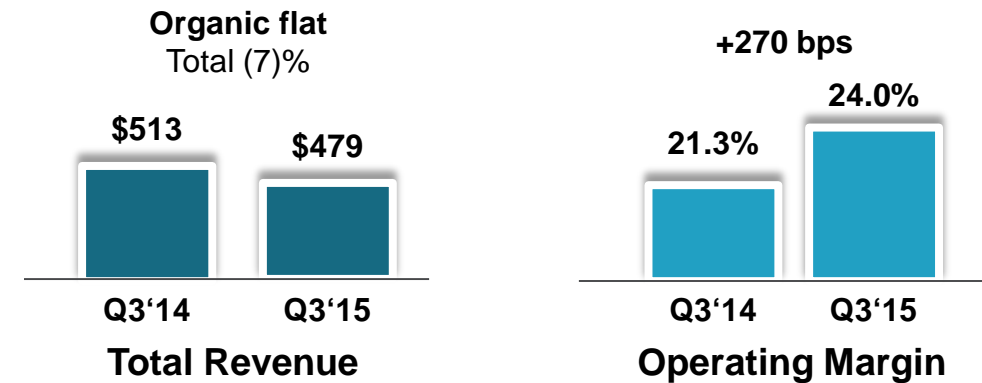
## Construction Products



### Highlights

- Organic revenue growth of 4% with substantial, sustainable margin improvement
- North America +7% due to renovation/remodel and commercial
- Asia Pacific +5% due to renovation and residential in Australia
- Europe (2)% due to PLS

## Specialty Products



### Highlights

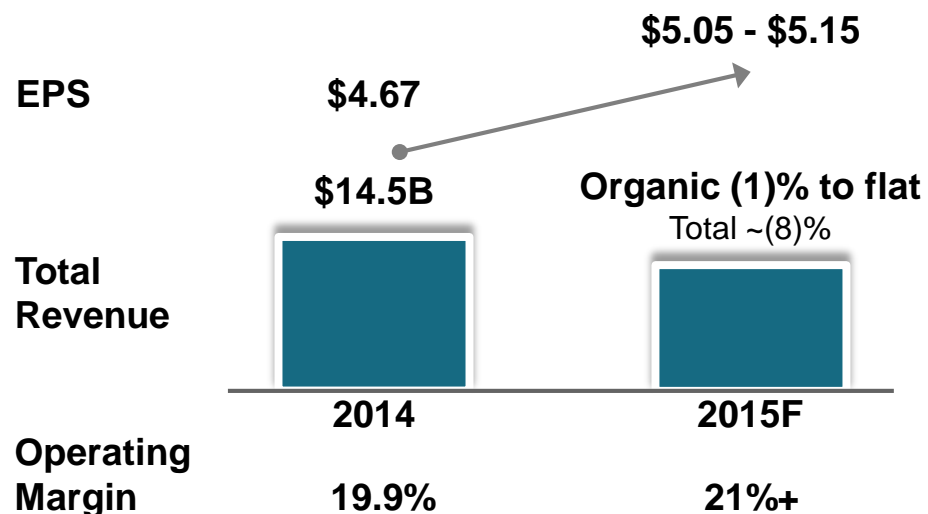
- Organic revenue flat as growth in consumer packaging (food and beverage) was offset by PLS
  - North America flat
  - International (1)%



# 2015 Financial Guidance

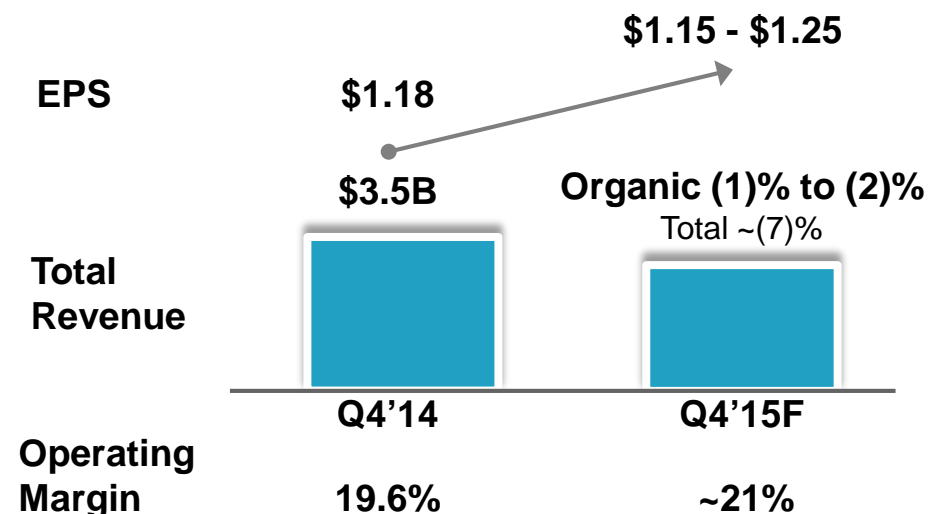


## 2015



- Expect organic revenue to be down 1% to flat
- Revised EPS guidance; +9% year-over-year at mid-point
- Record operating margin and ROIC
- Free Cash Flow conversion > 100%

## Q4 2015



- Expect organic revenue to be down 1% to 2% at current demand levels
- Strong margin expansion tailwind as Enterprise Initiatives contribute ~100 bps to ~21% operating margin
- Free Cash Flow conversion > 100%

**Strong execution on Enterprise Initiatives helps offset end market challenges and positions ITW for continued differentiated performance**

# Q&A



# Appendix - Additional Segment Detail

Q3 2015 vs. Q3 2014

Favorable / (Unfavorable)

Total Revenue	Automotive OEM	T&M and Electronics	Food Equipment	Polymers & Fluids	Welding	Construction Products	Specialty Products	Total ITW
Organic	5.2%	(11.3)%	3.1%	(3.0)%	(10.3)%	3.7%	(0.1)%	(1.7)%
Divestitures	(0.1)	-	-	(1.5)	(0.1)	-	-	(0.2)
Translation	(8.1)	(5.1)	(7.3)	(9.1)	(3.3)	(11.8)	(6.4)	(7.3)
<b>Total Revenue</b>	<b>(3.0)%</b>	<b>(16.4)%</b>	<b>(4.2)%</b>	<b>(13.6)%</b>	<b>(13.7)%</b>	<b>(8.1)%</b>	<b>(6.5)%</b>	<b>(9.2)%</b>

Change in Operating Margin	Automotive OEM	T&M and Electronics	Food Equipment	Polymers & Fluids	Welding	Construction Products	Specialty Products	Total ITW
Operating Leverage	80 bps	(350) bps	70 bps	(80) bps	(180) bps	100 bps	(10) bps	(40) bps
Changes in Variable Margin & OH Costs	80	150	190	(50)	(20)	80	160	160
<b>Total Organic</b>	<b>160 bps</b>	<b>(200) bps</b>	<b>260 bps</b>	<b>(130) bps</b>	<b>(200) bps</b>	<b>180 bps</b>	<b>150 bps</b>	<b>120 bps</b>
Restructuring/Other	40	(10)	60	10	60	240	120	60
<b>Total Operating Margin Change</b>	<b>200 bps</b>	<b>(210) bps</b>	<b>320 bps</b>	<b>(120) bps</b>	<b>(140) bps</b>	<b>420 bps</b>	<b>270 bps</b>	<b>180 bps</b>
<b>Total Operating Margin %*</b>	<b>25.4%</b>	<b>16.6%</b>	<b>26.3%</b>	<b>19.0%</b>	<b>24.8%</b>	<b>23.1%</b>	<b>24.0%</b>	<b>22.7%</b>

\* Includes unfavorable operating margin impact of amortization expense from acquisition-related intangible assets

	10 bps	410 bps	80 bps	490 bps	70 bps	70 bps	170 bps	180 bps
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