



**Jefferies 2018 Global  
Industrials Conference**

**August 8, 2018**



# FORWARD-LOOKING STATEMENTS

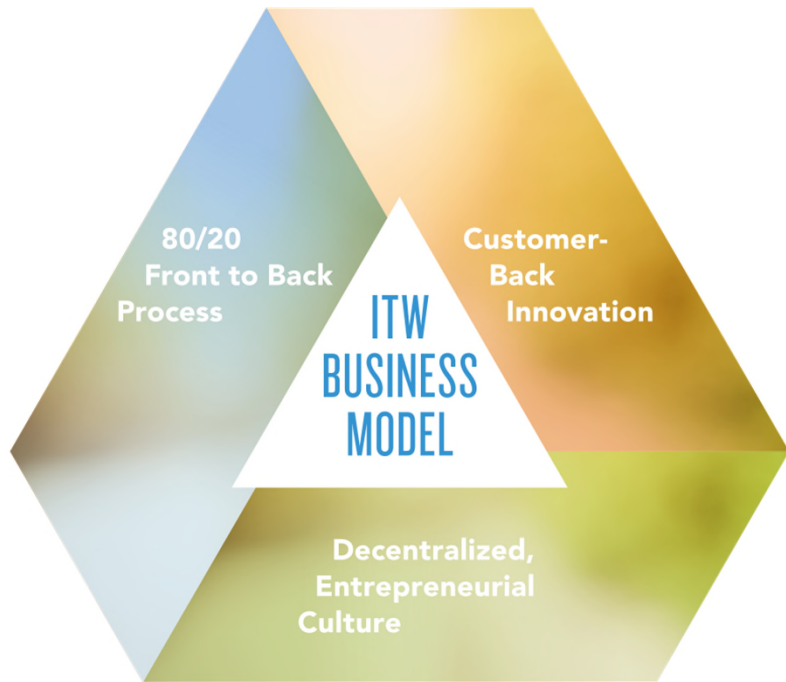
## **NON-GAAP MEASURES**

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 Form 10-K for 2017, subsequently filed Form 10-Qs, and subsequent press releases which are available at [www.itw.com](http://www.itw.com), together with this presentation.

## **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 and timing of enterprise initiatives and related benefits, future financial performance, operating performance, growth in free cash flow, organic and total revenue growth, operating margin growth, tariff impact, growth in diluted income per share, growth in after-tax return on invested capital, expected total shareholder returns, restructuring expenses and related benefits, effective tax rates, exchange rates, timing and amount of share repurchases, end-market economic conditions, 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.

# OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE



80/20 Front to Back Process: **HOW WE OPERATE**

Customer-Back Innovation: **HOW WE INNOVATE**

Decentralized,  
Entrepreneurial Culture: **HOW WE EXECUTE**

## OBJECTIVES OF OUR 2011-2012 STRATEGY “REFRESH”

1

**Maximize ITW’s potential  
to consistently deliver  
Differentiated  
Performance**

**AND**

2

**Best position ITW  
as a highly valued core  
holding  
for long-term  
oriented investors**

**IN AN INCREASINGLY COMPETITIVELY INTENSE AND  
VOLATILE GLOBAL MARKET ENVIRONMENT**

## OUR STRATEGIC FRAMEWORK



**OUR BUSINESS  
MODEL IS OUR  
COMPETITIVE  
ADVANTAGE**



**GROWTH:  
QUALITY  
OVER  
QUANTITY**



**“DO WHAT WE SAY”  
EXECUTION IS  
A CRITICAL  
DIFFERENTIATOR**

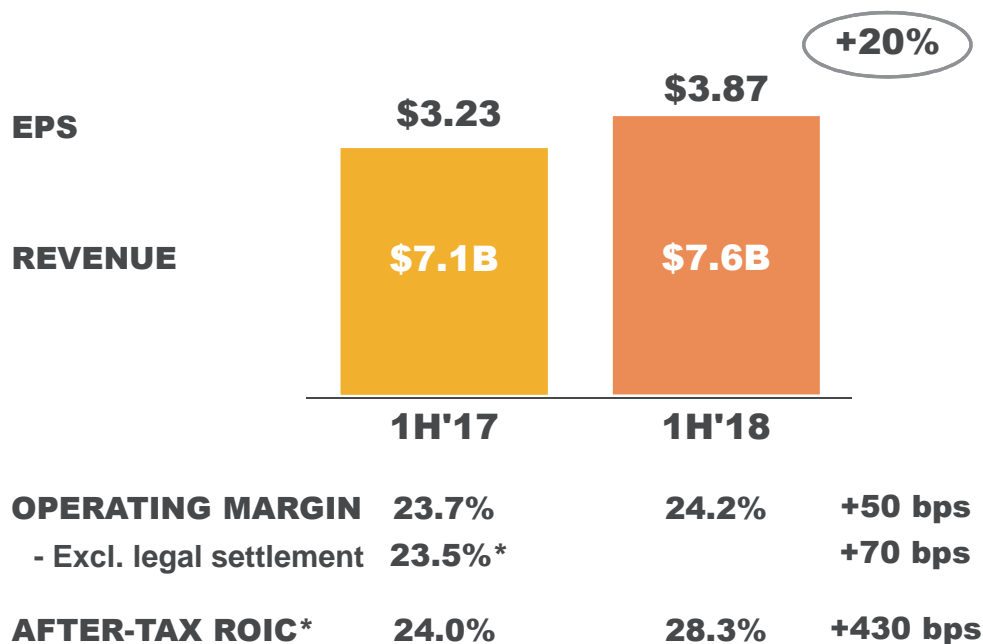


**INVEST ONLY  
WHERE WE HAVE  
COMPELLING  
COMPETITIVE  
ADVANTAGE**

**SOLID GROWTH WITH BEST-IN-CLASS MARGINS AND RETURNS**

# 1H 2018 FINANCIAL PERFORMANCE

## Financial Results



## 1H Highlights

- **Good growth momentum with organic growth of 3%**
  - All segments with positive organic growth
  - North America 4%, International 2%
- **Excellent operational execution with continued margin improvement**
  - 70 bps margin expansion despite price/cost
  - Price actions offset cost increases on a \$ basis
  - 110 bps from Enterprise Initiatives
- **Most profitable 1<sup>st</sup> half in ITW history**
  - 20% EPS growth

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

**GOOD GROWTH MOMENTUM, EXCELLENT EXECUTION AND CONTINUED MARGIN EXPANSION**

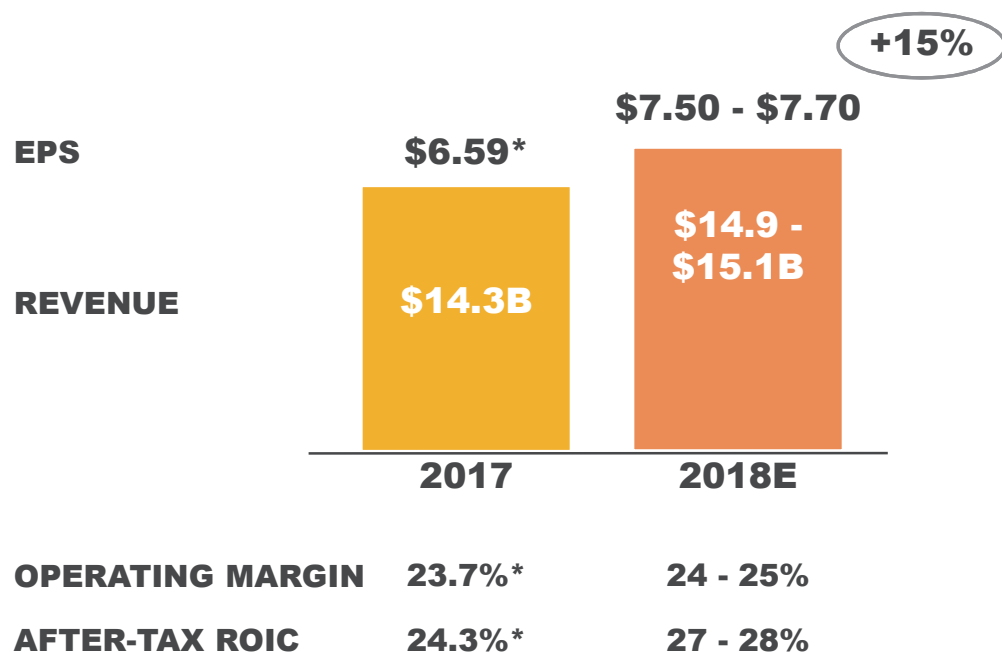
## RAW MATERIAL COST/TARIFF UPDATE

- **Continue to execute well on our strategy to offset raw material cost inflation with pricing actions on a \$ for \$ basis**
  - Raw material cost inflation is manageable ... increases represent ~3% of total spend
  - No negative earnings impact in FY'18 (same as 1H'18) ... dilutive to margin percentage only
- **Tariff impact mitigated by ITW's "produce where we sell" strategy**
  - Tariffs make up 10-15% of total projected FY' 18 raw material costs inflation
  - Limited cross border movement ... only ~2% of ITW's total spend comes from China
- **Organic growth acceleration, strength/resilience of ITW business model and excellent operational execution on our Enterprise Initiatives drive continued margin expansion in 2018**
  - +80 bps improvement for FY'18 at the 24 - 25% guidance mid-point (+70 bps in 1H'18)
  - +110 bps from Enterprise Initiatives in 1H'18 ... expect more than 100 bps for FY'18

## EXECUTING THE PLAN AND CONTINUING TO DELIVER MARGIN EXPANSION

# 2018 GUIDANCE

## Financial Guidance



## Highlights

- **Solid underlying demand, resilient business portfolio**
  - Total revenue growth of 4 - 5%; organic growth of 3 - 4%
- **Strong execution and margin expansion**
  - 100 bps+ from Enterprise Initiatives
  - Price actions offset cost increases on a \$ basis
- **\$1.5B in share repurchases**
- **Free Cash Flow 100%+ of Net Income**

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

## WELL-POSITIONED FOR TOP-TIER PERFORMANCE IN 2018

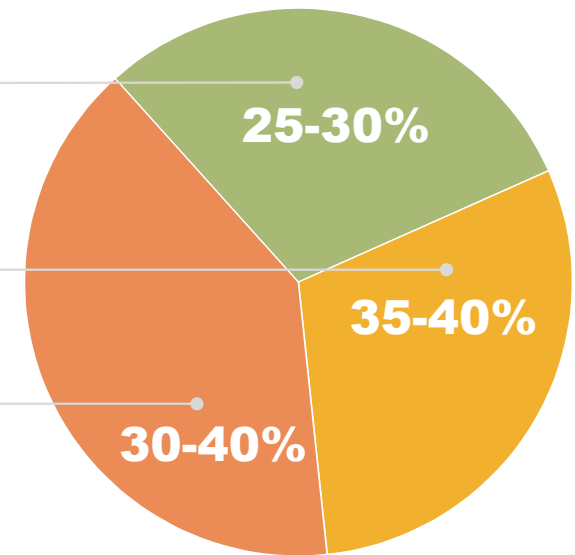


# DISCIPLINED CAPITAL ALLOCATION

## OUR PRIORITIES:

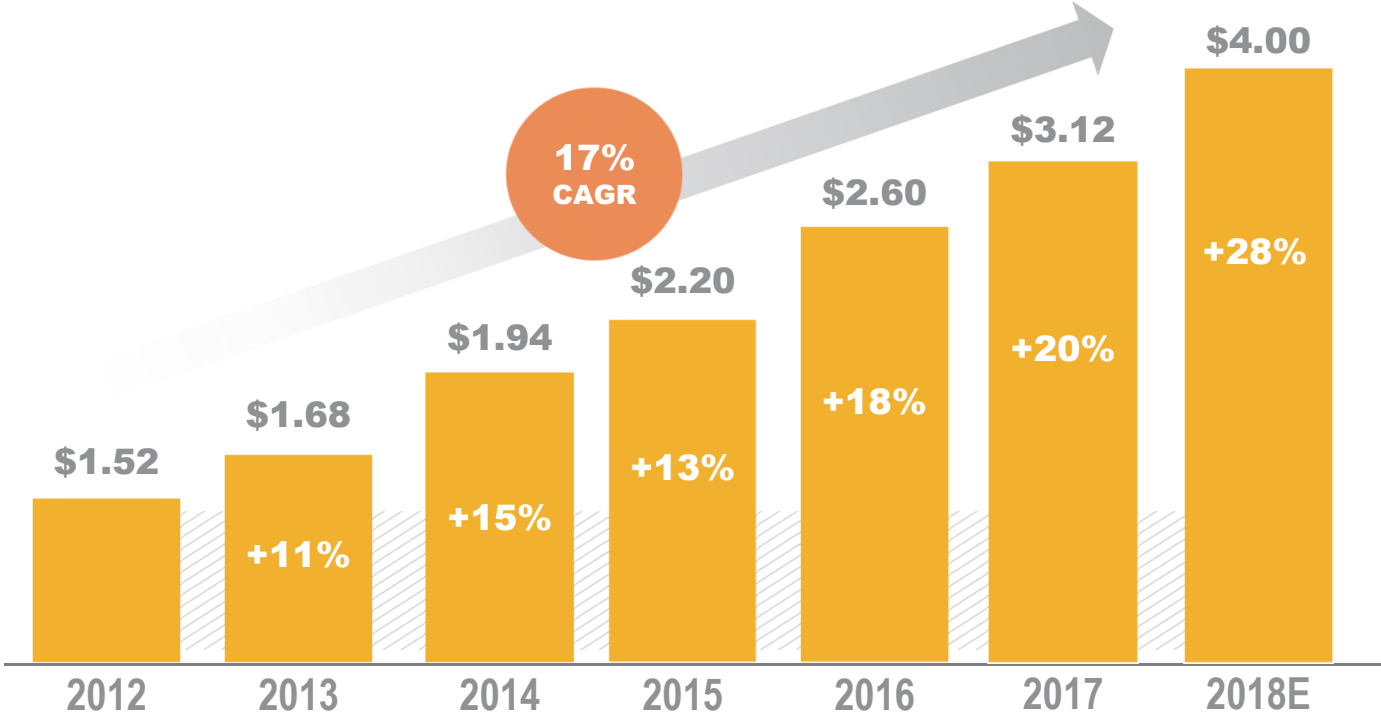
## % OF OPERATING CASH FLOW

- 1** **INTERNAL INVESTMENTS** to support organic growth and sustain core businesses
- 2** An **ATTRACTIVE DIVIDEND**
- 3** **EXTERNAL INVESTMENTS:** Acquisitions that expand ITW's long-term organic growth potential and an active share repurchase program



# 50+ YEAR HISTORY OF DIVIDEND GROWTH

## ANNUALIZED DIVIDEND PER SHARE



~50%  
Dividend  
Payout  
Ratio\*

\*Dividend payout ratio = Annual dollars paid as a % of Free Cash Flow.

# STRATEGY EXECUTION: POSITION ITW AS A HIGHLY VALUED CORE HOLDING FOR LONG-TERM ORIENTED INVESTORS

## **Strong, Enduring and Adaptable Competitive Advantage:**

- Highly differentiated Business Model
- Best-in-class margins
- Well-positioned to out-perform in any economic scenario

## **Strong Track Record of “Do What We Say” Execution:**

- Execution deeply imbedded in company culture
- Clear performance goals aligned with our strategy
- Straightforward and transparent metrics

## **Diversified High-Quality Business Portfolio:**

- Consistent above-market organic growth
- Diverse end-market and geographic exposures with no “weak links”
- Additional long-term growth optionality from potential new segment additions

## **High Quality of Earnings:**

- Free Cash Flow = 100% of Net Income
- Highly disciplined allocator of capital: Best-in-class ROIC
- 50+ years of annual dividend growth. Dividend payout ratio now ~50%

**TW**

**Q&A**

