



# Baird Industrial Conference

E. Scott Santi, **Chairman & CEO**

Chicago, IL

November 10, 2015

# Forward Looking Statements



## 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 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 third quarter of 2015.

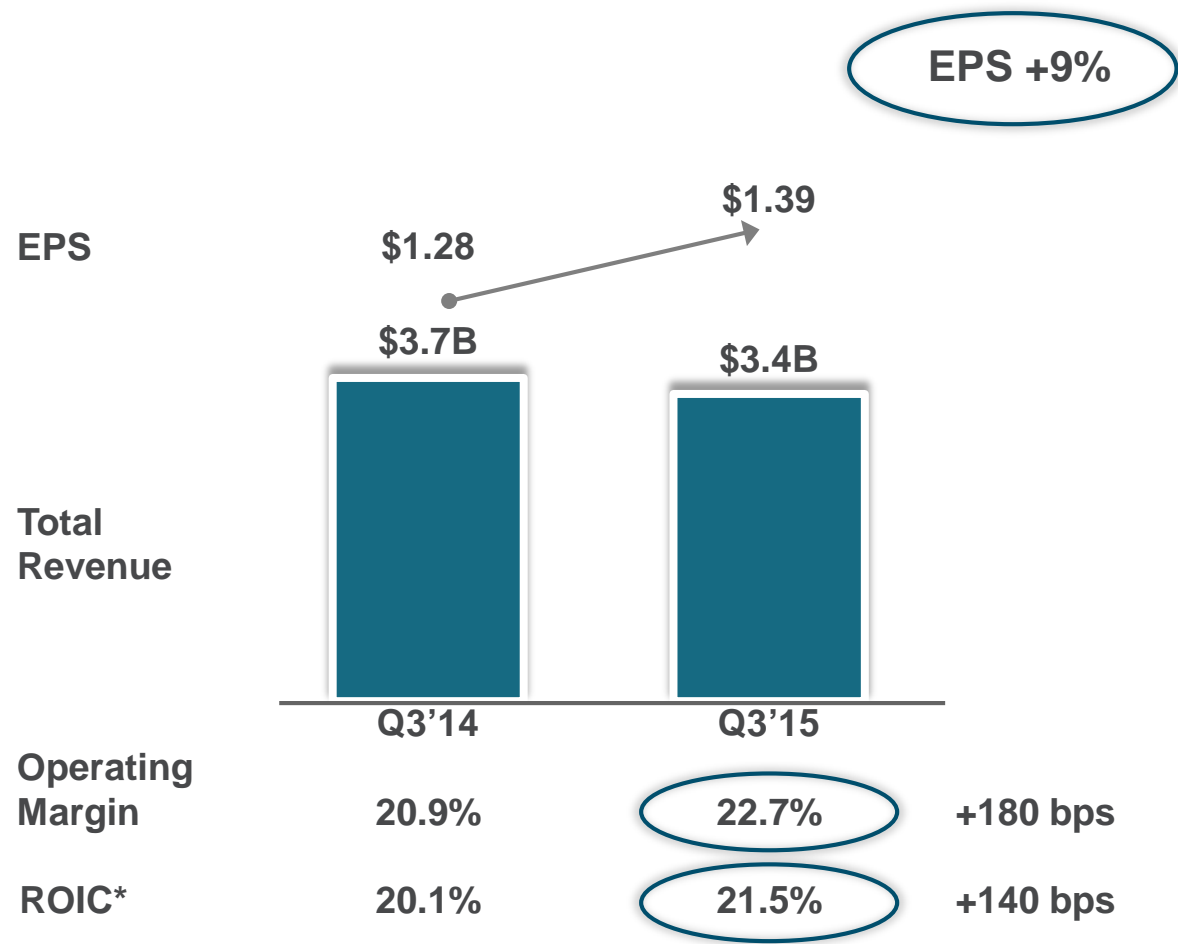
## Non-GAAP Measures

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 the appendix of the online version of this presentation which is available at [www.itw.com](http://www.itw.com).

# Near Term Performance



## Q3 2015 Actuals



## Highlights

- **+9% EPS growth**...+18% net (\$0.12) currency translation impact
- **Record operating margin** of 22.7% as Enterprise Initiatives contribute 110 basis points
- Organic revenue down (1.7)% ... **Consumer-oriented businesses, 60% of ITW, growing at 5% excl. PLS**
- **Record after-tax ROIC** of 21.5%
- **Strong free cash flow** - 126% of Net Income ... 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 Strategy Initiatives drives solid performance**

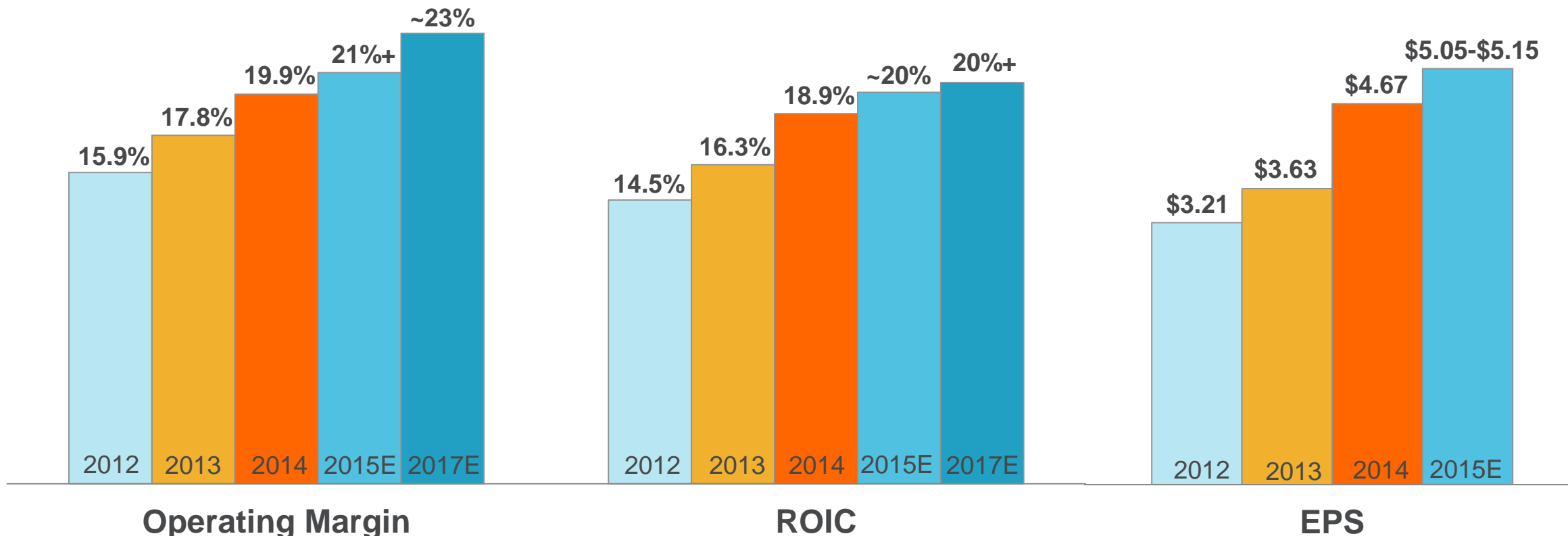
Note: See online version of this presentation for GAAP to non-GAAP reconciliation of ROIC and free cash flow conversion.

# Long Term Performance



**ITW's Enterprise Strategy:** Positioning the company for *sustainable differentiated performance*

*Solid growth with **best in class margins and returns***



**2017 and beyond TSR Goal: 12%-14%**

Note: See online version of this presentation for GAAP to non-GAAP reconciliation of 2012, 2013, 2014 ROIC and 2012 EPS.



# Appendix

## **Adjusted Return on Invested Capital**

The Company uses adjusted return on average invested capital ("ROIC") to measure the effectiveness of its operations' use of invested capital to generate profits. Adjusted ROIC is a non-GAAP financial measure that the Company believes is a meaningful metric to investors in evaluating the Company's financial performance and may be different than the method used by other companies to calculate ROIC. Adjusted average invested capital represents the net assets of the Company, excluding cash and equivalents and outstanding debt, which are excluded as they do not represent capital investment in the Company's operations, as well as the Company's net investment in the former Industrial Packaging segment and the equity investment in the Wilsonart business (formerly the Decorative Surfaces segment). Average invested capital is calculated using balances at the start of the period and at the end of each quarter.

## **Free Cash Flow**

The Company uses free cash flow to measure cash flow generated by operations that is available for dividends, share repurchases, acquisitions and debt repayment. The Company believes this non-GAAP financial measure is useful to investors in evaluating the Company's financial performance and measures the Company's ability to generate cash internally to fund Company initiatives. Free cash flow represents net cash provided by operating activities less additions to plant and equipment. Free cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies.

# Non-GAAP Reconciliations



Adjusted Return on Average Invested Capital	December 31, 2012	December 31, 2013	December 31, 2014
<b>Dollars in millions</b>			
Operating income, as reported	\$ 2,475	\$ 2,514	\$ 2,888
Adjustment for Decorative Surfaces	(143)	-	-
Adjusted operating income	2,332	2,514	2,888
Taxes (Tax rate: 29.2% 2012, 28.8% 2013, 30.0% 2014)	(681)	(724)	(866)
Adjusted operating income after taxes	\$ 1,651	\$ 1,790	\$ 2,022
Invested capital at end of period:			
Trade receivables	\$ 2,742	\$ 2,365	\$ 2,293
Inventories	1,585	1,247	1,180
Net plant and equipment	1,994	1,709	1,686
Goodwill and intangible assets	7,788	6,885	6,466
Accounts payable and accrued expenses	(2,068)	(1,906)	(1,799)
Net assets held for sale	-	1,519	-
Other, net	798	616	465
Total invested capital	\$ 12,839	\$ 12,435	\$ 10,291
Average invested capital	\$ 13,160	\$ 12,605	\$ 11,249
Adjustment for Decorative Surfaces	(274)	(169)	(154)
Adjustment for Industrial Packaging	(1,504)	(1,477)	(424)
Adjusted average invested capital	\$ 11,382	\$ 10,959	\$ 10,671
Adjusted return on average invested capital	14.5%	16.3%	18.9%

Diluted Earnings Per Share	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

Free Cash Flow	Three Months Ended September 30, 2015
<b>Dollars in millions</b>	
Net income	\$ 511
Net cash provided by operating activities	\$ 706
Less: Additions to plant and equipment	(62)
Free cash flow	\$ 644
Free cash flow conversion	126%