



# FOURTH QUARTER 2019 EARNINGS CONFERENCE CALL

JANUARY 31, 2020



## FORWARD-LOOKING STATEMENT

### 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, statements regarding 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, automotive build 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 2020 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 press release for the fourth quarter of 2019, which is available at [www.itw.com](http://www.itw.com), together with this presentation.





## Q4 2019 FINANCIAL PERFORMANCE

GAAP EPS	\$1.83	\$1.99	+9%
REVENUE	\$3.6B	\$3.5B	
	Q4'18	Q4'19	
OPERATING MARGIN Ex. Restructuring	24.0%	23.7% 24.1%	(30) bps +10 bps
AFTER-TAX ROIC*	27.7%	28.9%	+120 bps

### COMMENTARY

- GAAP EPS of \$1.99
  - Includes \$0.11 divestiture gains and \$(0.06) of headwinds from higher restructuring and foreign currency translation
- Total revenue declined (3.1)%
  - Organic revenue (1.6)%, Foreign currency (1)%, Divestitures (0.5)%
  - Product Line Simplification impact (60) bps
  - GM strike impact (50) bps
- Operating margin +10 bps to 24.1% ex. higher restructuring
  - Enterprise Initiatives +130 bps
  - Price/cost +30 bps
- Free cash flow\* 114% conversion rate
  - Share repurchases of \$375M

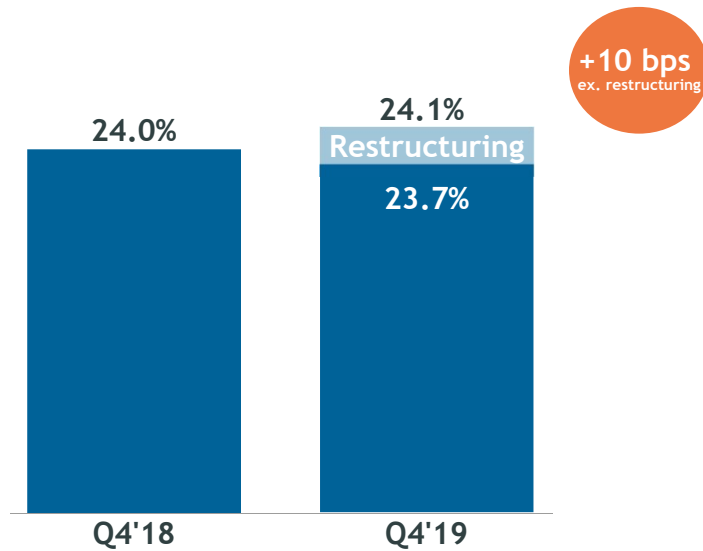
### STRONG EXECUTION AND RESILIENT FINANCIAL PERFORMANCE



\* See ITW's fourth quarter 2019 press release for the reconciliation from GAAP to non-GAAP measures.



# Q4 2019 OPERATING MARGIN



**+10 bps**  
ex. restructuring

	<u>Q1'19</u>	<u>Q2'19</u>	<u>Q3'19</u>	<u>Q4'19</u>
ENTERPRISE INITIATIVES	+100 bps	+110 bps	+120 bps	+130 bps
PRICE/COST	(10) bps	- bps	+20 bps	+30 bps

## KEY MARGIN DRIVERS

Q4'19

Enterprise Initiatives	+130 bps
Price/Cost	+30
Higher Restructuring Expenses	(40)
Negative Volume Leverage	(30)
Inventory Revaluation	(30)
Non-repeat of Q4'18 favorable item	(40)
Other incl. typical wage/salary inflation	(50)
<b>Total Margin</b>	<b>(30) bps</b>



**STRONG OPERATING MARGIN PERFORMANCE**

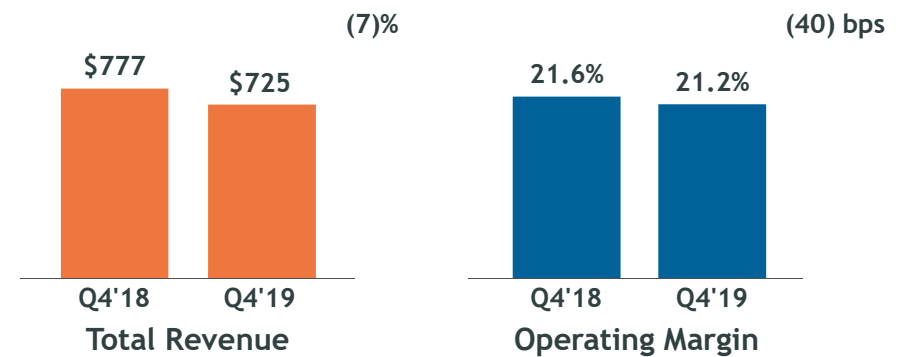


# SEGMENT PERFORMANCE

## FY'19 ORGANIC REVENUE

	<u>2018</u>	<u>2019</u>	<u>Change</u>
Automotive OEM	flat	(5)%	(5)%-pts
Food Equipment	3	1	(2)
T&M / Electronics	4	~flat	(4)
Welding	10	(1)	(11)
Polymers & Fluids	1	~flat	(1)
Construction Products	1	(1)	(2)
Specialty Products	~flat	(4)	(4)
<b>Total Company</b>	<b>+2%</b>	<b>(2)%</b>	<b>(4)%-pts</b>

## AUTOMOTIVE OEM



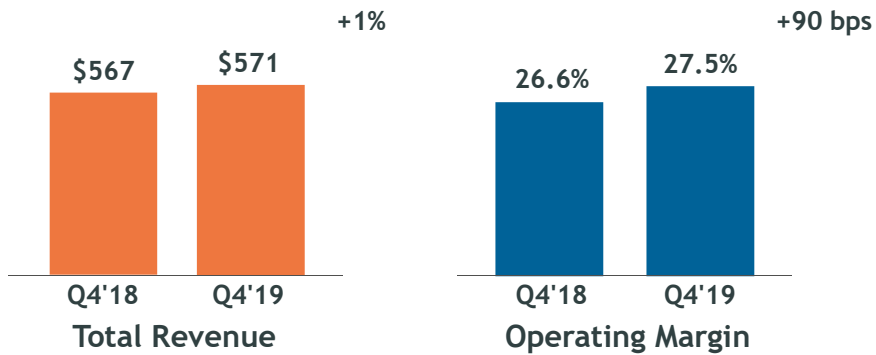
- Organic revenue (5)%, (3)% ex. GM strike impact
- Organic revenue vs. builds by geography
  - North America (13)% vs. "D3" builds (13)%
  - Europe ~flat vs. builds (6)%
  - China 11% vs. builds 1%





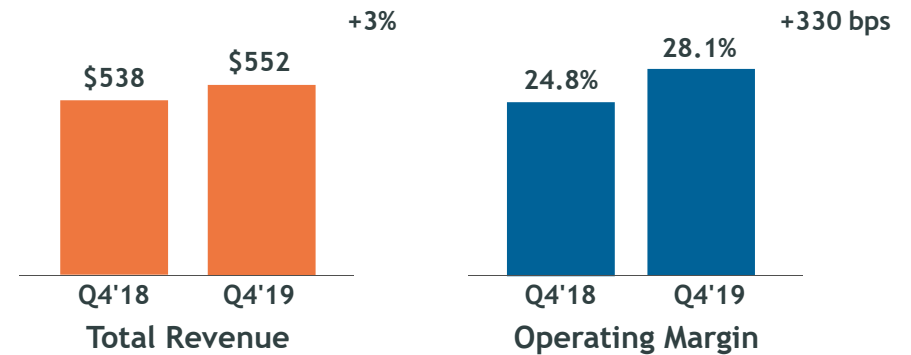
# Q4 2019 SEGMENT PERFORMANCE

## FOOD EQUIPMENT



- Organic revenue 2%
  - Tough comparison as Q4'18 was 5%
- Equipment 1%, Service 4%
  - North America 1%
  - International 3%

## TEST & MEASUREMENT/ELECTRONICS



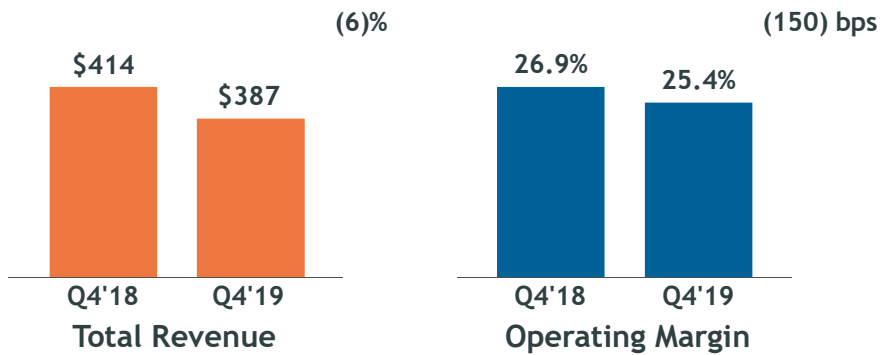
- Organic revenue 4%
- Test & Measurement 6%
  - Instron 13%
- Electronics 2%





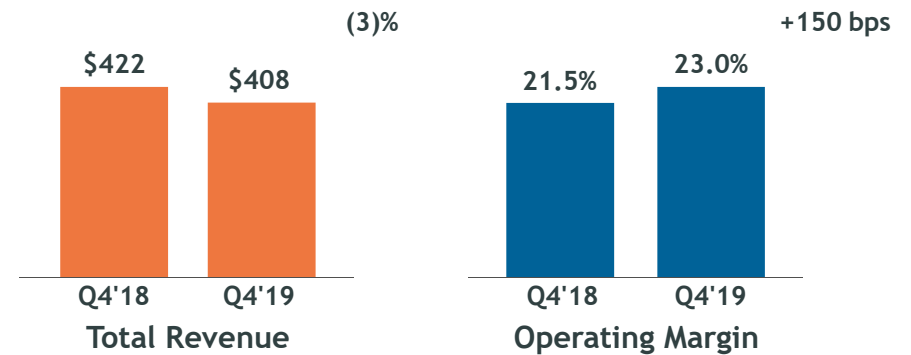
# Q4 2019 SEGMENT PERFORMANCE

## WELDING



- Organic revenue (4)%
  - Tough comparison as Q4'18 was 8%
- Equipment (7)%, Consumables ~flat
- North America (3)%, International (7)%

## POLYMERS & FLUIDS



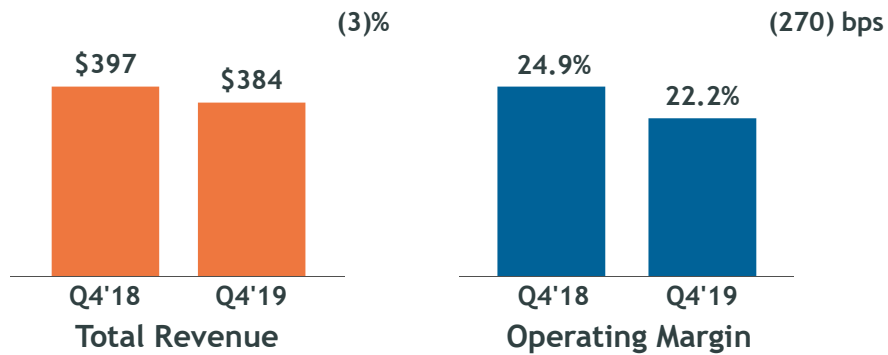
- Organic revenue (2)%
  - Tough comparison as Q4'18 was 4%
- Polymers ~flat
- Automotive Aftermarket (1)%
- Fluids (6)%





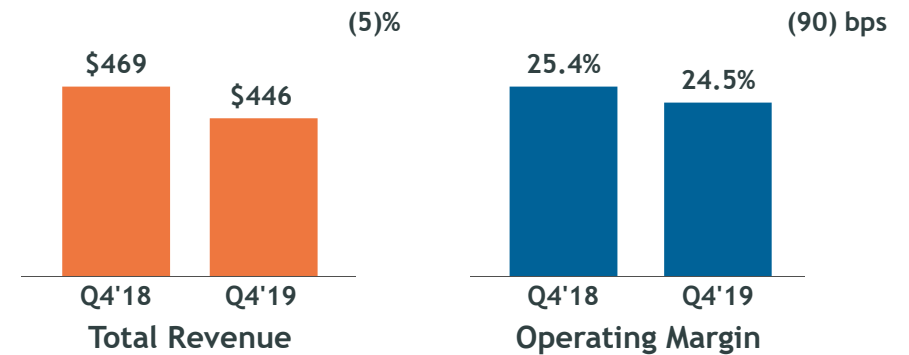
# Q4 2019 SEGMENT PERFORMANCE

## CONSTRUCTION PRODUCTS



- Organic revenue (1)%
- North America 2%
- Europe (3)%
- Australia/New Zealand (4)%

## SPECIALTY PRODUCTS



- Organic revenue (3)%
- North America (4)%
- International (3)%







# 2019 FINANCIAL PERFORMANCE

GAAP EPS	\$7.60	\$7.74	+2%
REVENUE	\$14.8B	\$14.1B	
	2018	2019	
OPERATING MARGIN	24.3%	24.1%	(20) bps
Ex. Restructuring		24.4%	+10 bps
AFTER-TAX ROIC*	28.2%	28.7%	+50 bps

## COMMENTARY

- GAAP EPS of \$7.74
  - Includes \$0.09 divestiture gains and \$(0.32) of headwinds from higher restructuring and foreign currency translation
- Total revenue declined (4.5)%
  - Organic revenue (1.9)%, Foreign currency (2.3)%, Divestitures (0.3)%
  - PLS impact (60) bps
- Operating margin +10 bps to 24.4% ex. higher restructuring
  - Enterprise Initiatives +120 bps
  - Price/cost +10 bps
- After-tax ROIC of 28.7%, +50 bps
- Free cash flow\* increased 9%, 106% conversion rate
  - Share repurchases of \$1.5B
  - Dividend increase of 7%

## RESILIENT FINANCIAL PERFORMANCE IN A CHALLENGING DEMAND ENVIRONMENT



\* See ITW's fourth quarter 2019 press release for the reconciliation from GAAP to non-GAAP measures.



## 2019 ORGANIC GROWTH BY SEGMENT VS. MARKET

	Market Growth	Segment Growth	PLS Impact	Segment ex-PLS vs. Market
Automotive OEM	~(6)%	(5)%	(1)%	~2%-pts.
Food Equipment	~flat	1	-	~1
T&M / Electronics	~(1)	~flat	(0.5)	~1.5
Welding	~(3)	(1)	(0.5)	~2.5
Polymers & Fluids	~(1)	~flat	(0.5)	~1.5
Construction Products	~(2)	(1)	(0.5)	~1.5
Specialty Products	~(2)	(4)	(1)	~(1)
Total Company	~(2.5)%	~(2)%	~(0.5)%	~1%-pt.

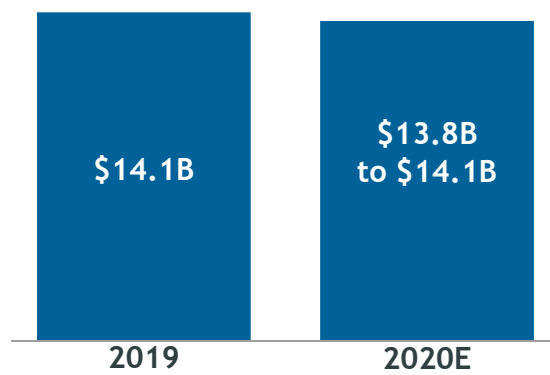
**SOLID PROGRESS ON ORGANIC GROWTH IN A CHALLENGING DEMAND ENVIRONMENT**





# 2020 FINANCIAL GUIDANCE

GAAP EPS	\$7.74	\$7.65 to \$8.05
REVENUE	\$14.1B	\$13.8B to \$14.1B
OPERATING MARGIN	24.1%	24.5 to 25%
AFTER-TAX ROIC*	28.7%	29 to 30%



## COMMENTARY

- Total Revenue (2) to 0% at current levels of demand
  - Organic growth of 0 to 2% offset by foreign currency translation impact (1)% and '19 divestitures (1)%
  - PLS impact ~(50) bps
- Operating margin of 24.5 to 25%
  - Enterprise Initiatives ~100 bps
- After-tax ROIC of 29 to 30%
- Free cash flow 100%+ conversion rate
- Share repurchases of ~\$2B
- Effective tax rate of 23.5 to 24.5%

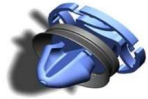






**WELL POSITIONED FOR DIFFERENTIATED FINANCIAL PERFORMANCE IN 2020**



\* See ITW's fourth quarter 2019 press release for the reconciliation from GAAP to non-GAAP measures.



## 2020 ORGANIC GROWTH FORECAST

	 Automotive OEM	 Food Equipment	 T&ME	 Welding	 Polymers & Fluids	 Construction Products	 Specialty Products
2019	(5)%	1%	~flat	(1)%	~flat	(1)%	(4)%
2020E	(2) - 2%	2 - 4%	1 - 3%	(2) - 2%	(1) - 3%	(1) - 3%	(2) - 2%

USING CURRENT LEVELS OF DEMAND 2020 ORGANIC GROWTH FORECAST IS FLAT TO 2% VS. (2)% IN 2019



Q&A