



FOURTH QUARTER 2018 EARNINGS CONFERENCE CALL

February 1, 2019





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, growth in diluted income per share, restructuring expenses and related benefits, effective tax rates, expected dividend payout ratio, expected repatriation, exchange rates, timing and amount of share repurchases, after-tax return on invested capital, end market economic and regulatory conditions, the expected impact of acquisitions 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 2017 and subsequently filed Form 10-Qs.

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 2018, which is available at www.itw.com, together with this presentation.





Q4 2017 “TAX CUTS AND JOBS ACT” IMPACT

- Following the passage of the “Tax Cuts and Jobs Act” ITW recorded a one-time tax charge of \$658 million / (\$1.92) EPS
- This schedule illustrates the impact of this one-time item on the company’s reported fourth quarter 2017 financial results

\$ Millions	Q4’17 As Reported*	Tax Charge	Q4’17 Excl. Item	Q4’18 As Reported	Change Vs. Prior Year
Total Revenue	\$3,629	-	\$3,629	\$3,580	(1)%
Operating Income	\$846	-	\$846	\$860	+2%
Operating Margin	23.3%	-	23.3%	24.0%	+70 bps
Tax Rate	109.6%	+82.7%-pts	26.9%	25.5%	(1.4)%-pts
Net Income (Loss)	\$(76)	\$(658)	\$582	\$607	+4%
EPS	\$(0.22)	\$(1.92)	\$1.70	\$1.83	+8%

* The fourth quarter of 2017 has been restated to reflect the adoption of new accounting guidance in 2018 which resulted in the presentation of \$4 million of other net periodic benefit income in Other income (expense) rather than in Operating Income, with no change in Net Income.





FY 2017 “TAX CUTS AND JOBS ACT” AND LEGAL SETTLEMENT IMPACT

- Following the passage of the “Tax Cuts and Jobs Act” ITW recorded a one-time tax charge of \$658 million / (\$1.90) EPS
- As previously disclosed, a legal settlement resulted in a favorable one-time benefit of \$95 million / \$0.17 EPS
- This schedule illustrates the impact of these two one-time items on the company’s reported full-year 2017 financial results

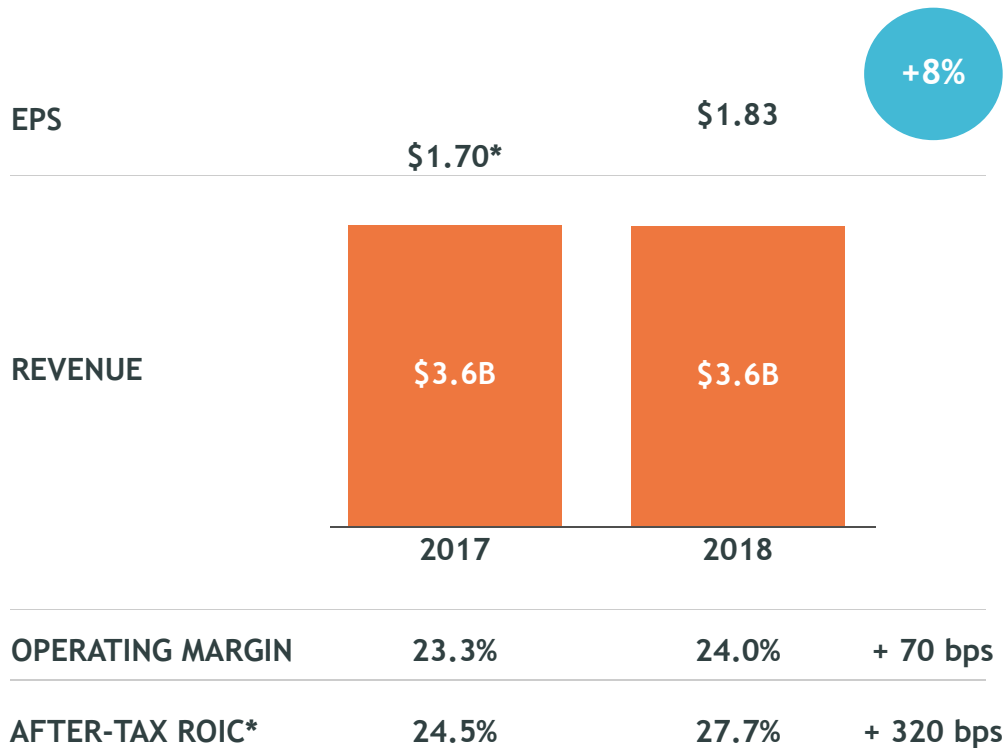
\$ Millions	2017 As Reported*	Legal Item	Tax Charge	2017 Excl. Items	2018 As Reported	Change Vs. Prior Year
Total Revenue	\$14,314	-	-	\$14,314	\$14,768	+3%
Operating Income	\$3,485	+\$95	-	\$3,390	\$3,584	+6%
Operating Margin	24.3%	+60 bps	-	23.7%	24.3%	+60 bps
Tax Rate	48.4%	-	+20.1%-pts	28.3%	24.5%	(3.8)%-pts
Net Income (Loss)	\$1,687	+\$59	\$(658)	\$2,286	\$2,563	+12%
EPS	\$4.86	+\$0.17	\$(1.90)	\$6.59	\$7.60	+15%

* 2017 has been restated to reflect the adoption of new accounting guidance in 2018 which resulted in the presentation of \$9 million of other net periodic benefit income in Other income (expense) rather than in Operating Income, with no change in Net Income.





Q4 2018 FINANCIAL PERFORMANCE (Ex. Tax Charge)



HIGHLIGHTS

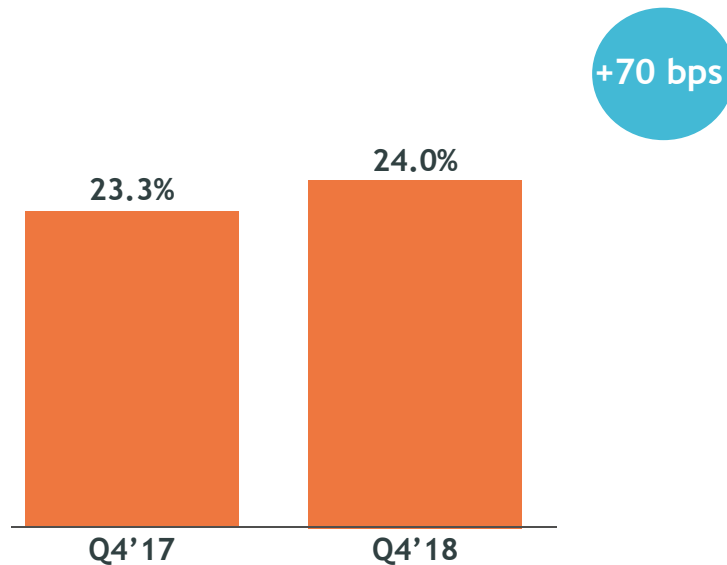
- GAAP EPS of \$1.83, an increase of 8%
 - +10% ex. \$(0.04) foreign currency translation impact
- Organic revenue +1%
 - North America +4%, International (2)%
 - PLS (90) bps
- Operating margin of 24.0%, an increase of 70 bps
 - Enterprise Initiatives contributed 110 bps
 - Price/cost (40) bps, positive on a \$ basis
- Free Cash Flow* of \$727M, an increase of 18%
- Share repurchases of \$500M



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



Q4 2018 OPERATING MARGIN



KEY MARGIN DRIVERS

	Q4'18
Enterprise Initiatives	+110 bps
Volume	+20
Price/Cost	(40)
Other	(20)
Margin Expansion	+70 bps

CONTINUED STRONG EXECUTION ON ENTERPRISE INITIATIVES

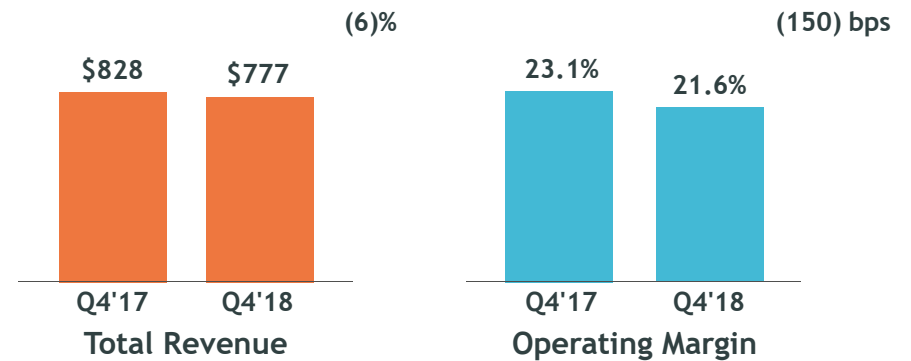


Q4 2018 SEGMENT PERFORMANCE

ORGANIC REVENUE

	<u>N.A.</u>	<u>INTL</u>	<u>WW</u>
Automotive OEM	2%	(8)%	(4)%
Food Equipment	7	3	5%
T&M / Electronics	2	(2)	~flat
Welding	7	11	8
Polymers & Fluids	6	~flat	4
Construction Products	(2)	~flat	(1)
Specialty Products	2	(8)	(2)
Total	4%	(2)%	1%
Total ex. PLS (90) bps			2%

AUTOMOTIVE OEM

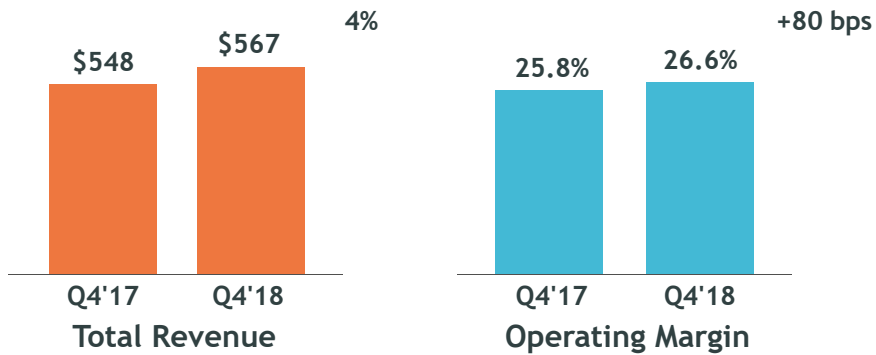


- Organic revenue (4)%
- FY'18 Organic revenue vs. builds by geography
 - NA 3% vs. (1)% builds
 - Europe (3)% vs. (1)% builds
 - China 3% vs. (4)% builds



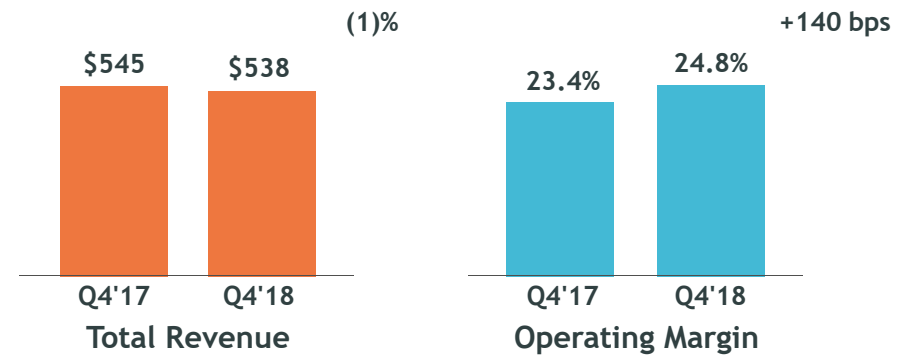
Q4 2018 SEGMENT PERFORMANCE

FOOD EQUIPMENT



- Organic growth of 5% (highest since Q3'14)
 - North America 7%
 - Equipment 9%, Service 4%
 - International 3%

TEST & MEASUREMENT/ELECTRONICS



- Organic revenue flat vs. tough comp (Q4'17 was +9%)
 - Test & Measurement (1)%
 - Electronics 2%

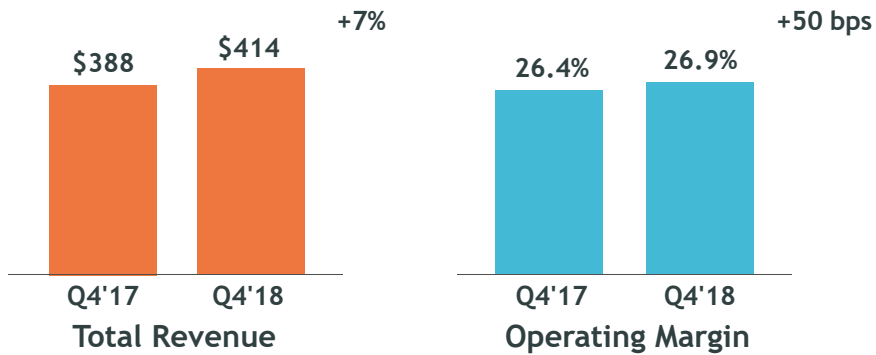


An ITW Company



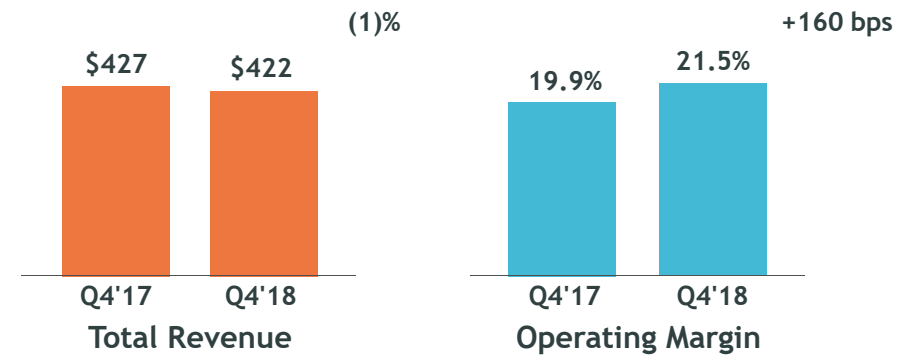
Q4 2018 SEGMENT PERFORMANCE

WELDING



- Organic growth of 8%
 - Equipment 7%, Consumables 8%
 - Industrial 7%, Commercial 8%, Oil & Gas 9%
 - North America 7%, International 11%

POLYMERS & FLUIDS



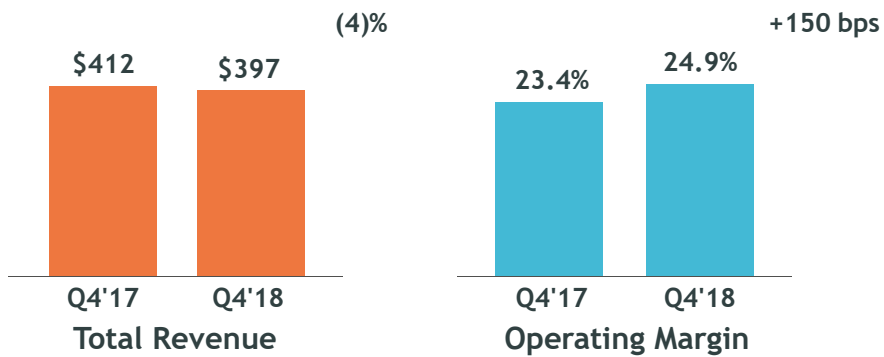
- Organic revenue of 4%
 - Automotive Aftermarket 7%
 - Polymers 4%
 - Fluids (4)%





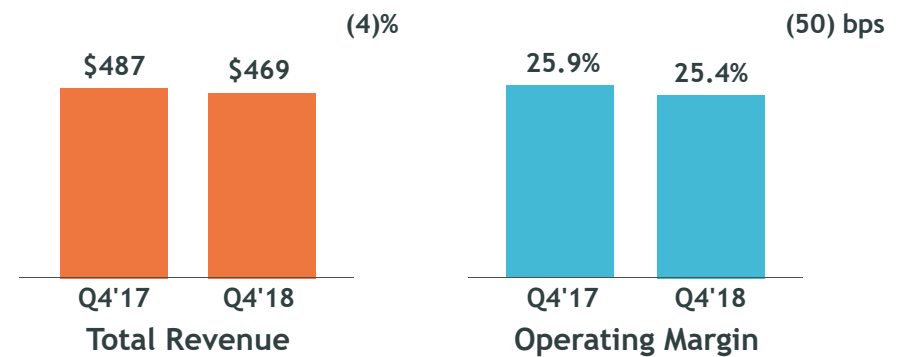
Q4 2018 SEGMENT PERFORMANCE

CONSTRUCTION PRODUCTS



- Organic revenue (1)%
 - North America (2)%
 - Residential flat, Commercial (10)%
 - Australia/New Zealand (5)%
 - Europe 6%

SPECIALTY PRODUCTS

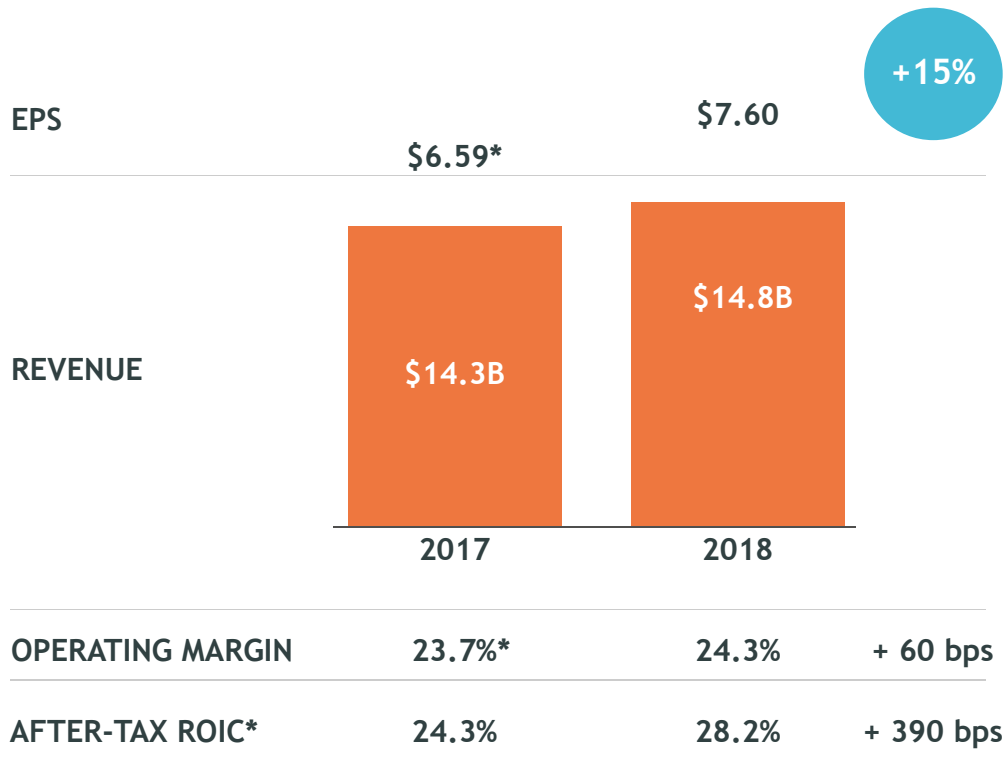


- Organic revenue (2)%
 - North America 2%, International (8)%
 - Equipment 4%, Consumables (4)%





2018 FINANCIAL PERFORMANCE (Ex. Legal Settlement & Tax Charge)



HIGHLIGHTS

- GAAP EPS of \$7.60, growth of 15%
- Total revenue grew 3%; organic +2%
 - North America 4%, International flat
 - PLS (70) bps as expected
- Operating income of \$3.6B, an increase of 6%
- Record operating margin of 24.3%, an increase of 60 bps
 - Enterprise Initiatives contributed 110 bps
 - Price/cost (50) bps, positive on a \$ basis
- Free Cash Flow* of \$2.4B, an increase of 10%
- Share repurchases of \$2B; 28% dividend increase

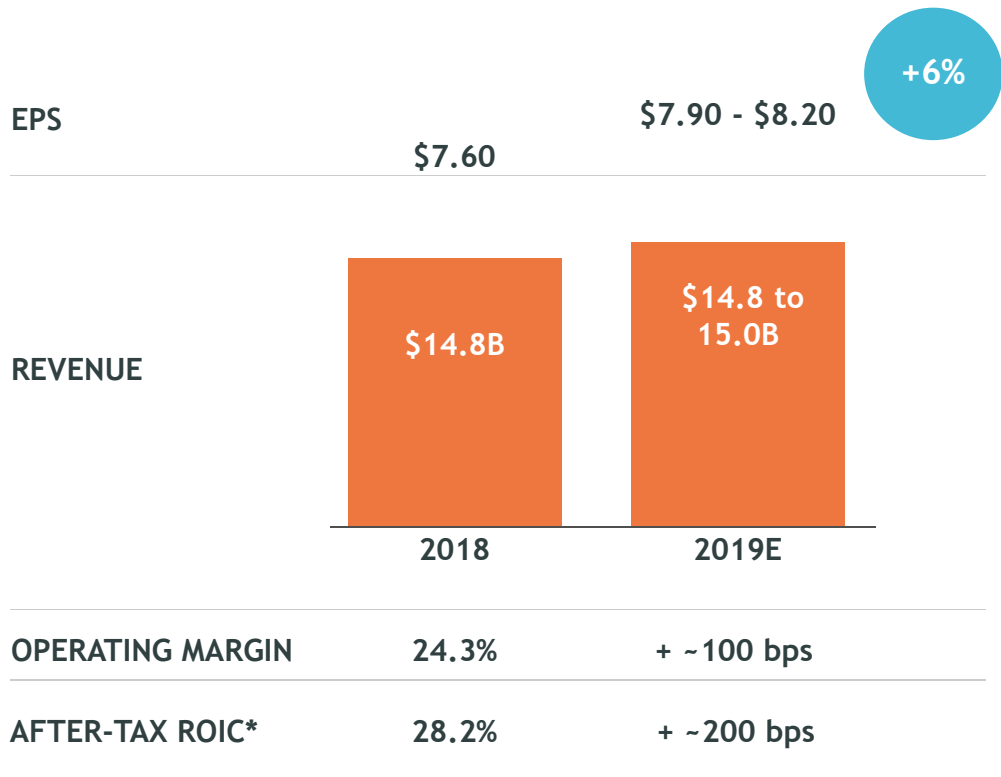
HIGHLY DIFFERENTIATED BUSINESS MODEL + RESILIENT HIGH QUALITY BUSINESS PORTFOLIO



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



2019 FULL YEAR GUIDANCE



HIGHLIGHTS

- Organic growth of 1 to 3% at current run rates
 - PLS ~(80) bps
- Operating margin expansion of ~100 bps
 - Enterprise Initiatives ~100 bps
- Free Cash Flow 100%+
- Share repurchases ~\$1.5B
- Tax rate 24.5 to 25.5%

FIRST QUARTER 2019 GUIDANCE

- Organic revenue ~flat at current run rates
- GAAP EPS \$1.73 to \$1.83 ... \$(0.19) YoY headwinds
 - \$(0.07) restructuring, \$(0.07) foreign currency, \$(0.05) tax rate

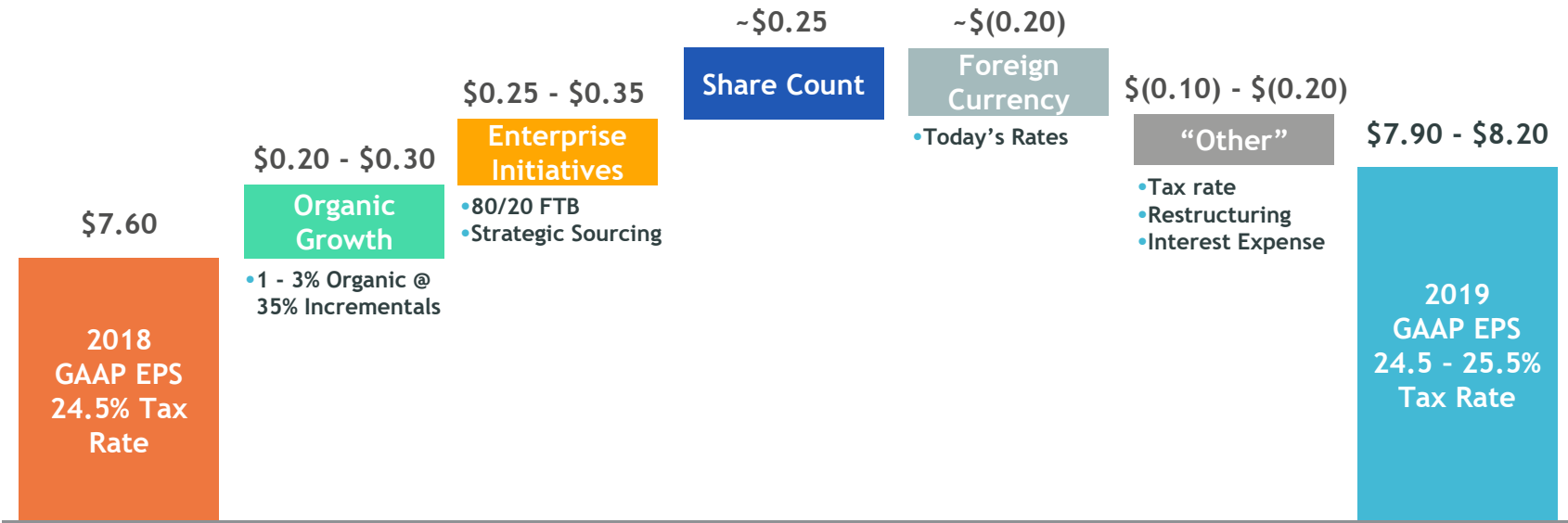
WELL POSITIONED FOR CONTINUED STRONG PERFORMANCE IN 2019



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



2018 to 2019 GAAP EPS BRIDGE



WELL POSITIONED TO DELIVER CONTINUED STRONG PERFORMANCE IN 2019





2019 ORGANIC GROWTH OUTLOOK BY SEGMENT



Organic Growth	Automotive OEM	Food Equipment	Test & Measurement and Electronics	Welding	Polymers & Fluids	Construction Products	Specialty Products
2018	0.0%	2.8%	3.5%	9.7%	1.0%	1.2%	(0.4)%
2019E	(4) - 0%	3 - 5%	1 - 3%	3 - 6%	1 - 3%	1 - 4%	1 - 3%

HIGH QUALITY DIVERSIFIED PORTFOLIO DELIVERING 1 - 3% ORGANIC GROWTH





Q&A