



# FIRST QUARTER 2020 EARNINGS CONFERENCE CALL

MAY 5, 2020



# FORWARD-LOOKING STATEMENT

## SAFE HARBOR STATEMENT

This presentation and related conference call contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, without limitation, statements regarding the potential effects of the COVID-19 pandemic on the Company's business, the anticipated duration of the Company's COVID-19 containment and recovery phases, the Company's financial scenario planning and estimates, expected access to liquidity sources, expected capital allocation, expected impact of tariffs and raw material inflation, product line simplification activities and enterprise initiatives, future financial performance, operating performance, free cash flow, organic and total revenue, operating margin, price/cost impact, statements regarding diluted income per share, restructuring expenses and related benefits, expected dividend payments, expected repatriation, 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, potential acquisitions and dispositions and related impact on financial results, and plans regarding the issuance of guidance. These statements are subject to certain risks, uncertainties, assumptions, 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 2019, the Form 8-K filed on May 5, 2020 and subsequent reports filed with the SEC.

## 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 first quarter of 2020, which is available at [www.itw.com](http://www.itw.com), together with this presentation. Free Cash Flow estimates included in this presentation are based on assumptions that are difficult to predict, and a reconciliation to the most comparable GAAP measure has been omitted due to the unreasonable efforts required in connection with such a reconciliation and the lack of availability of reliable forward-looking cash flow information.

# Q1 2020 FINANCIAL PERFORMANCE

(For Segment Detail please see the Appendix)

GAAP EPS	\$1.81	\$1.77	(2)%
REVENUE	\$3.6B	\$3.2B	(9)%
	Q1'19	Q1'20	
OPERATING MARGIN	23.6%	23.6%	Flat
AFTER-TAX ROIC*	27.7%	27.0%	(70) bps

## COMMENTARY

- Organic revenue declined (6.6)%
  - Foreign currency translation (1.5)%, Divestitures (1)%
- Resilient margin performance with continued strong contributions from Enterprise Initiatives
  - Margin drivers: Enterprise Initiatives +120 bps, price/cost +20 bps, other +10 bps offset by volume leverage (150) bps
- Strong Free Cash Flow\* with conversion rate of 98%
- Suspending annual guidance for 2020 due to uncertainties regarding the duration and severity of COVID-19

**STRONG EXECUTION AND RESILIENT FINANCIAL PERFORMANCE**



\* See ITW's first quarter 2020 press release for the reconciliation from GAAP to non-GAAP measures.



# MANAGING THROUGH THE GLOBAL PANDEMIC

The progress we have made in executing our long-term enterprise strategy has put ITW in a position of significant strength in dealing with the global pandemic crisis:

- **Powerful ITW Business Model**
  - 80/20 FTB
  - Decentralized, entrepreneurial culture
- **Best-in-class margin profile**
- **High-quality diversified business portfolio**
- **Strong balance sheet**
- **Tier 1 credit ratings**
- **Robust Free Cash Flow**



# MANAGING THROUGH THE PANDEMIC

## ITW'S KEY PRIORITIES:

- 1 Protect the health and support the well-being of our colleagues
- 2 Continue to serve our customers with excellence
- 3 Maintain financial strength, liquidity, and strategic optionality
- 4 Position the company to fully participate in the recovery phase



# ITW'S KEY PRIORITIES IN MANAGING THROUGH THE PANDEMIC

1

## Protect the Health and Support the Well-Being of our Colleagues

- Developed and deployed extensive prevention and response protocols for COVID-19
- Following CDC, WHO, and local government guidance
- Adjustments to work schedules and production processes
- Full compensation for any quarantine period
- Coordinated response to ensure full PPE availability



# ITW'S KEY PRIORITIES IN MANAGING THROUGH THE PANDEMIC

2

## Continue to Serve our Customers with Excellence

- Although some facilities are subject to mandatory shutdowns, approximately 95% of global manufacturing capacity is currently available to serve our customers
- Our service businesses are providing the necessary support to keep essential businesses in operation
- For both product and service supply, we continue to maintain excellent service levels in all geographies
- We are actively managing our supply chain to mitigate near term risk and ensure that we are well positioned for recovery



# ITW'S KEY PRIORITIES IN MANAGING THROUGH THE PANDEMIC

3

## Maintain Financial Strength, Liquidity, and Strategic Optionality

A. CONTAINMENT PHASE

B. RECOVERY PHASE

C. CAPITAL ALLOCATION





# MAINTAIN FINANCIAL STRENGTH, LIQUIDITY, AND STRATEGIC OPTIONALITY

## A. CONTAINMENT PHASE

- We currently expect a Q2 revenue decline of (30) to (40)%
  - Automotive OEM (60) to (70)%
- ITW still makes Operating Income of \$200 to \$400 million and generates more than \$500 million in Free Cash Flow



1. Ample liquidity cushion under a wide range of scenarios
2. Prudent cost management, but protect ITW's ability to fully participate in the recovery



# MAINTAIN FINANCIAL STRENGTH, LIQUIDITY, AND STRATEGIC OPTIONALITY

## B. RECOVERY PHASE

- **FY'20 operating margin ranges under various revenue scenarios:**
  - Revenues down 15% = 19 to 21% operating margin
  - Revenues down 20% = 18 to 20% operating margin
  - Revenues down 25% = 17 to 19% operating margin
- **Significant margin cushion gives ITW the ability to focus on positioning to play offense in the recovery:**
  1. Ensure we are well-positioned to a) support our customers as demand reaccelerates and b) take share from competitors who can't
  2. Adjust capacity/cost structure appropriately to the pace and slope of recovery business by business



# MAINTAIN FINANCIAL STRENGTH, LIQUIDITY, AND STRATEGIC OPTIONALITY

## C. CAPITAL ALLOCATION

ITW has a Healthy Balance Sheet, Generates Significant Free Cash Flow, and has Ample Liquidity Under a Wide Range of Scenarios

- **Strong balance sheet**
  - More than \$1.4B of cash and cash-equivalents on hand
  - Essentially no short-term debt/ no Commercial Paper
  - \$2.5B undrawn revolving credit facility, if needed
  - 1.7x Net Debt/EBITDA\*
- Long track record of consistent, Free Cash Flow > Net Income
- Tier 1 Credit ratings: A+/A2



# MAINTAIN FINANCIAL STRENGTH, LIQUIDITY, AND STRATEGIC OPTIONALITY

## C. CAPITAL ALLOCATION

1. We remain strongly committed to our dividend
2. We have ample capacity to execute on high quality strategic opportunities that may emerge
3. Share repurchases suspended until end markets stabilize and the recovery path becomes more clear



# ITW'S KEY PRIORITIES IN MANAGING THROUGH THE PANDEMIC

## 4 Leverage our Strengths to Position the Company to Fully Participate in the Recovery Phase

### 3 PRINCIPLES:

1. Make thoughtful and appropriate capacity, cost-structure, and investment adjustments based on recovery phase reality, not containment phase distortions
  - Protect our significant investment in recruiting, training and developing great people to the maximum extent possible
2. Lean in to the upside by remaining invested to support expected demand levels and share gain opportunities 2-3 quarters forward
3. Leverage the strength of ITW as an enterprise to protect investments in areas of strategic importance to the execution of our long-term strategy



# MANAGING THROUGH THE PANDEMIC

## ITW'S LONG-TERM STRATEGIC PRIORITIES REMAIN UNCHANGED

1. Achieve and sustain full-potential performance
2. One of the world's best performing, highest quality, and most respected industrial companies



# MANAGING THROUGH THE PANDEMIC

- We thank the entire ITW team for the exceptional job they have done in adapting to the very unusual and challenging circumstances brought about by the pandemic
- Stating the obvious, it remains highly uncertain as to how long this global pandemic and related economic challenges will last - or how quickly our customers and end markets will recover
- The strength and resilience of ITW's powerful Business Model, our diversified, high-quality business portfolio, and our people put us in a position of strength to deal with whatever lies ahead
- We will be prudent in managing our businesses in the near term, but focused on positioning for maximum participation in the recovery



Q&A





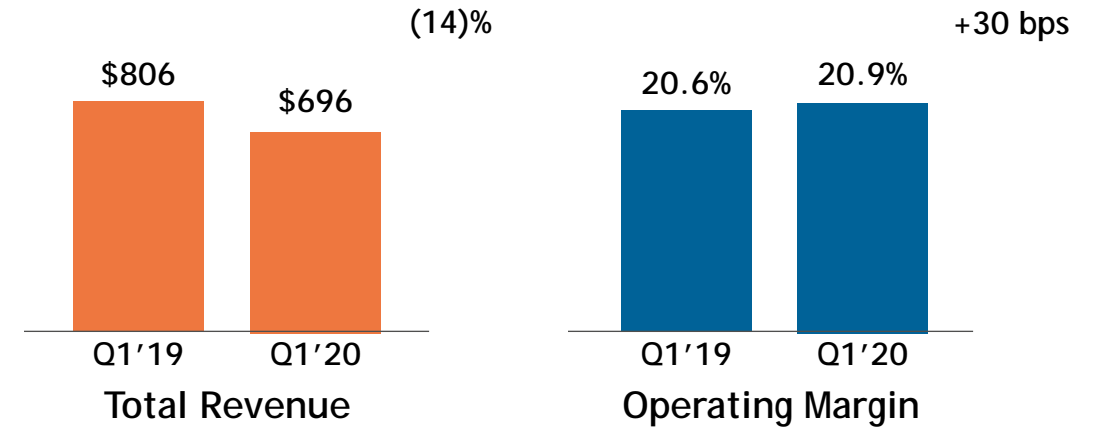
# Q1 2020 SEGMENT DETAIL

# Q1 2020 SEGMENT PERFORMANCE

## ORGANIC REVENUE AND MARGINS

	<u>Organic</u> <u>Revenue</u>	<u>Operating Margin</u> <u>Q1'20</u>	<u>VPY</u>
Automotive OEM	(12)%	20.9%	+30 bps
Food Equipment	(6)	24.3	(60)
T&M / Electronics	(3)	25.1	+100
Welding	(9)	29.1	+100
Polymers & Fluids	(3)	23.6	+230
Construction Products	~flat	23.4	+170
Specialty Products	(9)	26.3	(20)

## AUTOMOTIVE OEM

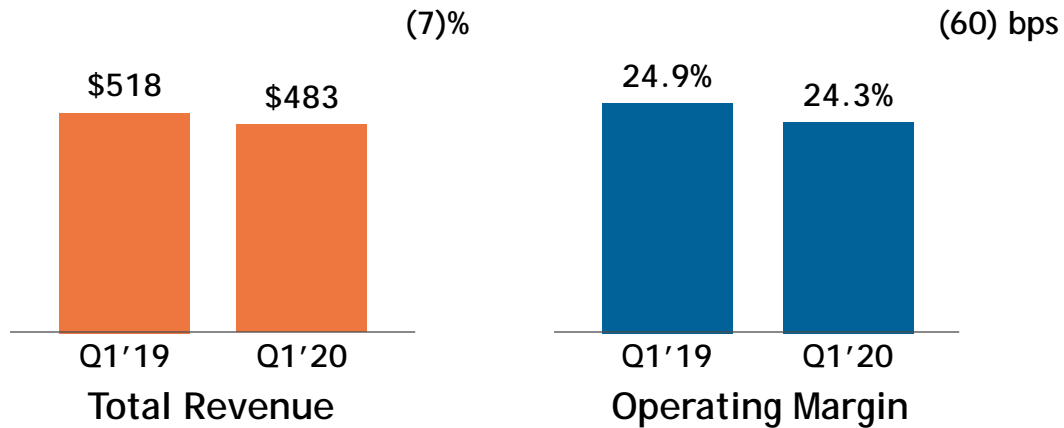


- Organic revenue (12)%
- Organic revenue by geography
  - North America (13)%
  - Europe (9)%
  - China (21)%

5 OF 7 EXPANDED MARGINS IN Q1 2020

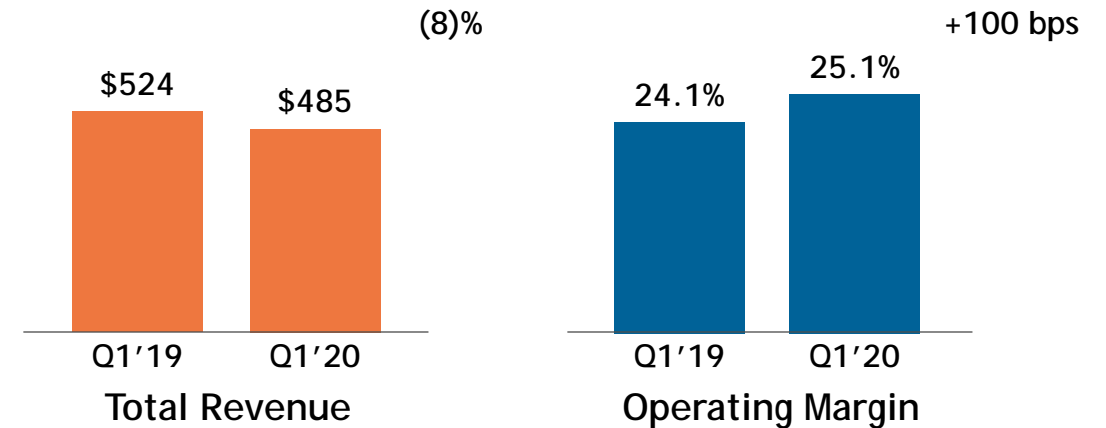
# Q1 2020 SEGMENT PERFORMANCE

## FOOD EQUIPMENT



- Organic revenue (6)%
- Equipment (8)%, Service (2)%
  - North America (4)%
  - International (8)%

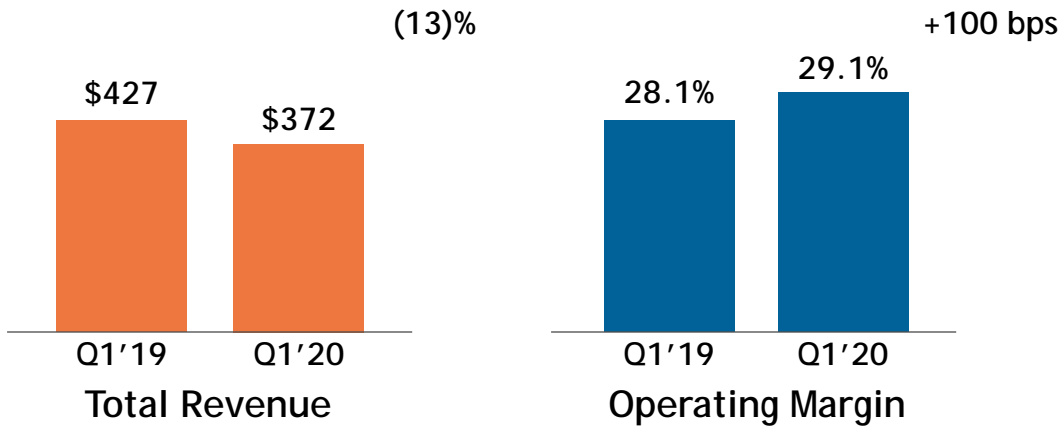
## TEST & MEASUREMENT/ELECTRONICS



- Organic revenue (3)%
- Test & Measurement (2)%
- Electronics (4)%

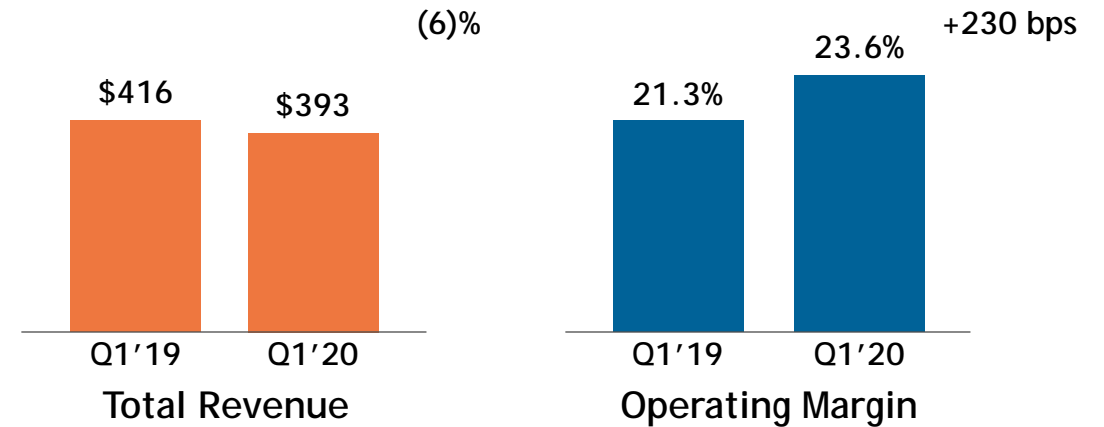
# Q1 2020 SEGMENT PERFORMANCE

## WELDING



- Organic revenue (9)%
- Equipment (10)%, Consumables (8)%
- North America (7)%, International (19)%

## POLYMERS & FLUIDS

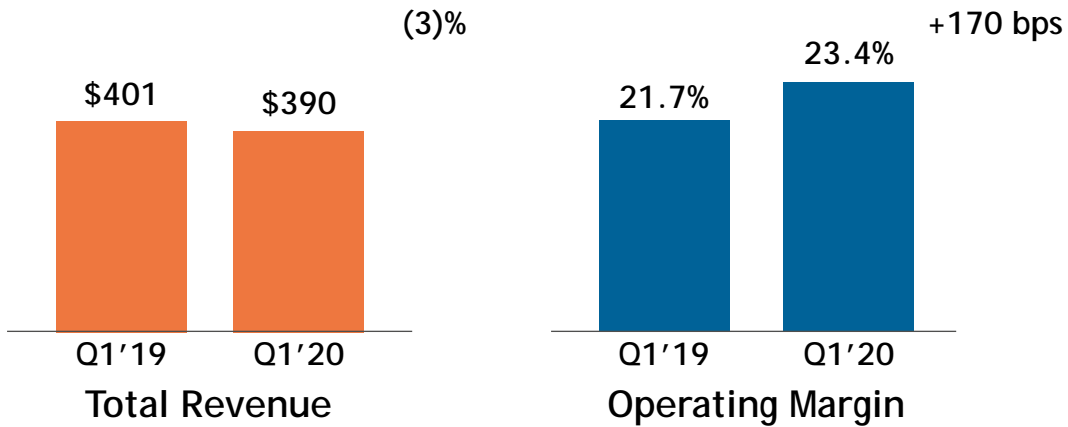


- Organic revenue (3)%
- Fluids (2)%
- Automotive Aftermarket (3)%
- Polymers (5)%



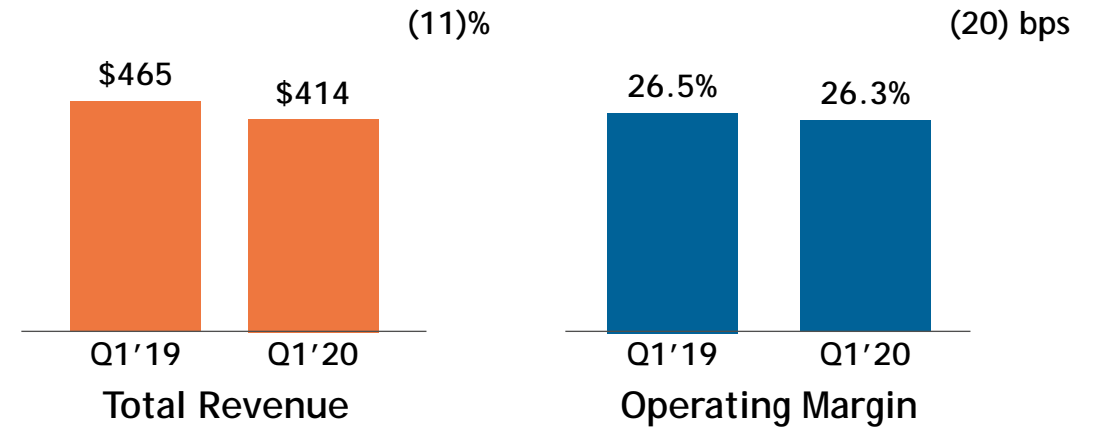
# Q1 2020 SEGMENT PERFORMANCE

## CONSTRUCTION PRODUCTS



- Organic revenue ~flat
- North America 9%
- Europe (6)%
- Australia/New Zealand (6)%

## SPECIALTY PRODUCTS



- Organic revenue (9)%
- North America (8)%
- International (10)%

