



# SECOND QUARTER 2020 EARNINGS CONFERENCE CALL

JULY 31, 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, related government actions and the Company's strategy in response thereto 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 adjustments to capacity and cost structure, 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, if any, 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 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 second quarter of 2020, which is available at [www.itw.com](http://www.itw.com), together with this presentation.



# CONTAINMENT PHASE (Q2)

## KEY STRATEGIES:

1. Full compensation/benefits support for all ITW colleagues
2. Maintain capacity/flexibility to serve our customers with excellence while keeping our people safe
3. Adjust costs “smartly” in response where possible and without negatively impacting #2
  - Bottom-up ownership and control

## Q2 RESULTS:

- Organic Revenues: (27)%
- Operating Expense Reduction: \$140+ million
- Operating Income: \$449 million
- Operating Margin: 17.5%
- Free Cash Flow\*: \$681 million, 213% of Net Income
- Cash on Hand at Quarter End: \$1.8 billion



# ITW's STRATEGY FOR MANAGING THROUGH THE PANDEMIC

- 1 Protect the health and support the well-being of our people**
- 2 Continue to serve our customers with excellence**
- 3 Maintain financial strength, liquidity, and strategic optionality**
- 4 Win the recovery (not the contraction)**

# Q2 FINANCIAL PERFORMANCE

GAAP EPS	\$1.91	\$1.01
REVENUE	\$3.6B	\$2.6B
	Q2'19	Q2'20
OPERATING MARGIN	24.1%	17.5%
AFTER-TAX ROIC*	28.6%	16.8%

## COMMENTARY

- Organic revenue declined 27%
  - Revenues improved as the quarter progressed
  - Benefited from diversified, high-quality business portfolio
- Operating income of \$449M
- Operating margin of 17.5%
  - Operating expense reduction of \$140+ million
  - Enterprise Initiatives +100 bps
- Free cash flow\* of \$681M, 213% of net income
- Strong balance sheet and ample liquidity of \$4.3B+

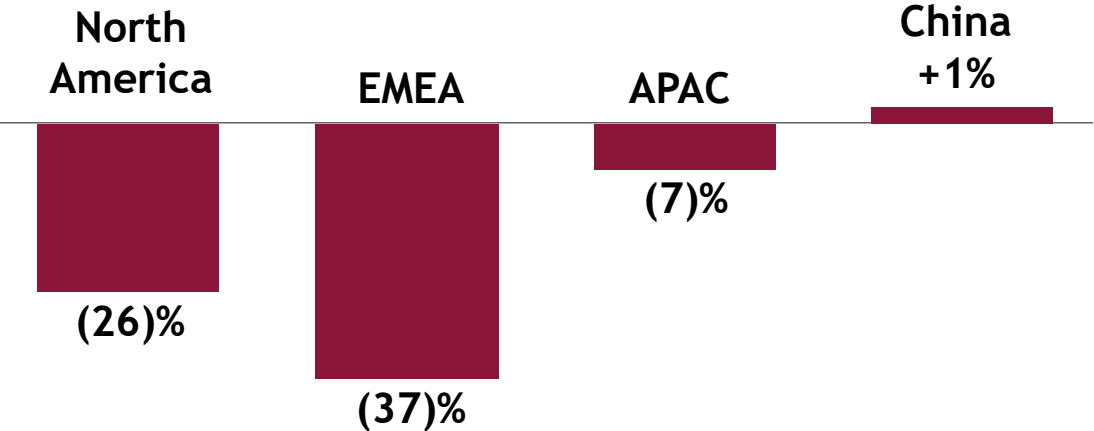
## RESILIENT PERFORMANCE IN AN UNPRECEDENTED ENVIRONMENT



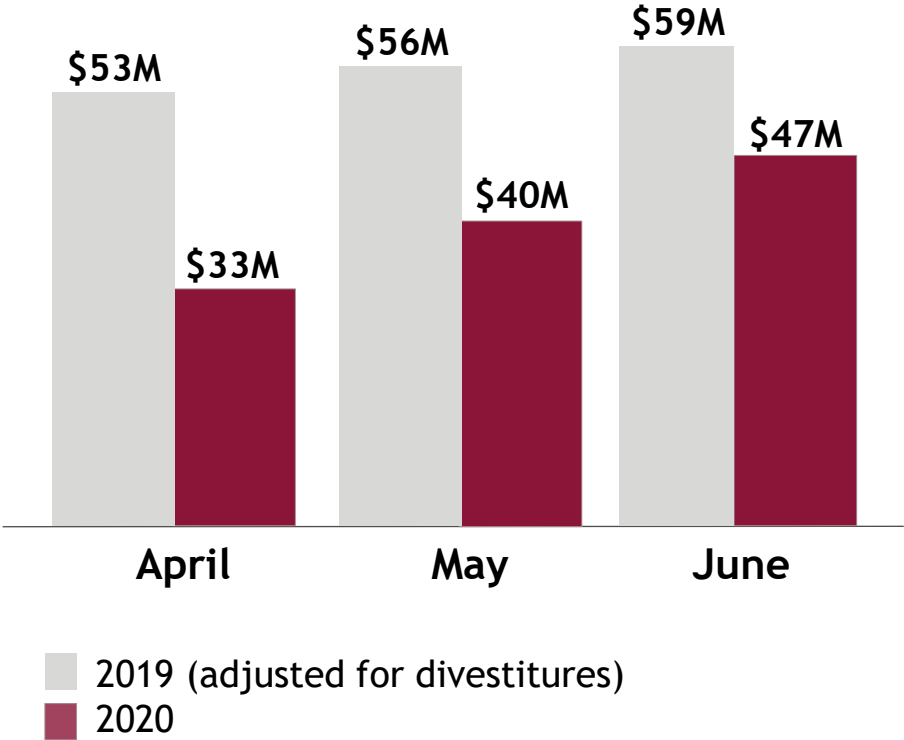
\* See ITW's second quarter 2020 press release for the reconciliation from GAAP to non-GAAP measures.

# REVENUE BY GEOGRAPHY AND MONTH

Q2'20 ORGANIC REVENUE BY REGION



AVG. REVENUE PER WORKING DAY



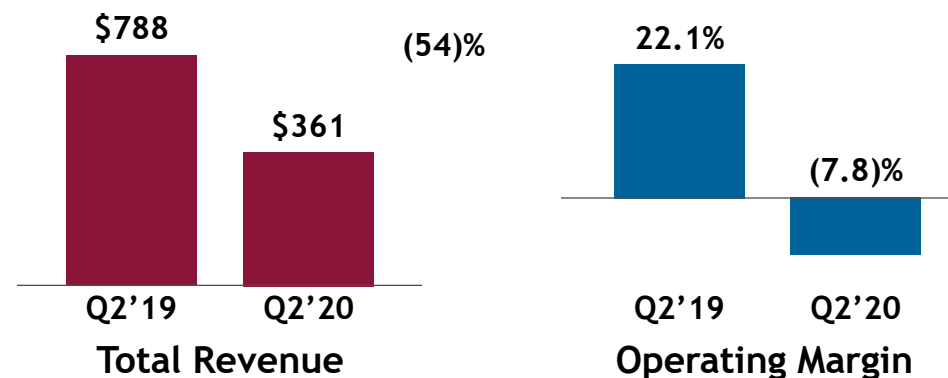
UNPRECEDENTED GLOBAL DEMAND ENVIRONMENT ... SEQUENTIAL IMPROVEMENT SINCE APRIL

# Q2 2020 SEGMENT PERFORMANCE

## RESILIENT MARGIN PERFORMANCE

	<u>Organic Revenue</u>	<u>Operating Margin</u>
T&M / Electronics	(11)%	25.7%
Specialty Products	(16)%	25.4%
Construction Products	(9)%	23.7%
Polymers & Fluids	(14)%	23.1%
Welding	(25)%	21.6%
Food Equipment	(38)%	9.2%
<b>Automotive OEM</b>	<b>(53)%</b>	<b>(7.8)%</b>
<b>Total ITW</b>	<b>(27)%</b>	<b>17.5%</b>

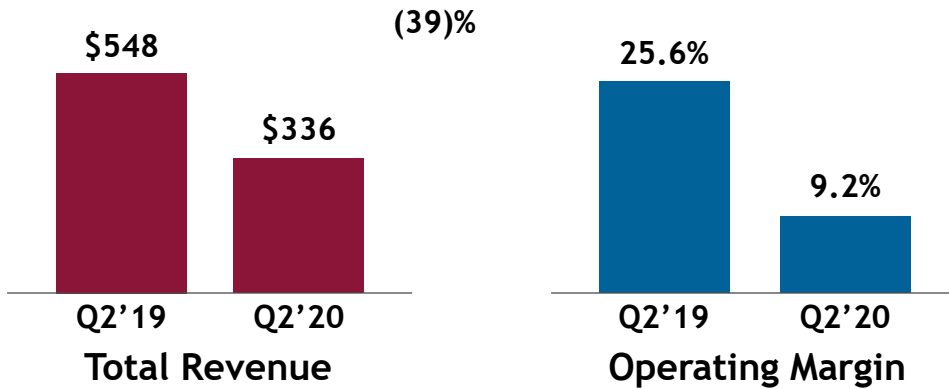
## AUTOMOTIVE OEM



- Organic revenue (53)%
- North America (62)%
- Europe (59)%
- China 6%

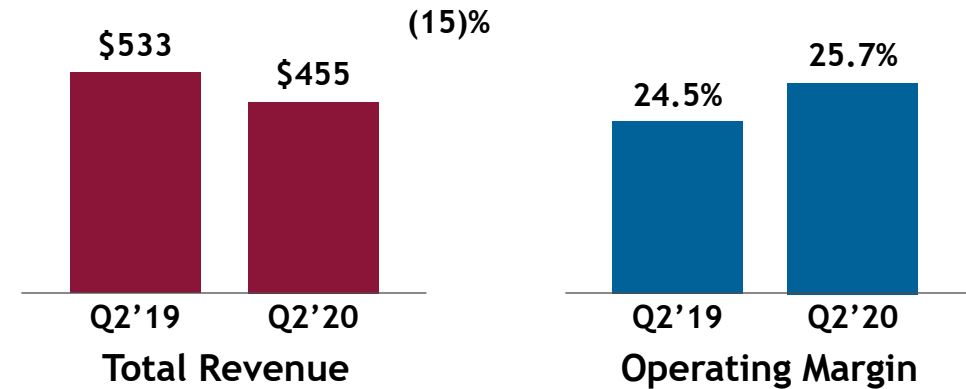
# Q2 2020 SEGMENT PERFORMANCE

## FOOD EQUIPMENT



- Organic revenue (38)%
- Equipment (38)%, Service (37)%
- North America (33)%
- International (44)%

## TEST & MEASUREMENT/ELECTRONICS



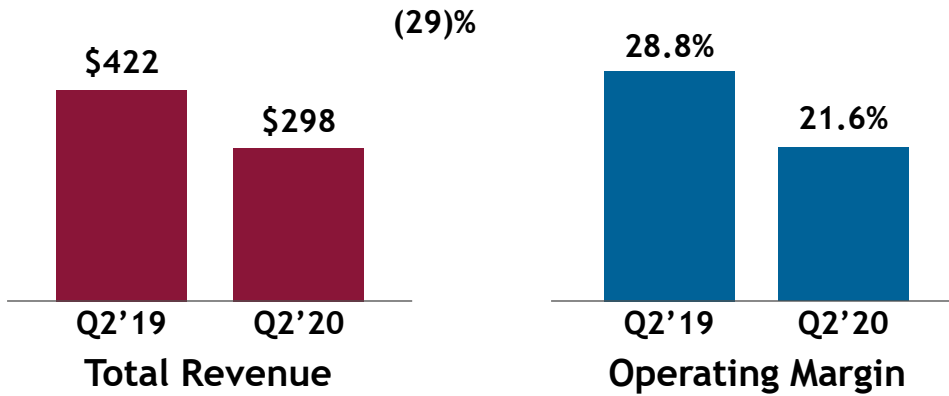
- Organic revenue (11)%
- Test & Measurement (12)%
- Electronics (9)%





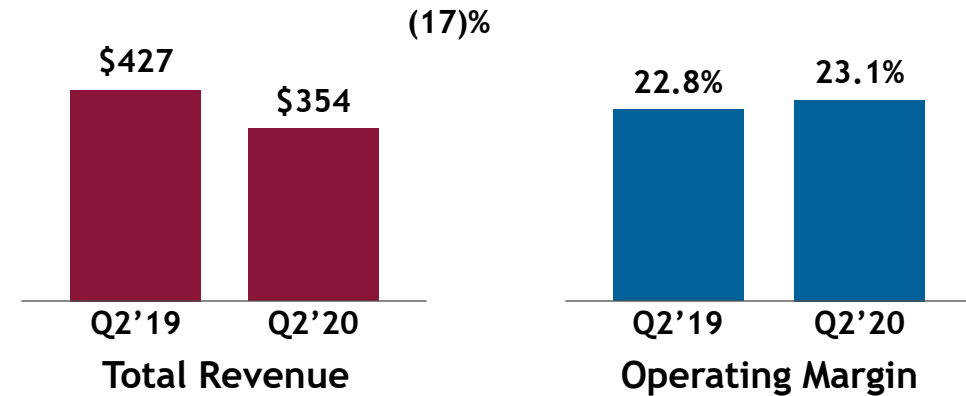
# Q2 2020 SEGMENT PERFORMANCE

## WELDING



- Organic revenue (25)%
- Equipment (28)% , Consumables (21)%
- North America (27)% , International (16)%

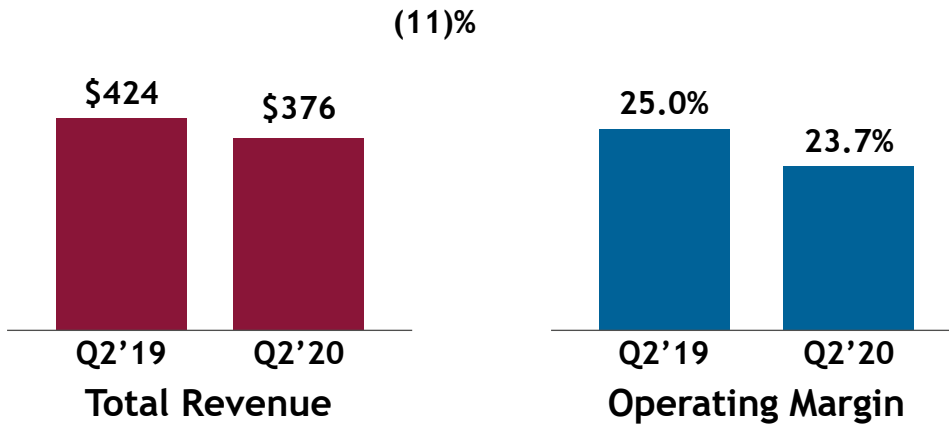
## POLYMERS & FLUIDS



- Organic revenue (14)%
- Polymers (20)%
- Automotive Aftermarket (14)%
- Fluids (5)%

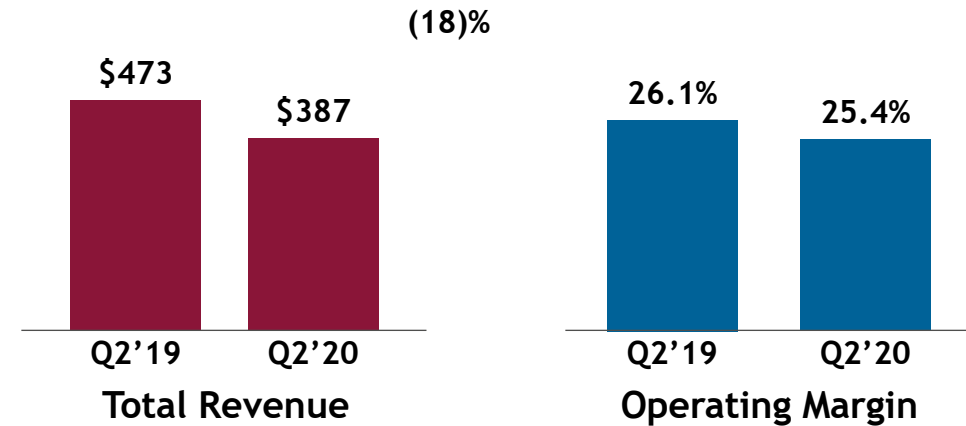
# Q2 2020 SEGMENT PERFORMANCE

## CONSTRUCTION PRODUCTS



- Organic revenue (9)%
- North America 1%
- Europe (28)%
- Australia/New Zealand (3)%

## SPECIALTY PRODUCTS



- Organic revenue (16)%
- North America (15)%
- International (19)%



# UPDATED 2020 PERFORMANCE SCENARIOS

## 2020 FINANCIAL PERFORMANCE RANGES UNDER VARIOUS REVENUE SCENARIOS:

<u>2H Organic Revenues</u>	<u>FY Organic Revenues</u>	<u>FY Operating Margin</u>	<u>FY Operating Income</u>
(7)%	(12)%	21 - 23%	\$2.6 - 2.8B
(12)%	(14.5)%	20 - 22%	\$2.4 - 2.6B
(17)%	(17)%	19 - 21%	\$2.2 - 2.4B

- **We will make some capacity and cost structure adjustments in 2H**
  - Expected restructuring spend in 2H'20 of ~\$60M
  - Includes \$45M of 80/20 FTB projects that were in FY'20 plan prior to pandemic



# EARLY STAGE RECOVERY PHASE PRIORITIES

## “WIN THE RECOVERY (NOT THE CONTRACTION)”

- Protecting our people and serving our customers with excellence remains “Job #1”
- Lean in to the upside:
  - Remain resourced and staffed to support expected demand 2-3 quarters out
  - Focused program execution to identify and action share gain opportunities brought about by the pandemic that are aligned with our long-term enterprise strategy
- Leverage our financial and operating strength and diversified portfolio to protect investments important to the execution of our long-term strategy



# LEAN IN TO THE UPSIDE: SHARE GAIN OPPORTUNITIES BROUGHT ABOUT BY THE PANDEMIC

## AREAS OF OPPORTUNITY ALREADY EMERGING:

- 1. ITW's undisrupted ability to supply/deliver**
  - Some meaningful early 'wins'
- 2. Customer Supply Chain Localization**
  - Long-standing "produce where we sell" strategy is a major advantage
- 3. Sustained Investment in Strategic Growth Initiatives**
  - Strategic Sales Excellence
  - Customer-Back Innovation



## 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
- While significant uncertainty remains, 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 seize the opportunities and respond to the challenges ahead
- We are laser focused on continuing to execute on our long-term enterprise strategy while positioning for maximum participation in the recovery



Q&A