



# **ITW Conference Call**

**Second Quarter  
2003**

# ITW Agenda

- 1. Introduction.....John Brooklier**
- 2. Financial Overview.....Jon Kinney**
- 3. Manufacturing Segments..... John Brooklier**
- 4. Forecast.....Jon Kinney**
- 5. Q & A.....Kinney/Brooklier**

# ITW

## Forward-Looking Statements

Statements regarding the company's earnings estimates contain forward-looking statements within the meaning of the private securities Litigation Reform act of 1995, including, without limitation, statements regarding the company's 2003 forecasts. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated, including, without limitation, the following risks: 1) a downturn in the construction, automotive, general industrial, food service and retail, or real estate markets; 2) deterioration in global and domestic businesses and economic conditions, particularly in North America, the European community and Australia; 3) the unfavorable impact of foreign currency fluctuations; 4) an interruption in, or reduction in, introducing new products into the Company's product lines; and 5) an unfavorable environment for making acquisitions or dispositions, domestic and international, including adverse accounting or regulatory requirements and market value of candidates.

# Conference Call Playback

**Replay number: 402-220-2269**

**Replay available thru midnight of August 5**

**No pass code necessary**

# ITW

## Quarterly Highlights

	2002	2003	F(U) Last Year	
	<u>Q2</u>	<u>Q2</u>	<u>Amount</u>	<u>%</u>
Operating Revenues	2,434.6	2,564.0	129.4	5.3%
Operating Income	429.0	454.1	25.1	5.9%
% of Revenues	17.6%	17.7%	0.1%	
Income From Continuing Operations				
Income Amount	265.2	284.0	18.8	7.1%
Income Per Share-Diluted	0.86	0.92	0.06	7.0%
Average Invested Capital	6,500.5	6,698.2	197.7	3.0%
Return on Invested Capital	17.0%	17.6%	0.6%	
Free Cash	229.0	217.7	(11.3)	-4.9%



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## Quarterly Operating Analysis

	<u>Revenue</u>	<u>Income</u>	<u>Margins</u>
Base Manufacturing Business			
Operating Leverage	-4.4%	-10.8%	-1.2%
Non Volume Related		2.5%	0.4%
Total	-4.4%	-8.3%	-0.8%
Acquisitions / Divestitures	2.1%	1.1%	-0.1%
Translation	6.2%	5.6%	-0.1%
Restructuring		1.1%	0.2%
Leasing & Investment	1.0%	6.4%	0.9%
Other Revenue	0.4%		0.0%
Total	5.3%	5.9%	0.1%

# ITW

## Leasing & Investment

	2002 <u>Q2</u>	2003 <u>Q2</u>	<u>F(U) Last Year</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	40.5	65.8	25.3	62.5%
Operating Income	24.5	52.1	27.6	112.7%
Operating Margins	60.5%	79.2%	18.7%	

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## Non Operating & Taxes

	<b>2002</b>	<b>2003</b>	<b>F(U) Last Year</b>	
	<b><u>Q2</u></b>	<b><u>Q2</u></b>	<b><u>Amount</u></b>	<b><u>%</u></b>
<b>Operating Income</b>	<b>429.0</b>	<b>454.1</b>	<b>25.1</b>	<b>5.9%</b>
<b>Interest Expense</b>	<b>(18.4)</b>	<b>(19.1)</b>	<b>(0.7)</b>	
<b>Other Income (Expense)</b>	<b>2.1</b>	<b>2.0</b>	<b>(0.1)</b>	
<b>Income From Continuing Operations-P/T</b>	<b>412.6</b>	<b>436.9</b>	<b>24.3</b>	<b>5.9%</b>
<b>Income Taxes</b>	<b>147.4</b>	<b>152.9</b>	<b>5.5</b>	
<b>% to Pre Tax Income</b>	<b>36%</b>	<b>35%</b>	<b>0.7%</b>	
<b>Income From Continuing Operations-A/T</b>	<b><u>265.2</u></b>	<b><u>284.0</u></b>	<b><u>18.8</u></b>	<b><u>7.1%</u></b>



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## Invested Capital

	<u>6/30/02</u>	<u>12/31/02</u>	<u>6/30/03</u>
Trade Receivables	1,584.8	1,500.0	1,709.7
Days Sales Outstanding	58.6	55.6	60.0
Inventories	957.5	962.7	1,011.7
Months on Hand	1.8	1.8	1.8
Other Current Assets	225.3	354.3	367.0
Accounts Payable & Accruals	(1,319.4)	(1,445.6)	(1,414.5)
Operating Working Capital	1,448.2	1,371.4	1,673.9
% to Revenue(Prior 4 Qtrs.)	16%	14%	17%
Net plant & Equipment	1,633.5	1,631.2	1,703.5
Investments, net of L&I Debt	617.5	622.3	655.4
Goodwill	2,315.5	2,394.5	2,484.3
Other net	605.3	383.9	345.1
Invested Capital	6,620.0	6,403.3	6,862.2

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## Debt & Equity

### Total Capital

Short Term Debt

Long Term Debt

Total Debt

Stockholders Equity

Total Capital

Less:

Leasing & Investment Debt

Cash

Net Debt & Equity

Debt to Total Capital

Debt to Total Capital (x L&I)

6/30/02

12/31/02

6/30/03

171.3

121.6

116.8

1,485.1

1,460.4

1,446.0

1,656.4

1,582.0

1,562.8

6,260.3

6,649.0

7,295.3

7,916.7

8,231.0

8,858.1

(811.4)

(770.1)

(761.8)

(485.3)

(1,057.7)

(1,234.1)

6,620.0

6,403.2

6,862.2

21%

19%

18%

13%

12%

11%

# ITW

## Cash Flow

	2002 <u>Q2</u>	2003 <u>Q2</u>
Net Income	267.5	276.1
Adjust for Non-Cash Items	28.7	49.8
Changes in Operating Assets & Liab.	(14.9)	(49.6)
<b>Net Cash From Operating Activities</b>	<u>281.3</u>	<u>276.3</u>
Additions to Plant & Equipment	(68.7)	(66.0)
Proceeds from investments	16.3	7.4
<b>Free Cash</b>	<u>228.9</u>	<u>217.7</u>
Acquisitions	(56.6)	(59.5)
Investments	(60.4)	(11.7)
Dividends	(67.4)	(70.5)
Debt	116.2	(6.5)
Other	43.6	39.0
<b>Net Cash Increase(Decrease)</b>	<u>204.3</u>	<u>108.5</u>

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## Return on Invested Capital

<u>Current Quarter</u>	<u>2002 Q2</u>	<u>2003 Q2</u>	<u>F(U) Prior Yr.</u>
Operating Income after taxes	275.8	295.1	19.3
Operating Margins	11.3%	11.5%	0.2%
Average Invested Capital	6,500.5	6,698.2	197.7
Capital Turnover	1.50	1.53	0.03
Return on Average Invested Capital	17.0%	17.6%	0.6%

<u>Year to Date</u>	<u>2002 Q2</u>	<u>2003 Q2</u>	<u>F(U) Prior Yr.</u>
Operating Income after taxes	480.3	503.8	23.5
Operating Margins	10.4%	10.3%	-0.1%
Average Invested Capital	6,626.1	6,632.8	6.7
Capital Turnover	1.40	1.47	0.07
Return on Average Invested Capital	14.5%	15.2%	0.7%

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## Acquisitions

	2002				2003	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<b>Annual Revenues Acquired</b>	<b>31</b>	<b>59</b>	<b>33</b>	<b>72</b>	<b>49</b>	<b>35</b>
<b>Purchase Price</b>						
Cash Paid	35	57	14	82	44	30
Stock Issued	-	-	-	-	-	-
<b>Total</b>	<b>35</b>	<b>57</b>	<b>14</b>	<b>82</b>	<b>44</b>	<b>30</b>
<b>Number of Acquisitions</b>						
<b>North America</b>						
Engineered Products	2	1	1	1	1	-
Specialty Systems	-	2	1	2	-	2
<b>International</b>						
Engineered Products	1	2	1		-	1
Specialty Systems	2	2	2	1	7	3
<b>Total</b>	<b>5</b>	<b>7</b>	<b>5</b>	<b>4</b>	<b>8</b>	<b>6</b>

# Key Economic Data

- **June '03 ISM: 49.8.% is slightly better than 46.2% in March...but still under 50 “growth/no growth”**
- **US Industrial Production (ex. Tech.): -1.7% in June '03 compared to -0.6% in March'03**
- **Euro-Zone Industrial Production Index:46.4% in June '03 versus 48.4% in March '03**



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## Engineered Products – N. America

	2002 <u>Q2</u>	2003 <u>Q2</u>	<u>F(U) Last Year</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	805.8	781.7	(24.1)	-3.0%
Operating Income	155.3	133.3	(22.0)	-14.2%
Operating Margins	19.3%	17.1%	-2.2%	

# Engineered Products-N. America

## Quarterly Analysis

	% F(U) Prior Year		
	<u>Operating Revenue</u>	<u>Operating Income</u>	<u>Operating Margins</u>
Base Business			
Operating Leverage	-6.5%	-14.1%	-1.6%
Non Volume Related		2.2%	0.5%
Total	-6.5%	-11.9%	-1.1%
Acquisitions / Divestitures	3.3%	0.0%	-0.6%
Translation	0.2%	-0.3%	-0.1%
Restructuring		-2.0%	-0.4%
Total	-3.0%	-14.2%	-2.2%

# Engineered Products-North America

## Key Points

- **ITW construction base revenues: -6% for Q2**
  - Commercial construction: -8% to -10%
  - New housing: -3%
  - Renovation/rehab: +10%
- **Commercial construction bouncing along the bottom...but not expected to materially improve in '03**
- **New housing starts expected to decline 3% to 4% in '03**
- **Renovation/rehab grew 10% in Q2; sales look stable for FY'03**

# Engineered Products-North America

## Key Points

- Auto base revenues: -7% for Q2
- Big 3 build rates: -11% for Q2
  - GM: -11%
  - Ford: -13%
  - Chrysler: -8%
- ITW estimate for Q3 builds: -10%; Wards: -7%
- ITW FY '03 estimate: -8%; Wards: -6%
- June Big 3 inventories: 70 days...better than 81 days on hand in March and 97 days in January

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## Engineered Products – International

	2002 <u>Q2</u>	2003 <u>Q2</u>	<u>F(U) Last Year</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	391.6	470.5	78.9	20.1%
Operating Income	58.6	68.1	9.5	16.2%
Operating Margins	15.0%	14.5%	-0.5%	

# Engineered Products-International Quarterly Analysis

	% F(U) Prior Year		
	<u>Operating Revenue</u>	<u>Operating Income</u>	<u>Operating Margins</u>
Base Business			
Operating Leverage	1.5%	3.9%	0.4%
Non Volume Related		-11.0%	-1.6%
Total	1.5%	-7.1%	-1.2%
Acquisitions / Divestitures	0.9%	0.8%	0.0%
Translation	17.7%	21.8%	0.6%
Restructuring		0.7%	0.1%
Total	20.1%	16.2%	-0.5%



# Engineered Products-International

## Key Points

- **Construction base revenues: +1% in Q2**
  - **Europe: +2% growth (strength in UK, France and Italy)**
  - **Australia: -1% (slowing new housing and commercial activity)**
  - **Wilsonart Intl.: +6% (activity in China)**
- **Automotive base revenues: +3% in Q2**
  - **Builds: -1% in Q2**
  - **GM: +10%; Citroen-Peugeot: +7%; Ford: +1%**  
**BMW: -4%; Daimler/Chrysler : -3%**
  - **Forecasting FY '03 builds to be: -2%/-3%**

# ITW

## Specialty Systems-N. America

	2002 <u>Q2</u>	2003 <u>Q2</u>	<u>F(U) Last Year</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	871.9	832.4	(39.5)	-4.5%
Operating Income	137.1	142.7	5.6	4.1%
Operating Margins	15.7%	17.1%	1.4%	

# Specialty Systems-N. America

## Quarterly Analysis

	% F(U) Prior Year		
	<u>Operating Revenue</u>	<u>Operating Income</u>	<u>Operating Margins</u>
Base Business			
Base Operating Leverage	-5.8%	-15.7%	-1.6%
Base Non Volume		11.8%	1.9%
Total	<u>-5.8%</u>	<u>-3.9%</u>	<u>0.3%</u>
Acquisitions / Divestitures	0.9%	1.1%	0.0%
Translation	0.4%	0.1%	-0.1%
Restructuring		6.8%	1.2%
Total	<u><u>-4.5%</u></u>	<u><u>4.1%</u></u>	<u><u>1.4%</u></u>

# Specialty Systems-N. America

## Key Points

- **Food Equipment base revenues: -9% in Q2; restaurants and supermarkets still weak**
- **Food Equipment op. income +22% and margins improve +400 basis points in Q2 due to 80/20 programs**
- **Industrial packaging: Signode -7% base revenues....consumables continue to outperform “cap ex” machinery**
- **Welding base revenues: -2% in Q2**
- **Finishing base revenues: -7% in Q2**

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## Specialty Systems-International

	2002 <u>Q2</u>	2003 <u>Q2</u>	<u>F(U) Last Year</u>	
			<u>Amount</u>	<u>%</u>
Operating Revenues	425.4	498.7	73.3	17.2%
Operating Income	53.4	57.8	4.4	8.2%
Operating Margins	12.6%	11.6%	-1.0%	

# Specialty Systems-International Quarterly Analysis

	% F(U) Prior Year		
	<u>Operating Revenue</u>	<u>Operating Income</u>	<u>Operating Margins</u>
Base Business			
Base Operating Leverage	-3.5%	-10.6%	-0.9%
Base Non Volume		-4.7%	-0.6%
Total	-3.5%	-15.3%	-1.5%
Acquisitions / Divestitures	3.1%	5.3%	0.3%
Translation	17.6%	21.9%	0.7%
Restructuring		-3.7%	-0.5%
Total	17.2%	8.2%	-1.0%



# Specialty Systems-International

## Key Points

- **Total packaging: -2% base revenues in Q2**
- **Signode led the way for industrial packaging:**
  - Europe: -3%
  - Asia/Pacific: +12%
  - growth due to consumables rather than machinery
- **Food Equipment: base revenues -1%...but op. income/margins up significantly (margins improve 120 basis points)**
- **Finishing: base revenues +1% in Q2**

# ITW

## 2003 Forecast

	<u>Low</u>	<u>High</u>	<u>Mid Point</u>	<u>%F(U)</u> <u>2002</u>
<u>3rd Quarter</u>				
Base Revenues	-5%	-1%	-3%	
Income Per Share-Diluted	\$0.77	\$0.87	\$0.82	4%
<u>Full Year</u>				
Base Revenues	-4%	-2%	-3%	
Income Per Share-Diluted	\$3.12	\$3.32	\$3.22	7%

# ITW 2003 Forecast

## Key Assumptions

- Exchange rates hold at June 30, 2003 levels.
- Acquired revenues in the \$200 to \$600 million range.
- Restructuring cost of \$55 to \$60 million.
- No further goodwill or intangible impairment cost for the balance of the year.
- No significant mark-to-market adjustments in Leasing and Investments
- Tax rate of 35%

# **ITW Conference Call**

**Q & A**

**Second Quarter  
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