

ITW Conference Call

**Third 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**

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Forward-Looking Statements

This conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding end market conditions and base business expectations for full year 2003 and the company's related earnings 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 risks described herein. Important factors that may influence future results include (1) a downturn in the construction, automotive, general industrial, food retail and service, or commercial real estate markets, (2) deterioration in global and domestic business and economic conditions, particularly in North America, the European Community or Australia, (3) the unfavorable impact of foreign currency fluctuations, (4) an interruption in, or reduction in, introducing new products into the Company's product line, and (5) a continuing unfavorable environment for making acquisitions or dispositions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates.

Conference Call Playback

Replay number: 402-998-1849

**Replay available through midnight of
October 30, 2003**

No pass code necessary

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Quarterly Highlights

| | 2002 | 2003 | F(U) Last Year | |
|--|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 2,401.0 | 2,531.9 | 130.9 | 5.4% |
| Operating Income | 396.9 | 426.7 | 29.8 | 7.5% |
| % of Revenues | 16.5% | 16.9% | 0.4% | |
| Income From Continuing Operations | | | | |
| Income Amount | 244.3 | 269.8 | 25.5 | 10.4% |
| Income Per Share-Diluted | 0.79 | 0.87 | 0.08 | 10.1% |
| Average Invested Capital | 6,604.9 | 6,823.1 | 218.2 | 3.3% |
| Return on Invested Capital | 15.6% | 16.3% | 0.7% | |
| Free Cash | 341.3 | 350.0 | 8.7 | 2.5% |

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Quarterly Operating Analysis

| | <u>Revenue</u> | <u>Income</u> | <u>Margins</u> |
|------------------------------------|----------------|---------------|----------------|
| Base Manufacturing Business | | | |
| Operating Leverage | -2.9% | -7.1% | -0.7% |
| Non Volume Related | | 10.0% | 1.7% |
| Total | -2.9% | 2.9% | 1.0% |
| Acquisitions / Divestitures | 3.5% | 2.1% | -0.2% |
| Translation | 4.9% | 4.3% | 0.0% |
| Restructuring | | -3.4% | -0.6% |
| Leasing & Investment | -0.3% | 1.6% | 0.3% |
| Other Revenue | 0.2% | | -0.1% |
| Total | 5.4% | 7.5% | 0.4% |

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Leasing & Investment

| | 2002 | 2003 | F(U) Last Year | |
|---------------------------|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 34.8 | 28.4 | (6.4) | -18.4% |
| Operating Income | 18.5 | 24.7 | 6.2 | 33.5% |
| Operating Margins | 53.1% | 87.0% | 33.9% | |

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Non Operating & Taxes

| | 2002 | 2003 | F(U) Last Year | |
|--|----------------------------|----------------------------|---------------------------|----------------------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Income | 396.9 | 426.7 | 29.8 | 7.5% |
| Interest Expense | (14.6) | (16.1) | (1.5) | |
| Other Income (Expense) | (6.5) | 4.5 | 11.0 | |
| Income From Continuing Operations-P/T | <u>375.8</u> | <u>415.1</u> | <u>39.3</u> | <u>10.5%</u> |
| Income Taxes | 131.5 | 145.3 | 13.8 | |
| % to Pre Tax Income | 35% | 35% | 0.0% | |
| Income From Continuing Operations-A/T | <u><u>244.3</u></u> | <u><u>269.8</u></u> | <u><u>25.5</u></u> | <u><u>10.4%</u></u> |

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Invested Capital

| | <u>9/30/02</u> | <u>12/31/02</u> | <u>9/30/03</u> |
|----------------------------------|----------------|-----------------|----------------|
| Trade Receivables | 1,574.9 | 1,500.0 | 1,701.9 |
| Days Sales Outstanding | 59.0 | 55.6 | 60.5 |
| Inventories | 981.9 | 962.7 | 980.0 |
| Months on Hand | 1.9 | 1.8 | 1.8 |
| Other Current Assets | 233.2 | 354.3 | 353.0 |
| Accounts Payable & Accruals | (1,386.0) | (1,445.6) | (1,452.4) |
| Operating Working Capital | 1,404.0 | 1,371.4 | 1,582.5 |
| % to Revenue(Prior 4 Qtrs.) | 15% | 14% | 16% |
| Net plant & Equipment | 1,636.7 | 1,631.2 | 1,670.2 |
| Investments, net of L&I Debt | 617.4 | 622.3 | 584.2 |
| Goodwill | 2,374.8 | 2,394.5 | 2,519.4 |
| Other net | 556.9 | 383.9 | 427.6 |
| Invested Capital | 6,589.8 | 6,403.3 | 6,783.9 |

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Debt & Equity

| | <u>9/30/02</u> | <u>12/31/02</u> | <u>9/30/03</u> |
|--|----------------|-----------------|----------------|
| Total Capital | | | |
| Short Term Debt | 132.8 | 121.6 | 70.2 |
| Long Term Debt | 1,474.7 | 1,460.4 | 926.2 |
| Total Debt | <u>1,607.5</u> | <u>1,582.0</u> | <u>996.4</u> |
| Stockholders Equity | 6,498.2 | 6,649.0 | 7,399.7 |
| Total Capital | <u>8,105.7</u> | <u>8,231.0</u> | <u>8,396.1</u> |
| Less: | | | |
| Leasing & Investment Debt | (795.5) | (770.1) | (239.4) |
| Cash | (720.4) | (1,057.7) | (1,372.8) |
| Net Debt & Equity | <u>6,589.8</u> | <u>6,403.2</u> | <u>6,783.9</u> |
| | | | |
| Debt to Total Capital | <u>20%</u> | <u>19%</u> | <u>12%</u> |
| Debt to Total Capital (x L&I) | <u>12%</u> | <u>11%</u> | <u>12%</u> |

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Cash Flow

| | 2002 | 2003 |
|--|------------------|------------------|
| | <u>Q3</u> | <u>Q3</u> |
| Net Income | 245.5 | 268.9 |
| Adjust for Non-Cash Items | 78.5 | 69.2 |
| Changes in Operating Assets & Liab. | 55.9 | 57.1 |
| Net Cash From Operating Activities | 379.9 | 395.2 |
| Additions to Plant & Equipment | (59.8) | (60.8) |
| Proceeds from investments | 21.2 | 15.6 |
| Free Cash | 341.3 | 350.0 |
| Acquisitions | (13.7) | (73.8) |
| Investments | (15.4) | (67.0) |
| Dividends | (67.4) | (70.6) |
| Debt | (58.8) | (22.4) |
| Other | 49.1 | 22.6 |
| Net Cash Increase(Decrease) | 235.1 | 138.8 |

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Return on Invested Capital

| <u>Current Quarter</u> | 2002 <u>Q3</u> | 2003 <u>Q3</u> | F(U) <u>Prior Yr.</u> |
|------------------------------------|--------------------------|--------------------------|---------------------------------|
| Operating Income after taxes | 258.0 | 277.3 | 19.3 |
| Operating Margins | 10.7% | 11.0% | 0.3% |
| Average Invested Capital | 6,604.9 | 6,823.1 | 218.2 |
| Capital Turnover | 1.45 | 1.48 | 0.03 |
| Return on Average Invested Capital | 15.6% | 16.3% | 0.7% |

| <u>Year to Date</u> | 2002 <u>Q3</u> | 2003 <u>Q3</u> | F(U) <u>Prior Yr.</u> |
|------------------------------------|--------------------------|--------------------------|---------------------------------|
| Operating Income after taxes | 738.3 | 781.1 | 42.8 |
| Operating Margins | 10.5% | 10.5% | 0.0% |
| Average Invested Capital | 6,611.0 | 6,593.6 | (17.4) |
| Capital Turnover | 1.42 | 1.49 | 0.07 |
| Return on Average Invested Capital | 14.9% | 15.8% | 0.9% |

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Acquisitions

| | 2002 | | | | 2003 | | |
|---------------------------------|------|----|----|----|------|----|-----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Annual Revenues Acquired | 31 | 59 | 33 | 72 | 49 | 35 | 231 |
| Purchase Price | | | | | | | |
| Cash Paid | 35 | 57 | 14 | 82 | 44 | 30 | 74 |
| Stock Issued | - | - | - | - | - | - | - |
| Total | 35 | 57 | 14 | 82 | 44 | 30 | 74 |
| Number of Acquisitions | | | | | | | |
| North America | | | | | | | |
| Engineered Products | 2 | 1 | 1 | 1 | 1 | - | 3 |
| Specialty Systems | - | 2 | 1 | 2 | - | 2 | 1 |
| International | | | | | | | |
| Engineered Products | 1 | 2 | 1 | | - | 1 | 2 |
| Specialty Systems | 2 | 2 | 2 | 1 | 7 | 3 | 3 |
| Total | 5 | 7 | 5 | 4 | 8 | 6 | 9 |

Key Economic Data

- **Sept. '03 ISM: 53.7% is down slightly from 54.7% in August...but above 50 is good (growth/no growth line)**
- **US Industrial Production (ex. Tech.): -2.3% in Aug. '03 compared to -2.0% in July '03**
- **Euro-Zone Industrial Production Index: 50.1% in Sept. '03 vs. 49.1% in Aug. '03**
- **Other European indices mixed**

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Engineered Products – North America

| | 2002 | 2003 | F(U) Last Year | |
|---------------------------|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 766.0 | 774.9 | 8.9 | 1.2% |
| Operating Income | 128.0 | 130.8 | 2.8 | 2.2% |
| Operating Margins | 16.7% | 16.9% | 0.2% | |

Engineered Products-North America

Quarterly Analysis

| | <u>Revenue</u> | <u>Income</u> | <u>Margins</u> |
|------------------------------------|----------------|---------------|----------------|
| Base Business | | | |
| Operating Leverage | -2.6% | -6.4% | -0.7% |
| Non Volume Related | | 3.2% | 0.6% |
| Total | -2.6% | -3.2% | -0.1% |
| Acquisitions / Divestitures | 3.7% | 2.7% | -0.2% |
| Translation | 0.3% | 0.4% | 0.0% |
| Restructuring | | 2.3% | 0.4% |
| Other Revenue | -0.2% | | 0.1% |
| Total | 1.2% | 2.2% | 0.2% |

Engineered Products-North America

Key Points

- **ITW construction base revenues: +2% for Q3**
 - Commercial construction: slightly positive**
 - New housing: slightly positive**
 - Renovation/rehab: high single digit growth**
- **Wilsonart revenues flat for the quarter; flooring leads the way**
- **We expect commercial construction to be stable; new housing starts expected to grow modestly in Q4; renovation/rehab still vibrant**

Engineered Products-North America

Key Points

- **Auto base revenues: -8% for Q3**
- **Big 3 build rates: -9% for Q3**
 - **GM: -5%**
 - **Ford: -18%**
 - **Chrysler: -6%**
- **ITW estimate for Q4 builds: -8 to -10%; Wards: -4%**
- **ITW FY '03 estimate: -8%; Wards: -6%**
- **August Big 3 inventories: 62 days...better than 81 days on hand in March and 97 days in January**

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Engineered Products – International

| | 2002 | 2003 | F(U) Last Year | |
|---------------------------|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 394.7 | 460.9 | 66.2 | 16.8% |
| Operating Income | 59.2 | 63.6 | 4.3 | 7.3% |
| Operating Margins | 15.0% | 13.8% | -1.2% | |

Engineered Products-International

Quarterly Analysis

| | <u>% F(U) Prior Year</u> | | |
|------------------------------------|--------------------------|-------------------------|--------------------------|
| | <u>Operating Revenue</u> | <u>Operating Income</u> | <u>Operating Margins</u> |
| Base Business | | | |
| Operating Leverage | 0.7% | 1.9% | 0.2% |
| Non Volume Related | | -1.1% | -0.2% |
| Total | 0.7% | 0.8% | 0.0% |
| Acquisitions / Divestitures | 2.2% | 1.3% | -0.1% |
| Translation | 13.9% | 15.0% | 0.3% |
| Restructuring | | -9.8% | -1.4% |
| Total | 16.8% | 7.3% | -1.2% |

Engineered Products-International

Key Points

- **Construction base revenues: +2% in Q3**
 - **Europe: +1% growth (strength in UK, France and Germany)**
 - **Australia: +1% (better new housing)**
 - **Wilsonart Intl.: +6% (good activity in China/UK)**
- **Automotive base revenues: -1% in Q3**
 - **Builds: -3% ytd**
 - **BMW: -3.5%; Fiat: -13.3%; Ford: -2.9%; VW: -5.0%; Daimler: -4.5%; GM: +6.2%**
 - **ITW forecasted FY '03 builds: -3% to -4%**

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Specialty Systems-North America

| | 2002 | 2003 | F(U) Last Year | |
|---------------------------|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 857.1 | 849.2 | (7.9) | -0.9% |
| Operating Income | 145.4 | 154.2 | 8.8 | 6.1% |
| Operating Margins | 17.0% | 18.2% | 1.2% | |

Specialty Systems-North America

Quarterly Analysis

| | % F(U) Prior Year | | |
|------------------------------------|--------------------------|-------------------------|--------------------------|
| | <u>Operating Revenue</u> | <u>Operating Income</u> | <u>Operating Margins</u> |
| Base Business | | | |
| Base Operating Leverage | -3.6% | -9.2% | -1.0% |
| Base Non Volume | | 13.8% | 2.5% |
| Total | <u>-3.6%</u> | <u>4.6%</u> | <u>1.5%</u> |
| Acquisitions / Divestitures | 2.2% | 0.9% | -0.3% |
| Translation | 0.5% | 0.6% | 0.0% |
| Restructuring | | 0.0% | 0.0% |
| Total | <u><u>-0.9%</u></u> | <u><u>6.1%</u></u> | <u><u>1.2%</u></u> |

Specialty Systems-North America

Key Points

- **Food Equipment base revenues: -8% in Q3; supermarkets the weakest; restaurants better but still negative; parts and service positive revenues;**
- **Food Equipment operating margins improve +500 basis points in Q3 due to 80/20 programs**
- **Industrial packaging: Signode -4% base revenues in Q3; consumables lead while “cap ex” machinery still weak**
- **Welding base revenues: +3% in Q3**
- **Finishing base revenues: -5% in Q3**

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Specialty Systems-International

| | 2002 | 2003 | F(U) Last Year | |
|---------------------------|------------------|------------------|-----------------------|-----------------|
| | <u>Q3</u> | <u>Q3</u> | <u>Amount</u> | <u>%</u> |
| Operating Revenues | 441.0 | 502.4 | 61.5 | 14.0% |
| Operating Income | 45.8 | 53.5 | 7.6 | 16.6% |
| Operating Margins | 10.4% | 10.6% | 0.2% | |

Specialty Systems-International Quarterly Analysis

| | <u>% F(U) Prior Year</u> | | |
|------------------------------------|--------------------------|-------------------------|--------------------------|
| | <u>Operating Revenue</u> | <u>Operating Income</u> | <u>Operating Margins</u> |
| Base Business | | | |
| Base Operating Leverage | -4.7% | -16.6% | -1.3% |
| Base Non Volume | | 34.7% | 3.8% |
| Total | -4.7% | 18.1% | 2.5% |
| Acquisitions / Divestitures | 6.3% | 6.0% | 0.0% |
| Translation | 12.4% | 15.1% | 0.2% |
| Restructuring | | -22.6% | -2.5% |
| Total | 14.0% | 16.6% | 0.2% |

Specialty Systems-International

Key Points

- **Total packaging: -9% base revenues in Q3**
- **Signode led decline for industrial packaging:**
 - Europe: -10%**
 - Asia/Pacific: -2%**
 - sales due to consumables rather than machinery**
- **Food Equipment: base revenues +3%...operating margins improve more than 400 basis points in Q3**
- **Finishing: base revenues -5% in Q3**

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2003 Forecast

| | <u>Low</u> | <u>High</u> | <u>Mid Point</u> | <u>%F(U)</u> <u>2002</u> |
|---------------------------|------------|-------------|------------------|-----------------------------|
| <u>4th Quarter</u> | | | | |
| Base Revenues | -4% | 0% | -2% | |
| Income Per Share-Diluted | \$0.79 | \$0.89 | \$0.84 | 13% |
| <u>Full Year</u> | | | | |
| Base Revenues | -3% | -2% | -3% | |
| Income Per Share-Diluted | \$3.23 | \$3.33 | \$3.28 | 9% |

ITW 2003 Forecast

Key Assumptions

- **Exchange rates hold at September 30, 2003 levels.**
- **Acquired revenues in the \$400 to \$600 million range.**
- **Restructuring cost of \$65 to \$70 million.**
- **Tax rate of 35%**

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Q & A

**Third Quarter
2003**