

# Key Performance Indicators & Non-GAAP Measures

Management reviews a variety of key performance indicators including revenue, segment operating income and margins, earnings per share, order growth, and backlog, some of which are non-GAAP financial measures. In addition, we consider certain measures to be useful to management and investors when evaluating our operating performance for the periods presented. These measures provide a tool for evaluating our ongoing operations and management of assets from period to period. This information can assist investors in assessing our financial performance and measures our ability to generate capital for deployment among competing strategic alternatives and initiatives, including, but not limited to, acquisitions, dividends and share repurchases. These metrics, however, are not measures of financial performance under accounting principles generally accepted in the United States of America (GAAP) and should not be considered a substitute for measures determined in accordance with GAAP. We consider the following non-GAAP measures, which may not be comparable to similarly titled measures reported by other companies, to be key performance indicators.

**Organic Revenue** and **Organic Orders** are defined as revenue and orders, excluding the impacts of foreign currency fluctuations, acquisitions and divestitures. Divestitures include sales of portions of our business that did not meet the criteria for presentation as a discontinued operation. The period-over-period change resulting from foreign currency fluctuations is estimated using a fixed exchange rate for both the current and prior periods. Management believes that reporting organic revenue and organic orders provides useful information to investors by helping identify underlying trends in our business and facilitating easier comparisons of our revenue performance with prior and future periods and to our peers.

**Adjusted Operating Income, Adjusted Segment Operating Income** and **Adjusted Segment Operating Margin** are defined as total operating income and segment operating income, adjusted to exclude special items that include, but are not limited to, asbestos-related costs, restructuring costs, realignment costs, certain asset impairment charges, certain acquisition-related expenses, and unusual or infrequent operating items. Special items represent significant charges or credits that impact the current results, which management views as unrelated to the Company's ongoing operations and performance. Adjusted segment operating margin is defined as adjusted segment operating income divided by total revenue. We believe that these measures are useful to investors and other users of our financial statements in evaluating ongoing operating profitability, as well as in evaluating operating performance in relation to our competitors.

**Adjusted Income from Continuing Operations, Adjusted EPS** and **Adjusted EPS Guidance** are defined as income from continuing operations attributable to ITT Inc. and income from continuing operations attributable to ITT Inc. per diluted share, adjusted to exclude special items that include, but are not limited to, asbestos-related costs, restructuring costs, realignment costs, certain asset impairment charges, certain acquisition-related expenses, income tax settlements or adjustments, and other unusual and infrequent non-operating items. Special items represent significant charges or credits, on an after-tax basis, that impact current results, which management views as unrelated to the Company's ongoing operations and performance. We believe that adjusted income from continuing operations is useful to investors and other users of our financial statements in evaluating ongoing operating profitability, as well as in evaluating operating performance in relation to our competitors.

**Adjusted Free Cash Flow** is defined as net cash provided by operating activities less capital expenditures, adjusted for cash payments for restructuring costs, realignment actions, net asbestos cash flows and other significant items that impact current results which management views as unrelated to the Company's ongoing operations and performance. Due to other financial obligations and commitments, including asbestos, the entire free cash flow may not be available for discretionary purposes. We believe that adjusted free cash flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated by our operations.



**ITT Inc. Non-GAAP Reconciliation**  
**Reported vs. Organic Revenue / Order Growth**  
**Third Quarter 2017 & 2016**  
(In Millions)

	(As Reported - GAAP)				(As Adjusted - Organic)				
	(A) 3M 2017	(B) 3M 2016	(C) Change 2017 vs. 2016	% Change 2017 vs. 2016	(D) Acquisition / Divestitures 3M 2017	(E) FX Impact 3M 2017	(F) = A-D-E Revenue / Orders 3M 2017	(G) =C-D-E Change Adj. 2017 vs. 2016	(H) = G / B % Change Adj. 2017 vs. 2016
<b>Revenues</b>									
<b>ITT Inc. - Consolidated</b>	<b>645.0</b>	<b>581.7</b>	<b>63.3</b>	<b>10.9%</b>	<b>19.6</b>	<b>15.6</b>	<b>609.8</b>	<b>28.1</b>	<b>4.8%</b>
Industrial Process	196.2	195.0	1.2	0.6%	-	1.4	194.8	(0.2)	(0.1%)
Motion Technologies	300.1	238.7	61.4	25.7%	19.6	13.5	267.0	28.3	11.9%
Connect & Control Technologies	149.4	149.0	0.4	0.3%	-	0.7	148.7	(0.3)	(0.2%)
<b>Orders</b>									
<b>Total Segment Orders</b>	<b>658.6</b>	<b>573.4</b>	<b>85.2</b>	<b>14.9%</b>	<b>21.5</b>	<b>15.8</b>	<b>621.3</b>	<b>47.9</b>	<b>8.4%</b>
Industrial Process	193.3	198.9	(5.6)	(2.8%)	-	1.5	191.8	(7.1)	(3.6%)
Motion Technologies	323.7	236.8	86.9	36.7%	21.5	13.7	288.5	51.7	21.8%
Connect & Control Technologies	142.5	139.1	3.4	2.4%	-	0.6	141.9	2.8	2.0%

Note: Excludes intercompany eliminations  
Immaterial differences due to rounding



**ITT Inc. Non-GAAP Reconciliation**  
**Reported vs Adjusted Segment Operating Income & Operating Margin**  
**Third Quarter 2017 & 2016**  
(In Millions)

	3M 2017	3M 2017	3M 2017	3M 2016	3M 2016	3M 2016	% Change	% Change
	As Reported	Special Items	As Adjusted	As Reported	Special Items	As Adjusted	As Reported 2017 vs. 2016	As Adjusted 2017 vs. 2016
<b>Revenue:</b>								
Industrial Process	196.2		196.2	195.0		195.0	0.6%	0.6%
Motion Technologies	300.1		300.1	238.7		238.7	25.7%	25.7%
Connect & Control Technologies	149.4		149.4	149.0		149.0	0.3%	0.3%
Intersegment eliminations	(0.7)		(0.7)	(1.0)		(1.0)		
<b>Total Revenue</b>	<b>645.0</b>		<b>645.0</b>	<b>581.7</b>		<b>581.7</b>	<b>10.9%</b>	<b>10.9%</b>
<b>Operating Margin:</b>								
Industrial Process	5.0%	360 BP	8.6%	2.2%	150 BP	3.7%	280 BP	490 BP
Motion Technologies	16.4%	110 BP	17.5%	18.9%	70 BP	19.6%	(250) BP	(210) BP
Connect & Control Technologies	11.7%	220 BP	13.9%	11.7%	90 BP	12.6%	- BP	130 BP
<b>Total Operating Segments</b>	<b>11.9%</b>	<b>210 BP</b>	<b>14.0%</b>	<b>11.5%</b>	<b>100 BP</b>	<b>12.5%</b>	<b>40 BP</b>	<b>150 BP</b>
<b>Income (loss):</b>								
Industrial Process	9.9	6.9	16.8	4.3	2.9	7.2	130.2%	133.3%
Motion Technologies	49.1	3.4	52.5	45.2	1.7	46.9	8.6%	11.9%
Connect & Control Technologies	17.5	3.2	20.7	17.4	1.3	18.7	0.6%	10.7%
<b>Total Segment Operating Income</b>	<b>76.5</b>	<b>13.5</b>	<b>90.0</b>	<b>66.9</b>	<b>5.9</b>	<b>72.8</b>	<b>14.3%</b>	<b>23.6%</b>

Note: Immaterial differences due to rounding.

Special items include, but are not limited to, restructuring and realignment costs, certain asset impairment charges, acquisition-related expenses, and other unusual or infrequent operating items.



**ITT Inc. Non-GAAP Reconciliation**  
**Reported vs. Adjusted Income from Continuing Operations & Adjusted EPS**  
**Third Quarter 2017 & 2016**  
(In Millions, except per share amounts)

	<u>Q3 2017</u> <u>As Reported</u>	<u>Non-GAAP</u> <u>Adjustments</u>	<u>Q3 2017</u> <u>As Adjusted</u>	<u>Q3 2016</u> <u>As Reported</u>	<u>Non-GAAP</u> <u>Adjustments</u>	<u>Q3 2016</u> <u>As Adjusted</u>	<u>2017 vs. 2016</u> <u>As Adjusted</u>	<u>Percent Change</u> <u>2017 vs. 2016</u> <u>As Adjusted</u>
Segment Operating Income	76.5	13.5 #A	90.0	66.9	5.9 #A	72.8		
Corporate (Expense)	51.3	(62.9) #B	(11.6)	67.9	(67.4) #B	0.5		
Operating Income	<u>127.8</u>	<u>(49.4)</u>	<u>78.4</u>	<u>134.8</u>	<u>(61.5)</u>	<u>73.3</u>		
Interest Income (Expense)	(0.4)	-	(0.4)	(0.2)	(0.5) #C	(0.7)		
Other Income (Expense)	0.2	-	0.2	(0.1)	-	(0.1)		
Income from Continuing Operations before Tax	<u>127.6</u>	<u>(49.4)</u>	<u>78.2</u>	<u>134.5</u>	<u>(62.0)</u>	<u>72.5</u>		
Income Tax (Expense)	(40.6)	20.5 #D	(20.1)	(46.1)	25.7 #D	(20.4)		
Income from Continuing Operations	<u>87.0</u>	<u>(28.9)</u>	<u>58.1</u>	<u>88.4</u>	<u>(36.3)</u>	<u>52.1</u>		
Less: Non Controlling Interest	-	-	-	0.1	-	0.1		
Income from Continuing Operations - ITT Inc.	<u>87.0</u>	<u>(28.9)</u>	<u>58.1</u>	<u>88.3</u>	<u>(36.3)</u>	<u>52.0</u>		
EPS from Continuing Operations	<u>0.98</u>	<u>(0.32)</u>	<u>0.66</u>	<u>0.98</u>	<u>(0.40)</u>	<u>0.58</u>	<u>0.08</u>	13.8%

Note: Amounts may not calculate due to rounding.

#A - 2017 includes restructuring and realignment costs (\$6.5M), pension settlement costs (\$3.7), and acquisition related costs (\$3.3M).

#A - 2016 includes restructuring and realignment costs (\$5.3M), acquisition related costs (\$0.6M).

#B - 2017 includes restructuring income (\$0.6M), certain costs associated primarily with sale of excess property and other acquisition related costs (\$0.5M) and asbestos related income (\$62.8M).

Note: (\$62.8M) net asbestos related income includes adjustment to maintain 10 year accrual (\$13.6M) and remeasurement income of (\$76.4M).

#B - 2016 includes realignment costs of (\$0.7M); asbestos related income of (\$68.1M).

Note: (\$68.1M) net asbestos related income includes adjustment to maintain 10 year accrual (\$13.7M) and remeasurement income of (\$81.8M).

#C - 2016 includes interest income for a change in uncertain tax position.

#D -2017 includes various tax-related special items including tax expense on distribution of foreign earnings (\$1.4M), and the tax impact of other operating special items.

#D - 2016 includes various tax-related special items, including tax expense on distribution of foreign earnings (\$1.9M), tax expense on undistributed foreign earnings (\$21.7M), tax benefit on valuation allowance changes (\$4.5M), tax benefit on return to accruals (\$3.9M), tax benefit for changes in uncertain tax positions (\$11.0M), in addition to the tax impact of other operating special items.



**ITT Inc. Non-GAAP Reconciliation**  
**Net Cash - Operating Activities vs. Adjusted Free Cash Flow Conversion**  
**Third Quarter 2017 & 2016**  
(In Millions)

	<u>9M 2017</u>	<u>9M 2016</u>
<b>Net Cash - Operating Activities</b>	<b>178.4</b>	<b>146.7</b>
Capital Expenditures	79.2	68.1
<b>Free Cash Flow</b>	<b><u>99.2</u></b>	<b><u>78.6</u></b>
Realignment Related Cash Payments, including Capex	9.0	4.2
Restructuring Cash Payments	13.8	22.7
Asbestos Cash Payments, net	39.5	24.5
Discretionary Pension Contributions, net of tax	3.2	-
<b>Adjusted Free Cash Flow</b>	<b><u>164.7</u></b>	<b><u>130.0</u></b>
<b>Income from Continuing Operations - ITT Inc.</b>	<b>181.0</b>	<b>158.3</b>
Special Items	(7.6)	7.2
<b>Income from Continuing Operations - ITT Inc., Excluding Special Items</b>	<b><u>173.4</u></b>	<b><u>165.5</u></b>
<b>Adjusted Free Cash Flow Conversion</b>	<b><u>95.0%</u></b>	<b><u>78.5%</u></b>



## ITT Inc. Non-GAAP Reconciliation GAAP vs. Adjusted EPS Guidance Full Year 2017

	2017 Full-Year Guidance	
	Low	High
<b>EPS from Continuing Operations - GAAP</b>	<b>\$ 2.34</b>	<b>\$ 2.45</b>
Estimated Asbestos Related Costs, Net of Tax	(0.13)	(0.13)
	<b>\$ 2.21</b>	<b>\$ 2.32</b>
Estimated Restructuring, Realignment and Other Costs, Net of Tax	0.25	0.21
Acquisition Related Costs, Net of Tax	0.10	0.08
Other Special Tax Items	(0.06)	(0.06)
<b>EPS from Continuing Operations - Adjusted</b>	<b>\$ 2.50</b>	<b>\$ 2.55</b>

