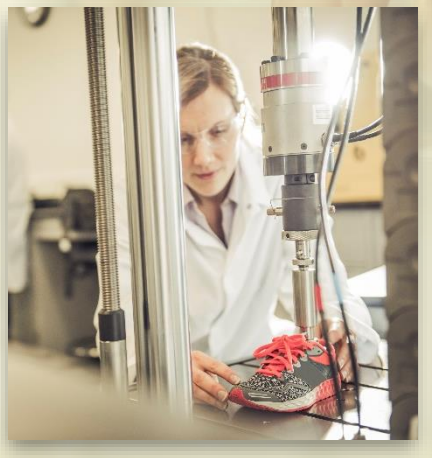
Progress on our Path to Full Potential

December 2, 2016



Illinois Tool Works
2016 Investor Day













Presenters



E. SCOTT SANTI

Chairman & CEO

34
YEARS WITH ITW

CEO SINCE
2012



CHRISTOPHER A. O'HERLIHY

Vice Chairman

27
YEARS WITH ITW

VICE CHAIRMAN SINCE
2015



DAVID C. PARRY

Vice Chairman

22
YEARS WITH ITW

VICE CHAIRMAN SINCE
2010



MICHAEL M. LARSEN

SVP & CFO

4
YEARS WITH ITW

CFO SINCE
2013

Forward-Looking Statements

SAFE HARBOR STATEMENT

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, without limitation, statements regarding the expected impact and timing of strategic initiatives and related benefits, future financial performance, operating performance, growth in free cash flow, organic and total revenue growth, operating margin growth, growth in diluted income per share from continuing operations, growth in ROIC, expected total shareholder returns, restructuring expenses and related benefits, tax rates, exchange rates, timing and amount of share repurchases, end-market economic conditions, and the Company's related 2016 and 2017 guidance. These statements are subject to certain risks, uncertainties, 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 2015 and Form 10-Q for the third quarter of 2016.

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 Form 10-K for 2015 and the appendix of this presentation, which are available at www.itw.com, together with this presentation.

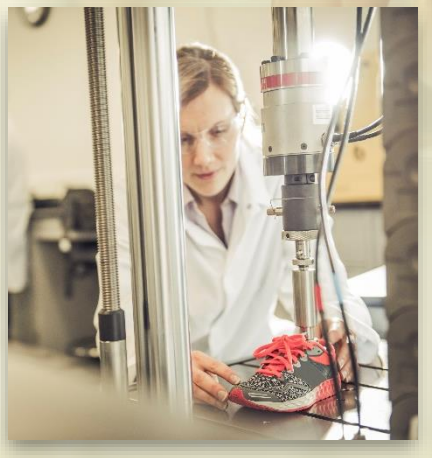
Agenda

1. ENTERPRISE STRATEGY UPDATE
2. FUTURE FINANCIAL PERFORMANCE AND TARGET UPDATES
3. 2017 GUIDANCE
4. BREAK
5. Q&A

Enterprise Strategy Update

Illinois Tool Works
2016 Investor Day







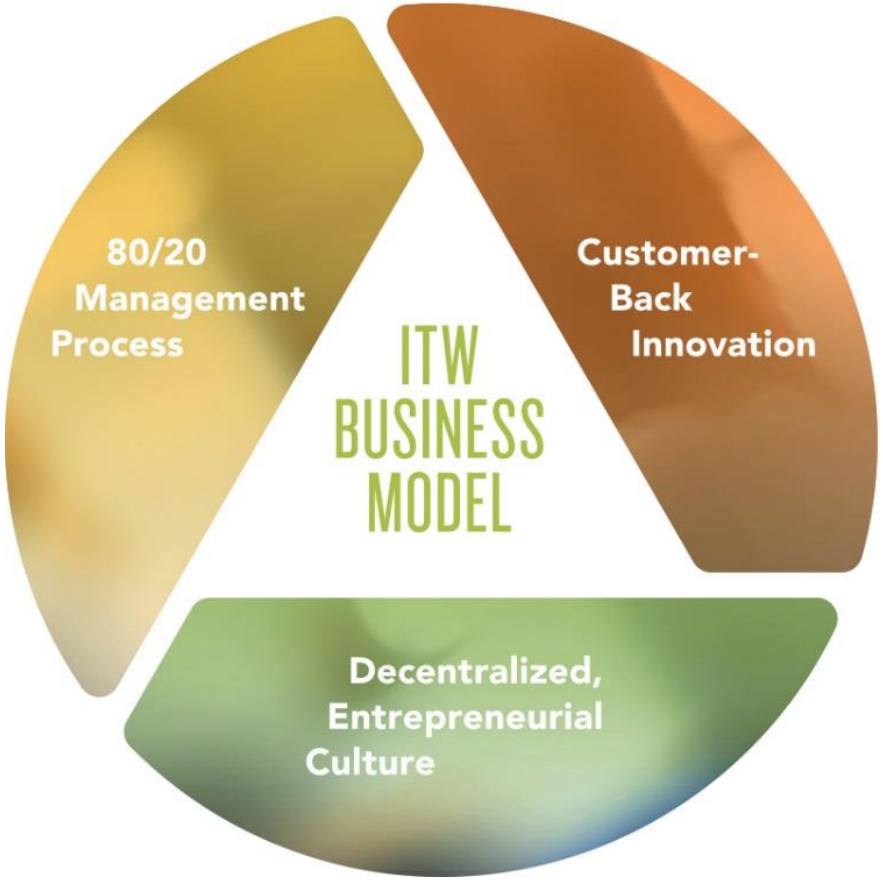








The Driver of ITW's Differentiated Performance



- A set of **HIGHLY POWERFUL AND PROPRIETARY** business practices and capabilities
- The **CORE SOURCE** of our **COMPETITIVE ADVANTAGE**
- **ITW's "SECRET SAUCE"**

80/20 Business Management Process



- **PROPRIETARY** operating **SYSTEM**
- Structure and **FOCUS** our businesses to **UNIQUELY SATISFY** the needs of our **LARGEST** and **MOST PROFITABLE CUSTOMERS,** and …
- Minimize **COST**, **COMPLEXITY** and **DISTRACTIONS** associated with serving **SMALL CUSTOMERS**
- Drives **BEST-IN-CLASS** total **COST PRODUCTIVITY** and **CUSTOMER-FACING EXECUTION**

Customer-Back Innovation



- "Go-To" **PROBLEM SOLVER** for our "80" customers
- We don't invent new science, we **INVENT NEW WAYS TO APPLY KNOWN SCIENCE**
- **LOWER COST, LOWER RISK, HIGHER VELOCITY**
- Has fueled **DECADES OF PROFITABLE GROWTH** at ITW
- Portfolio of **16,000 PATENTS**

Decentralized, Entrepreneurial Culture



- The engine that translates ITW's **STRATEGY INTO RESULTS**
- Our people thrive in ITW's **"FLEXIBILITY WITHIN OUR FRAMEWORK"** culture:

  Our Framework:
  - ITW Business Model
  - ITW's Enterprise Strategy
  - ITW Values
- We think and act like **ENTREPRENEURS**, we are **ACCOUNTABLE** and **WE DELIVER**
- A significant source of sustainable **COMPETITIVE ADVANTAGE** for ITW

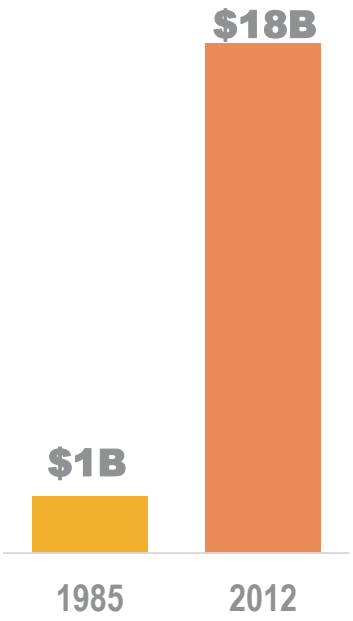
1985 to 2012

Development of **80/20** as ITW's proprietary management process begins in 1985

Acquisition driven growth strategy takes root and accelerates over the period

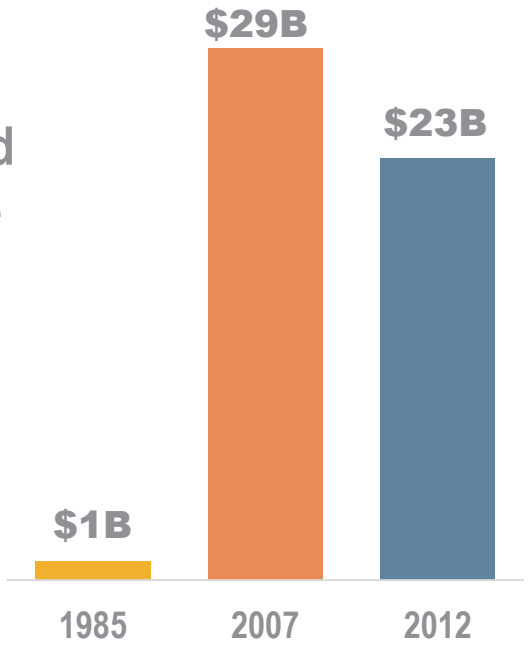
600+
Acquisitions

REVENUE GROWTH



MARKET CAPITALIZATION

2007-2012: Sustaining differentiated performance becoming increasingly challenging



2010 to 2012:
Senior Management Team Evaluates ITW's Strategy and Performance

Was the ITW Business Model **RUNNING OUT OF GAS?**

NO

Numerous individual ITW businesses were delivering solid growth with best-in-class margins and returns

What would it take to deliver **BEST-IN-CLASS PERFORMANCE** at the **TOTAL ENTERPRISE LEVEL?**

Answering that question resulted in ITW's current Enterprise Strategy

Drivers of ITW's Change in Strategy

Changes in the **INTERNAL AND EXTERNAL** environment drives the need to **CHANGE OUR STRATEGY** as to how we are applying the **ITW BUSINESS MODEL**:

ACQUISITION-DRIVEN GROWTH
not sustainable

Increasing **COMPLEXITY / FRAGMENTATION** of ITW's organization

Increasingly **GLOBAL** and **COMPETITIVELY INTENSE** operating environment

ITW's Enterprise Strategy

1

NARROW THE FOCUS AND IMPROVE THE QUALITY OF ITW'S BUSINESS PORTFOLIO

Sustainable differentiation becomes a "must-have"

2

SIMPLIFY AND SCALE-UP ITW'S OPERATING STRUCTURE

Business Structure Simplification

3

BETTER LEVERAGE ITW'S SCALE TO IMPROVE GLOBAL COMPETITIVENESS

Strategic Sourcing

4

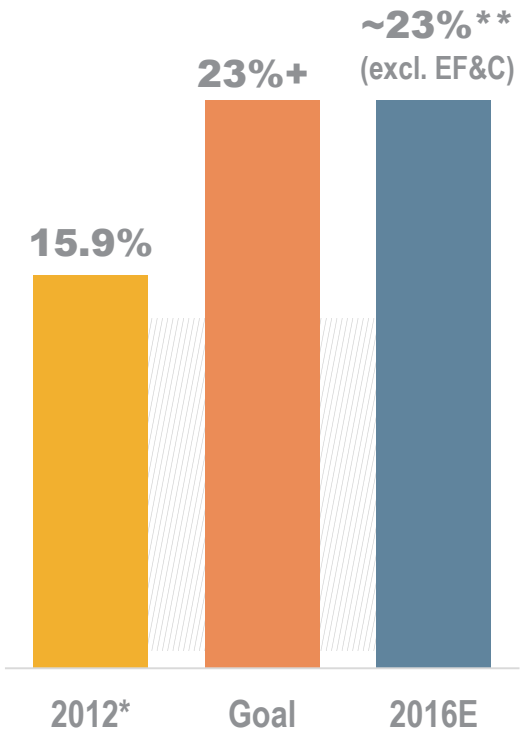
SHIFT PRIMARY GROWTH FOCUS

From acquisition to organic

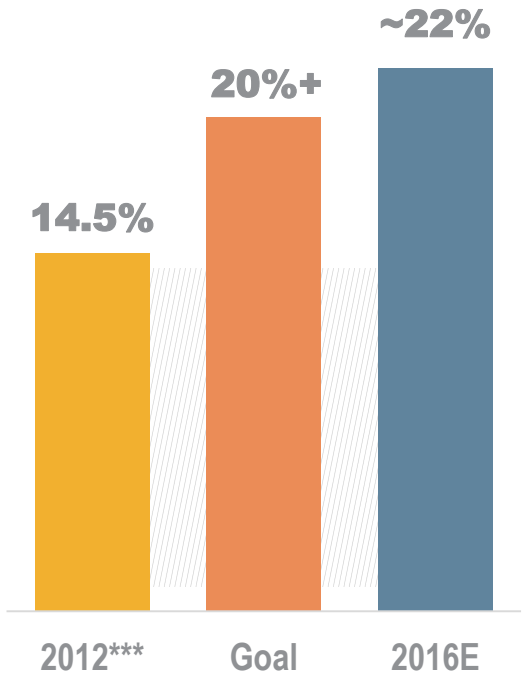
Enterprise Strategy Performance

We have essentially **ACHIEVED OUR 2017 PERFORMANCE GOALS** with more work to do to **SUSTAIN ORGANIC GROWTH ACCELERATION**

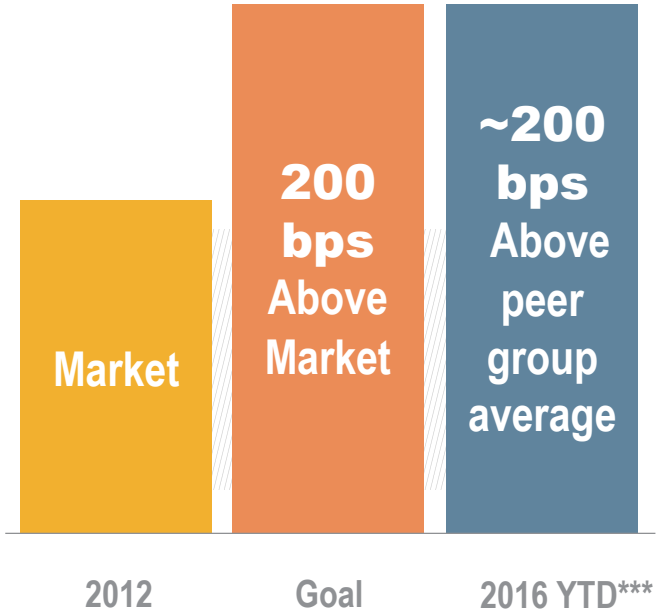
OPERATING MARGIN



AFTER-TAX ROIC



ORGANIC GROWTH



*As reported in the 2012 Form 10-K
** Operating margin of 22.5%+ including EF&C. See 2016 Guidance slide on page 61.
***See appendix for the GAAP to Non-GAAP reconciliation and peer group definition.

Is ITW Getting Close to "Maxing-Out" our Current Strategy?

Despite our **CONSIDERABLE PROGRESS**

And the fact that our performance is nearing **"BEST-IN-CLASS" LEVELS**

We have significant opportunity for further improvement before **ITW** is operating at its **FULL POTENTIAL**

Significant Opportunity Remains

1

ADDITIONAL STRUCTURAL MARGIN IMPROVEMENT POTENTIAL

2

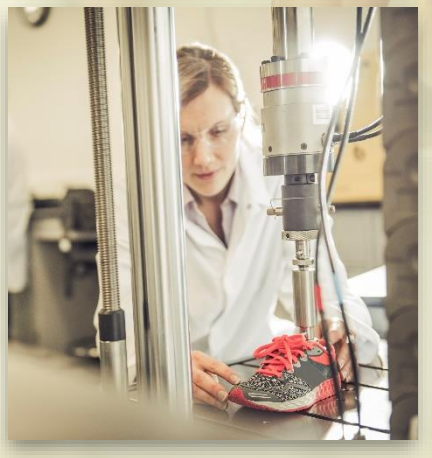
SUSTAINED ABOVE-MARKET ORGANIC GROWTH WITH STRONG INCREMENTAL PROFITABILITY

Illinois Tool Works
2016 Investor Day

Additional Structural Margin Improvement Potential

- 80/20 Performance Improvement
- Strategic Sourcing















The 80/20 Management Process at ITW

A **UNIQUE** and **PROPRIETARY** methodology used as the **CORE** operating framework in all ITW Divisions

TRUE 80/20 IS A HOLISTIC BUSINESS RE-DESIGN PROCESS

- Improves the whole business
- Complete set of interconnected tools
- Heavily data driven
- Continuously improved and refined over thirty years
- Proven to deliver best-in-class results

What Makes 80/20 Unique and Powerful?

Our **FOCUS** on the "80" creates **COMPETITIVE ADVANTAGE** over more traditional approaches which place the same focus on all customers and products, regardless of their value



For **"80" PRODUCTS,** we implement proprietary ITW Management Techniques

BEST-IN-CLASS TOTAL COST PRODUCTIVITY

For **"80" CUSTOMERS,** we deploy targeted resources to deliver superior added-value

BEST-IN-CLASS CUSTOMER FACING EXECUTION:
Product Performance, Delivery, Quality

Enterprise Strategy Impact on 80/20 Performance

Execution of the Enterprise Strategy has raised the bar on the

PERFORMANCE POWER

of our 80/20 Management Process



Results in step-change improvement in the

MARGIN PERFORMANCE POTENTIAL

of ITW's 80/20 Management Process

Step Change in Margin Improvement Potential

In 2012,
Operating Margins
averaged
16% and **20%+**
margins were
considered
"Best-in-Class"



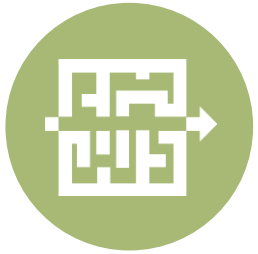
Today, "average"
at ITW = **23%**
OPERATING MARGIN

Increase in Performance Potential of 80/20

THREE KEY DRIVERS



Portfolio
Quality
Improvement



Business
Structure
Simplification



Completely
Re-designed
80/20 Application
Methodology

Portfolio Quality Improvement

Key criteria:
SUSTAINABLE DIFFERENTIATION
is a must have

The portfolio initiative "stacked the deck" by providing us with a
HIGHER QUALITY OF ASSETS
and therefore better "raw material" to leverage 80/20

Business Structure Simplification



Business Structure Simplification was a big ENABLER

Scaled up Divisional structure created

- Larger and more targeted opportunities to implement holistic 80/20
- Higher caliber of ITW Leader to drive implementation
- Easier to clarify expectations and mobilize the organization to drive consistent high-level quality of 80/20 practice

Implemented Re-Designed 80/20 Management Process

80/20

RE-DESIGNED and
STANDARDIZED
the entire process utilizing
the **BEST APPROACHES**
AND TECHNIQUES
from across the company

Increase in Performance Potential of 80/20

80/20

STEP CHANGE IMPROVEMENT
in Margin Improvement Potential:

- Improved Portfolio Quality
- Business Structure Simplification
- Complete Process Re-Design

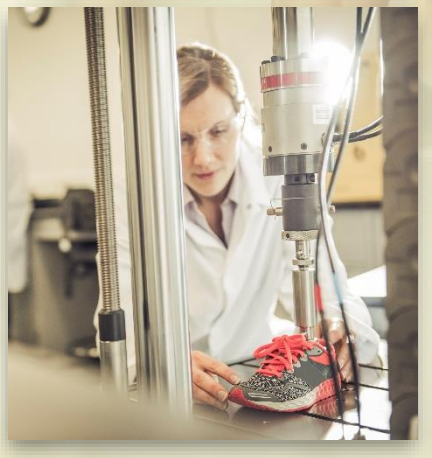
ONGOING SUSTAINABLE IMPROVEMENT
in Operating Margin:

- Start of Enterprise Strategy: Avg = 16%
- Current: Avg = 23%
- Future: Avg = ?

Strategic Sourcing

Illinois Tool Works
2016 Investor Day







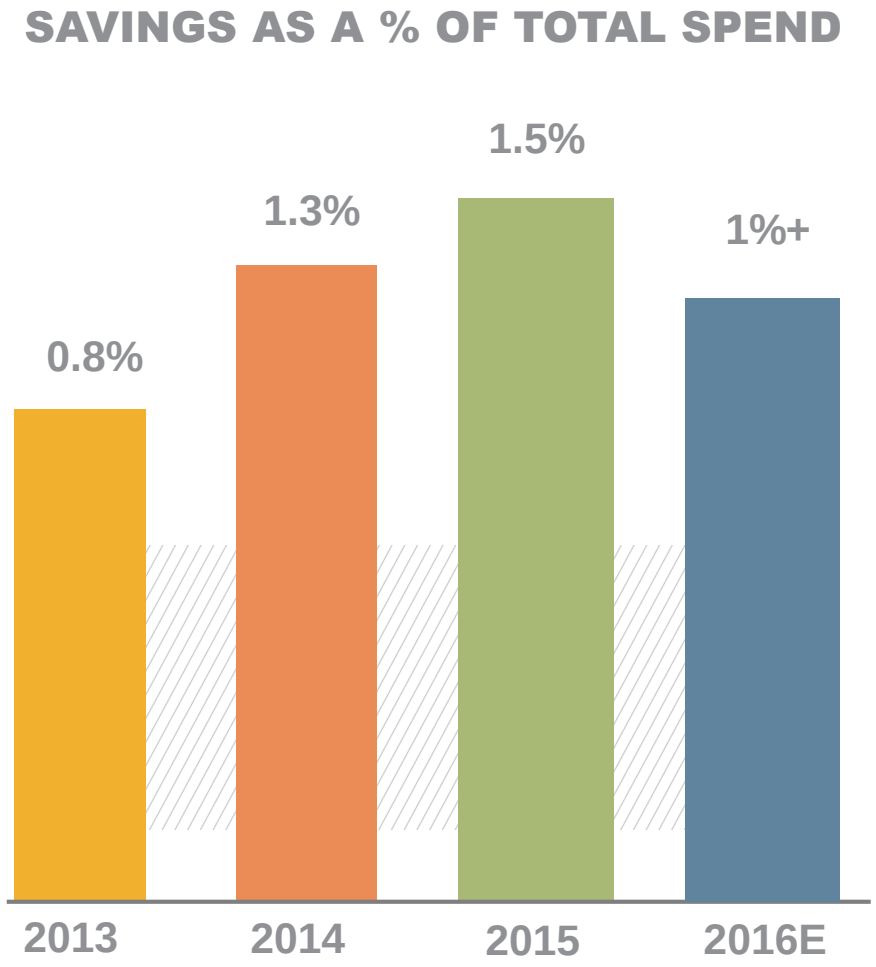








Established Strategic Sourcing as a Core Capability



- Consistently exceeding our goal of **1%** average reduction in spend per year
- Real **SAVINGS**, not "deferred increases" or "cost avoidance"

Sourcing is a Core Element of ITW's Operational Excellence

Built a fit-for-purpose, effective and well-integrated sourcing organization at both the **ENTERPRISE** and **SEGMENT** levels

80/20 enabled

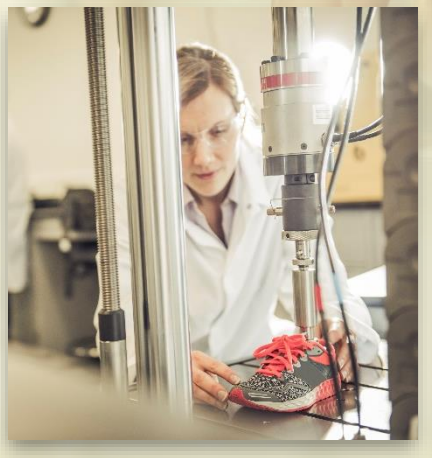
A **SUSTAINABLE** enterprise-wide capability

Expect to achieve savings of **~1% AVERAGE REDUCTION** in spend/year in 2017 and 2018

Sustained Above-Market Organic Growth

Illinois Tool Works
2016 Investor Day















Organic Growth Framework

OBJECTIVE:

Achieve **ABOVE-MARKET** high quality **ORGANIC GROWTH** through the implementation of ITW's growth levers focused on "80" opportunities

1 PREPARE TO GROW

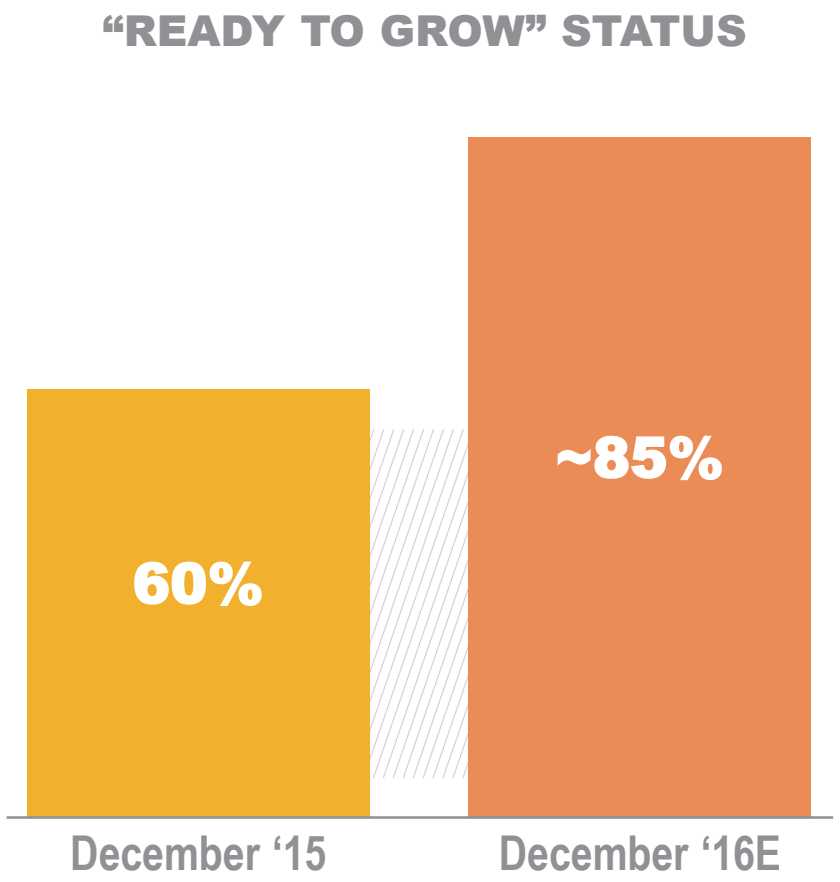
2 FOCUS ON BEST OPPORTUNITIES

- 80/20 "80" products/customers/end-markets and customer-back innovation opportunities

3 EXECUTE ITW's GROWTH LEVERS

- Market Penetration
- Customer-Back Innovation

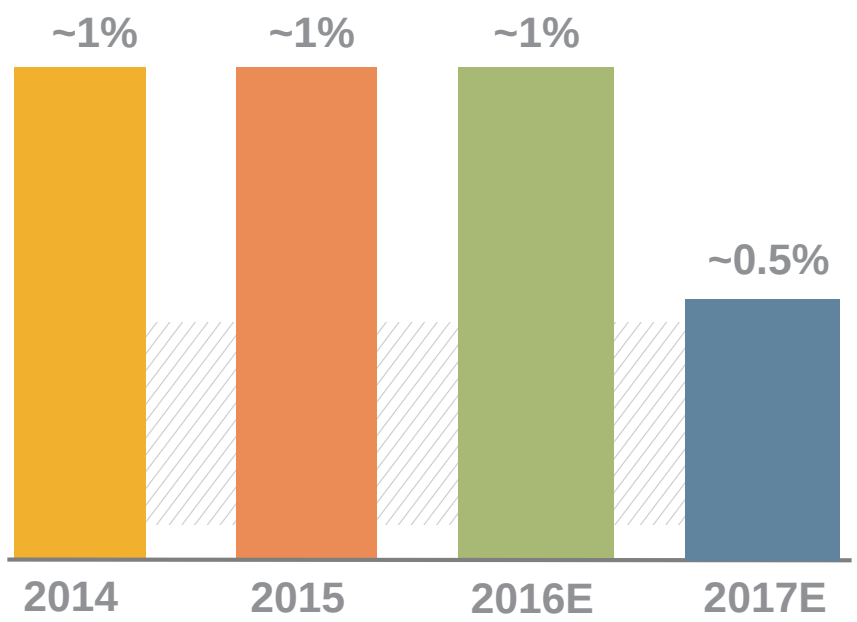
Prepare to Grow



- A **CRITICAL PREPARATORY STEP** is to be **"READY TO GROW"** … we optimize the existing division before growing it
- Using this process, we ensure that each of our businesses are **SIMPLIFIED, OPERATIONALLY SOLID, FINANCIALLY STRONG** and "ready to grow" at ITW caliber margins and returns

Final Stages of our Portfolio Repositioning Efforts

PRODUCT LINE SIMPLIFICATION (PLS) IMPACT



BY 2016, WE WILL HAVE EXITED ~$360M OF SLOWER GROWTH PRODUCT LINES

- PLS is a **KEY PART** of our overall Enterprise Portfolio Strategy
- We ensure that our divisions have a simplified and focused product offering which is **"READY TO GROW"** at ITW caliber margins and returns
- Focus on products that offer **DIFFERENTIATED SOLUTIONS** to our "80" customers

Organic Growth Framework

The **OPPORTUNITY**

Continue Investment in

CUSTOMER-BACK INNOVATION

A strength for many years

Strengthen

FOCUS ON MARKET PENETRATION

Customer-Back Innovation

SERIAL CUSTOMER-BACK INNOVATION
focused on
"80" CUSTOMERS
and **END MARKETS**

Has fueled
DECADES OF PROFITABLE GROWTH
at ITW

TARGET:

Sustain **CURRENT** level of innovation execution / productivity

Continued **1%+ ANNUAL CONTRIBUTION** to Above-Market Organic Growth

Market Penetration

"80" Products to "80" Customers

Aggressively target opportunities to fully leverage the considerable share gain potential that resides in our **LARGEST** and most **DIFFERENTIATED** existing product offerings and customer relationships

Incremental **1%+** **CONTRIBUTION** to Annual Above-market Organic Growth

New "80" Customers

Leverage proven competitive advantages in highly differentiated product offerings to target and penetrate **NEW END USERS** with characteristics and "pain points" similar to existing "80" customers

Incremental **0.5%+** **CONTRIBUTION** to Annual Above-market Organic Growth

Significant opportunity to better leverage our 80/20 process to deliver best-in-class **CUSTOMER-FACING PERFORMANCE**

Leverage 80/20 Management Process to Deliver Best-in-Class Customer Facing Performance

80/20 is also about excellence
"WHERE THE BUSINESS MEETS THE CUSTOMER"

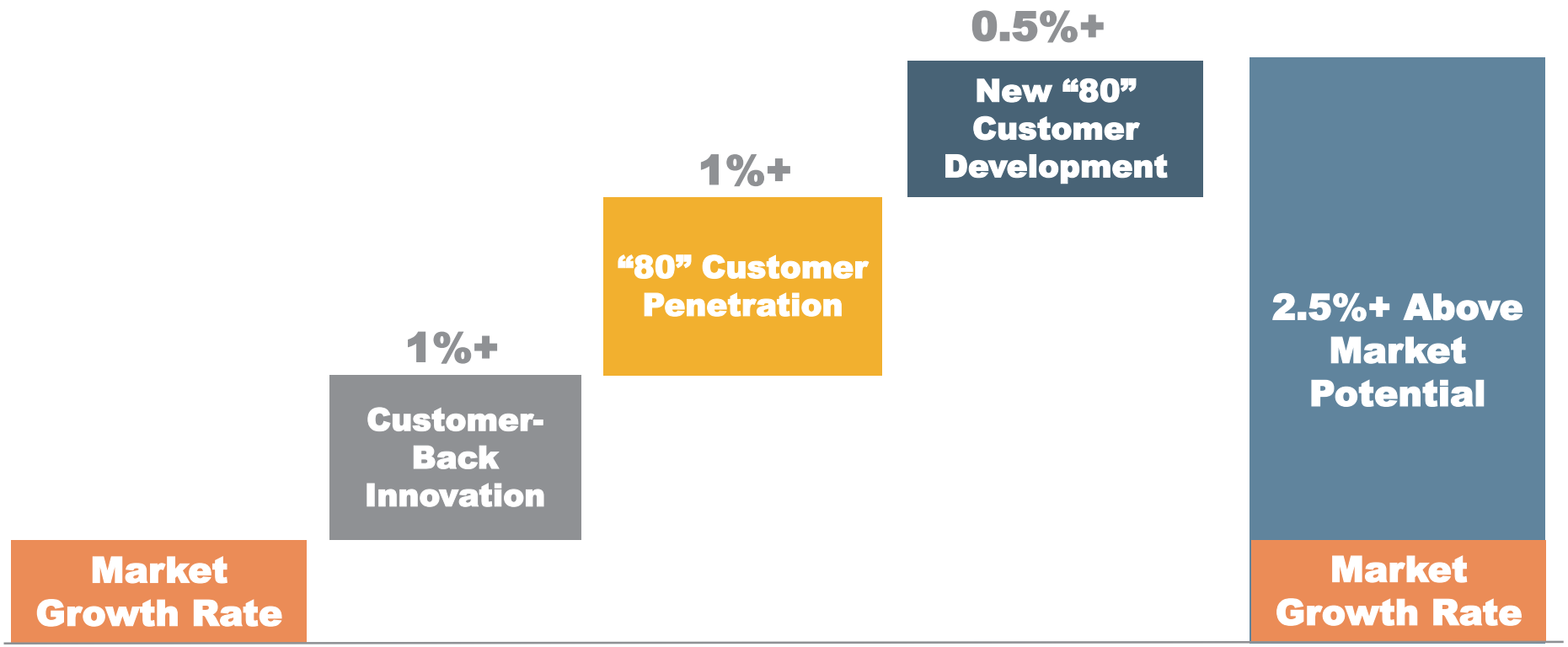
SERVICE and **QUALITY** excellence are a natural outcome of 80/20, helping us to continuously and significantly outperform our competition

On an **ENTERPRISE WIDE** basis, we have underappreciated the significant role that this competitive advantage can play in our market penetration strategy …
WE ARE NOW BEGINNING TO ADDRESS THIS

Progress

- ✓ Articulated **ORGANIC GROWTH FOCUS** and growth goals with mission clarity across the whole enterprise
- ✓ Completed major **PORTFOLIO RESHAPING** to align with organic growth focus
- ✓ Significant effort to **PREPARE DIVISIONS** (post-BSS) for growth
  — 80/20 enabled, tightly focused, operationally strong
- ✓ Elevated focus on **LEVERAGING CUSTOMER-FACING BENEFITS** of 80/20 to support our market penetration strategy
- ✓ Developed and **COMMUNICATED** ITW growth framework
- ✓ Aligned performance **INCENTIVES**

Sustained Above-Market Organic Growth

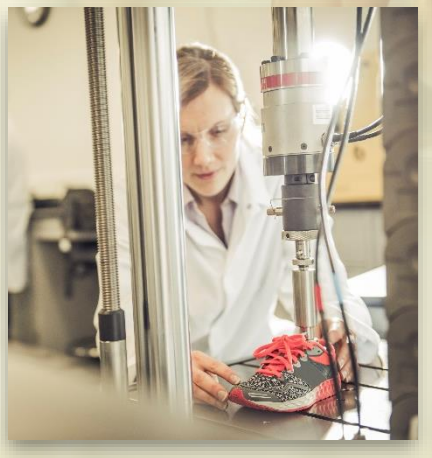


CLEAR PATH TO SUSTAINED ABOVE-MARKET ORGANIC GROWTH

High Quality/Diversified Business Portfolio

Illinois Tool Works
2016 Investor Day















Portfolio Management

OBJECTIVE: Construct and maintain a business portfolio capable of delivering sustainable organic growth of 200+ bps above market

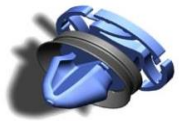
- Markets with strong **SUSTAINABLE DIFFERENTIATION** attributes
- Positive long-term **MACRO FUNDAMENTALS**
- Solid **COMPETITIVE ADVANTAGES** with relevance to key end-market trends
- Strong potential for ITW to drive **ABOVE-MARKET ORGANIC GROWTH**

A HIGHLY DIFFERENTIATED BUSINESS PORTFOLIO WITH SIGNIFICANTLY GREATER ORGANIC GROWTH POTENTIAL



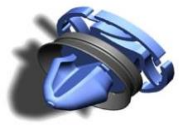
Business Portfolio Quality

High quality business portfolio with significant organic growth potential to deliver on **ENTERPRISE ORGANIC GROWTH TARGET** of **2%-pts. or MORE ABOVE MARKET**

	 Automotive OEM	 Test & Measurement Electronics	 Food Equipment	 Polymers & Fluids	 Welding	 Construction Products	 Specialty Products
Above-Market Growth Potential	**+3-4%**	**+2-3%**	**+2-3%**	**+1-2%**	**+2-3%**	**+1-2%**	**+1-2%**

Business Portfolio Quality

LEVERAGING THE BUSINESS MODEL to generate best-in-class operating margin and return on capital performance

	Automotive OEM	Test & Measurement Electronics	Food Equipment	Polymers & Fluids	Welding	Construction Products	Specialty Products
							
2016E OM%	**24%**	**19%***	**26%**	**20%***	**25%**	**22%**	**26%**
Vs. 2012	**+440 bps**	**+360 bps**	**+870 bps**	**+460 bps**	**(70) bps**	**+1,060 bps**	**+610 bps**

~22% ENTERPRISE AFTER-TAX RETURN ON INVESTED CAPITAL

*Test & Measurement Electronics and Polymers & Fluids include 380 and 430 basis points, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets.

ITW Automotive OEM

$2.8B
2016E REVENUES

~24%
2016E OPERATING MARGIN

~4.5%
ORGANIC REVENUE 2016E

ITW Shakeproof

ITW Global Automotive

DELTAR







MARKET POSITION

Highly focused global niche supplier of solutions to top tier OEMs, providing unique innovation to address pain points for sophisticated customers with complex problems

KEY COMPETITIVE ADVANTAGES

- Deep Engineering Relationships with key Global Auto OEMs
- Complex injection-molding and deep metal forming manufacturing capability
- Ability to execute “copy exact” solutions globally

*Source: IHS Global Insight

ITW Automotive OEM Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- ~$35/car current global penetration vs. ~$230/car potential
- Expansion into top tier Chinese OEMs

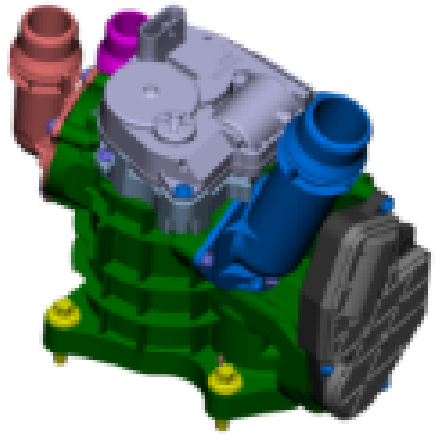
CUSTOMER BACK INNOVATION

- Fuel Efficiency/Light Weighting
- Alternative propulsion vehicles
- Challenges associated with increasing electronics content in the vehicle

ORGANIC GROWTH POTENTIAL: +3-4% Above Market









ITW Welding

$1.5B
2016E REVENUES

~25%
2016E OPERATING MARGIN

~(9)%
ORGANIC REVENUE 2016E



Miller



HOBART FILLER METALS

MARKET POSITION

Highly focused supplier of value-added welding equipment and specialty consumables for a variety of commercial, industrial and infrastructure applications

KEY COMPETITIVE ADVANTAGES

- Deep technical welding process knowledge
- Strong presence with major end users
- Highly regarded and trusted brands
- Market-leading channel positions/relationships

Welding Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Segment specific solutions that deliver improved weld productivity, quality and compliance
- Industrial Capex recovery
- Oil & Gas recovery

CUSTOMER BACK INNOVATION

- Shortage of skilled labor
- Weld quality/productivity improvement through integrated welding process data analytics

ORGANIC GROWTH POTENTIAL: 2-3% Above Market











SUSTAINED ABOVE-MARKET ORGANIC GROWTH

ITW Construction Products

$1.6B
2016E REVENUES

~22%
2016E OPERATING MARGIN

~2.5%
ORGANIC REVENUE 2016E



Paslode · Ramset DRIVING JOBSITE SPEED · ITW Buildex · SPIT

MARKET POSITION

Global provider of innovative fastening solutions that improve contractor productivity and building quality in residential, commercial and renovation construction

KEY COMPETITIVE ADVANTAGES

- Deep fastening system engineering capabilities
- Highly regarded global brands
- Strong channel partnerships
- Market-leading cordless technology

ITW Construction Products Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Continued pneumatic to cordless conversion
- Additional growth potential with key “big-box” channel partners
- Unique concrete flooring system technology

CUSTOMER BACK INNOVATION

- Shortage of skilled labor
- More stringent seismic and energy efficiency standards globally
- Cordless technology product line expansion

ORGANIC GROWTH POTENTIAL: +1-2% Above Market











ITW Food Equipment

$2.1B
2016E REVENUES

~26%
2016E OPERATING MARGIN

~3%
ORGANIC REVENUE 2016E

HOBART Traulsen VULCAN



MARKET POSITION

Leading global supplier of innovative food equipment and service solutions for the Commercial Food Service and Food Retail Industry

KEY COMPETITIVE ADVANTAGES

- Widely known and respected brands
- Differentiated innovation focused on customer solutions
- Fully integrated equipment and service solution offering with global scale and reach

ITW Food Equipment Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Current global equipment share in “80” product categories is ~15%
- Service coverage of ITW equipment installed base is ~25%

CUSTOMER BACK INNOVATION

- Growing focus on sustainability and total lifecycle cost of ownership
- Higher food safety standards and enforcement

ORGANIC GROWTH POTENTIAL: +2-3% Above Market



ITW Polymers & Fluids

$1.7B
2016E REVENUES

~20%
2016E OPERATING MARGIN

~1%
ORGANIC REVENUE 2016E



rain-x

Devcon

PLEXUS Structural Adhesives

MARKET POSITION

Specialized adhesives, lubricants and additives for industrial and consumer-related end-markets

KEY COMPETITIVE ADVANTAGES

- Innovative technologies with well known and highly regarded brands
- Well positioned in highly stable value-added market niches

SUSTAINED ABOVE-MARKET ORGANIC GROWTH

ITW Polymers & Fluids Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Significant share gain opportunities for adhesives and lubricants with existing customers
- Recently launched products driving market share growth in Auto Aftermarket

CUSTOMER BACK INNOVATION

- Industry demands high performing adhesives for multi-composite applications
- Environmental regulations for biodegradable lubricants and greases with low eco-toxicity

ORGANIC GROWTH POTENTIAL: +1-2% Above Market









SUSTAINED ABOVE-MARKET ORGANIC GROWTH

ITW Test and Measurement / Electronics

$2.0B
2016E REVENUES

~19%
2016E OPERATING MARGIN

~2%
ORGANIC REVENUE 2016E



IOMA SYSTEMS LOCK INSPECTION

INSTRON®

SIMCO ION™
An ITW Company

MARKET POSITION

Leading global supplier of production and laboratory testing and assembly equipment, accessories, consumables, and aftermarket parts and service

KEY COMPETITIVE ADVANTAGES

- Market leading technology and history of strong innovation
- Long track record of providing unique customer solutions for a wide range of demanding end markets and end user applications
- Global aftermarket support

SUSTAINED ABOVE-MARKET ORGANIC GROWTH

ITW Test and Measurement / Electronics Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Significant share gain opportunity with existing customer base
- Service and spare parts growth from large installed base of equipment

CUSTOMER BACK INNOVATION

- Increase scope of testing being driven by
  - Advanced new materials and
  - Accelerated levels of new product development

ORGANIC GROWTH POTENTIAL: +2-3% Above Market



SUSTAINED ABOVE-MARKET ORGANIC GROWTH

ITW Specialty Products

$1.9B
2016E REVENUES

~26%
2016E OPERATING MARGIN

~1%
ORGANIC REVENUE 2016E



HI-CONE we are all around



ZIP-PAK an ITW Company



MARKET POSITION

Supplier of innovative value-added solutions for a variety of consumer packaging, product branding and other niche applications

KEY COMPETITIVE ADVANTAGES

- Deep packaging design and application capabilities
- Proven ability to partner with our customers to engineer reliable and cost-effective manufacturing systems to execute our packaging solutions effectively
- Strong long-term relationships with major consumer products companies

ITW Specialty Products Key Growth Drivers

GROWTH DRIVERS

MARKET PENETRATION

- Significant additional share gain potential with existing “80” customers
- Major growth potential through new “80” customer development

CUSTOMER BACK INNOVATION

- Conversion to flexible/re-sealable packaging in a variety of consumer product categories
- Continuously evolving need for solutions that protect product/brand integrity and enhance credit card security

ORGANIC GROWTH POTENTIAL: +1-2% Above Market



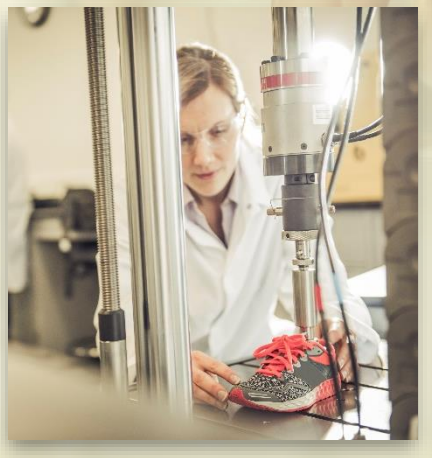




Future Financial Performance and Target Updates

Illinois Tool Works
2016 Investor Day









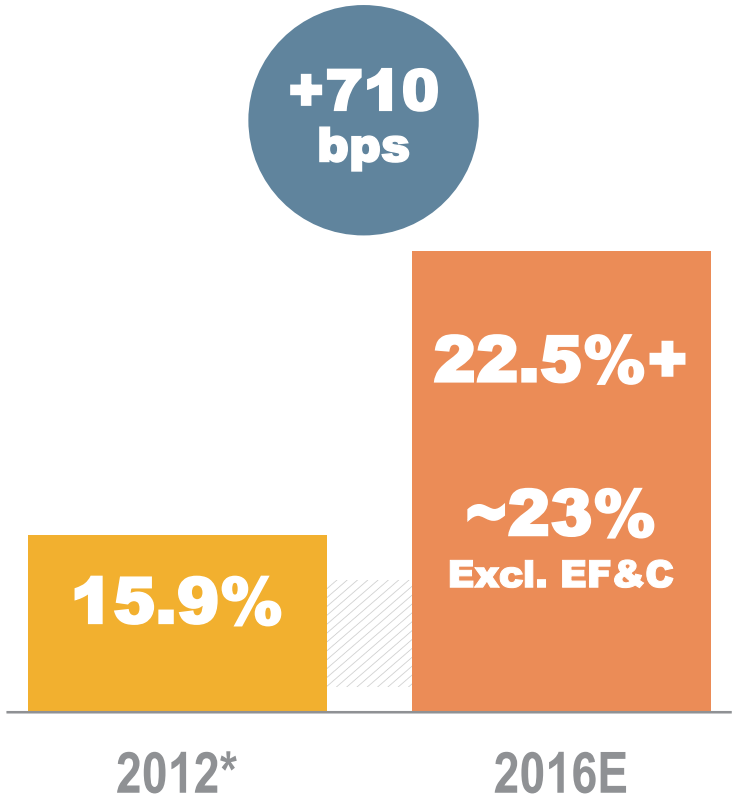




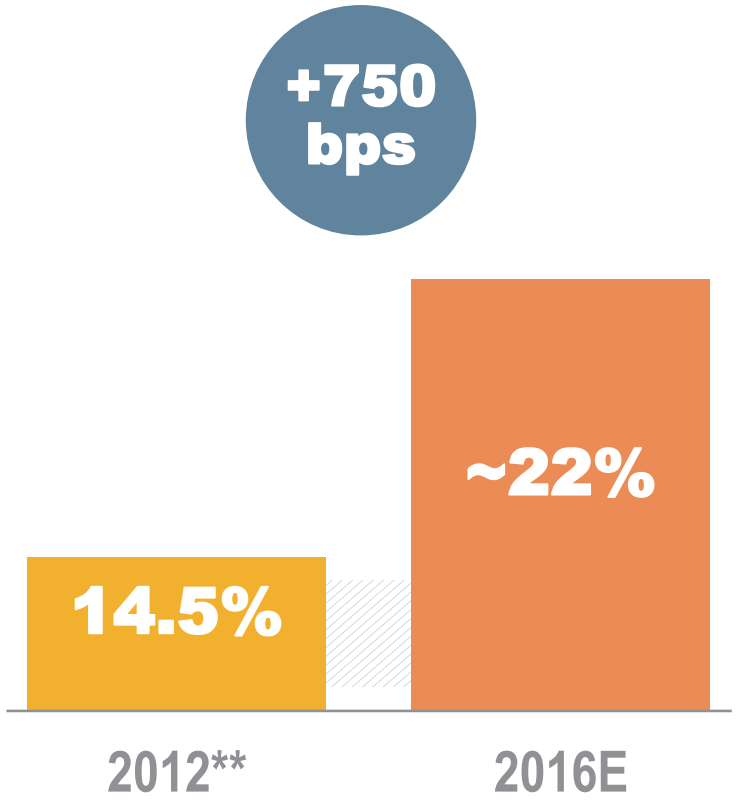


Enterprise Strategy Performance 2012 - 2016

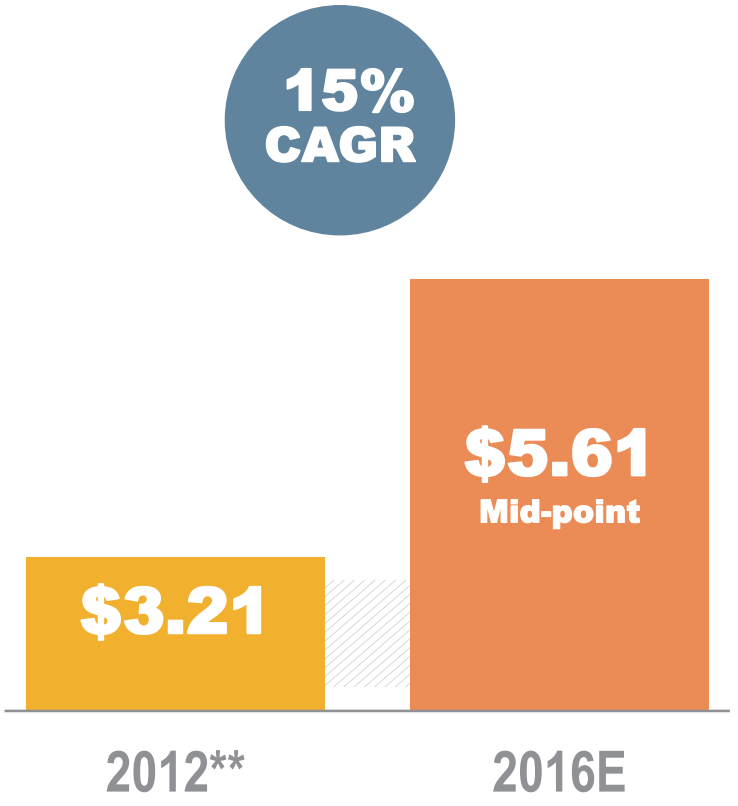
OPERATING MARGIN



AFTER-TAX ROIC

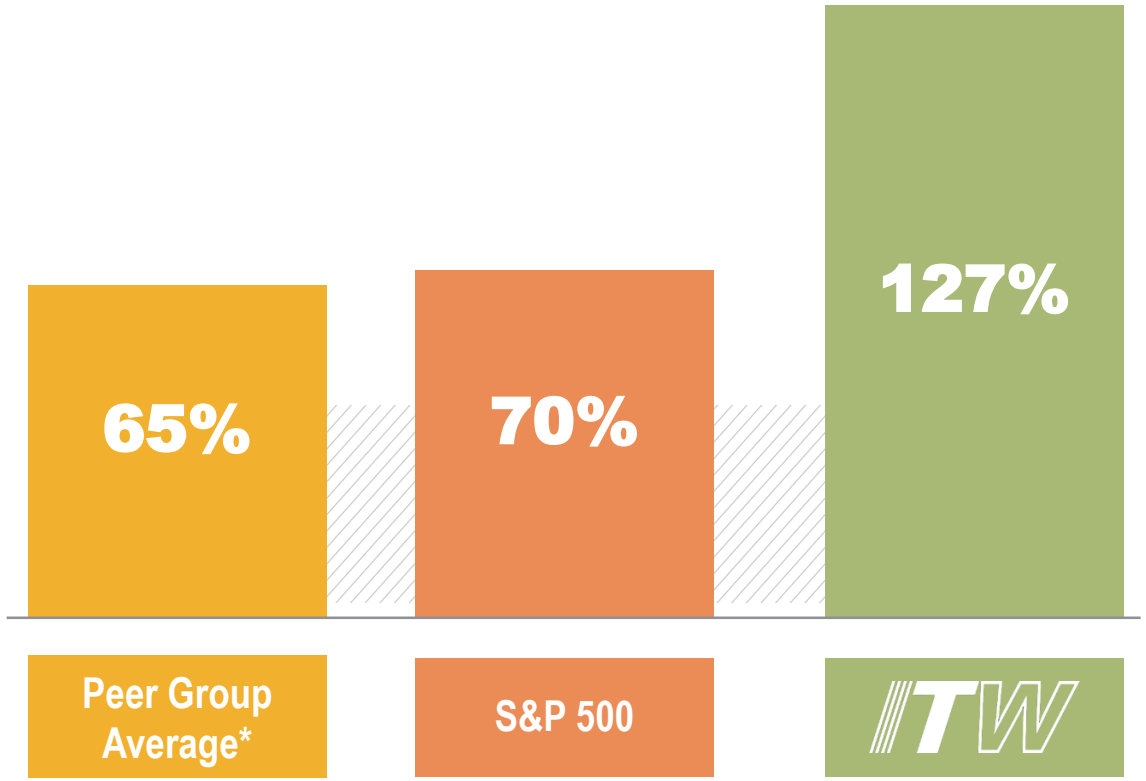


GAAP EPS



*As reported in the 2012 Form 10-K
**See appendix for the GAAP to Non-GAAP reconciliation

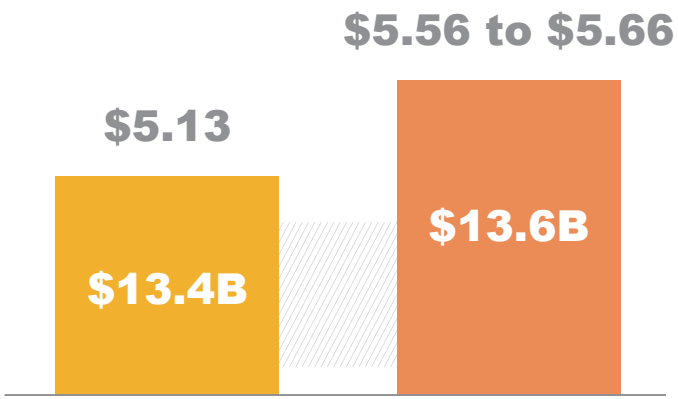
Total Shareholder Return (TSR) Performance 2012 - 2016



TSR is calculated from 12/14/2012 (launch of Enterprise Strategy) to 11/28/2016
*See Appendix for peer group definition

2016 Guidance Reaffirmed

2016 GUIDANCE



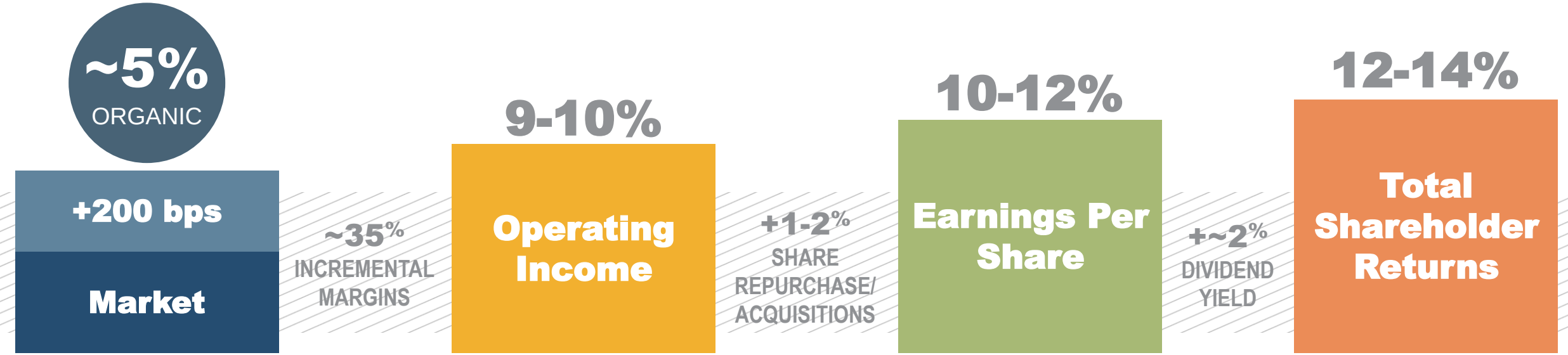
	2015	2016E
GAAP EPS	$5.13	$5.56 to $5.66
REVENUE	$13.4B	$13.6B
OPERATING MARGIN -excl. EF&C	21.4%	22.5%+ ~23%
AFTER-TAX ROIC*	20.4%	~22%

*See Appendix for the GAAP to Non-GAAP reconciliation

- **9%** GAAP EPS growth at mid-point
- **1 to 2%** organic growth incl. ~1% PLS impact
- **22.5%+ operating margin** … **100+ bps** of margin expansion from Enterprise Initiatives
- **Record** operating income and after-tax ROIC
- **$2B+** Free Cash Flow / 100%+ of Net Income … **$2.8B+** returned to shareholders
- **37% TSR** Year-to-Date

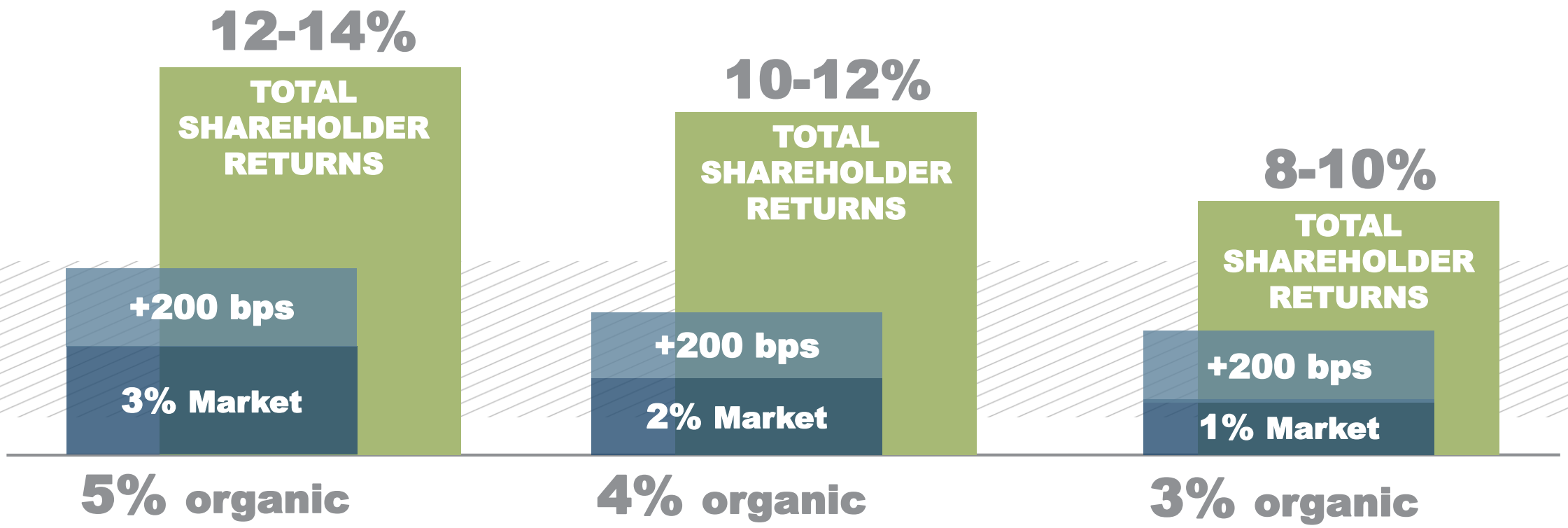
SOLID FINANCIAL PERFORMANCE AND SUPERIOR TSR

12-14% Total Shareholder Returns over the Long Term



THROUGH THE EXECUTION OF OUR ENTERPRISE STRATEGY WE ARE STRUCTURING ITW TO DELIVER SUPERIOR TSR OVER THE LONG TERM

Market Growth Rate Implications



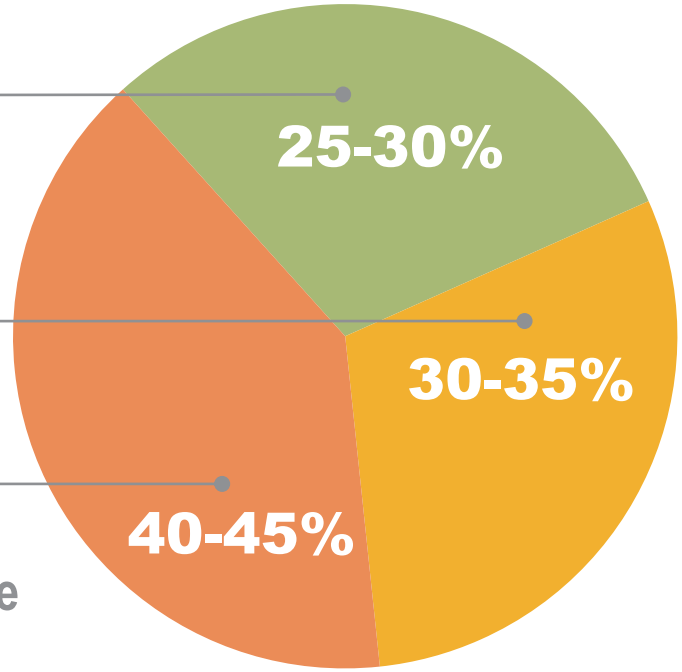
WELL POSITIONED FOR CONSISTENT OUTPERFORMANCE ACROSS A WIDE RANGE OF ECONOMIC SCENARIOS

Disciplined Capital Allocation Framework

PRIORITIES

% OF OPERATING CASH FLOW

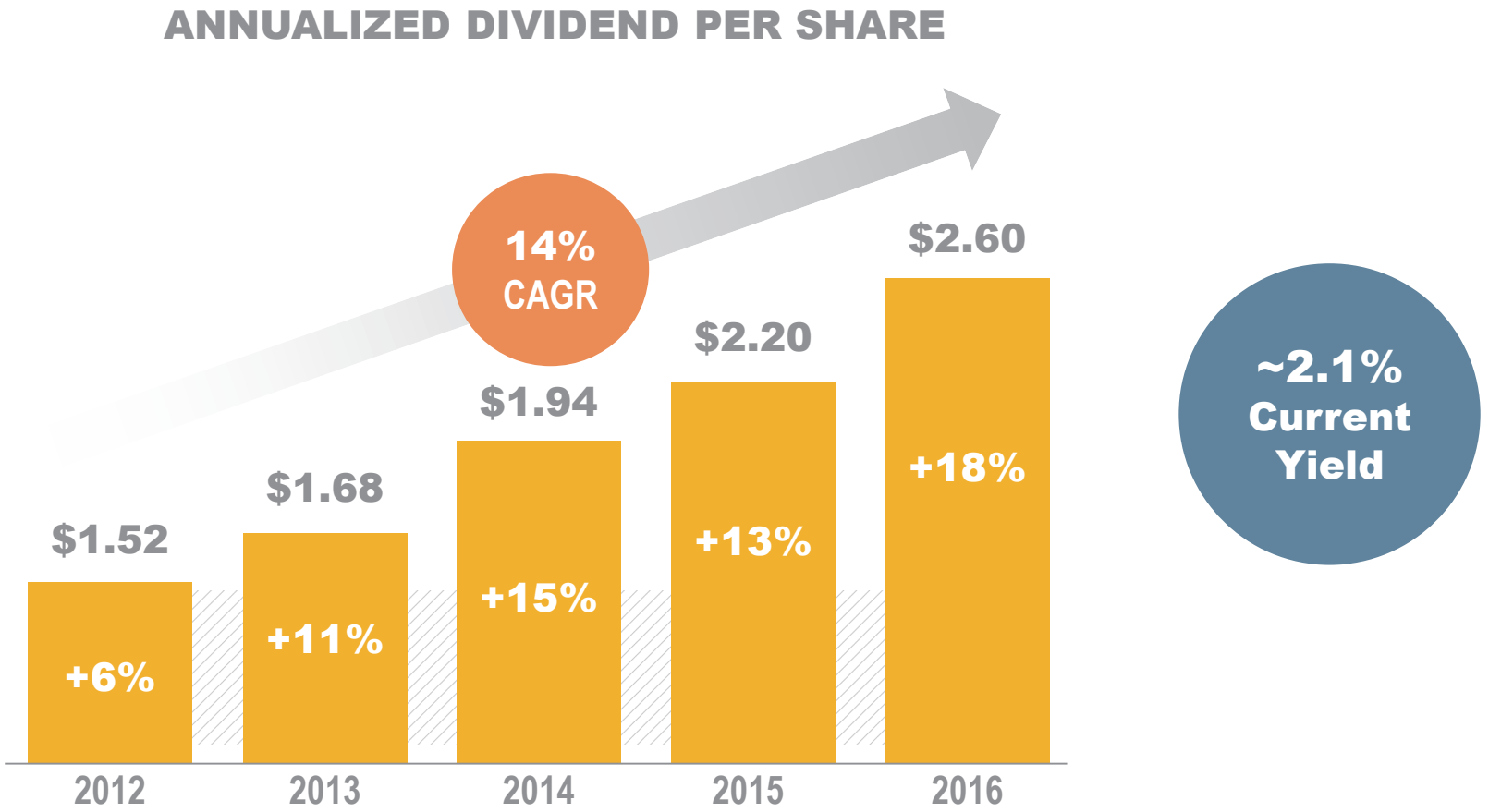
1. **INTERNAL INVESTMENTS** to support organic growth and sustain core businesses — 25-30%
2. An **ATTRACTIVE DIVIDEND** — 30-35%
3. **EXTERNAL INVESTMENTS:** Focused on acquisitions that expand long-term organic growth potential and active share repurchase program — 40-45%



OUR CAPITAL ALLOCATION STRATEGIES SUPPORT RESILIENT TSR PERFORMANCE

ITW Dividend Contributes 2%+ to Total Shareholder Returns

Committed to **RETURNING A MEANINGFUL PERCENTAGE** of ITW cash flows to shareholders through an **ATTRACTIVE DIVIDEND** that grows in line with earnings over time

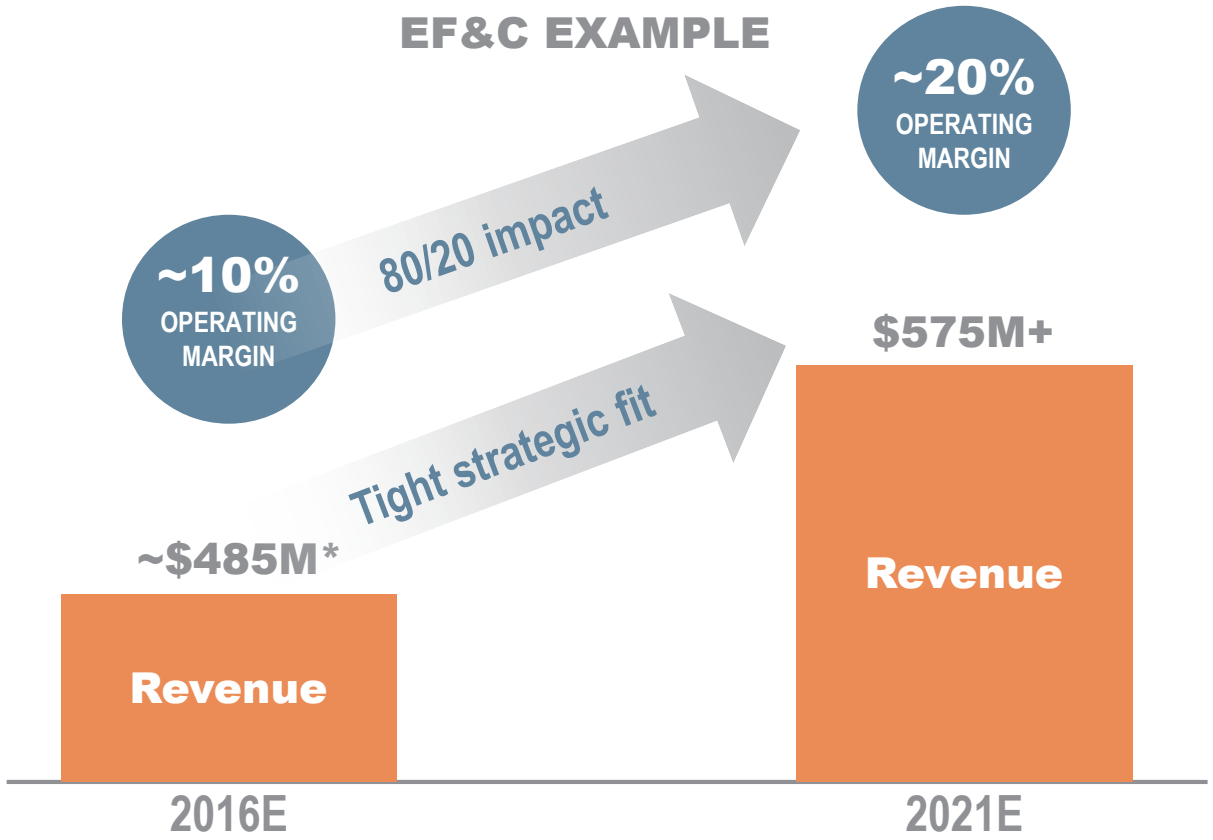


Only Acquisitions That Expand ITW's Long-Term Organic Growth Potential

1 **TIGHT STRATEGIC FIT:** Only acquisitions that expand ITW's long term organic growth potential

AND ...

2 **80/20 IMPACT:** Potential to generate significant margin improvement from the application of 80/20



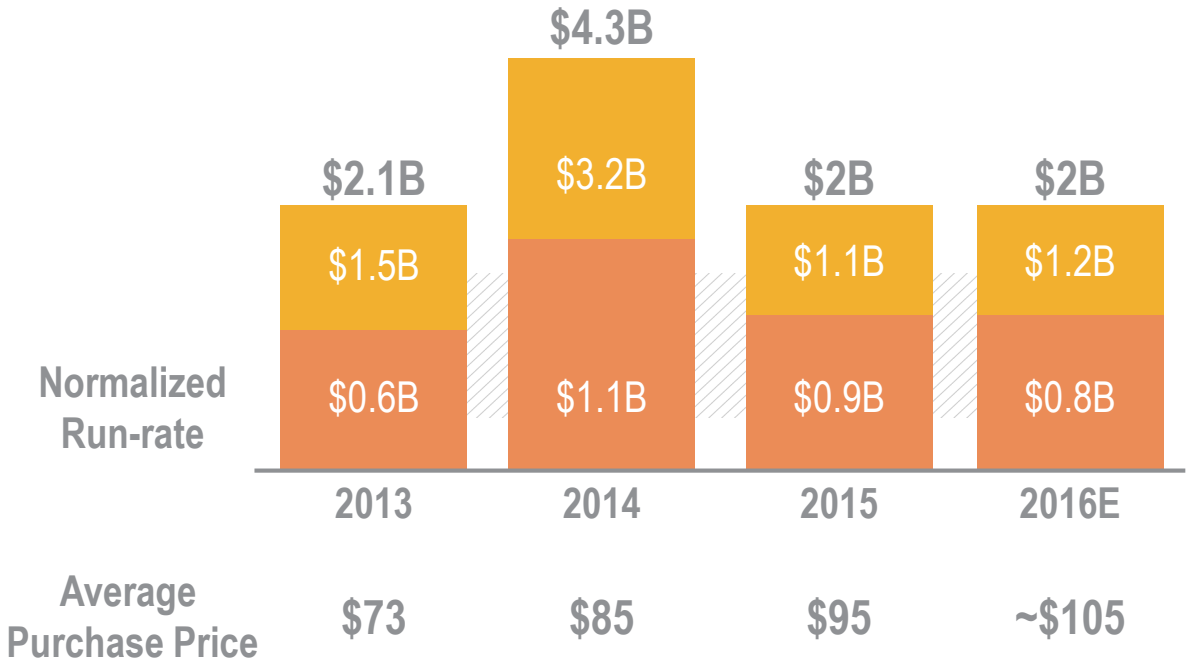
EXPECT 0 TO 3 PER YEAR, TYPICAL REVENUES IN THE $100 TO $500M RANGE

EF&C EXPANDS AUTOMOTIVE OEMS LONG-TERM ORGANIC GROWTH STRATEGY

*Represents 12 months of revenue for EF&C which was acquired on July 1, 2016.

Consistent Share Repurchases Contribute to TSR

SHARE REPURCHASES 2013 - 2016



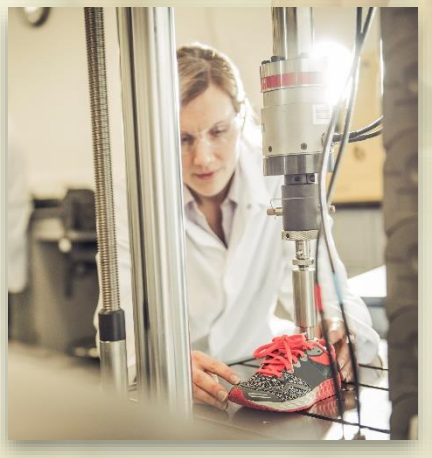
- **$10B+** of "Surplus Capital" including divestiture proceeds and overseas cash allocated to share repurchases
- ITW share count reduced by **26%** ... $86 average purchase price = **21%+ IRR**
- Normalized annual share repurchase run rate **$750M to $1.25B** ... depends on level of acquisition activity

PLAN TO REPURCHASE ~$1 BILLION IN 2017

Moving Forward: Continued Progress on our Path to Full Potential

Illinois Tool Works
2016 Investor Day









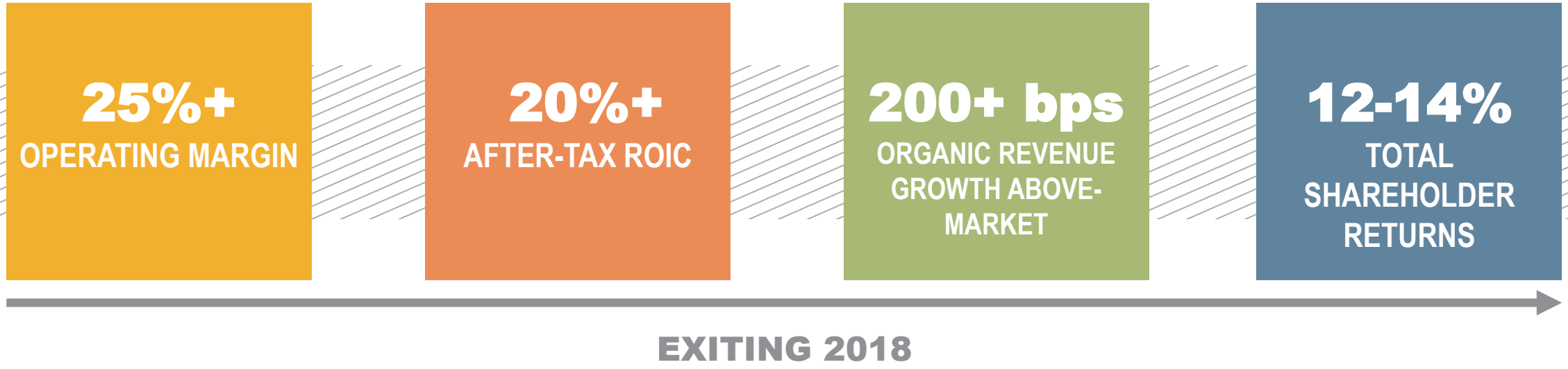






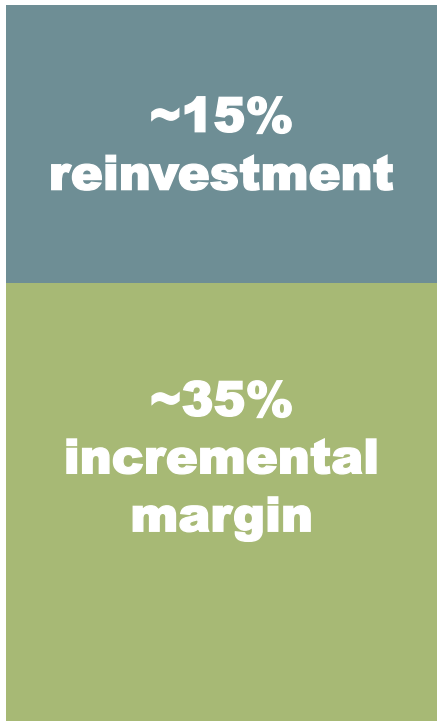
25%+ Operating Margin Exiting 2018

ITW's NEW ENTERPRISE STRATEGY OPERATING MARGIN TARGET IS 25%+



CLEAR LINE OF SIGHT TO AT LEAST 200 BASIS POINTS OF ADDITIONAL STRUCTURAL MARGIN IMPROVEMENT POTENTIAL

Sustained Above-Market Organic Growth with Strong Incremental Profitability



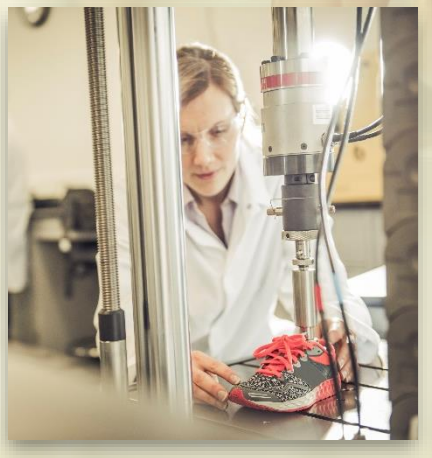
- Expect **~35% CORE INCREMENTAL PROFITABILITY** on every dollar of organic growth
- That rate **INCORPORATES ~30% REINVESTMENT** of gross cash flow proceeds from organic growth
  - Consistent with our capital allocation framework
  - More than sufficient to support and sustain our core businesses and fund future growth investments
- Results in **FURTHER OPERATING MARGIN EXPANSION** potential beyond '18

*For illustrative purposes. Variable Margin is defined as revenue minus variable cost which includes both direct and indirect material and labor costs specifically related to manufacturing and/or distributing product.

2017 Guidance

Illinois Tool Works
2016 Investor Day







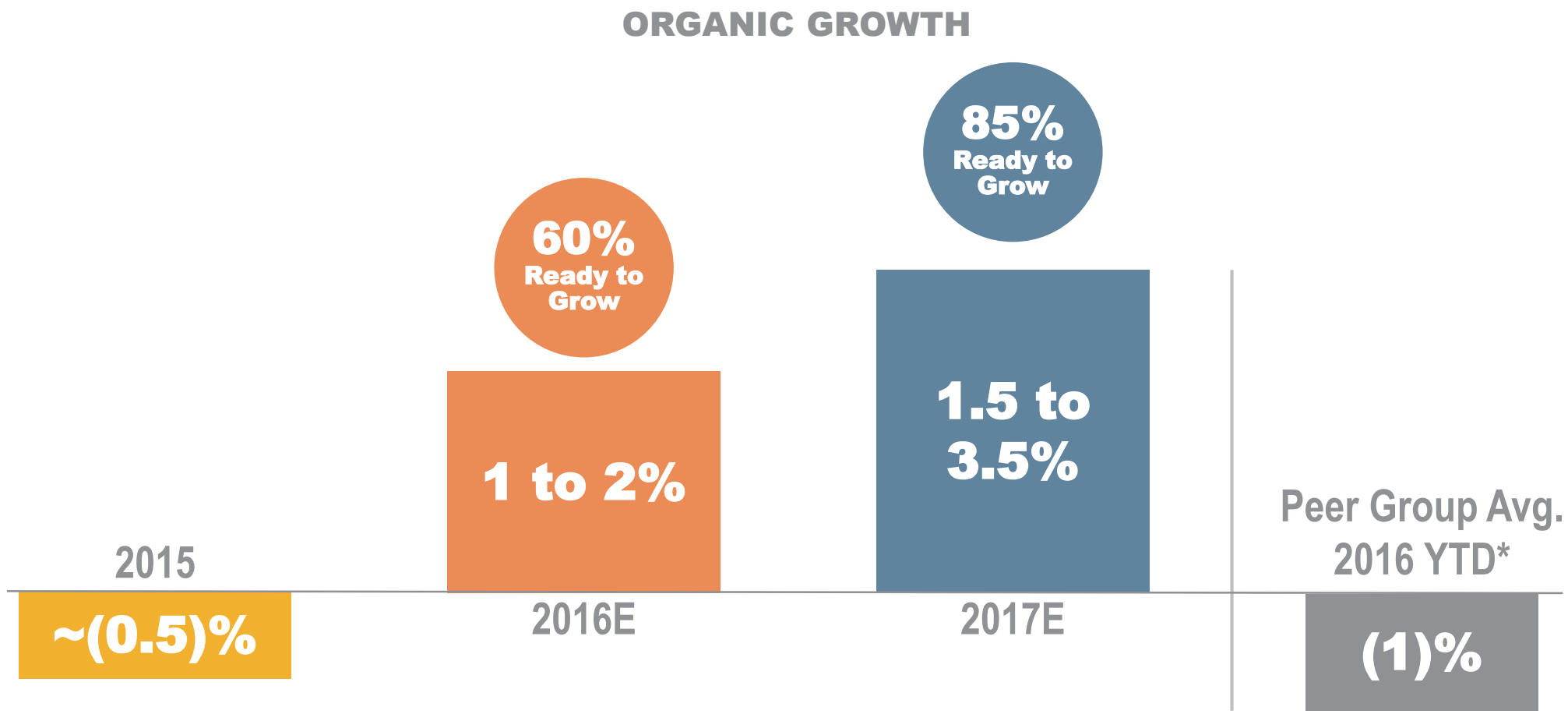








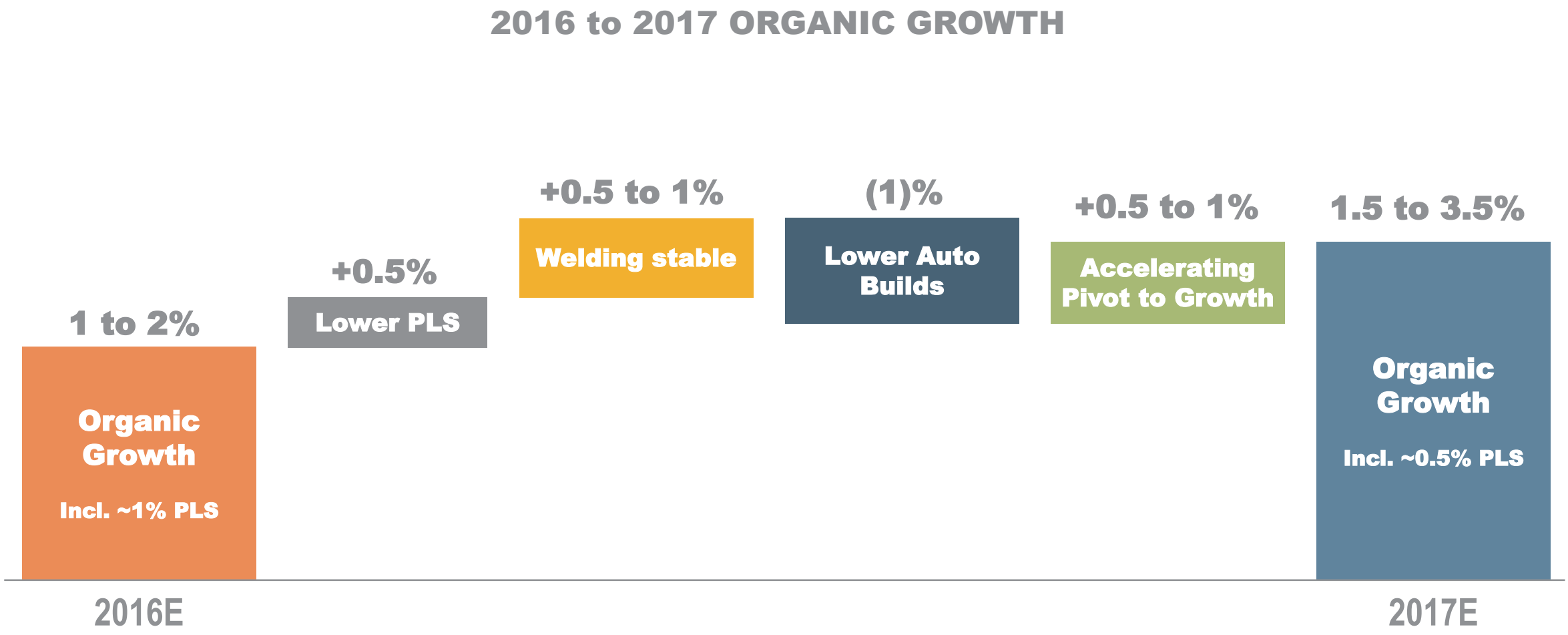
Organic Growth is Accelerating



*See Appendix for peer group definition

EXPECT ~100 BASIS POINT IMPROVEMENT IN 2017 ORGANIC GROWTH RATE

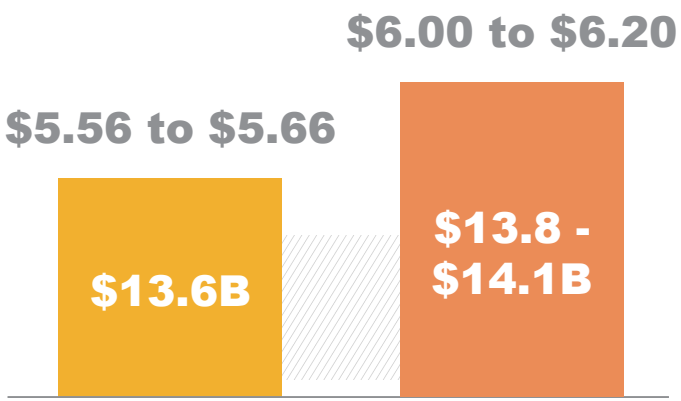
Solid/Reliable Above Market Organic Growth



CLEAR PATH TO 2017 ORGANIC GROWTH RATE

ITW is Well Positioned for Another Year of Outperformance

2017 GUIDANCE



	2016E	2017E
GAAP EPS	$5.56 to $5.66	$6.00 to $6.20
REVENUE	$13.6B	$13.8 - $14.1B
OPERATING MARGIN	22.5%+	23.5%+
AFTER-TAX ROIC	~22%	~23%

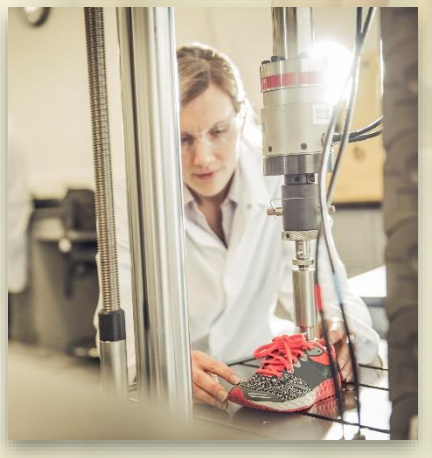
- **9%** GAAP EPS growth at mid-point
- **1.5 to 3.5%** organic growth incl. 0.5% PLS
- **23.5%+ OPERATING MARGIN** …
  ~100 bps of margin expansion from Enterprise Initiatives
- **RECORD** operating income and after-tax ROIC
- **$2B+** Free Cash Flow / 100%+ of Net Income …
  ~$1B share repurchase

ABOVE-MARKET ORGANIC GROWTH WITH BEST-IN-CLASS MARGINS AND RETURNS

Illinois Tool Works
2016 Investor Day

15 Minute Break











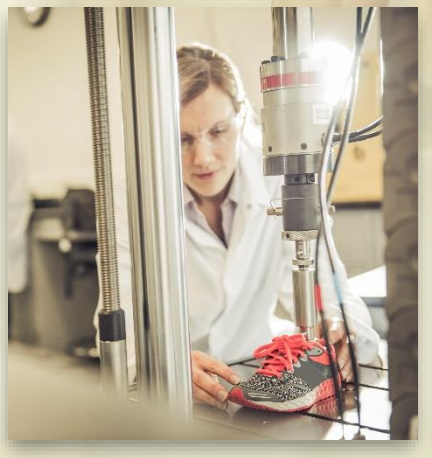




Illinois Tool Works
2016 Investor Day

Q&A











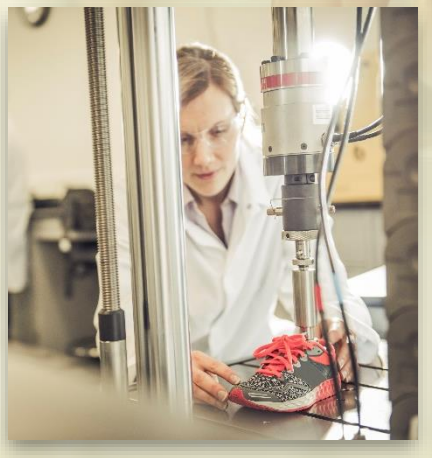




Illinois Tool Works
2016 Investor Day

Appendix















GAAP to Non-GAAP Reconciliations and Peer Group Definitions

Adjusted Return on Average Invested Capital Dollars in millions	For the Years Ended December 31,	
	2012	2015
Operating income, as reported	$ 2,475	$ 2,867
Adjustment for Decorative Surfaces	(143)	-
Adjusted operating income	2,332	2,867
Taxes (tax rates for 2012: 29.2% and 2015: 30.1%)	(681)	(864)
Adjusted operating income after taxes	$ 1,651	$ 2,003
Invested capital at end of period:		
Trade receivables	$ 2,742	$ 2,203
Inventories	1,585	1,086
Net plant and equipment	1,994	1,577
Goodwill and intangible assets	7,788	5,999
Accounts payable and accrued expenses	(2,068)	(1,585)
Other, net	773	280
Total invested capital	$ 12,814	$ 9,560
Average invested capital	$ 13,140	$ 9,943
Adjustment for Decorative Surfaces	(274)	(123)
Adjustment for Industrial Packaging	(1,504)	-
Adjusted average invested capital	$ 11,362	$ 9,820
Adjusted return on average invested capital	14.5%	20.4%

Diluted EPS	For the Year Ended December 31, 2012
As reported	$ 4.72
Decorative Surfaces net gain	1.34
Decorative Surfaces equity investment	(0.04)
Decorative Surfaces operating results	0.21
As adjusted	$ 3.21

Peer Group Definitions

Peer group represents all peers in the Company's 2016 Proxy Statement excluding DHR and JCI who entered into material transactions in 2016 and for which results are no longer comparable.

Organic revenue peer group represents all peers in the Company's 2016 Proxy Statement who report organic revenue excluding DHR and JCI who entered into material transactions in 2016 and for which results are no longer comparable.