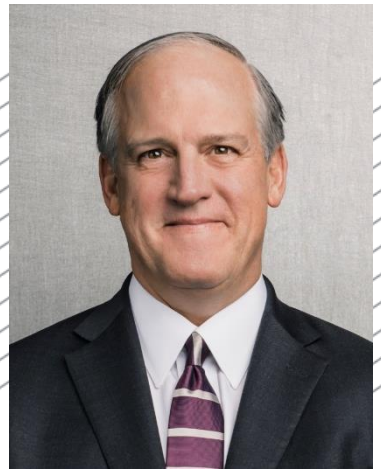
2017 Investor Day

December 1, 2017



PRESENTERS



E. SCOTT SANTI

Chairman & CEO

35
YEARS WITH ITW

CEO SINCE
2012



CHRISTOPHER A. O'HERLIHY

Vice Chairman

28
YEARS WITH ITW

VICE CHAIRMAN SINCE
2015



MICHAEL M. LARSEN

SVP & CFO

5
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 enterprise 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, growth in after-tax return on invested capital, expected total shareholder returns, restructuring expenses and related benefits, effective tax rates, exchange rates, timing and amount of share repurchases, end-market economic conditions, and the Company's related 2017 and 2018 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 2016.

NON-GAAP MEASURES

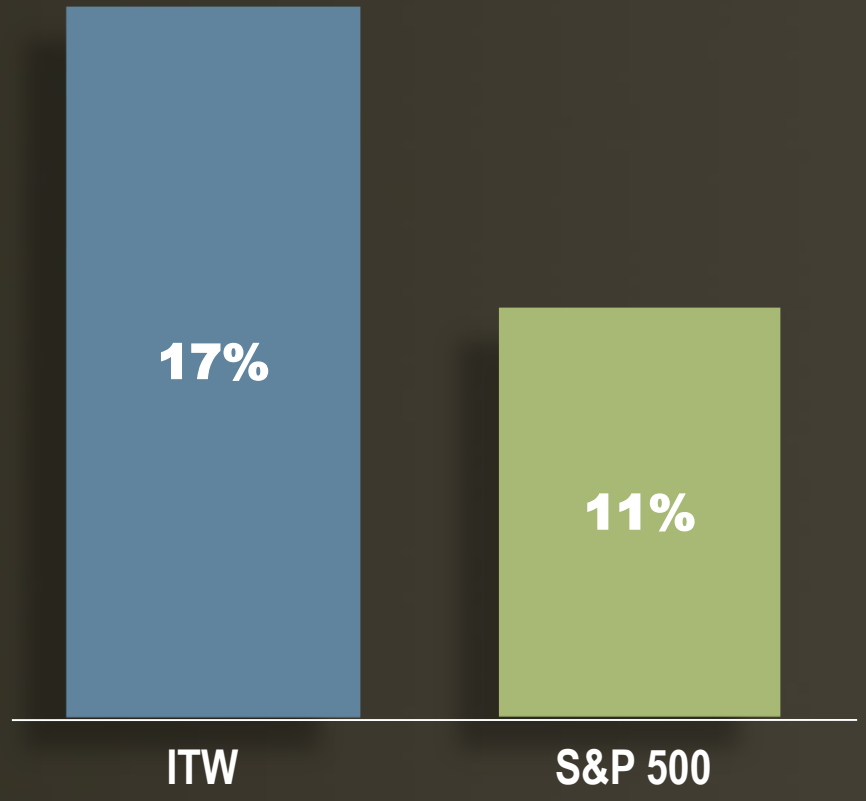
The Company uses certain non-GAAP measures in discussing the Company's performance. The reconciliation of those measures to the most comparable GAAP measures is detailed in ITW's Form 10-K for 2016 and the appendix of this presentation, which are available at www.itw.com, together with this presentation.

AGENDA

1. ITW's STRATEGIC FRAMEWORK
2. STRATEGIC FRAMEWORK IMPLEMENTATION
   - PHASE I: REPOSITIONING (2013 - 2018+)
   - PHASE II: SUSTAINING (2018 - 2022)
3. ANNUAL PERFORMANCE GOALS: 2018 - 2022
4. 2018 GUIDANCE
5. SUMMARY / MOVING FORWARD
6. BREAK
7. Q&A

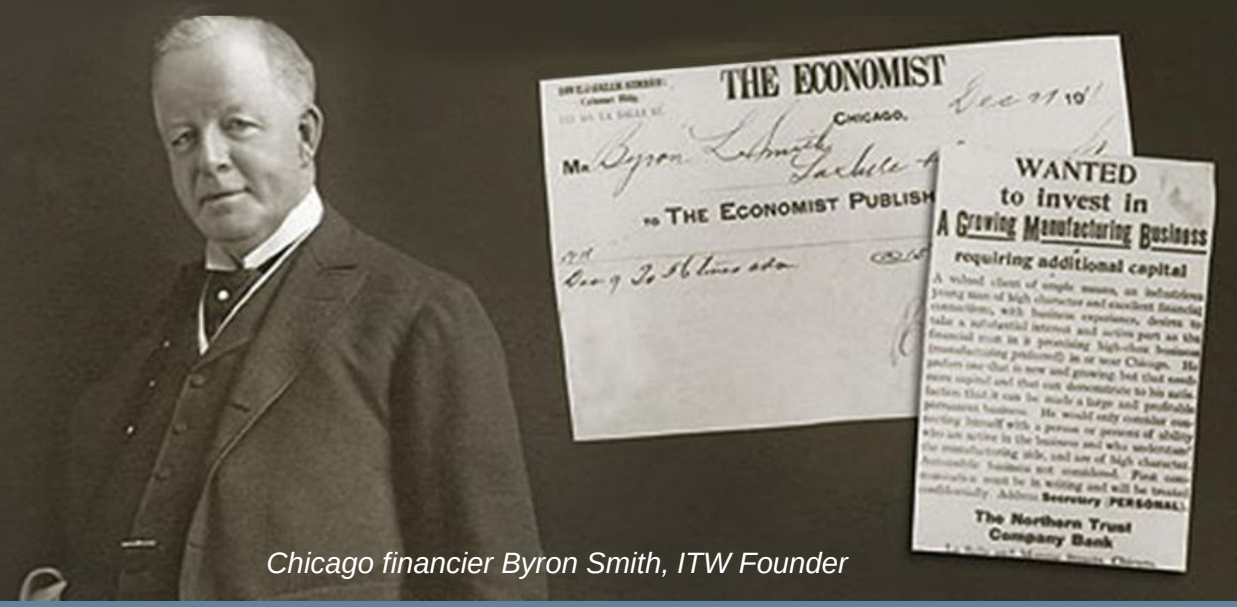
HIGHLY SUCCESSFUL 105 YEAR HISTORY

Total Annualized Shareholder Return Since 1980



ITW's Enduring Performance:

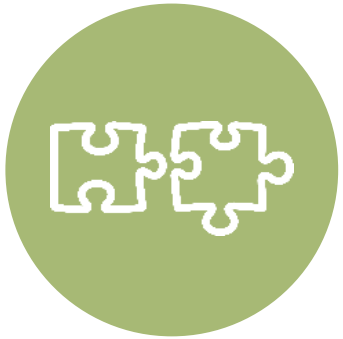
- Willing to **CRITICALLY ASSESS** our strategic positioning at key points in our history…
- … and **CHANGE COURSE** when necessary to sustain differentiated performance



Chicago financier Byron Smith, ITW Founder

2011 - 2012: OUR MOST RECENT STRATEGIC PIVOT POINT

PLATEAUING COMPANY PERFORMANCE



ACQUISITION-CENTRIC
growth strategy not sustainable



Accumulated
ORGANIZATIONAL COMPLEXITY
from 600+ acquisitions
over 25 years



GLOBALIZATION =
increasingly intense
competitive environment

OBJECTIVES OF OUR 2011 - 2012 STRATEGY "REFRESH":

1

MAXIMIZE ITW'S POTENTIAL TO CONSISTENTLY DELIVER DIFFERENTIATED PERFORMANCE

AND

2

BEST POSITION ITW AS A HIGHLY VALUED CORE HOLDING FOR LONG-TERM ORIENTED INVESTORS

IN AN INCREASINGLY COMPETITIVELY INTENSE AND VOLATILE GLOBAL MARKET ENVIRONMENT

OUR STRATEGIC FRAMEWORK



OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE



GROWTH: QUALITY OVER QUANTITY



"DO WHAT WE SAY" EXECUTION IS A CRITICAL DIFFERENTIATOR



INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

SOLID GROWTH WITH BEST-IN-CLASS MARGINS AND RETURNS

STRATEGY FRAMEWORK IMPLEMENTATION

PHASE I – REPOSITIONING (2013 - 2018+)

1

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

Sustainable differentiation is a "must-have"

2

SIMPLIFY AND SCALE-UP ITW'S OPERATING STRUCTURE

Business Structure Simplification

3

BETTER LEVERAGE ITW'S SCALE TO ENHANCE GLOBAL COMPETITIVENESS

Strategic Sourcing

4

SHIFT PRIMARY GROWTH FOCUS

From acquisition to organic

PHASE II – SUSTAINING DIFFERENTIATED PERFORMANCE (2018 - 2022)

5

EXCELLENCE IN THE PRACTICE OF THE ITW BUSINESS MODEL

Everywhere in the company, every day

6

SUSTAINED ABOVE-MARKET ORGANIC GROWTH

Through the cycle

Our Business Model is our Competitive Advantage



OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

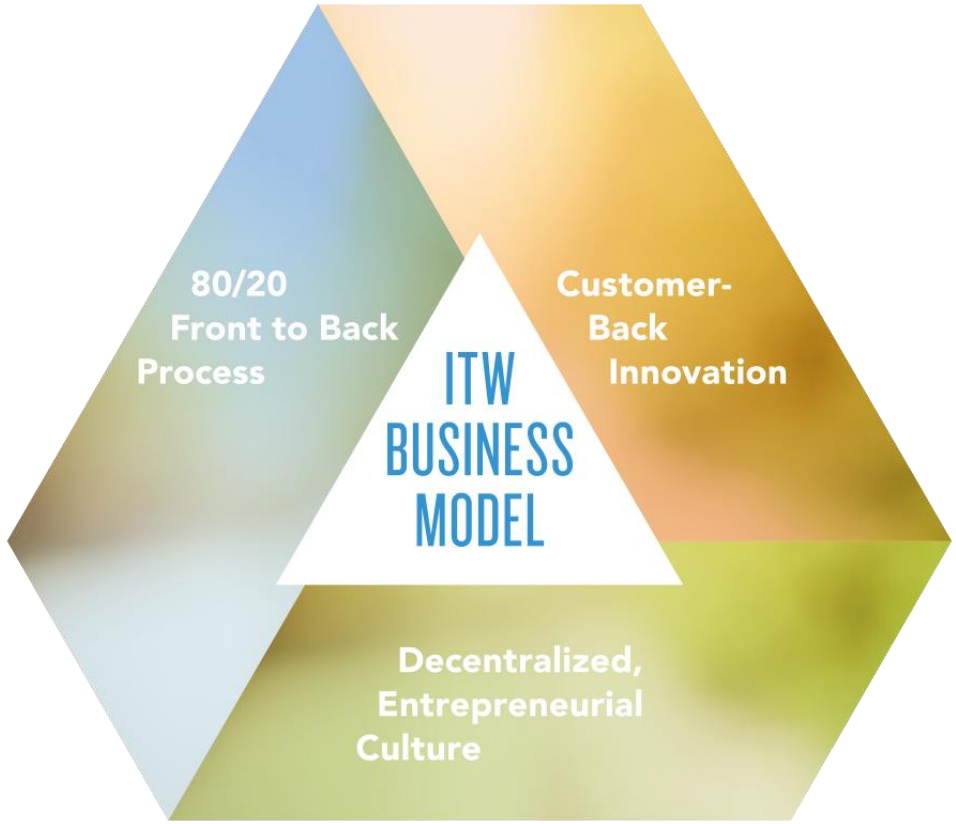
- The ITW Business Model is a **POWERFUL** and **PROPRIETARY** set of strategic, operational and cultural practices that have been in a continual state of development and evolution inside ITW for over 30 years

- It is the **"VALUE-ADD"** from being part of ITW

- Good Industry "fit" + excellence in ITW Business Model Practice = **CONSISTENT BEST-IN-CLASS PERFORMANCE**

OPERATING MARGIN = BEST INDICATOR OF STRENGTH OF COMPETITIVE ADVANTAGE

OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE



80/20 Front to Back Process: **HOW WE OPERATE**

Customer-Back Innovation: **HOW WE INNOVATE**

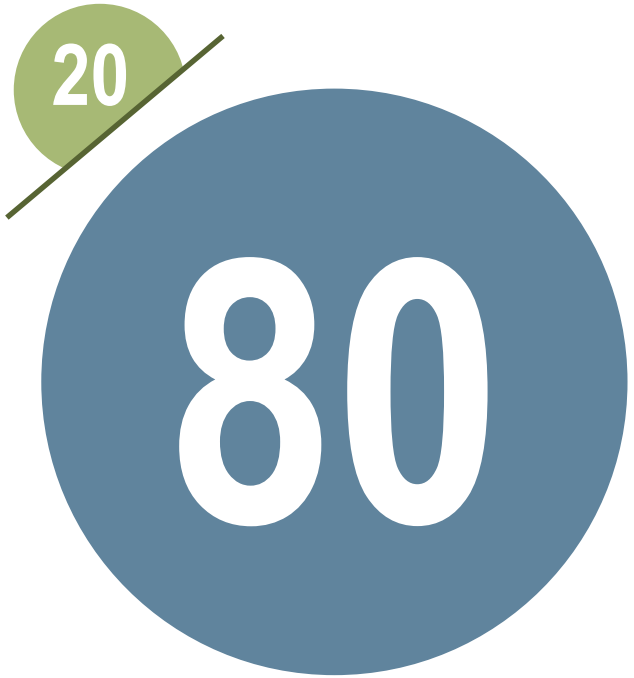
Decentralized,
Entrepreneurial Culture: **HOW WE EXECUTE**

80/20 FRONT TO BACK: HOW WE OPERATE

- ITW's 80/20 Front to Back process is a **UNIQUE** and **PROPRIETARY** methodology used as the core operating system in all ITW Divisions

- **IMPROVES ALL ASPECTS OF THE BUSINESS**
  - Intense focus on the "80"
  - Minimize cost / distraction from the "20"
  - Heavily data driven
  - 3 to 5 year cycle of continuous implementation

- **RESULTS IN:**
  - Best-in-class Customer Facing Performance
  - High Quality Organic Growth
  - Best-in-class Financial Performance



CUSTOMER-BACK INNOVATION: HOW WE INNOVATE

Customer-Back Innovation enables our divisions to deliver a **STEADY FLOW OF DIFFERENTIATED NEW PRODUCTS AND SOLUTIONS** for our "80" customers

A key contributor to ITW's ability to deliver consistent **ABOVE-MARKET REVENUE GROWTH**

- Contributes 1+% Organic Growth annually
- 1,600+ new patent applications/year
- Over half of ITW revenues covered by patents or proprietary trade secrets



ITW'S DECENTRALIZED ENTREPRENEURIAL CULTURE: HOW WE EXECUTE

ITW's decentralized entrepreneurial culture is the engine
that drives the highly efficient conversion of

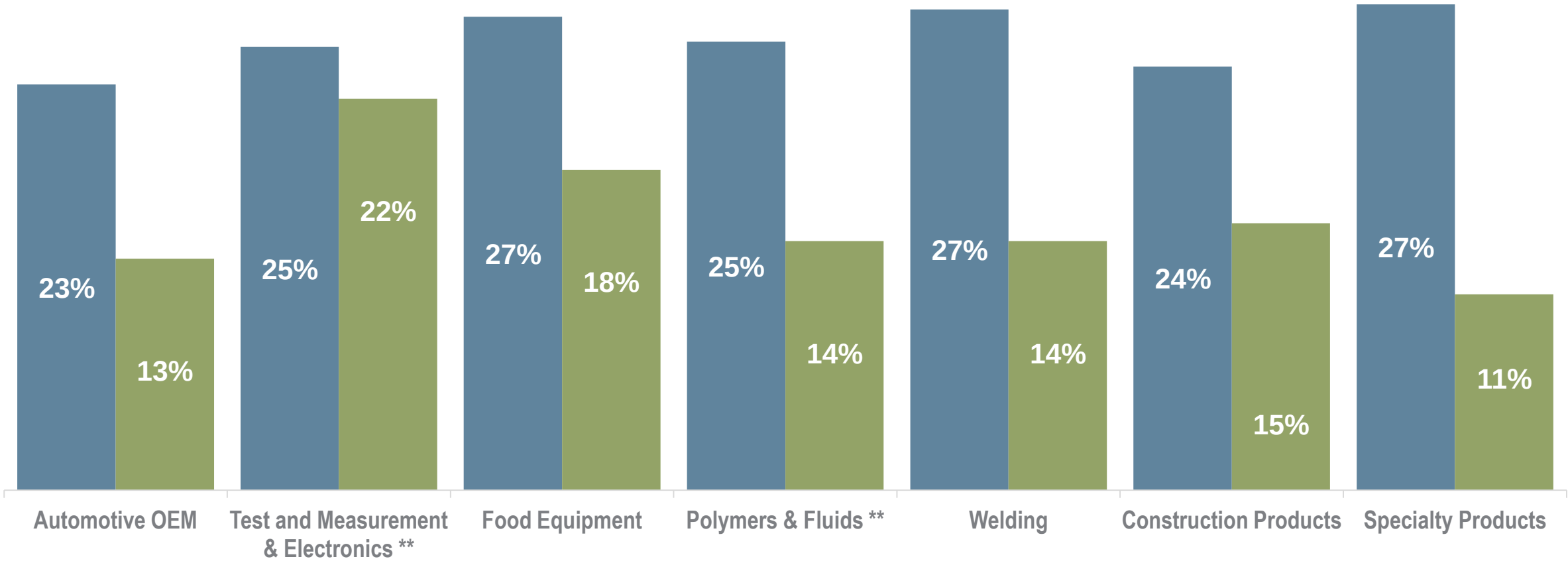
STRATEGY into **ACTION** and **ACTION** into **RESULTS**



OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

ITW SEGMENT OPERATING MARGIN vs. PEER AVERAGE*

2017E



* *See Appendix for listing of peers*

** *Polymers and Fluids and Test and Measurement & Electronics exclude 410 bps and 320 bps, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets*

OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

FOCUSED ON LEVERAGING OUR BUSINESS MODEL TO FULL POTENTIAL

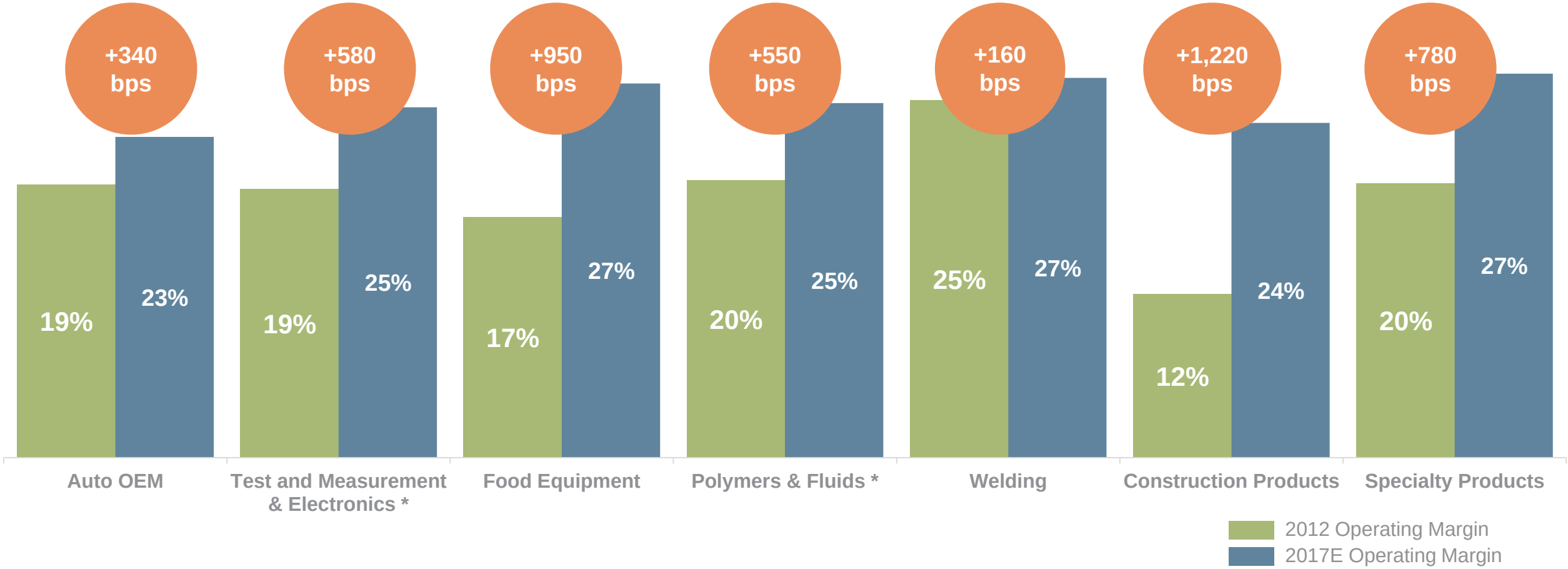
1. High Degree of **PORTFOLIO DISCIPLINE**

2. **EXCELLENCE** in the **PRACTICE** of the **ITW BUSINESS MODEL**
   - Everywhere in the company, every day



LEVERAGING OUR BUSINESS MODEL TO FULL POTENTIAL

PORTFOLIO DISCIPLINE + EXCELLENCE IN BUSINESS MODEL PRACTICE



** Polymers and Fluids excludes 390 bps and 410 bps, respectively, and Test and Measurement & Electronics excludes 420 bps and 320 bps, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets*

OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

BUSINESS MODEL DERIVED COMPETITIVE ADVANTAGE:

1. Enables a **HIGHLY DIVERSIFIED** Business Portfolio

2. Provides optionality to open up **NEW AVENUES** of **PROFITABLE GROWTH** over time

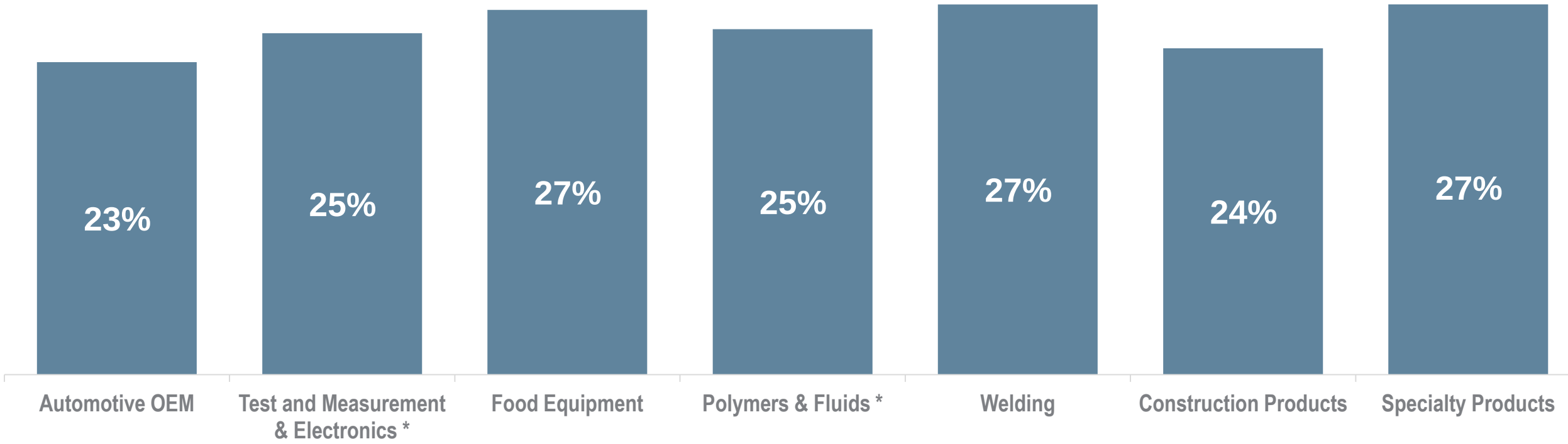
BUT, WE HAVE TO CONTINUALLY EARN THE RIGHT TO BE A "MULTI-BUSINESS" COMPANY THROUGH OUR PERFORMANCE

THERE CAN BE NO "WEAK LINKS"

OUR BUSINESS MODEL IS OUR COMPETITIVE ADVANTAGE

END-MARKET "FIT" + EXCELLENCE IN BUSINESS MODEL PRACTICE = CONSISTENT PERFORMANCE ACROSS ITW'S BUSINESS PORTFOLIO

2017E OPERATING MARGIN



* *Polymers and Fluids and Test and Measurement & Electronics exclude 410 bps and 320 bps, respectively, of unfavorable operating margin impact of amortization expense related to intangible assets*

Growth: Quality Over Quantity



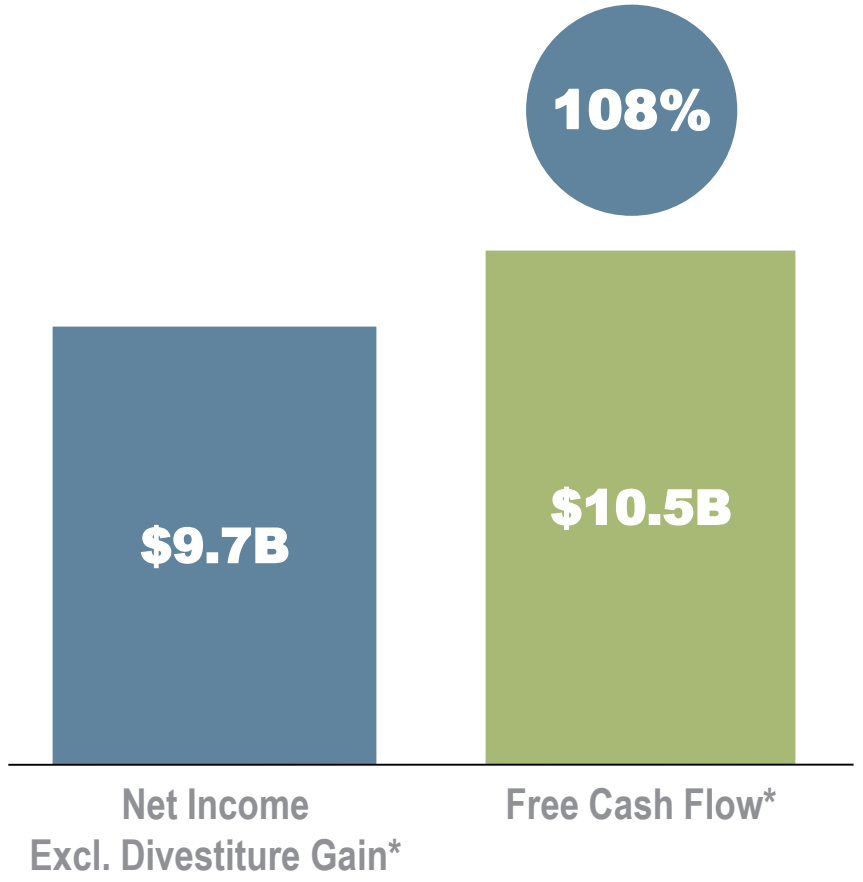
GROWTH: QUALITY OVER QUANTITY

- Consistent above-market **ORGANIC GROWTH IS OUR #1 GROWTH PRIORITY**

- We leverage our differentiated Business Model to ensure that revenue growth achieved is of **HIGH QUALITY**
  - Best-in-class margins and returns on capital
  - Free Cash Flow = Net Income

NET INCOME VS. FREE CASH FLOW

(2013 - 2017E)



*See appendix for GAAP to non-GAAP reconciliation

GROWTH: QUALITY OVER QUANTITY

To enable **CONSISTENT HIGH QUALITY ORGANIC GROWTH**, we have to construct and maintain a portfolio of highly **DIFFERENTIATED** businesses that can leverage the ITW Business Model to deliver above-market growth across a wide range of economic scenarios:



Sustainable differentiation: product **PERFORMANCE MATTERS** to the customer, best solution wins



ROOM TO GROW: $10B+ global markets



BUSINESS TO BUSINESS: It's what we know



Moderate pace of **TECHNOLOGY EVOLUTION**



STABLE UNDERLYING MARKET growth

GROWTH: QUALITY OVER QUANTITY

ITW'S HIGH QUALITY PORTFOLIO: ORGANIC GROWTH POTENTIAL

Organic Growth	 Automotive OEM	 Test & Measurement Electronics	 Food Equipment	 Polymers & Fluids	 Welding	 Construction Products	 Specialty Products
Market	**1 - 2%**	**2 - 3%**	**2 - 3%**	**2 - 3%**	**2 - 3%**	**2 - 3%**	**1 - 2%**
Segment	**5 - 6%**	**4 - 5%**	**4 - 5%**	**3 - 4%**	**4 - 5%**	**3 - 4%**	**3 - 4%**

LOTS OF ROOM TO GROW: RELEVANT MARKET SHARE RANGES FROM 15% TO 25%

ITW AUTOMOTIVE OEM

$3.3B
2017E REVENUES

23%
2017E OPERATING MARGIN

5 - 6%
ORGANIC GROWTH POTENTIAL

ITW Shakeproof

ITW Global Automotive

DELTAR







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

ORGANIC GROWTH DRIVERS

- ~$35/car current global penetration vs. ~$230/car potential
- Continued penetration into top tier Chinese OEMs
- Electric Vehicle growth

ITW TEST AND MEASUREMENT & ELECTRONICS

$2.0B
2017E REVENUES

25%
2017E OPERATING MARGIN*

4 - 5%
ORGANIC GROWTH POTENTIAL



LOMA SYSTEMS

INSTRON®

SIMCO ION™
An ITW Company

KEY COMPETITIVE ADVANTAGES

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

ORGANIC GROWTH DRIVERS

- Increased scope of testing being driven by
  - Advanced new materials
  - Increasingly stringent global testing requirements
- Significant share gain opportunity with existing customer base on both equipment and service/spare parts

** See appendix for GAAP to Non-GAAP reconciliation*

ITW FOOD EQUIPMENT

$2.1B
2017E REVENUES

27%
2017E OPERATING MARGIN

4 - 5%
ORGANIC GROWTH POTENTIAL

HOBART Traulsen VULCAN



KEY COMPETITIVE ADVANTAGES

- Widely known and respected brands
- Strong track record of differentiated innovation
- Fully integrated equipment and service solution offering with global scale and reach

ORGANIC GROWTH DRIVERS

- Significant share gain potential in both Equipment and Service
- Full pipeline of innovation to address industry trends & customer pain points:
  - Solutions with lowest "total cost of ownership" over entire life cycle of equipment
  - Higher food safety standards and enforcement

ITW POLYMERS & FLUIDS

$1.7B
2017E REVENUES

25%
2017E OPERATING MARGIN*

3 - 4%
ORGANIC GROWTH POTENTIAL



Densit D®

Devcon

PLEXUS® Structural Adhesives

KEY COMPETITIVE ADVANTAGES

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

ORGANIC GROWTH DRIVERS

- Industry requirements for higher performing adhesives
- Increasing demand for environmentally friendly lubricants

** See appendix for GAAP to Non-GAAP reconciliation*

ITW WELDING

$1.5B
2017E REVENUES

27%
2017E OPERATING MARGIN

4 - 5%
ORGANIC GROWTH POTENTIAL

Miller



HOBART FILLER METALS

KEY COMPETITIVE ADVANTAGES

- Deep technical welding process knowledge
- Strong innovation track record
- Highly regarded and trusted brands
- Market-leading channel positions/relationships

ORGANIC GROWTH DRIVERS

- Key end-markets (Heavy Equipment, General Fabrication, Onshore O&G) exhibiting broad based recovery
- Increasing global infrastructure investment
- Innovation focused on weld quality and productivity improvement

ITW CONSTRUCTION PRODUCTS

$1.7B
2017E REVENUES

24%
2017E OPERATING MARGIN

3 - 4%
ORGANIC GROWTH POTENTIAL



Paslode · Ramset DRIVING JOBSITE SPEED · ITW Buildex · SPIT

KEY COMPETITIVE ADVANTAGES

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

ORGANIC GROWTH DRIVERS

- Continued housing recovery in United States
- Cordless technology product line expansion
- More stringent seismic and energy efficiency standards globally

ITW SPECIALTY PRODUCTS

$1.9B
2017E REVENUES

27%
2017E OPERATING MARGIN

3 - 4%
ORGANIC GROWTH POTENTIAL

KEY COMPETITIVE ADVANTAGES

- Proven packaging design and application capabilities
- Deep engineering and marketing relationships with major consumer products companies

ORGANIC GROWTH DRIVERS

- Increasing demand for environmentally friendly flexible packaging
- Consumer safety requirements driving demand for new packaging solutions globally

HI-CONE we are all around



ZIP-PAK an ITW Company

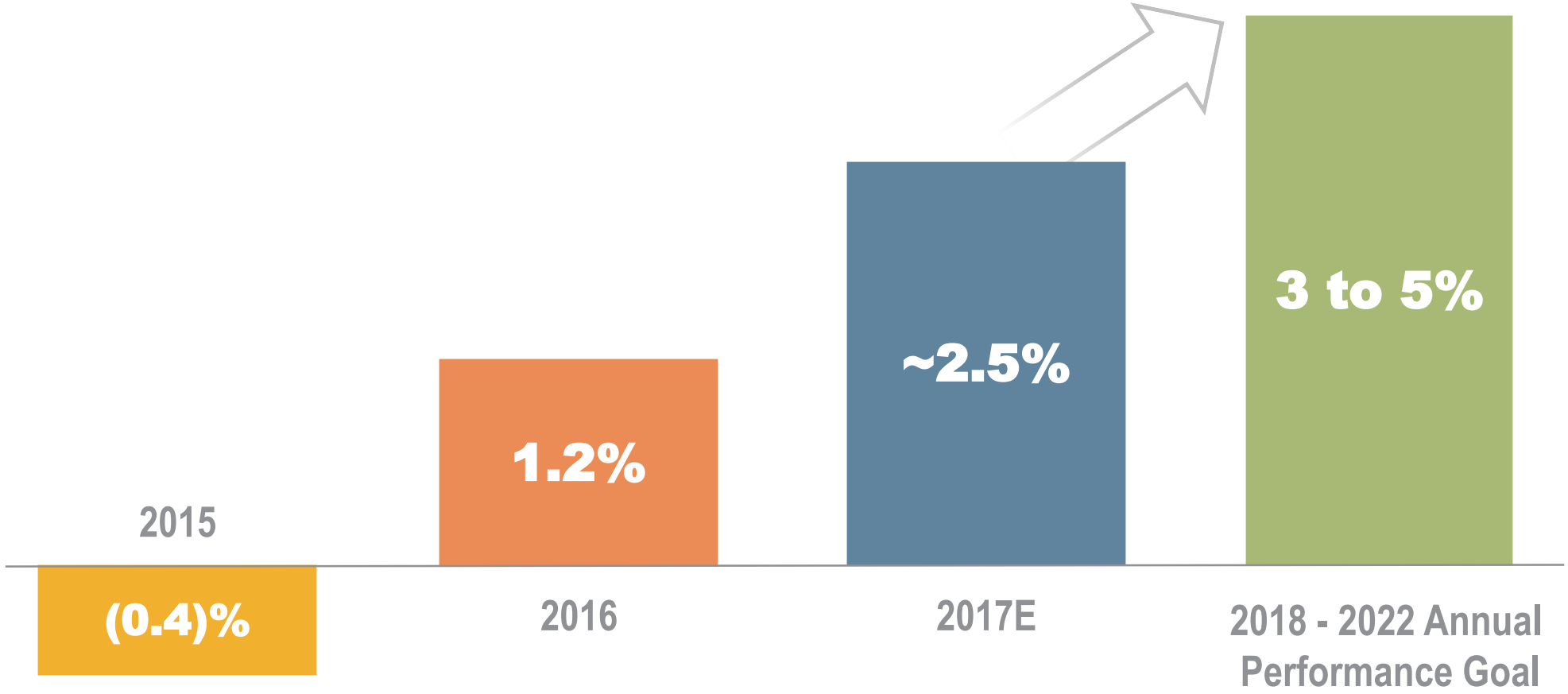


GROWTH: QUALITY OVER QUANTITY

- **2013 - 2015: SHIFT PRIMARY GROWTH ENGINE TO ORGANIC**
  - Re-align Portfolio
  - Business Structure Simplification/Scale Up
  - Prepare to Grow
- **2016 - 2017: ORGANIC GROWTH FRAMEWORK**
  - Divisions "Ready to Grow"
  - Organic Growth Framework Implemented
- **2017 AND BEYOND: ACCELERATE GROWTH AND SUSTAIN**
  - "Operationalize" Organic Growth Process in Every Division
  - Ongoing Capability Building and Investment to Sustain Growth

GROWTH: QUALITY OVER QUANTITY

SOLID PROGRESS ON OUR PATH TO SUSTAINED ABOVE-MARKET ORGANIC GROWTH



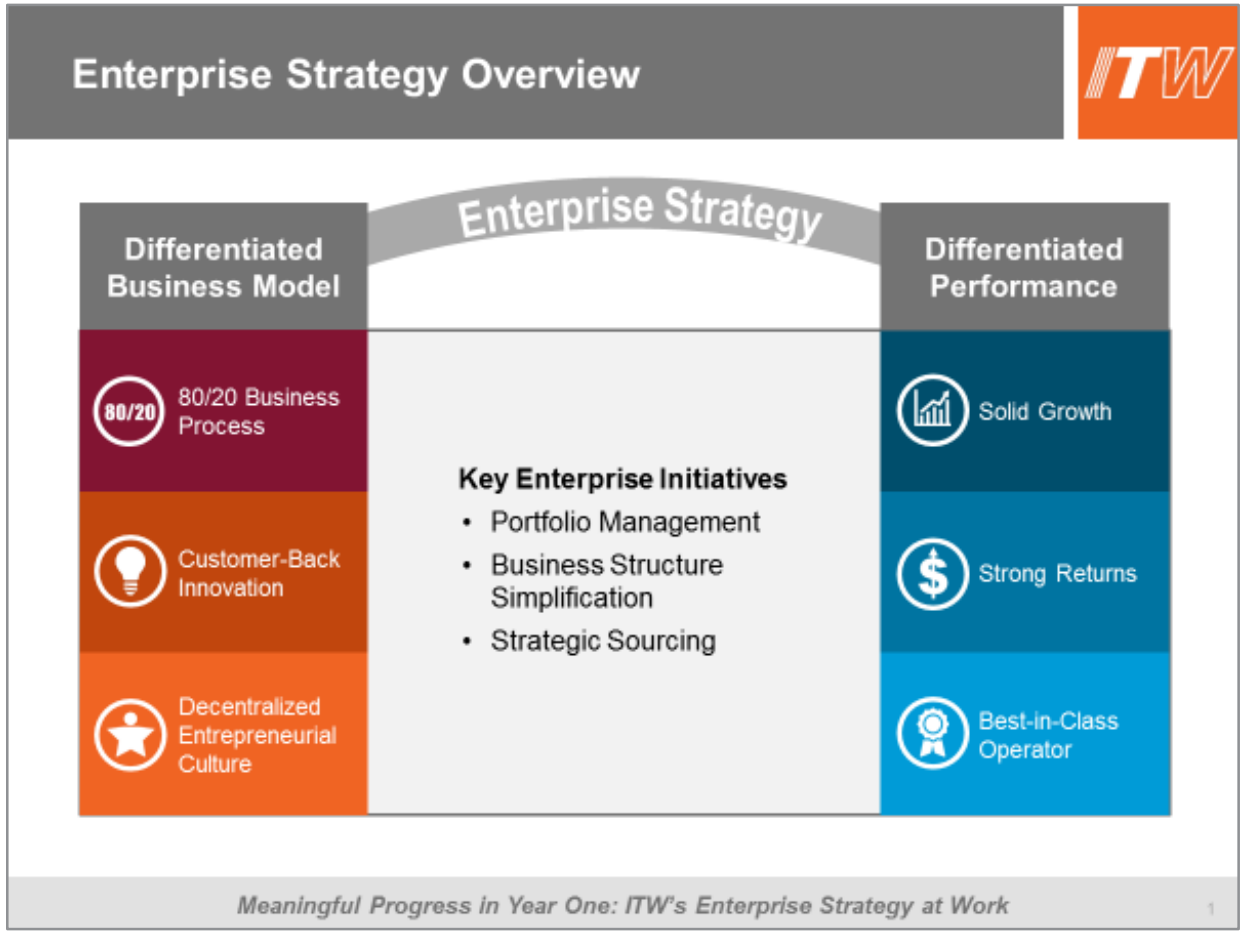
“Do What We Say” Execution is a Critical ITW Differentiator



"DO WHAT WE SAY" EXECUTION IS A CRITICAL DIFFERENTIATOR

- Clear financial targets for which we are **ACCOUNTABLE**
- Based on strategies **ROOTED IN REALITY** and **EXECUTED AT THE RIGHT PACE**
- **SIMPLE, STRAIGHTFORWARD** and **TRANSPARENT** in everything we do

ITW Investor Meeting
December 14, 2012

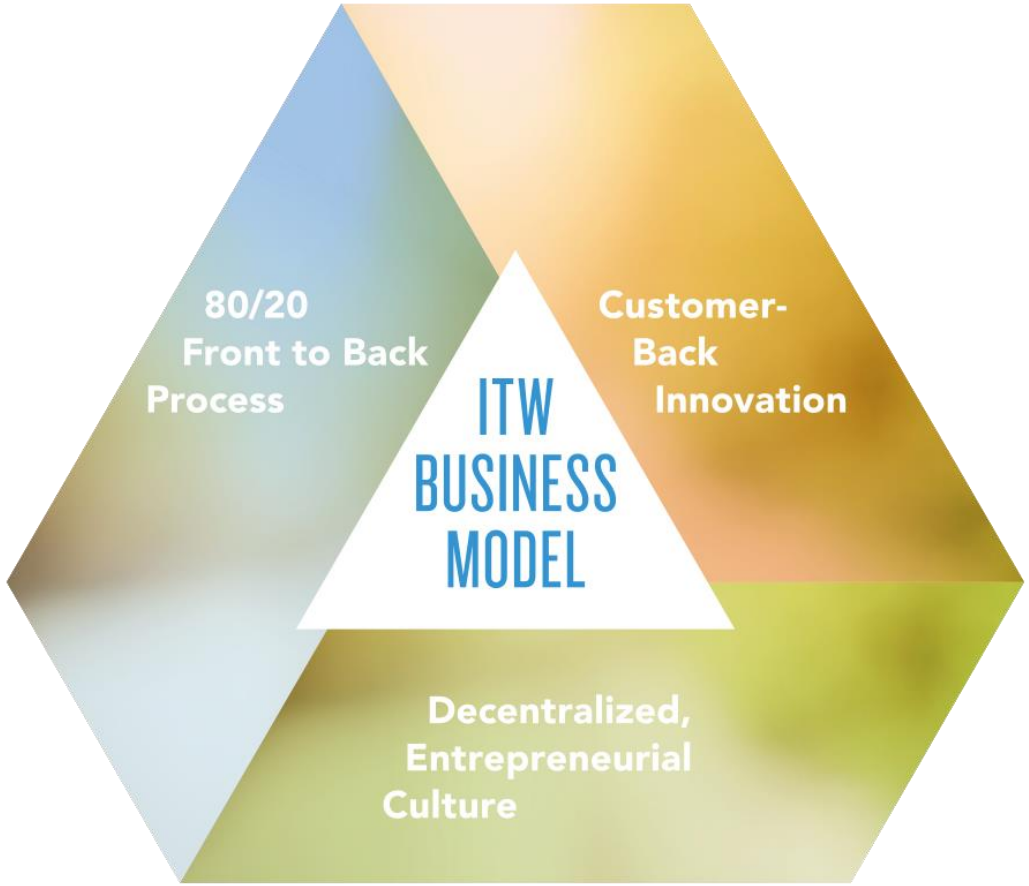


“DO WHAT WE SAY” EXECUTION IS A CRITICAL DIFFERENTIATOR

ITW CULTURE: HOW WE EXECUTE

At ITW, our **DECENTRALIZED, ENTREPRENEURIAL CULTURE** is the engine that translates **STRATEGY** into **ACTION** and **ACTION** into **RESULTS**





“DO WHAT WE SAY” EXECUTION IS A CRITICAL DIFFERENTIATOR

“FLEXIBILITY WITHIN THE ITW FRAMEWORK” OPERATING MODEL



OUR “NON-NEGOTIABLES”

- **OUR VALUES**
  - Trust
  - Integrity
  - Respect
  - Simplicity
  - Shared Risk
- **OUR BUSINESS MODEL**
  - Excellence, Everywhere, Everyday
- **OUR STRATEGY**
  - Leverage Our Business Model to Full Potential

“DO WHAT WE SAY” EXECUTION IS A KEY DIFFERENTIATOR

“FLEXIBILITY WITHIN THE ITW FRAMEWORK” OPERATING MODEL



“DO WHAT WE SAY” EXECUTION IS A CRITICAL DIFFERENTIATOR

ENTREPRENEURIAL:

Within our **DECENTRALIZED** divisional structure our leaders run **REAL BUSINESSES**

They are empowered to **THINK AND ACT LIKE OWNERS**

- Full Functional Control (No Matrix Structures)
- Real P&L Ownership and Accountability



“DO WHAT WE SAY” EXECUTION IS A KEY DIFFERENTIATOR

OWNERSHIP

- Divisional goal setting and operational planning are done **“BOTTOM UP”** not “Top Down”
- **“CLOSE TO THE CUSTOMER”** decision making by people with the greatest knowledge... guided by the ITW Framework

ACCOUNTABILITY

- Performance metrics are **SIMPLE, CLEAR** and **CONSISTENT** across the company:

  1. Organic Growth
  2. Operating Margin
  3. ROIC

Invest Only Where We Have Compelling Competitive Advantage



INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

Underpinning our Enterprise Strategy is a **HIGHLY FOCUSED** and **DISCIPLINED** Approach to Capital Allocation:

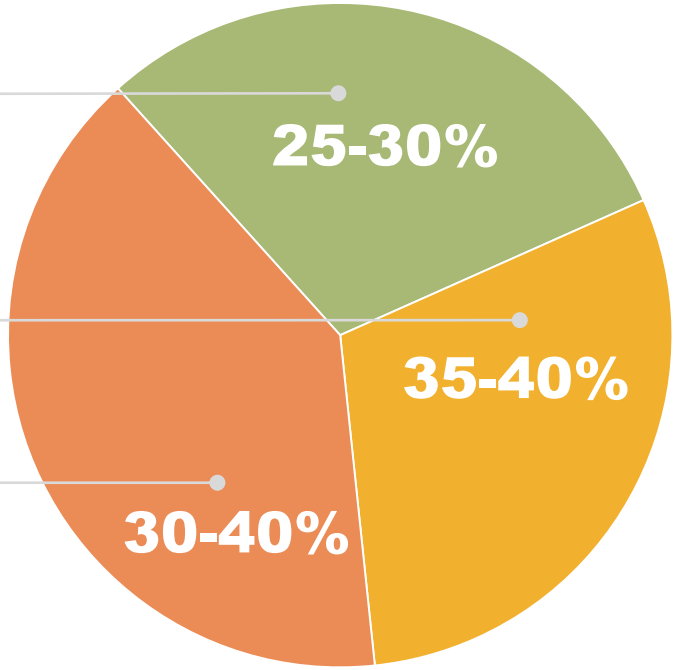
- We only invest in areas of opportunity where we can leverage the ITW Business Model to create a compelling **COMPETITIVE ADVANTAGE** and deliver **DIFFERENTIATED FINANCIAL PERFORMANCE**
- **INVESTMENT** is **MORE** than **CAPITAL**
- Rather than pursue lower-return, higher-risk opportunities that reside outside of our core strengths and capabilities, we choose to **RETURN SURPLUS CAPITAL TO OUR SHAREHOLDERS**

INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

OUR PRIORITIES:

1. **INTERNAL INVESTMENTS** to support organic growth and sustain core businesses
2. An **ATTRACTIVE DIVIDEND**
3. **EXTERNAL INVESTMENTS**: Acquisitions that expand ITW's long-term organic growth potential and an active share repurchase program

% OF OPERATING CASH FLOW



INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

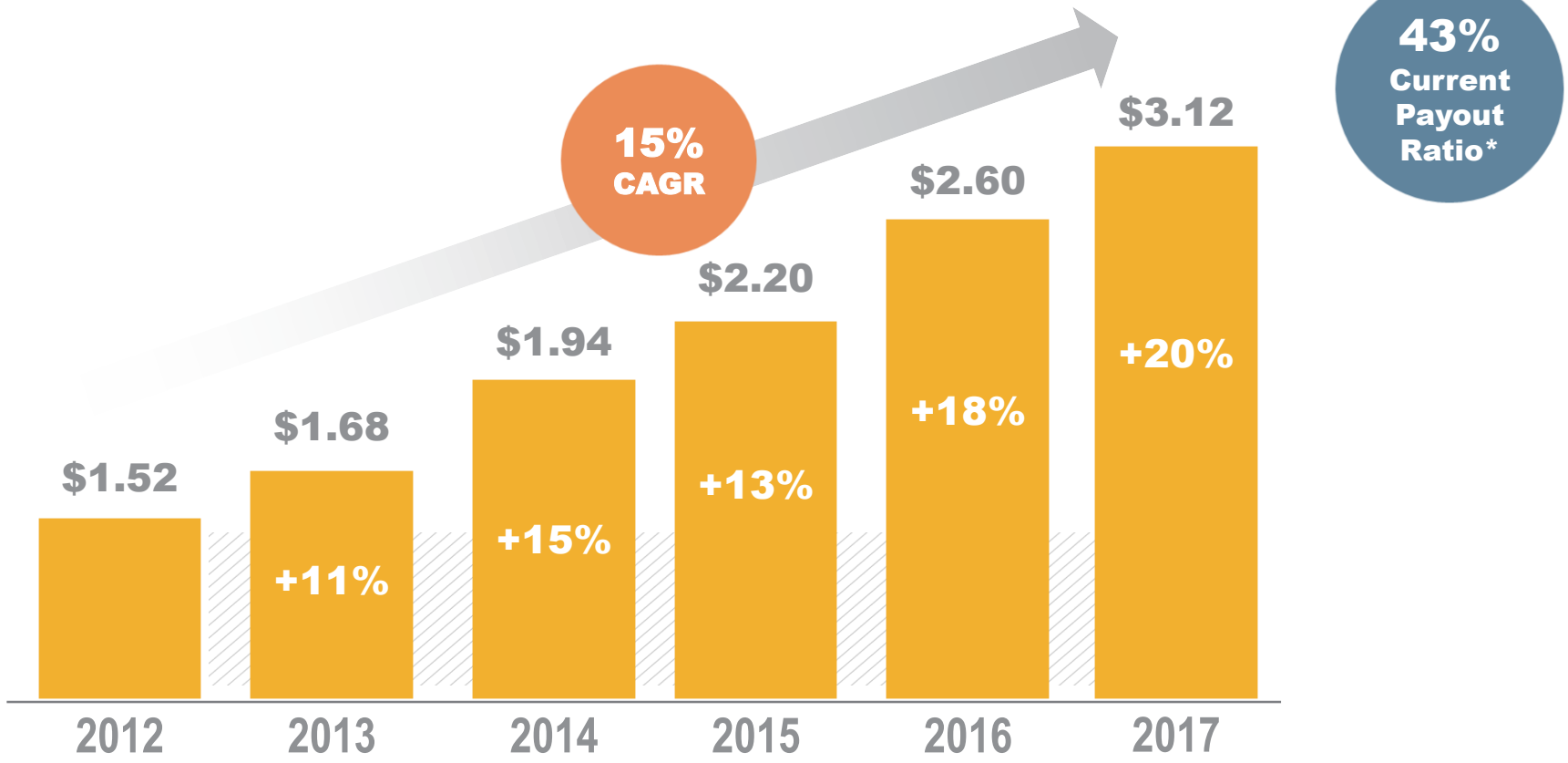
INTERNAL INVESTMENTS that support organic growth and sustain our core businesses are **OUR NUMBER ONE** capital allocation **PRIORITY**

- All internal investments that meet our criteria are **FULLY FUNDED**
- Capital is allocated to **DISCRETE PROJECTS** and strategies, not "lump sum" to the businesses
- The percentage of our annual operating cash flow allocated to internal investments is an **OUTCOME** of how we run the businesses, not a target
- Since 2012, we have **INVESTED ~$3.1B** in capital expenditures, customer-back innovation and simplification projects

INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

50+ YEAR HISTORY OF DIVIDEND GROWTH

ANNUALIZED DIVIDEND PER SHARE



*Dividend payout ratio = Annual dollars paid as a % of Free Cash Flow

INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

BOLT-ON ACQUISITIONS

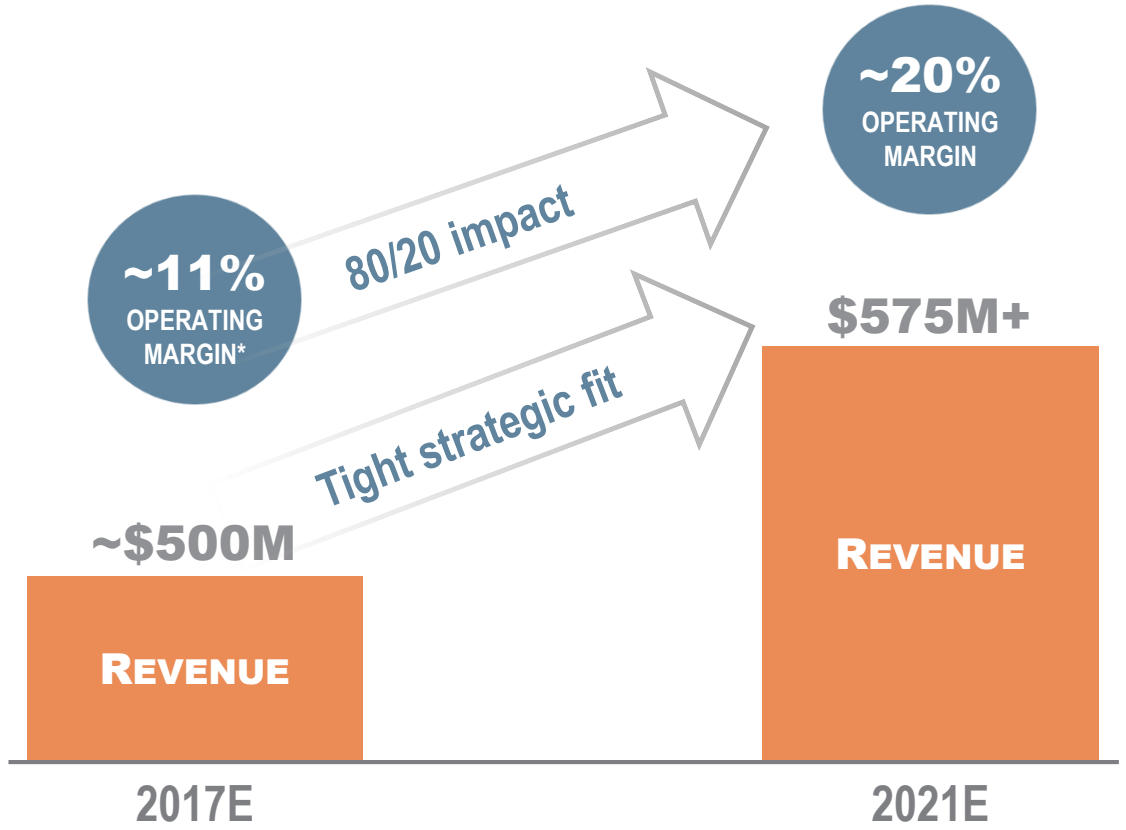
1 **TIGHT STRATEGIC FIT:** Only acquisitions that expand a segment's long-term organic growth potential

AND ...

2 **80/20 IMPACT:** Has the potential to generate significant margin improvement from the application of 80/20 Front to Back Process

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

EF&C ACQUISITION

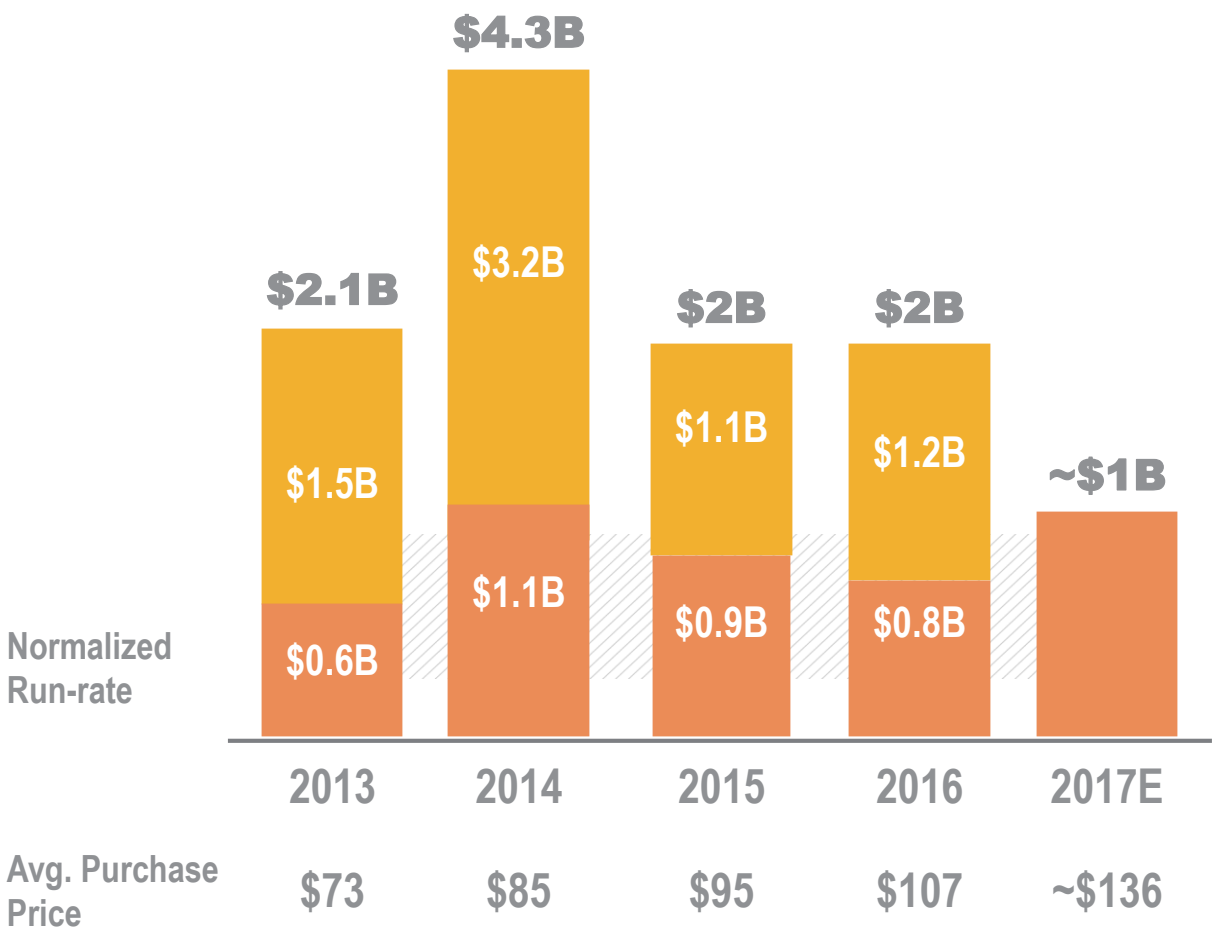


ON TRACK TO DELIVER LONG-TERM ORGANIC GROWTH AND MARGIN EXPANSION

** Excludes unfavorable operating margin impact of amortization expense related to intangible assets*

INVEST ONLY WHERE WE HAVE COMPELLING COMPETITIVE ADVANTAGE

SURPLUS CAPITAL RETURNED TO SHAREHOLDERS through Share Repurchases



- **$11.4 BILLION** of "Surplus Capital" including divestiture proceeds and overseas cash allocated to share repurchases since 2013
- Share count reduced by **28%** at an average purchase price of ~$89 = **24+% IRR**
- Normalized annual share repurchase run rate is **$750M TO $1.25B** … depends on acquisition activity
- Significant **CAPACITY** for additional share repurchases in a market downturn

STRATEGIC FRAMEWORK IMPLEMENTATION

PHASE I

= REPOSITIONING

2013 - 2018+

PHASE II

= SUSTAINING DIFFERENTIATED PERFORMANCE

2018 - 2022

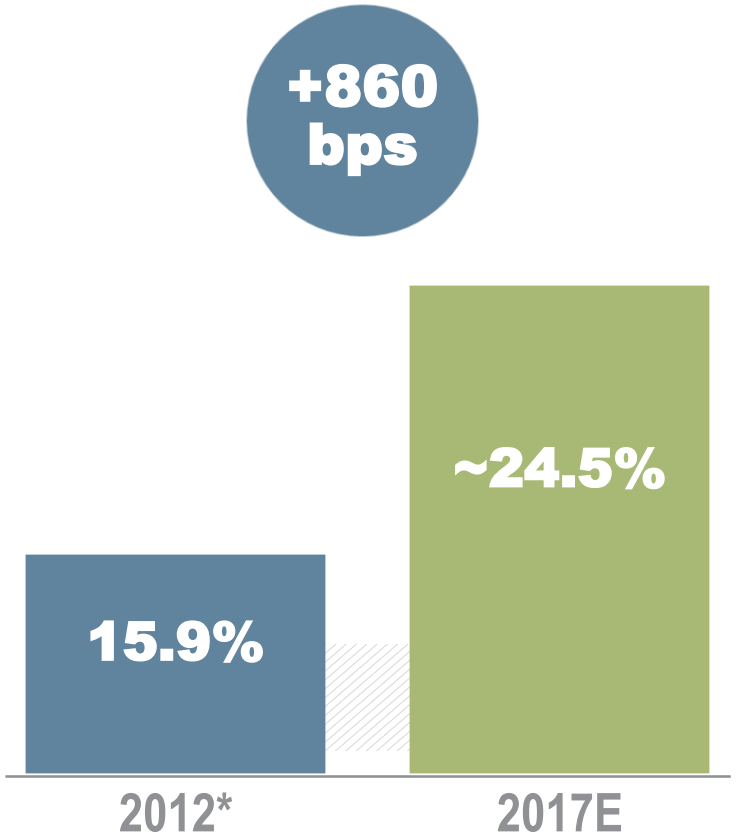
PHASE I – REPOSITIONING (2013 - 2018+)

- ✓ Divested **30+ BUSINESSES** (including two segments) over $5B in revenue
- ✓ Product Line Simplification: **EXITED ~$415M IN REVENUE**
- ✓ Business Structure Simplification: From 800 business units to **85 DIVISIONS**
- ✓ **CLARIFIED** what **BUSINESS MODEL EXCELLENCE** "looks like" across the Company
- ✓ Reapplying reinvigorated **80/20** front to back process in all 85 Divisions
- ✓ **STRATEGIC SOURCING** now a core capability
- ✓ Total structural **COST SAVINGS APPROACHING $1B**
- ✓ **ACCELERATED ORGANIC GROWTH** by more than 1% annually since 2015

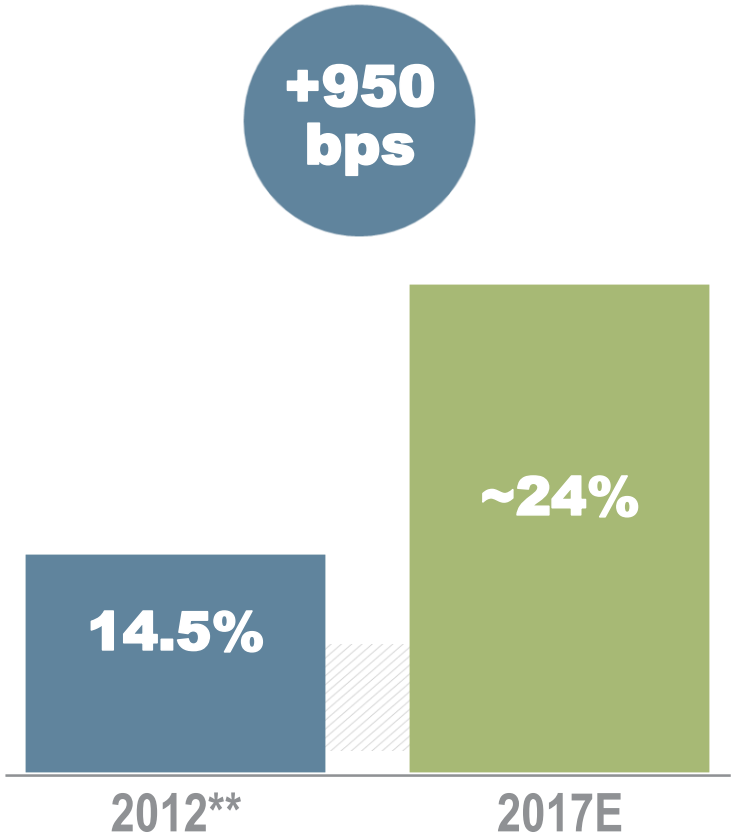
REPOSITIONING ITW FOR SUSTAINED DIFFERENTIATED PERFORMANCE

ENTERPRISE STRATEGY PERFORMANCE SINCE 2012

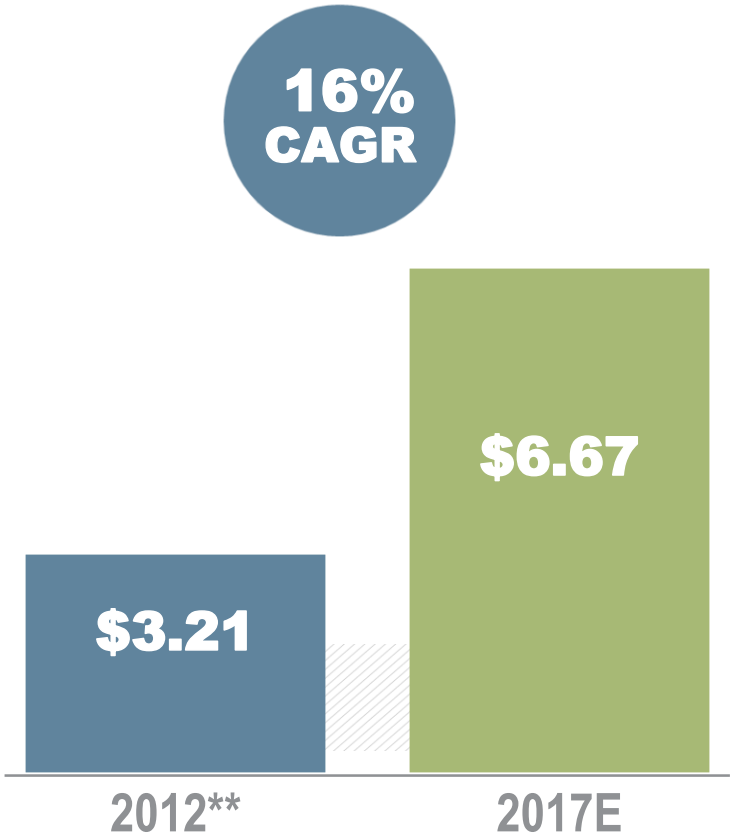
OPERATING MARGIN



AFTER-TAX ROIC



EARNINGS PER SHARE



* *As reported in the 2012 Form 10-K*
** *See Appendix for GAAP to non-GAAP reconciliation*

PHASE I – REPOSITIONING (2013 - 2018+)

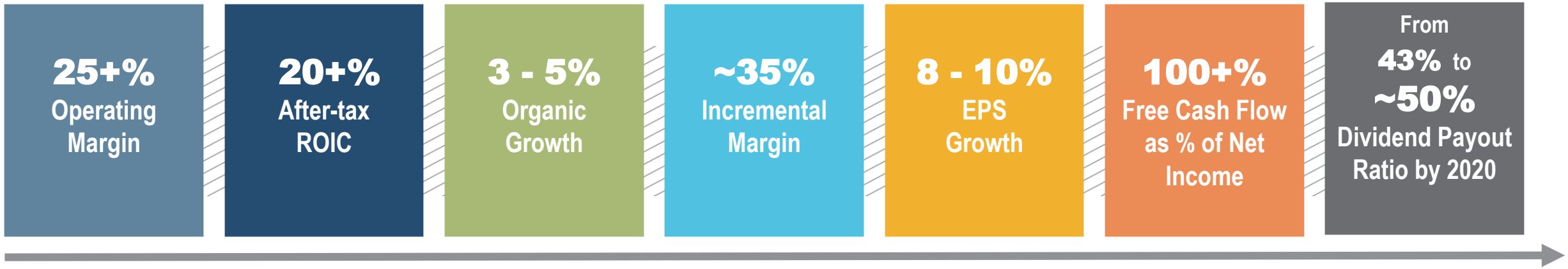
EXPECT ADDITIONAL IMPROVEMENT IN 2018 FOR SURE, AND PROBABLY IN 2019

- Additional **~100 BASIS POINTS** of **MARGIN EXPANSION** from Enterprise Initiatives in **2018**

PHASE II – SUSTAINING DIFFERENTIATED PERFORMANCE

ITW is well-positioned to deliver sustained **DIFFERENTIATED PERFORMANCE**

OUR 2018 - 2022 ANNUAL PERFORMANCE GOALS:

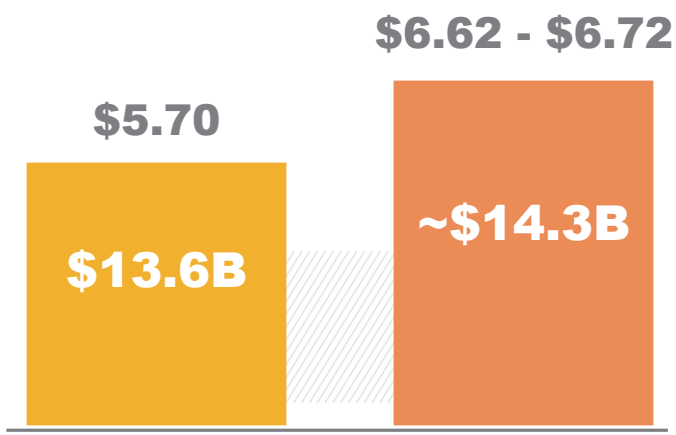


2018 Guidance



2017 GUIDANCE: ON TRACK

GAAP GUIDANCE INCL. LEGAL ITEM



	2016	2017E
GAAP EPS	$5.70	$6.62 - $6.72
Revenue	$13.6B	~$14.3B
Operating Margin	22.5%	~24.5%
After-tax ROIC*	22.1%	~24%

*See ITW's 2016 Form 10-K

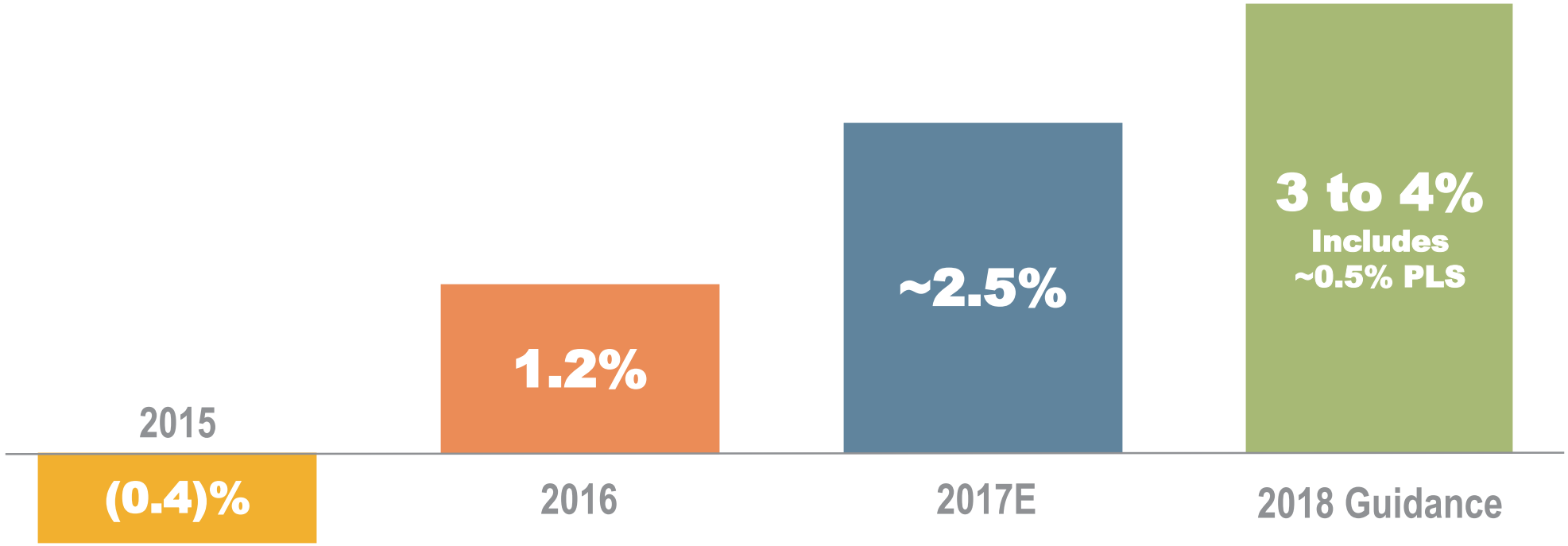
HIGHLIGHTS EXCL. LEGAL ITEM

- EPS of $6.45 - $6.55, an increase of 14%
- Revenue growth of 4.5 - 5.5%, organic of 2 - 3%
  - More than 1%-point organic improvement year-on-year
- Key performance metrics at all-time record levels
  - Operating margin of ~24%, an increase of ~150 bps with Enterprise Initiatives contributing ~100 bps
  - After-tax ROIC of ~23.5%, an increase of ~150 bps
- Free Cash Flow 100%+ of Net Income
  - $1.9 billion to shareholders: 20% dividend increase and ~$1 billion share repurchases

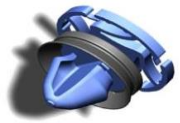
ANOTHER STRONG YEAR

2018 ORGANIC GROWTH RATE

CONTINUED PROGRESS ON OUR PATH TO SUSTAINED ABOVE-MARKET ORGANIC GROWTH IN 2018



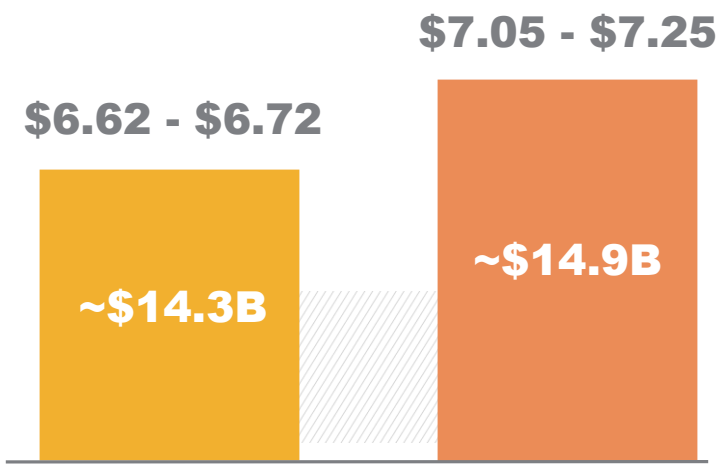
2018 ORGANIC GROWTH BY SEGMENT

	 Automotive OEM	 Test & Measurement Electronics	 Food Equipment	 Polymers & Fluids	 Welding	 Construction Products	 Specialty Products
2017E	**~4%**	**~3.5%**	**~1%**	**~1%**	**~3%**	**~2.5%**	**~3%**
2018E	**4 - 5%**	**4 - 5%**	**2 - 3%**	**2 - 3%**	**4 - 5%**	**3 - 4%**	**3 - 4%**

WELL-POSITIONED FOR CONTINUED PROGRESS IN 2018

2018 GUIDANCE

GAAP GUIDANCE INCL. LEGAL ITEM



	2017E	2018E
GAAP EPS	$6.62 - $6.72	$7.05 - $7.25
Revenue	~$14.3B	~$14.9B
Operating Margin	24.5%	25.0 - 25.5%
After-tax ROIC	~24%	~25%

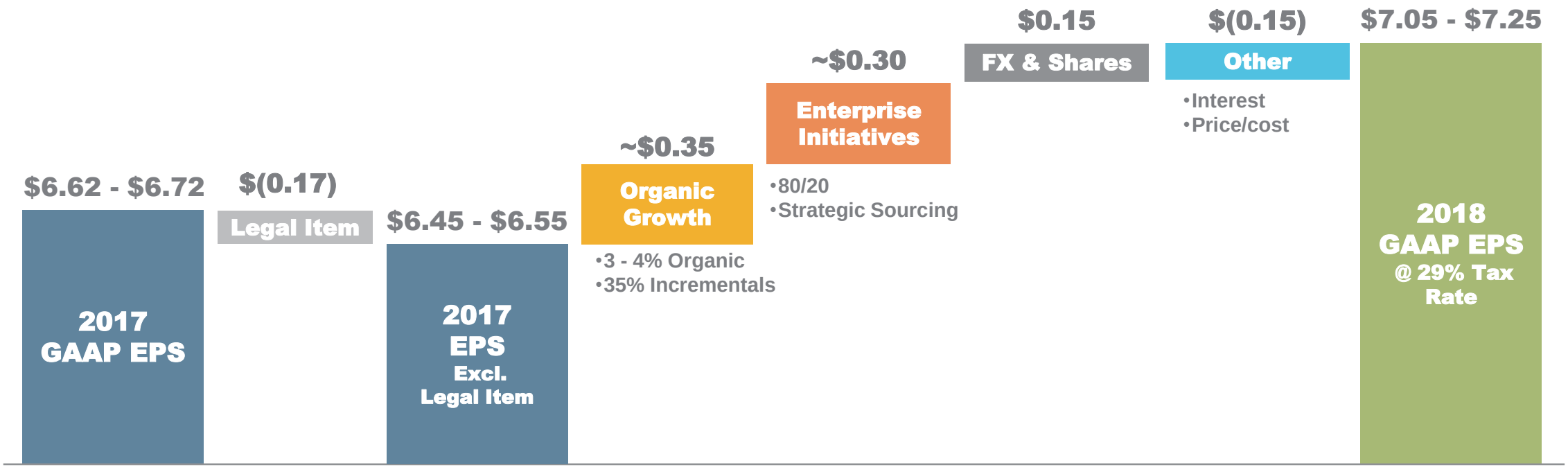
HIGHLIGHTS EXCL. LEGAL ITEM

- High Quality EPS growth of 10%
- Revenue growth of 4 - 5%, organic of 3 - 4%
  - All seven segments with accelerating organic growth
- Key Performance Metrics – Continued Progress
  - Operating margin of 25 - 25.5%, an increase of more than 100 bps with Enterprise Initiatives contributing ~100 bps
  - All seven segments with margin expansion
  - After-tax ROIC of ~25%, an increase of ~100 bps
- Free Cash Flow 100%+ of Net Income
  - ~$1 billion share repurchases

WELL-POSITIONED FOR SOLID PERFORMANCE IN 2018

2017 TO 2018 EPS BRIDGE

HIGH QUALITY EARNINGS GROWTH



2018 GAAP EPS GUIDANCE: $7.05 - $7.25

Summary / Moving Forward



GOAL 1

MAXIMIZE ITW'S POTENTIAL TO CONSISTENTLY DELIVER DIFFERENTIATED PERFORMANCE

	2012-2017E	2018-2022 Annual Goals
Operating Margin	16 → 24%	25+%
After-tax ROIC	15 → 24%	20+%
Annual Organic Growth	(1) - 2.5%	3 - 5%
Incremental Margin	30 - 35%	~35%
Annual EPS Growth	10 - 29%	8 - 10%
Free Cash Flow % of Net Income	100 - 119%	100+%
Dividend Payout Ratio	22 → 43%	43% → ~50% *By 2020*

ADDITIONAL GROWTH OPTIONALITY FROM NEW SEGMENT ADDITIONS

PARAMETERS:

1. **GREAT "RAW MATERIAL":** Market characteristics a strong long-term fit with our business model
2. **STRONG POTENTIAL FOR SUSTAINED ABOVE-MARKET ORGANIC GROWTH**
3. **SUBSTANTIAL MARGIN IMPROVEMENT POTENTIAL FROM 80/20**
4. **"SEGMENT SIZED":** $1 - $3B in revenue
5. **WOULD NOT CAUSE US TO REDUCE OUR 2018-2022 ANNUAL PERFORMANCE GOALS**

Which means:

- 0-2 "segment sized" acquisitions every 3-5 years
- High degree of valuation discipline



THAT SAID…

- We remain intensely focused on **ORGANIC GROWTH ACCELERATION** and high quality organic growth remains our **#1 GROWTH PRIORITY**

- We **DO NOT NEED ACQUISITIONS** to achieve our 2018-2022 performance goals

GOAL 2

BEST POSITION ITW AS A HIGHLY VALUED CORE HOLDING FOR LONG-TERM ORIENTED INVESTORS

Strong, Enduring and Adaptable Competitive Advantage:

- Highly differentiated Business Model
- Best-in-class margins
- Well-positioned to out-perform in any economic scenario

Diversified High-Quality Business Portfolio:

- Consistent above-market organic growth
- Diverse end-market and geographic exposures with no “weak links”
- Additional long-term growth optionality from potential new segment additions

Strong Track Record of “Do What We Say” Execution:

- Execution deeply imbedded in company culture
- Clear performance goals aligned with our strategy
- Straightforward and transparent metrics

High Quality of Earnings:

- Free Cash Flow = 100% of Net Income
- Highly disciplined allocator of capital: Best-in-class ROIC
- 50+ years of annual dividend growth. Increasing payout to ~50% by 2020

15 Minute Break



Q&A



Appendix



GAAP to Non-GAAP Reconciliations

Operating Margin %	2012 Actuals		2017 Estimate	
	Polymers & Fluids	Test & Measurement/ Electronics	Polymers & Fluids	Test & Measurement/ Electronics
Total Operating Margin	15.8%	14.9%	21.1%	21.7%
Amortization expense from acquisition-related intangible assets	3.9%	4.2%	4.1%	3.2%
Adjusted Operating Margin %	19.7%	19.1%	25.2%	24.9%

Free Cash Flow & Adjusted Net Income Dollars in millions	For the Years Ended December 31,				
	2013	2014	2015	2016	2017E
Net cash provided by operating activities	$ 2,528	$ 1,616	$ 2,299	$ 2,302	
Less: Additions to plant and equipment	(368)	(361)	(284)	(273)	
Add: Tax payments related to the disposition of the Industrial Packaging business	-	724	-	-	
Free cash flow	$ 2,160	$ 1,979	$ 2,015	$ 2,029	~$ 2,300
Net income	$ 1,679	$ 2,946	$ 1,899	$ 2,035	~$ 2,300
Less: After-tax gain on the disposition of the Industrial Packaging business	-	(1,148)	-	-	
Adjusted net income	$ 1,679	$ 1,798	$ 1,899	$ 2,035	~$ 2,300

GAAP to Non-GAAP Reconciliations and Peer Group Definition

Adjusted Return on Average Invested Capital Dollars in millions	For the Years Ended December 31,	
	2012	2013
Operating income, as reported	$ 2,475	$ 2,514
Adjustment for Decorative Surfaces	(143)	-
Adjusted operating income	2,332	2,514
Tax Rate	29.2%	28.8%
Taxes	(681)	(724)
Adjusted operating income after taxes	$ 1,651	$ 1,790
Invested capital at end of period:		
Trade receivables	$ 2,742	$ 2,365
Inventories	1,585	1,247
Net assets held for sale	-	1,519
Net plant and equipment	1,994	1,709
Goodwill and intangible assets	7,788	6,885
Accounts payable and accrued expenses	(2,068)	(1,906)
Other, net	773	593
Total invested capital	$ 12,814	$ 12,412
Average invested capital	$ 13,140	$ 12,581
Adjustment for Decorative Surfaces	(274)	(169)
Adjustment for Industrial Packaging	(1,504)	(1,477)
Adjusted average invested capital	$ 11,362	$ 10,935
Adjusted return on average invested capital	14.5%	16.4%

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

Automotive OEM: Actuant, Allison Transmission, Anixter, Delphi and BorgWarner
Test & Measurement/Electronics: Fortive, Keysight, Mettler-Toledo, Renishaw, Spectris and Thermo Fisher
Food Equipment: Welbilt and Middleby
Polymers and Fluids: 3M, DowDuPont and Huntsman
Welding: Kennametal, Lincoln Electric and Colfax
Construction Products: Carlisle, Crane, Ingersoll-Rand, Masco and Stanley Black and Decker
Specialty Products: Ball, Berry Plastics, and Bemis