



Stock Selection Guide [®]

The most widely used aid to good investment judgment

Company ILLINOIS TOOL WORKS INC. Date 01/20/06

Prepared by MG Data taken from NAIC Data

Where traded NYSE Major product/service Industrial

CAPITALIZATION --- Outstanding Amounts Reference _____

Preferred (\$M)	0.0	% Insiders	% Institution	
Common (M Shares)	280.5	28.0	82.0	
Debt (\$M)	1,344.1	% to Tot.Cap.	15.5 % Potential Dil.	None

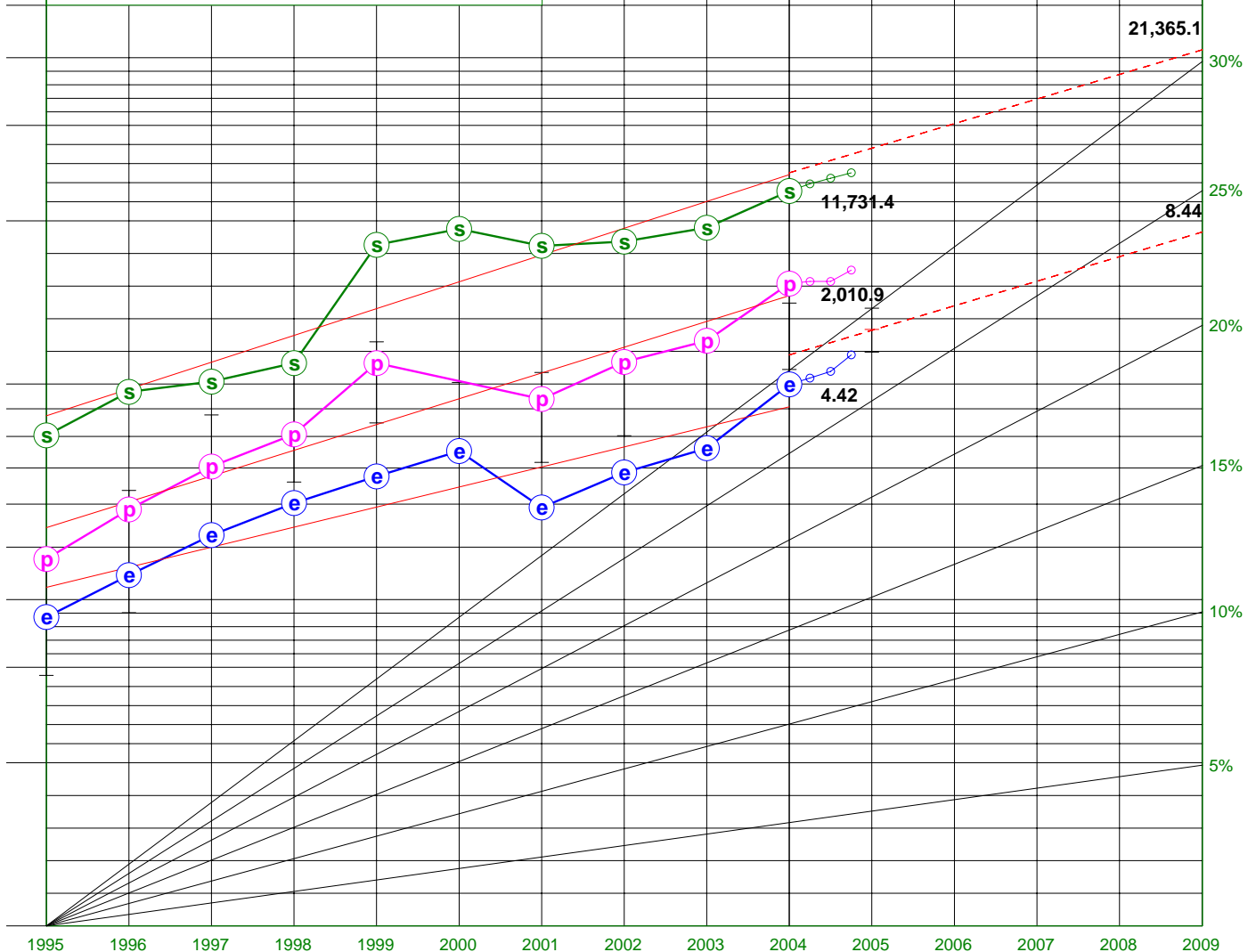
1 VISUAL ANALYSIS of Sales, Earnings and Price

ITW

FY 2005 Q3 (Ended 9/30/2005)
RECENT QUARTERLY FIGURES

	SALES (\$M)	EARNINGS PER SHARE (\$)
Latest Quarter	3,257.6	1.43
Year Ago Quarter	2,967.2	1.09
Percentage Change	9.8%	31.2%

See Chapters 8, 9, and 10 of the NAIC Official Guide for complete instructions.
Use this Guide as working section of NAIC Stock Selection Guide & Report.



- (1) Historical Sales Growth 12.0 %
- (2) Estimated Future Sales Growth 11.0 %
- (3) Historical Earnings Per Share Growth 8.9 %
- (4) Estimated Future Earnings Per Share Growth 11.0 %

2 EVALUATING MANAGEMENT

Company **ILLINOIS TOOL WORKS INC.**

(ITW)

01/20/06

		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	LAST 5 YEAR AVG.	TREND	
													UP	DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	15.0	15.4	17.7	18.8	15.4	13.2	15.2	15.7	17.1	15.3		UP	
B	% Earned on Equity (E/S ÷ Book Value)	20.2	20.3	20.7	20.0	18.7	18.6	13.2	14.0	13.2	16.9	15.2	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

		PRESENT PRICE			HIGH THIS YEAR			LOW THIS YEAR				
		86.460			94.640			78.500				
Year		PRICE		C Earnings Per Share	D Price Earnings Ratio		E Dividend Per Share	F % Payout F ÷ C X 100	G % High Yield F ÷ B X 100			
		HIGH	LOW		HIGH A ÷ C	LOW B ÷ C						
1	2000	69.0	49.5	3.33	20.7	14.9	0.760	22.8	1.5			
2	2001	72.0	49.2	2.62	27.5	18.8	0.840	32.1	1.7			
3	2002	77.8	55.0	3.04	25.6	18.1	0.900	29.6	1.6			
4	2003	84.7	54.6	3.37	25.1	16.2	0.940	27.9	1.7			
5	2004	96.7	72.9	4.42	21.9	16.5	1.040	23.5	1.4			
6	TOTAL		281.2		120.8	84.5		135.9				
7	AVERAGE		56.2		24.2	16.9		27.2				
8	AVERAGE PRICE EARNINGS RATIO				20.6		9		CURRENT PRICE EARNINGS RATIO		17.3	

Proj. P/E [15.55] Based on Next 4 qtr. EPS [5.56]

Current P/E Based on Last 4 qtr. EPS [5.01]

4 EVALUATING RISK AND REWARD over the next 5 years

PEG=157

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~24.2~~ 22.0 X Estimate High Earnings/Share 8.44 = Forecast High Price \$ 185.7
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~16.9~~ 16.0 X Estimated Low Earnings/Share ~~4.42~~ 5.01 = \$ 80.2
(3E7 as adj.)

(b) Avg. Low Price of Last 5 Years = 56.2
(3B7)

(c) Recent Severe Market Low Price = 54.6

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}} = \frac{1.320}{0.017} = 76.7$

Selected Estimate Low Price = \$ 75.0
(4B1)

C ZONING

185.7 (4A1) High Forecast Price Minus 75.0 (4B1) Low Forecast Price Equals 110.7 (C) Range. 1/3 of Range = 27.7 (4CD)

(4C2) Lower 1/3 = 75.0 (4B1) to 102.7 (Buy) **Note: Ranges changed to 25%/50%/25%**

(4C3) Middle 1/3 = 102.7 to 158.0 (Maybe)

(4C4) Upper 1/3 = 158.0 to 185.7 (4A1) (Sell)

Present Market Price of 86.460 is in the Buy (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 185.7 Minus Present Price 86.460
 Present Price 86.460 Minus Low Price (4B1) 75.0 = $\frac{99.2}{11.5} = 8.7$ To 1 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 185.7
 Present Market Price 86.460 = $(2.148) \times 100 = (214.8) - 100 = 114.8$ % Appreciation (4E)

Relative Value: 84.0% Proj. Relative Value: 75.5%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate: use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 1.320
 Present Price of Stock \$ 86.460 = $\frac{0.015}{1} \times 100 = \frac{1.5}{86.460}$ Present Yield or % Returned on Purchase Price (5A)

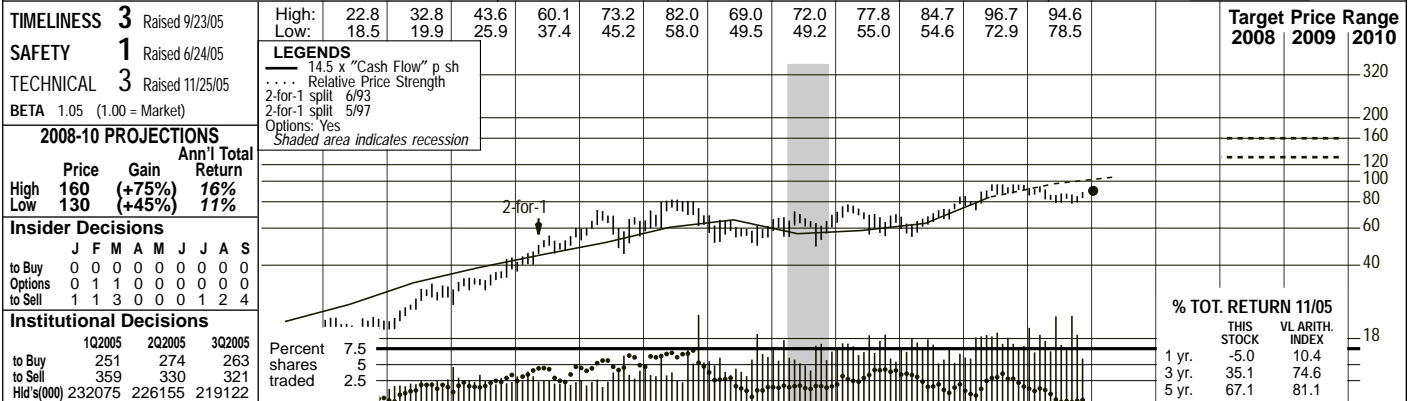
B AVERAGE YIELD OVER NEXT 5 YEARS
 Avg. Earnings Per Share Next 5 Years 6.85 X Avg. % Payout (3G7) 27.2 = 186.3 = 2.2 %
(5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

	5 Year Appreciation Potential <small>(4E)</small>		P.A.R.	Tot. Ret.
	<u>114.8</u>			
Average Yield <small>(5B)</small>	<u>2.2</u> %	Average Yield	<u>1.4</u> %	<u>1.2</u> %
Average Total Annual Return Over the Next 5 Years <small>(5C)</small>	<u>25.2</u> %	Annual Appreciation	<u>13.2</u> %	<u>16.5</u> %
		% Compd Ann Rate of Ret	<u>14.6</u> %	<u>17.8</u> %

ILL. TOOL WORKS NYSE-ITW

RECENT PRICE **90.20** P/E RATIO **16.7** (Trailing: 18.1, Median: 21.0) RELATIVE P/E RATIO **0.90** DIV'D YLD **1.5%** VALUE LINE



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB, INC.	08-10
10.11	11.59	11.83	12.53	13.96	15.19	17.54	20.17	20.92	22.56	31.02	33.01	30.45	30.88	32.52	40.14	46.45	50.45	Sales per sh	68.50
1.16	1.30	1.33	1.42	1.50	1.80	2.28	2.68	3.09	3.53	4.17	4.53	3.90	4.04	4.36	5.79	6.70	7.25	"Cash Flow" per sh	10.00
.77	.84	.81	.86	.92	1.23	1.65	1.97	2.33	2.67	2.99	3.15	2.61	3.02	3.37	4.39	5.15	5.75	Earnings per sh ^A	8.20
.14	.17	.21	.23	.25	.28	.31	.36	.46	.51	.63	.76	.82	.89	.93	1.00	1.17	1.35	Div'ds Decl'd per sh ^{B=C}	1.52
.39	.46	.48	.51	.53	.58	.63	.68	.72	.83	1.12	1.04	.84	.89	.84	.97	1.10	1.35	Cap'l Spending per sh	1.90
4.05	4.97	5.43	5.97	5.56	6.76	8.13	9.67	11.24	13.33	16.01	17.86	19.79	21.69	25.51	26.10	27.55	30.20	Book Value per sh ^C	38.90
214.90	219.52	223.17	224.31	226.30	227.92	236.74	247.77	249.60	250.39	300.83	302.45	305.17	306.58	308.64	292.23	280.00	280.00	Common Shs Outst'g ^D	270.00
12.7	14.3	18.2	18.5	20.3	16.9	16.0	17.5	20.8	22.8	23.9	18.6	23.9	22.3	20.1	20.0	17.5	17.5	Avg Ann'l P/E Ratio	17.5
.96	1.06	1.16	1.12	1.20	1.11	1.07	1.10	1.20	1.19	1.36	1.21	1.22	1.22	1.15	1.06	1.15	1.15	Relative P/E Ratio	1.15
1.5%	1.4%	1.4%	1.4%	1.3%	1.4%	1.2%	1.0%	1.0%	.8%	.9%	1.3%	1.3%	1.3%	1.4%	1.1%	1.4%	1.4%	Avg Ann'l Div'd Yield	1.1%

CAPITAL STRUCTURE as of 9/30/05				4152.2	4996.7	5220.4	5647.9	9333.2	9983.6	9292.8	9467.7	10036	11731	13000	14125	Sales (\$mill)	18500
Total Debt \$1344.1 mill. Due in 5 Yrs \$875 mill.				19.5%	20.4%	22.2%	23.8%	20.4%	21.0%	19.3%	19.4%	19.6%	20.5%	20.5%	20.5%	Operating Margin	21.0%
LT Debt \$965.5 mill. LT Interest \$50.0 mill.				151.9	178.2	185.4	211.8	343.3	413.4	386.3	305.8	306.6	353.3	390	410	Depreciation (\$mill) ^E	455
(12% of Cap'l)				387.6	486.3	587.0	672.8	911.9	958.0	802.4	931.8	1040.2	1339.6	1485	1620	Net Profit (\$mill)	2240
(Total int. coverage and LT int. earned: over 25x)				37.9%	36.9%	36.5%	36.5%	36.4%	35.2%	34.8%	35.0%	34.0%	33.0%	32.0%	32.0%	Income Tax Rate	33.0%
Leases Uncapitalized: Annual Rentals \$101.4 mill.				9.3%	9.7%	11.2%	11.9%	9.8%	9.6%	8.6%	9.8%	10.4%	11.4%	11.4%	11.5%	Net Profit Margin	12.1%
Pension Assets-12/04 \$1.49 bill.				681.6	481.8	700.7	612.5	1227.5	1511.5	1645.0	2311.6	3294.3	2471.2	2600	2850	Working Cap'l (\$mill)	2850
Oblig. \$1.59 bill.				615.6	818.9	854.3	947.0	1360.7	1549.0	1267.1	1460.4	920.4	921.1	950	900	Long-Term Debt (\$mill)	750
Pfd Stock None				1924.2	2396.0	2806.5	3338.0	4815.4	5401.0	6040.7	6649.1	7874.3	7627.6	7725	8450	Shr. Equity (\$mill)	10500
Common Stock 280,502,962 shs.				15.8%	15.5%	16.2%	15.8%	15.2%	14.2%	11.3%	11.8%	12.1%	16.0%	17.5%	18.0%	Return on Total Cap'l	20.5%
MARKET CAP: \$25.0 billion (Large Cap)				20.1%	20.3%	20.9%	20.2%	18.9%	17.7%	13.3%	14.0%	13.2%	17.6%	19.0%	19.0%	Return on Shr. Equity	21.5%
CURRENT POSITION				16.4%	16.7%	17.1%	16.3%	15.1%	13.6%	9.2%	9.9%	9.6%	13.6%	15.0%	14.5%	Retained to Com Eq	17.5%
(SMILL.)				19%	18%	18%	19%	20%	23%	31%	29%	27%	23%	23%	23%	All Div'ds to Net Prof	19%

BUSINESS: Illinois Tool Works Inc. manufactures components and fasteners for automotive, construction, and general industrial applications; specialty products; machinery and related consumables for automotive, construction, food and beverage, and general industrial markets. Has approximately 650 operations in 45 countries. Research & development, 1% of '04 sales; foreign sales 43.7% of total. '04 depreciation rate: 7.2%. Has about 49,000 employees, 12,425 shareholders. All directors, nominees, and executive officers own 13.4% of common stock; The Northern Trust Co. owns 15.0% (5/05 Proxy). CEO and Pres.: David B. Speer. Chairman: W. James Farrell, Inc.: Delaware. Addr.: 3600 West Lake Avenue, Glenview, Illinois 60025. Telephone: 847-724-7500. Internet: www.itwinc.com.

Illinois Tool Works is on track to report a share-net advance of 15%-20% for 2005. Quarterly year-over-year comparisons remained strong in the September period, with the bottom line rising 31% on a 10% increase in revenues. This highly diversified manufacturer of engineered components and industrial systems continues to benefit principally from solid growth trends in its North American markets, particularly in the areas of construction and industrial products.

We look for earnings growth to maintain a double-digit pace next year, as well. As it serves a broad array of markets, the company's performance generally runs in tandem with that of the industrial economy. In that regard, the outlook remains positive. Through November, manufacturing production has now been on the expansion path for 30 consecutive months. Among ITW's key end markets, housing demand has remained strong, reflecting lending rates that are still at historically attractive levels. This generates business from both new construction and renovation work. Next year should also see a boost in sales, reflecting rebuilding efforts in the wake of the hurricanes that hit the Gulf Coast and Texas. Meanwhile, commercial construction still appears to be in the nascent stages of a recovery. Continued strength in these areas, combined with acquisitions (see below), should be the key drivers behind further positive earnings momentum.

The acquisition pipeline continues to improve. Illinois has picked up 18 companies in the year to date, representing a run rate of about \$532 million in added revenues. Moreover, management has expressed confidence that it will hit its target range of \$600 million to \$800 million for 2005. Specifically, the number and quality of potential candidates have gotten better than in the last couple of years, with some 20 companies currently under consideration, representing over \$400 million in revenues.

These good-quality shares may appeal to more-conservative investors. The stock gets high marks for Price Stability and Growth Persistence, while offering better-than-average appreciation potential over the 3- to 5-year pull.

Mario Ferro *December 23, 2005*

(A) Primary earnings through 1996, diluted thereafter. Excludes nonrecurring (loss): '99 (24c). Next earnings report late January.	April, July, and Oct. ■ Dividend reinvestment plan available.	(D) In millions, adjusted for stock splits.	Company's Financial Strength	A+
(B) Dividends historically paid in late Jan.,	(C) Includes intangibles. In '04: \$3,193.1 mill., \$10.93/sh.	(E) Includes accelerated depreciation.	Stock's Price Stability	90
			Price Growth Persistence	90
			Earnings Predictability	85

Trailing 4 quarters

PERT Worksheet-A Graph

Company ILLINOIS TOOL WORKS INC.

(ITW)

