
Section 1: 8-K (8-K)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**FORM 8-K
CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): April 25, 2019

ILLINOIS TOOL WORKS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

1-4797
(Commission File No.)

36-1258310
(I.R.S. Employer Identification No.)

155 Harlem Avenue, Glenview, IL
(Address of principal executive offices)

60025
(Zip Code)

Registrant's telephone number, including area code: 847-724-7500

Not Applicable
(Former name or former address, if changed since last report.)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- [] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- [] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- [] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- [] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On April 25, 2019, Illinois Tool Works Inc. (the "Company") announced its 2019 first quarter results of operations in the press release furnished as Exhibit 99.1.

Non-GAAP Financial Measures

The Company uses free cash flow to measure cash flow generated by operations that is available for dividends, share repurchases, acquisitions and debt repayment. The Company believes this non-GAAP financial measure is useful to investors in evaluating the Company's financial performance and measures the Company's ability to generate cash internally to fund Company initiatives. Free cash flow represents net cash provided by operating activities less additions to plant and equipment. Free cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies. A reconciliation of free cash flow to net cash provided by operating activities is included in the press release furnished as Exhibit 99.1.

The Company uses adjusted after-tax return on average invested capital ("ROIC") to measure the effectiveness of its operations' use of invested capital to generate profits. ROIC is a non-GAAP financial measure that the Company believes is a meaningful metric to investors in evaluating the Company's financial performance and may be different than the method used by other companies to calculate ROIC. For comparability, the Company excluded the first quarter discrete tax benefit of \$14 million related to foreign tax credits from the effective tax rate for the three months ended March 31, 2018. The Company also excluded the third quarter net discrete tax benefit of \$15 million from the effective tax rate for the year ended December 31, 2018. Average invested capital represents the net assets of the Company, excluding cash and equivalents and outstanding debt, which are excluded as they do not represent capital investment in the Company's operations. Average invested capital is calculated using balances at the start of the period and at the end of each quarter. A calculation of ROIC is included in the press release furnished as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit Number

Exhibit Description

[99.1](#)

[Press Release issued by Illinois Tool Works Inc. dated April 25, 2019 \(furnished pursuant to Item 2.02\).](#)

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ILLINOIS TOOL WORKS INC.

Dated: April 25, 2019

By: /s/ Michael M. Larsen
Michael M. Larsen
Senior Vice President & Chief Financial Officer

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Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

ITW Delivers \$1.81 Earnings per Share *Reaffirms FY 2019 EPS Guidance of \$7.90 to \$8.20*

GLENVIEW, IL., April 25, 2019 - Illinois Tool Works Inc. (NYSE: ITW) today reported its first-quarter 2019 results including earnings per share (EPS) of \$1.81 compared to \$1.90 in the first quarter of 2018. As expected, unfavorable foreign currency translation impact, higher restructuring costs and a higher effective tax rate reduced EPS by a combined \$0.16 year-over-year.

“ITW had a solid start to 2019. We expanded operating margin to 24.3 percent, excluding the impact from accelerated restructuring, as enterprise initiatives contributed 100 basis points and price/cost was more favorable than expected. We grew Free Cash Flow 21 percent, with conversion of 90 percent, well above our seasonal average. After a slow start in January, sales trends improved across the board as the quarter progressed,” said E. Scott Santi, Chairman and Chief Executive Officer. “Looking ahead, our view that continued contributions from enterprise initiatives, improving price/cost dynamics, restructuring benefits, more favorable sales and foreign currency comparisons, and stabilizing auto production in Europe and China will all contribute to a stronger operating environment in the back half of the year is unchanged. As a result, we remain firmly on track to deliver on our full year EPS guidance. As the ITW team continues to execute on our ‘Finish the Job’ agenda, I am confident that we will continue to deliver differentiated financial performance in 2019 and beyond.”

Revenue of \$3.6 billion was down five percent, with an unfavorable foreign currency translation impact of 3.4 percent and organic revenue down 1.5 percent. Excluding the impact of one less shipping day in the quarter, organic revenue was flat. Organic revenue growth by segment was as follows: Welding grew three percent, Food Equipment grew two percent; Test & Measurement/Electronics, Polymers & Fluids and Construction Products were down one percent, Specialty Products down two percent, and Automotive OEM down six percent. As expected, the company’s ongoing Product Line Simplification (PLS) activities reduced organic revenue growth by 70 basis points.

Operating margin was 23.6 percent, as compared to 24.1 percent in the prior year. Excluding 70 basis points of unfavorable margin impact due to higher restructuring expenses, operating margin improved 20 basis points to 24.3 percent. Strong execution on enterprise initiatives contributed 100 basis points of margin improvement and price/cost diluted margin by 10 basis points. Free Cash Flow increased 21 percent to \$539 million, with 90 percent conversion, and the company repurchased \$375 million of its own shares. After-tax return on invested capital was 27.7 percent.

2019 Guidance

The company is reaffirming its full-year EPS guidance of \$7.90 to \$8.20 per share, which represents four to eight percent growth year over year. Factoring in the slower start to the year, organic revenue growth is expected to be in the range of 0.5 to 2.5 percent. The company expects full-year operating margin to improve by approximately 100 basis points with enterprise initiatives contributing 100 basis points. Free cash flow is expected to be above 100 percent of net income, and the company is on pace to repurchase approximately \$1.5 billion of its shares in 2019. The effective tax rate is expected to be 24.5 to 25.5 percent.

Non-GAAP Measures

This earnings release contains certain non-GAAP financial measures. A reconciliation of these measures to the most directly comparable GAAP

measures is included in the attached supplemental reconciliation schedule.

Forward-looking Statement

This earnings release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding diluted earnings per share, foreign exchange rates, total and organic revenue growth, operating margin, economic and regulatory conditions in various geographic regions, price/cost impact, restructuring expenses, free cash flow, effective tax rate, after-tax return on invested capital, and timing and amount of share repurchases. These statements are subject to certain risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated. Such factors include those contained in ITW's Form 10-K for 2018.

About Illinois Tool Works

ITW (NYSE: ITW) is a Fortune 200 global multi-industrial manufacturing leader with revenues totaling \$14.8 billion in 2018. The company's seven industry-leading segments leverage the unique ITW Business Model to drive solid growth with best-in-class margins and returns in markets where highly innovative, customer-focused solutions are required. ITW has approximately

48,000 dedicated colleagues in operations around the world who thrive in the company's unique, decentralized and entrepreneurial culture.

www.itw.com

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF INCOME (UNAUDITED)

In millions except per share amounts	Three Months Ended	
	March 31,	
	2019	2018
Operating Revenue	\$ 3,552	\$ 3,744
Cost of revenue	2,059	2,181
Selling, administrative, and research and development expenses	611	612
Amortization and impairment of intangible assets	43	48
Operating Income	839	903
Interest expense	(63)	(66)
Other income (expense)	14	12
Income Before Taxes	790	849
Income Taxes	193	197
Net Income	\$ 597	\$ 652
Net Income Per Share:		
Basic	\$ 1.82	\$ 1.92
Diluted	\$ 1.81	\$ 1.90
Cash Dividends Per Share:		
Paid	\$ 1.00	\$ 0.78
Declared	\$ 1.00	\$ 0.78
Shares of Common Stock Outstanding During the Period:		
Average	327.3	340.2
Average assuming dilution	329.6	342.8

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
STATEMENT OF FINANCIAL POSITION (UNAUDITED)

In millions	March 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and equivalents	\$ 1,755	\$ 1,504
Trade receivables	2,715	2,622
Inventories	1,346	1,318
Prepaid expenses and other current assets	259	334
Total current assets	<u>6,075</u>	<u>5,778</u>
Net plant and equipment	1,765	1,791
Goodwill	4,621	4,633
Intangible assets	1,044	1,084
Deferred income taxes	547	554
Other assets	1,274	1,030
	<u>\$ 15,326</u>	<u>\$ 14,870</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ 1,760	\$ 1,351
Accounts payable	568	524
Accrued expenses	1,228	1,271
Cash dividends payable	326	328
Income taxes payable	79	68
Total current liabilities	<u>3,961</u>	<u>3,542</u>
Noncurrent Liabilities:		
Long-term debt	5,981	6,029
Deferred income taxes	727	707
Noncurrent income taxes payable	495	495
Other liabilities	962	839
Total noncurrent liabilities	<u>8,165</u>	<u>8,070</u>
Stockholders' Equity:		
Common stock	6	6
Additional paid-in-capital	1,255	1,253
Retained earnings	21,488	21,217
Common stock held in treasury	(17,911)	(17,545)
Accumulated other comprehensive income (loss)	(1,642)	(1,677)
Noncontrolling interest	4	4
Total stockholders' equity	<u>3,200</u>	<u>3,258</u>
	<u>\$ 15,326</u>	<u>\$ 14,870</u>

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
SEGMENT DATA (UNAUDITED)

Three Months Ended March 31, 2019			
Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 806	\$ 167	20.6%
Food Equipment	518	129	24.9%
Test & Measurement and Electronics	524	126	24.1%
Welding	427	120	28.1%
Polymers & Fluids	416	89	21.3%
Construction Products	401	87	21.7%
Specialty Products	465	123	26.5%
Intersegment	(5)	—	—%
Total Segments	3,552	841	23.7%
Unallocated	—	(2)	—%
Total Company	\$ 3,552	\$ 839	23.6%

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
GAAP to NON-GAAP RECONCILIATIONS (UNAUDITED)

ADJUSTED AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL (UNAUDITED)

Dollars in millions	Three Months Ended	
	March 31,	
	2019	2018
Operating income	\$ 839	\$ 903
Tax rate	24.4%	24.8%
Income taxes	(205)	(224)
Operating income after taxes	\$ 634	\$ 679
Invested capital:		
Trade receivables	\$ 2,715	\$ 2,874
Inventories	1,346	1,335
Net plant and equipment	1,765	1,829
Goodwill and intangible assets	5,665	6,021
Accounts payable and accrued expenses	(1,796)	(1,905)
Other, net	(509)	(382)
Total invested capital	\$ 9,186	\$ 9,772
Average invested capital	\$ 9,160	\$ 9,797
Adjusted return on average invested capital	27.7%	27.7%

A reconciliation of the first quarter 2018 effective tax rate excluding the first quarter discrete tax benefit related to foreign tax credits is as follows:

Dollars in millions	Three Months Ended	
	March 31, 2018	
	Income Taxes	Tax Rate
As reported	\$ 197	23.2%
Discrete tax benefit	14	1.6%
As adjusted	\$ 211	24.8%

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
GAAP to NON-GAAP RECONCILIATIONS (UNAUDITED)

ADJUSTED AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL (UNAUDITED)

In millions	Twelve Months Ended December 31, 2018
Operating income	\$ 3,584
Tax rate	24.9%
Income taxes	(893)
Operating income after taxes	<u>\$ 2,691</u>
Invested capital:	
Trade receivables	\$ 2,622
Inventories	1,318
Net plant and equipment	1,791
Goodwill and intangible assets	5,717
Accounts payable and accrued expenses	(1,795)
Other, net	(519)
Total invested capital	<u>\$ 9,134</u>
Average invested capital	<u>\$ 9,533</u>
Adjusted return on average invested capital	<u>28.2%</u>

A reconciliation of the full year 2018 effective tax rate excluding the third quarter net discrete tax benefit is as follows:

In millions	Twelve Months Ended December 31, 2018	
	Income Taxes	Tax Rate
As reported	\$ 831	24.5%
Net discrete tax benefit	15	0.4%
As adjusted	<u>\$ 846</u>	<u>24.9%</u>

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
GAAP to NON-GAAP RECONCILIATIONS (UNAUDITED)

FREE CASH FLOW (UNAUDITED)

In millions	Three Months Ended	
	March 31,	
	2019	2018
Net cash provided by operating activities	\$ 616	\$ 538
Less: Additions to plant and equipment	(77)	(94)
Free cash flow	<u>\$ 539</u>	<u>\$ 444</u>
Net income	<u>\$ 597</u>	<u>\$ 652</u>
Free cash flow to net income conversion rate	<u>90%</u>	<u>68%</u>

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