

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): May 5, 2020

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.)

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 (see General Instruction A.2. below):

- 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))

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock	ITW	New York Stock Exchange
1.75% Euro Notes due 2022	ITW22	New York Stock Exchange
1.25% Euro Notes due 2023	ITW23	New York Stock Exchange
0.250% Euro Notes due 2024	ITW24A	New York Stock Exchange
0.625% Euro Notes due 2027	ITW27	New York Stock Exchange
2.125% Euro Notes due 2030	ITW30	New York Stock Exchange
1.00% Euro Notes due 2031	ITW31	New York Stock Exchange
3.00% Euro Notes due 2034	ITW34	New York Stock Exchange

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) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2).

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.

Item 2.02 Results of Operations and Financial Condition

On May 5, 2020, Illinois Tool Works Inc. (the “Company” or “we”) announced its 2020 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 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. 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.

The Company uses the ratio of net debt to EBITDA as a measure of its ability to repay its outstanding debt obligations. The Company believes that net debt to EBITDA is a meaningful metric to investors in evaluating the Company’s financial liquidity and may be different than the method used by other companies to calculate net debt to EBITDA. Net debt, EBITDA and the ratio of net debt to EBITDA are non-GAAP financial measures. The ratio of net debt to EBITDA represents total debt less cash and equivalents, divided by net income before interest expense, other income (expense), income taxes, depreciation and amortization and impairment of intangible assets on a trailing twelve month basis. A calculation of the ratio of net debt to EBITDA and reconciliations of net debt to total debt and EBITDA to net income are included in the press release furnished as Exhibit 99.1.

Item 8.01 Other Events

The Company’s business, financial condition, results of operations and cash flows are subject to various risks, which could cause actual results to vary materially from anticipated results. The risk set forth below relating to the impact of the COVID-19 pandemic on our business, supplements the risks previously disclosed under the heading “Risk Factors” in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

The COVID-19 pandemic has adversely affected the Company’s business and could materially affect the Company’s financial condition, results of operations and liquidity. The full and long-term extent of the effects of the COVID-19 pandemic on our business depend on future events that are highly uncertain and cannot be predicted.

The COVID-19 pandemic and the measures taken globally to reduce its spread have negatively impacted the global economy, disrupted consumer/customer demand and global supply chains, and created significant volatility and disruption of financial markets. These measures adversely affected our results of operations primarily in the latter part of the first quarter of 2020, and while we expect that our results will continue to be adversely impacted during the second quarter of 2020 and beyond, we are currently unable to quantify or estimate the full and long-term impact of the pandemic on our financial condition, results of operations and liquidity.

As governments have issued travel restrictions and adopted shutdown and stay-at-home or similar orders, certain of our businesses in the affected country, state or municipality subject to these orders have been forced to close. While some of these businesses have reopened, and our businesses that have been designated as critical or essential were not forced to close, the pandemic has decreased customer demand in many of our end markets, and those businesses that have reopened or remained open in many cases are operating at a reduced capacity. The Company has implemented numerous actions in order to focus on the needs of its colleagues and customers, and further actions may be required as conditions evolve. In addition, although the Company has avoided widespread furloughs or layoffs, we cannot predict the number or timing of further closures or the size of the workforce that will be impacted by such closures.

The COVID-19 pandemic also has the potential to significantly and extendedly alter demand for our products and disrupt our supply chain as a result of shifts in demand, illness, quarantine, travel restrictions or financial hardship. We have been able to procure the critical raw materials and components necessary to continue production, but there is no guarantee that we will be able to do so in the

future. A prolonged extension of the conditions resulting from the pandemic could force both customer and supplier bankruptcies, which we expect would adversely impact our results; however, given the uncertainty around the duration and breadth of the COVID-19 pandemic, we cannot reasonably estimate the extent of these adverse effects on our operations.

Furthermore, the COVID-19 pandemic has impacted the proper functioning of financial and capital markets. If the global economy continues to deteriorate and recovery is protracted, we may not be able to access our short-term credit facilities and may be required to seek additional financing sources, which may not be available on reasonable terms or at all. If the Company suffers a liquidity shortage, we may be forced to reduce our workforce, decrease or suspend dividend payments to our stockholders or adopt other measures. At this time, we cannot predict the likelihood, timing or the consequences of a future liquidity shortage in our business.

Due to the unprecedented and rapidly changing social and economic consequences of the COVID-19 pandemic on the global economy generally, the full and long-term impact of the pandemic on our business is highly uncertain. The ultimate significance of the COVID-19 pandemic, including any measures to reduce its spread, on our business will depend on events that are beyond our control and that we cannot predict. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business, financial condition or results of operations. In particular, the COVID-19 pandemic exacerbates many of the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2019, including in ways that are not possible to predict.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
99.1	Press Release issued by Illinois Tool Works Inc. dated May 5, 2020 (furnished pursuant to Item 2.02).
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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: May 5, 2020

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

[\(Back To Top\)](#)

Section 2: EX-99.1 (EXHIBIT 99.1)

Exhibit 99.1

ITW Reports First Quarter 2020 Results

- GAAP EPS of \$1.77, a decrease of 2%
- Operating margin of 23.6%
- Free cash flow was 98% of net income
- Strong financial position and balance sheet with \$1.4 billion of cash on hand, essentially no short-term debt, and a revolving credit facility in place that could provide additional liquidity of \$2.5 billion
- Due to uncertainties regarding the duration and severity of the COVID-19 pandemic, ITW is suspending previously announced annual guidance for 2020

GLENVIEW, IL., May 5, 2020 - Illinois Tool Works Inc. (NYSE: ITW) today reported its first quarter 2020 results with GAAP earnings per share (EPS) of \$1.77 compared to \$1.81 in the prior year period. First-quarter revenue of \$3.2 billion declined 9.1 percent with organic revenue down 6.6 percent. Foreign currency translation and divestitures reduced revenues by 1.5 percent and 1.0 percent, respectively. Operating margin was flat at 23.6 percent as Enterprise Initiatives contributed 120 basis points. Free cash flow was \$554 million with a 98 percent conversion rate and after-tax return on invested capital was 27.0 percent.

ITW's differentiated financial position includes a strong balance sheet, with approximately \$1.4 billion in cash and cash equivalents on hand, essentially no short-term debt, and a revolving credit facility in place that could provide additional liquidity of up to \$2.5 billion, if needed.

"While things are far from normal for any of us or our businesses at present, I am inspired and heartened by the teamwork, flexibility, ingenuity, and selflessness demonstrated by the ITW team in adapting to the very unusual and challenging circumstances brought about by the pandemic," said E. Scott Santi, chairman and chief executive officer. "Our ITW colleagues everywhere are going the extra mile to protect the health and support the well-being of each other and to continue to serve our customers with excellence. Around the world, many ITW manufacturing locations have been designated as essential, signifying the vital role the company plays in supporting customers and industries that are critical to the economic health of the markets and communities we serve."

"It remains highly uncertain as to how long this global pandemic and related economic challenges will last or how quickly our customers and end markets will recover. However, I am confident that the strength and resilience of ITW's powerful Business Model, our diversified, high-quality business portfolio, and our people put us in a position of strength to deal with whatever lies ahead. ITW will rise to the challenge, as we always have over the course of our 108-year history. Our strong financial position gives us the latitude to make strategic choices now to prepare for a range of recovery scenarios, and to come out the other side well-positioned to continue on our path to ITW's full-potential performance."

2020 Guidance

Due to the uncertainties regarding the duration and severity of the coronavirus (COVID-19) pandemic, ITW is suspending its previously announced annual guidance for 2020.

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. Such statements may include, without limitation, statements regarding the potential effects of the COVID-19 pandemic on the Company's business, the anticipated duration of the Company's COVID-19 containment and recovery phases, the Company's financial scenario planning and estimates, expected access to liquidity sources, expected capital allocation, diluted earnings per share, foreign exchange rates, total and organic revenue, operating margin, economic and regulatory conditions in various geographic regions, expected dividend payments, price/cost impact, restructuring expenses, free cash flow, effective tax rate, after-tax return on invested capital, timing and amount of share repurchases, potential acquisitions and dispositions and related impact on financial results, and plans regarding the issuance of guidance. These statements are subject to certain risks, uncertainties, assumptions 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 2019, the Form 8-K filed on May 5, 2020 and subsequent reports filed with the SEC.

About Illinois Tool Works

ITW (NYSE: ITW) is a Fortune 200 global multi-industrial manufacturing leader with revenues totaling \$14.1 billion in 2019. 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's approximately 45,000 dedicated colleagues around the world thrive in the company's 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,	
	2020	2019
Operating Revenue	\$ 3,228	\$ 3,552
Cost of revenue	1,871	2,059
Selling, administrative, and research and development expenses	560	611
Amortization and impairment of intangible assets	36	43
Operating Income	761	839
Interest expense	(51)	(63)
Other income (expense)	25	14
Income Before Taxes	735	790
Income Taxes	169	193
Net Income	\$ 566	\$ 597
Net Income Per Share:		
Basic	\$ 1.78	\$ 1.82
Diluted	\$ 1.77	\$ 1.81
Cash Dividends Per Share:		
Paid	\$ 1.07	\$ 1.00
Declared	\$ 1.07	\$ 1.00
Shares of Common Stock Outstanding During the Period:		
Average	318.3	327.3
Average assuming dilution	319.7	329.6

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

In millions	March 31, 2020	December 31, 2019
Assets		
Current Assets:		
Cash and equivalents	\$ 1,430	\$ 1,981
Trade receivables	2,424	2,461
Inventories	1,185	1,164
Prepaid expenses and other current assets	244	296
Assets held for sale	223	351
Total current assets	5,506	6,253
Net plant and equipment	1,704	1,729
Goodwill	4,401	4,492
Intangible assets	836	851
Deferred income taxes	473	516
Other assets	1,229	1,227
	\$ 14,149	\$ 15,068
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ 4	\$ 4
Accounts payable	488	472
Accrued expenses	1,105	1,217
Cash dividends payable	338	342
Income taxes payable	55	48
Liabilities held for sale	42	71
Total current liabilities	2,032	2,154
Noncurrent Liabilities:		
Long-term debt	7,690	7,754
Deferred income taxes	695	668
Noncurrent income taxes payable	462	462
Other liabilities	986	1,000
Total noncurrent liabilities	9,833	9,884
Stockholders' Equity:		
Common stock	6	6
Additional paid-in-capital	1,309	1,304
Retained earnings	22,631	22,403
Common stock held in treasury	(19,680)	(18,982)
Accumulated other comprehensive income (loss)	(1,983)	(1,705)
Noncontrolling interest	1	4
Total stockholders' equity	2,284	3,030
	\$ 14,149	\$ 15,068

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

Three Months Ended March 31, 2020			
Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 696	\$ 145	20.9%
Food Equipment	483	117	24.3%
Test & Measurement and Electronics	485	121	25.1%
Welding	372	109	29.1%
Polymers & Fluids	393	93	23.6%
Construction Products	390	91	23.4%
Specialty Products	414	109	26.3%
Intersegment	(5)	—	—%
Total Segments	3,228	785	24.3%
Unallocated	—	(24)	—%
Total Company	\$ 3,228	\$ 761	23.6%

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

Q1 2020 vs. Q1 2019 Favorable/(Unfavorable)								
Operating Revenue	Automotive OEM	Food Equipment	Test & Measurement and Electronics	Welding	Polymers & Fluids	Construction Products	Specialty Products	Total ITW
Organic	(12.0)%	(5.6)%	(3.3)%	(9.0)%	(3.2)%	0.1 %	(8.7)%	(6.6)%
Acquisitions/ Divestitures	— %	— %	(3.1)%	(3.4)%	— %	— %	(1.2)%	(1.0)%
Translation	(1.7)%	(1.2)%	(1.1)%	(0.4)%	(2.3)%	(2.7)%	(1.0)%	(1.5)%
Operating Revenue	(13.7)%	(6.8)%	(7.5)%	(12.8)%	(5.5)%	(2.6)%	(10.9)%	(9.1)%

Q1 2020 vs. Q1 2019 Favorable/(Unfavorable)								
Change in Operating Margin	Automotive OEM	Food Equipment	Test & Measurement and Electronics	Welding	Polymers & Fluids	Construction Products	Specialty Products	Total ITW
Operating Leverage	(240) bps	(130) bps	(100) bps	(160) bps	(80) bps	10 bps	(180) bps	(150) bps
Changes in Variable Margin & OH Costs	70 bps	10 bps	120 bps	130 bps	260 bps	30 bps	30 bps	40 bps
Total Organic	(170) bps	(120) bps	20 bps	(30) bps	180 bps	40 bps	(150) bps	(110) bps
Acquisitions/Divestitures	—	—	60 bps	80 bps	—	—	70 bps	20 bps
Restructuring/Other	200 bps	60 bps	20 bps	50 bps	50 bps	130 bps	60 bps	90 bps
Total Operating Margin Change	30 bps	(60) bps	100 bps	100 bps	230 bps	170 bps	(20) bps	—
Total Operating Margin % *	20.9%	24.3%	25.1%	29.1%	23.6%	23.4%	26.3%	23.6%
<i>*Includes unfavorable operating margin impact of amortization expense from acquisition-related intangible assets</i>	<i>60 bps</i>	<i>70 bps</i>	<i>170 bps</i>	<i>20 bps</i>	<i>360 bps</i>	<i>30 bps</i>	<i>90 bps</i>	<i>110 bps **</i>
<i>** Amortization expense from acquisition-related intangible assets had an unfavorable impact of (\$0.09) on GAAP earnings per share for the first quarter of 2020.</i>								

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

AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL (UNAUDITED)

Dollars in millions	Three Months Ended	
	March 31,	
	2020	2019
Operating income	\$ 761	\$ 839
Tax rate	23.0%	24.4%
Income taxes	(175)	(205)
Operating income after taxes	\$ 586	\$ 634
Invested capital:		
Trade receivables	\$ 2,424	\$ 2,715
Inventories	1,185	1,346
Net assets held for sale	181	—
Net plant and equipment	1,704	1,765
Goodwill and intangible assets	5,237	5,665
Accounts payable and accrued expenses	(1,593)	(1,796)
Other, net	(590)	(509)
Total invested capital	\$ 8,548	\$ 9,186
Average invested capital	\$ 8,677	\$ 9,160
Return on average invested capital	27.0%	27.7%

FREE CASH FLOW (UNAUDITED)

Dollars in millions	Three Months Ended	
	March 31,	
	2020	2019
Net cash provided by operating activities	\$ 614	\$ 616
Less: Additions to plant and equipment	(60)	(77)
Free cash flow	\$ 554	\$ 539
Net income	\$ 566	\$ 597
Free cash flow to net income conversion rate	98%	90%

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

NET DEBT TO EBITDA (UNAUDITED)

Dollars in millions	Twelve Months Ended March 31, 2020	
Total debt	\$	7,694
Less: Cash and equivalents		(1,430)
Net debt	\$	6,264
Net income	\$	2,490
Add:		
Interest expense		209
Other income		(118)
Income taxes		743
Depreciation		268
Amortization and impairment of intangible assets		152
EBITDA	\$	3,744
Net debt to EBITDA ratio		1.7

[\(Back To Top\)](#)