

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): July 26, 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.)

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 July 26, 2019, Illinois Tool Works Inc. (the "Company") announced its 2019 second 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 2018 discrete tax benefit of \$14 million related to foreign tax credits from the effective tax rate for the six months ended June 30, 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 July 26, 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: July 26, 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 Reports Second Quarter 2019 Results

GLENVIEW, IL., July 26, 2019 - Illinois Tool Works Inc. (NYSE: ITW) today reported its second-quarter 2019 results including GAAP earnings per share (EPS) of \$1.91 compared to \$1.97 in the second quarter of 2018. Revenue of \$3.6 billion was down 5.8 percent with organic revenue down 2.8 percent and unfavorable foreign currency translation impact of 2.7 percent. Operating margin was 24.1 percent.

“In the second quarter, we experienced a deceleration in demand across our portfolio relative to the demand levels we were seeing exiting the first quarter. On a sequential basis, second quarter organic revenue declined approximately two percentage points versus first quarter run rates,” said E. Scott Santi, Chairman and Chief Executive Officer.

“In this more challenging demand environment, the ITW team executed well on the elements within our own control and delivered solid financial results. Operating margin improved year-over-year to 24.4 percent, excluding higher restructuring impact of 30 basis points, as enterprise initiatives contributed 110 basis points. The combination of unfavorable foreign currency translation, higher restructuring expenses and a small loss on two divestitures reduced EPS by \$0.09 year-over-year. Excluding these three items, EPS would have increased two percent to \$2.00. Free cash flow increased 14 percent year-on-year.”

“We are updating our full year guidance to reflect current levels of demand. All other assumptions remain essentially unchanged. We continue to expect a stronger second half on a relative basis, as known headwinds from foreign currency and higher restructuring expenses dissipate. We expect continued strong contributions from enterprise initiatives, positive price/cost margin dynamics, and strong free cash flow as we progress through the balance of the year. While we will be prudent in making appropriate adjustments due to the near-term demand environment, we remain focused on managing and investing to maximize ITW’s performance over the long term. The highly differentiated nature of ITW’s core competitive advantages and the strength and resilience of our proprietary business model and diversified portfolio position us well for strong financial performance across a wide range of economic scenarios,” Santi concluded.

Revenue of \$3.6 billion was down 5.8 percent with organic revenue down 2.8 percent, unfavorable foreign currency translation impact of 2.7 percent, and divestiture impact of 0.3 percent. As expected, the company’s ongoing Product Line Simplification (PLS) activities reduced organic growth by 70 basis points.

Operating margin was 24.1 percent. Excluding 30 basis points of unfavorable margin impact from higher year-over-year restructuring expenses, operating margin improved 10 basis points to 24.4 percent. Free Cash Flow increased 14 percent and the company repurchased \$375 million of its own shares. After-tax return on invested capital was 28.6 percent.

2019 Full-Year Guidance

Current levels of demand, adjusted for normal seasonality, project full year organic revenue to be down one to three percent. As a result, the company is updating its full year GAAP EPS guidance to a range of \$7.55 to \$7.85, which includes approximately \$0.25 of headwind from foreign currency translation and higher restructuring expenses. Operating margin is forecast to be flat to up 50 basis points, largely due to strong contributions from

enterprise initiatives of 100 basis points, partially offset by 25 basis points of higher restructuring expenses. 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. The effective tax rate for the full year is expected to be in the range of 24 to 25 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		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Operating Revenue	\$ 3,609	\$ 3,831	\$ 7,161	\$ 7,575
Cost of revenue	2,099	2,231	4,158	4,412
Selling, administrative, and research and development expenses	598	620	1,209	1,232
Amortization and impairment of intangible assets	41	48	84	96
Operating Income	871	932	1,710	1,835
Interest expense	(55)	(64)	(118)	(130)
Other income (expense)	9	26	23	38
Income Before Taxes	825	894	1,615	1,743
Income Taxes	202	228	395	425
Net Income	<u>\$ 623</u>	<u>\$ 666</u>	<u>\$ 1,220</u>	<u>\$ 1,318</u>
Net Income Per Share:				
Basic	\$ 1.92	\$ 1.98	\$ 3.74	\$ 3.90
Diluted	\$ 1.91	\$ 1.97	\$ 3.72	\$ 3.87
Cash Dividends Per Share:				
Paid	\$ 1.00	\$ 0.78	\$ 2.00	\$ 1.56
Declared	\$ 1.00	\$ 0.78	\$ 2.00	\$ 1.56
Shares of Common Stock Outstanding During the Period:				
Average	324.8	336.7	326.0	338.5
Average assuming dilution	326.6	338.9	327.9	340.8

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

In millions	June 30, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and equivalents	\$ 1,677	\$ 1,504
Trade receivables	2,629	2,622
Inventories	1,256	1,318
Prepaid expenses and other current assets	288	334
Assets held for sale	439	—
Total current assets	6,289	5,778
Net plant and equipment	1,717	1,791
Goodwill	4,503	4,633
Intangible assets	928	1,084
Deferred income taxes	516	554
Other assets	1,234	1,030
	<u>\$ 15,187</u>	<u>\$ 14,870</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ —	\$ 1,351
Accounts payable	512	524
Accrued expenses	1,207	1,271
Cash dividends payable	323	328
Income taxes payable	53	68
Liabilities held for sale	93	—
Total current liabilities	2,188	3,542
Noncurrent Liabilities:		
Long-term debt	7,809	6,029
Deferred income taxes	683	707
Noncurrent income taxes payable	462	495
Other liabilities	950	839
Total noncurrent liabilities	9,904	8,070
Stockholders' Equity:		
Common stock	6	6
Additional paid-in-capital	1,270	1,253
Retained earnings	21,788	21,217
Common stock held in treasury	(18,276)	(17,545)
Accumulated other comprehensive income (loss)	(1,697)	(1,677)
Noncontrolling interest	4	4
Total stockholders' equity	3,095	3,258
	<u>\$ 15,187</u>	<u>\$ 14,870</u>

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

Three Months Ended June 30, 2019

Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 788	\$ 174	22.1%
Food Equipment	548	140	25.6%
Test & Measurement and Electronics	533	131	24.5%
Welding	422	122	28.8%
Polymers & Fluids	427	97	22.8%
Construction Products	424	106	25.0%
Specialty Products	473	124	26.1%
Intersegment	(6)	—	—%
Total Segments	3,609	894	24.8%
Unallocated	—	(23)	—%
Total Company	\$ 3,609	\$ 871	24.1%

Six Months Ended June 30, 2019

Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 1,594	\$ 341	21.4%
Food Equipment	1,066	269	25.3%
Test & Measurement and Electronics	1,057	257	24.3%
Welding	849	242	28.5%
Polymers & Fluids	843	186	22.1%
Construction Products	825	193	23.4%
Specialty Products	938	247	26.3%
Intersegment	(11)	—	—%
Total Segments	7,161	1,735	24.2%
Unallocated	—	(25)	—%
Total Company	\$ 7,161	\$ 1,710	23.9%

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Operating income	\$ 871	\$ 932	\$ 1,710	\$ 1,835
Tax rate	24.5%	25.5%	24.5%	25.2%
Income taxes	(213)	(238)	(418)	(462)
Operating income after taxes	\$ 658	\$ 694	\$ 1,292	\$ 1,373
Invested capital:				
Trade receivables	\$ 2,629	\$ 2,878	\$ 2,629	\$ 2,878
Inventories	1,256	1,320	1,256	1,320
Net assets held for sale	346	—	346	—
Net plant and equipment	1,717	1,783	1,717	1,783
Goodwill and intangible assets	5,431	5,852	5,431	5,852
Accounts payable and accrued expenses	(1,719)	(1,847)	(1,719)	(1,847)
Other, net	(433)	(407)	(433)	(407)
Total invested capital	\$ 9,227	\$ 9,579	\$ 9,227	\$ 9,579
Average invested capital	\$ 9,206	\$ 9,675	\$ 9,182	\$ 9,724
Adjusted return on average invested capital	28.6%	28.7%	28.1%	28.2%

A reconciliation of the tax rate for the six month period ended June 30, 2018 excluding the first quarter 2018 discrete tax benefit related to foreign tax credits is as follows:

Dollars in millions	Six Months Ended June 30, 2018	
	Income Taxes	Tax Rate
As reported	\$ 425	24.4%
Discrete tax benefit	14	0.8%
As adjusted	\$ 439	25.2%

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

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

Dollars 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:

Dollars 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)

Dollars in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net cash provided by operating activities	\$ 685	\$ 620	\$ 1,301	\$ 1,158
Less: Additions to plant and equipment	(77)	(87)	(154)	(181)
Free cash flow	\$ 608	\$ 533	\$ 1,147	\$ 977
Net income	\$ 623	\$ 666	\$ 1,220	\$ 1,318
Free cash flow to net income conversion rate	98%	80%	94%	74%

ADJUSTED NET INCOME PER SHARE - DILUTED (UNAUDITED)

	Three Months Ended June 30, 2019
As reported	\$ 1.91
Foreign currency translation	0.06
Higher restructuring expenses	0.02
Loss on divestitures	0.01
As adjusted	\$ 2.00

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