

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 31, 2020

ILLINOIS TOOL WORKS INC.

(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation)	<u>1-4797</u> (Commission File No.)	<u>36-1258310</u> (I.R.S. Employer Identification No.)
<u>155 Harlem Avenue Glenview IL</u> (Address of principal executive offices)		<u>60025</u> (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 31, 2020, Illinois Tool Works Inc. (the “Company”) announced its 2020 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 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.

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 July 31, 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: July 31, 2020

By: /s/ Michael M. Larsen

Michael M. Larsen

Senior Vice President & Chief Financial Officer

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Section 2: EX-99.1 (EX-99.1)

Exhibit 99.1

ITW Reports Second Quarter 2020 Results

- Total revenue of \$2.6 billion as organic revenue declined 27%
- Operating margin of 17.5%
- Operating income of \$449 million
- GAAP EPS of \$1.01
- Free cash flow of \$681 million, 213% of net income

GLENVIEW, IL., July 31, 2020 - Illinois Tool Works Inc. (NYSE: ITW) today reported its second quarter 2020 results.

“Our performance in the second quarter clearly demonstrates that the progress we have made on executing our long-term enterprise strategy has put ITW in a position of considerable strength in managing through the effects of the global pandemic,” said E. Scott Santi, chairman and chief executive officer. “Our powerful ITW Business Model and decentralized, entrepreneurial culture are never more valuable than during times of significant and rapid change, and I want to thank all of my ITW colleagues around the world for their incredible care and commitment to keeping their co-workers safe while continuing to serve our customers with excellence. Our people responded to an unprecedented health crisis and a 29 percent decline in revenues and still delivered \$449 million in operating income, \$681 million in free cash flow, and operating margin of 17.5 percent. Strong proactive divisional leadership and our flexible cost structure allowed us to reduce operating expenses by over \$140 million in the quarter despite the fact that we made the decision to provide full compensation and benefits support to every ITW team member for the entirety of the second quarter.”

“Looking forward, while significant end-market disruption and uncertainties remain, we will continue to leverage our financial strength and ample liquidity to prioritize playing offense in the recovery over playing defense in the contraction and to ensure that every one of our businesses is strongly positioned to fully participate in the recovery. Despite the near-term challenges of the moment, we remain deeply committed to achieving and sustaining ITW’s full-potential performance, and we will utilize our financial strength and flexible cost structure to protect investments in areas of strategic importance to the execution of our long-term strategy. I am confident that the strength and resilience of the ITW Business Model, our high-quality diversified business portfolio, and our people put us in a strong position to deal decisively and effectively with the effects of the pandemic however it plays out from here while remaining focused on executing our long-term enterprise strategy,” Santi concluded.

Second Quarter Results

Second-quarter revenue of \$2.6 billion declined 29 percent with organic revenue down 27 percent. Foreign currency translation and divestitures reduced revenues by 1.5 percent and 1.0 percent, respectively. Revenues improved sequentially as the quarter progressed.

Operating margin was 17.5 percent compared to 24.1 percent in the prior year period as the lower volume impact was partially offset by benefits from Enterprise Initiatives of 100 basis points. GAAP earnings per share (EPS) were \$1.01 compared to \$1.91 in the prior year period. Free cash flow

increased 12 percent to \$681 million with a 213 percent conversion rate. After-tax return on invested capital was 16.8 percent. The effective tax rate for the second quarter was 21.3 percent.

At quarter end, ITW had approximately \$1.8 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.

On May 5, 2020, ITW suspended annual guidance for 2020 due to uncertainties regarding the duration and severity of the COVID-19 pandemic.

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, related government actions and the Company's strategy in response thereto 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, expected adjustments to capacity and cost structure, free cash flow, effective tax rate, after-tax return on invested capital, timing and amount of share repurchases, if any, 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 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		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Operating Revenue	\$ 2,564	\$ 3,609	\$ 5,792	\$ 7,161
Cost of revenue	1,594	2,099	3,465	4,158
Selling, administrative, and research and development expenses	486	598	1,046	1,209
Amortization and impairment of intangible assets	35	41	71	84
Operating Income	449	871	1,210	1,710
Interest expense	(51)	(55)	(102)	(118)
Other income (expense)	8	9	33	23
Income Before Taxes	406	825	1,141	1,615
Income Taxes	87	202	256	395
Net Income	\$ 319	\$ 623	\$ 885	\$ 1,220
Net Income Per Share:				
Basic	\$ 1.01	\$ 1.92	\$ 2.79	\$ 3.74
Diluted	\$ 1.01	\$ 1.91	\$ 2.78	\$ 3.72
Cash Dividends Per Share:				
Paid	\$ 1.07	\$ 1.00	\$ 2.14	\$ 2.00
Declared	\$ 1.07	\$ 1.00	\$ 2.14	\$ 2.00
Shares of Common Stock Outstanding During the Period:				
Average	316.1	324.8	317.2	326.0
Average assuming dilution	317.4	326.6	318.6	327.9

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

In millions	June 30, 2020	December 31, 2019
Assets		
Current Assets:		
Cash and equivalents	\$ 1,812	\$ 1,981
Trade receivables	2,156	2,461
Inventories	1,167	1,164
Prepaid expenses and other current assets	253	296
Assets held for sale	221	351
Total current assets	5,609	6,253
Net plant and equipment	1,711	1,729
Goodwill	4,443	4,492
Intangible assets	801	851
Deferred income taxes	470	516
Other assets	1,229	1,227
	<u>\$ 14,263</u>	<u>\$ 15,068</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ 4	\$ 4
Accounts payable	402	472
Accrued expenses	1,106	1,217
Cash dividends payable	338	342
Income taxes payable	152	48
Liabilities held for sale	40	71
Total current liabilities	2,042	2,154
Noncurrent Liabilities:		
Long-term debt	7,765	7,754
Deferred income taxes	676	668
Noncurrent income taxes payable	413	462
Other liabilities	1,009	1,000
Total noncurrent liabilities	9,863	9,884
Stockholders' Equity:		
Common stock	6	6
Additional paid-in-capital	1,317	1,304
Retained earnings	22,612	22,403
Common stock held in treasury	(19,669)	(18,982)
Accumulated other comprehensive income (loss)	(1,909)	(1,705)
Noncontrolling interest	1	4
Total stockholders' equity	2,358	3,030
	<u>\$ 14,263</u>	<u>\$ 15,068</u>

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

Three Months Ended June 30, 2020

Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 361	\$ (28)	(7.8) %
Food Equipment	336	31	9.2 %
Test & Measurement and Electronics	455	117	25.7 %
Welding	298	64	21.6 %
Polymers & Fluids	354	82	23.1 %
Construction Products	376	90	23.7 %
Specialty Products	387	98	25.4 %
Intersegment	(3)	—	— %
Total Segments	2,564	454	17.7 %
Unallocated	—	(5)	— %
Total Company	\$ 2,564	\$ 449	17.5 %

Six Months Ended June 30, 2020

Dollars in millions	Total Revenue	Operating Income	Operating Margin
Automotive OEM	\$ 1,057	\$ 117	11.1 %
Food Equipment	819	148	18.1 %
Test & Measurement and Electronics	940	238	25.4 %
Welding	670	173	25.8 %
Polymers & Fluids	747	175	23.4 %
Construction Products	766	181	23.6 %
Specialty Products	801	207	25.9 %
Intersegment	(8)	—	— %
Total Segments	5,792	1,239	21.4 %
Unallocated	—	(29)	— %
Total Company	\$ 5,792	\$ 1,210	20.9 %

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating income	\$ 449	\$ 871	\$ 1,210	\$ 1,710
Tax rate	21.3 %	24.5 %	22.4 %	24.5 %
Income taxes	(96)	(213)	(271)	(418)
Operating income after taxes	\$ 353	\$ 658	\$ 939	\$ 1,292
Invested capital:				
Trade receivables	\$ 2,156	\$ 2,629	\$ 2,156	\$ 2,629
Inventories	1,167	1,256	1,167	1,256
Net assets held for sale	181	346	181	346
Net plant and equipment	1,711	1,717	1,711	1,717
Goodwill and intangible assets	5,244	5,431	5,244	5,431
Accounts payable and accrued expenses	(1,508)	(1,719)	(1,508)	(1,719)
Other, net	(636)	(433)	(636)	(433)
Total invested capital	\$ 8,315	\$ 9,227	\$ 8,315	\$ 9,227
Average invested capital	\$ 8,431	\$ 9,206	\$ 8,557	\$ 9,182
Return on average invested capital	16.8 %	28.6 %	22.0 %	28.1 %

FREE CASH FLOW (UNAUDITED)

Dollars in millions	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 737	\$ 685	\$ 1,351	\$ 1,301
Less: Additions to plant and equipment	(56)	(77)	(116)	(154)
Free cash flow	\$ 681	\$ 608	\$ 1,235	\$ 1,147
Net income	\$ 319	\$ 623	\$ 885	\$ 1,220
Free cash flow to net income conversion rate	213 %	98 %	140 %	94 %

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