

# 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): October 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.)

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 October 25, 2019, Illinois Tool Works Inc. (the "Company") announced its 2019 third 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 third quarter 2019 discrete tax benefit of \$21 million from the effective tax rate for the three and nine months ended September 30, 2019. Additionally, the Company excluded the third quarter 2018 net discrete tax benefit of \$15 million from the effective tax rate for the three and nine months ended September 30, 2018, and 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

<u>Exhibit Number</u>	<u>Exhibit Description</u>
<a href="#">99.1</a>	<a href="#">Press Release issued by Illinois Tool Works Inc. dated October 25, 2019 (furnished pursuant to Item 2.02).</a>
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: October 25, 2019

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 Third Quarter 2019 Results

- **GAAP EPS of \$2.04, +7% year-over-year**
- **Operating Margin of 25.0%, +40 bps**
- **Free Cash Flow +12%, 126% of net income**
- **After-tax ROIC of 29.2%, +120 bps**
- **Maintaining full-year EPS guidance range of \$7.55 to \$7.85**

**GLENVIEW, IL., October 25, 2019** - Illinois Tool Works Inc. (NYSE: ITW) today reported its third-quarter 2019 results including GAAP earnings per share (EPS) of \$2.04 compared to \$1.90 in the third quarter of 2018. Foreign currency had a \$0.05 negative impact to earnings per share versus the prior year.

“While the demand environment continued to moderate across a broad cross section of our portfolio, we delivered another solid quarter with excellent operational execution,” said E. Scott Santi, Chairman and Chief Executive Officer. “Our ability to overcome near-term macro challenges and deliver seven percent earnings per share growth, expand margins to 25 percent, and grow free cash flow by 12 percent is a direct result of our high quality business portfolio, the performance power of the ITW Business Model, and focused execution by our team of dedicated ITW professionals around the world,” Santi concluded.

Revenue of \$3.5 billion was down 3.7 percent with unfavorable foreign currency translation impact of 1.8 percent and a decline in organic revenue of 1.7 percent. The company’s ongoing Product Line Simplification (PLS) activities reduced organic growth by 60 basis points. The third quarter 2019 benefited from one extra shipping day versus the prior year. Adjusting for this impact, organic revenues declined 3.2 percent on an equal day basis versus a decline of 2.8 percent in the second quarter.

Operating margin was 25.0 percent as enterprise initiatives contributed 120 basis points. Price/cost was favorable 20 basis points. Free Cash Flow was \$830 million, an increase of 12 percent versus the prior year and 126 percent of net income. In the quarter, the company repurchased \$375 million of its own shares and raised its dividend seven percent to an annualized \$4.28 per share.

After-tax return on invested capital was 29.2 percent, an improvement of 120 basis points. The effective tax rate in the third quarter was 21.6 percent, and benefited from a \$21 million or \$0.07 EPS adjustment to the company’s estimated U.S. federal tax liability for tax year 2018.

#### 2019 Full-Year Guidance

The company is maintaining its full-year GAAP EPS guidance of \$7.55 to \$7.85 per share, as compared to GAAP EPS of \$7.60 in 2018. Year-over-year headwinds from foreign currency translation impact and higher restructuring expenses are expected to impact 2019 EPS by approximately \$0.30. The company expects organic revenue down one to three percent, and operating margin of approximately 24 percent. Free cash flow is expected to exceed

100 percent of net income and the company is on pace to repurchase approximately \$1.5 billion of its shares.

**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](http://www.itw.com)

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

<b>In millions except per share amounts</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating Revenue	\$ 3,479	\$ 3,613	\$ 10,640	\$ 11,188
Cost of revenue	2,007	2,096	6,165	6,508
Selling, administrative, and research and development expenses	566	581	1,775	1,813
Amortization and impairment of intangible assets	38	47	122	143
Operating Income	868	889	2,578	2,724
Interest expense	(52)	(64)	(170)	(194)
Other income (expense)	26	10	49	48
Income Before Taxes	842	835	2,457	2,578
Income Taxes	182	197	577	622
Net Income	\$ 660	\$ 638	\$ 1,880	\$ 1,956
<b>Net Income Per Share:</b>				
Basic	\$ 2.05	\$ 1.91	\$ 5.79	\$ 5.81
Diluted	\$ 2.04	\$ 1.90	\$ 5.76	\$ 5.77
<b>Cash Dividends Per Share:</b>				
Paid	\$ 1.00	\$ 0.78	\$ 3.00	\$ 2.34
Declared	\$ 1.07	\$ 1.00	\$ 3.07	\$ 2.56
<b>Shares of Common Stock Outstanding During the Period:</b>				
Average	322.3	333.3	324.8	336.7
Average assuming dilution	324.0	335.3	326.6	339.0

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

In millions	September 30, 2019	December 31, 2018
<b>Assets</b>		
Current Assets:		
Cash and equivalents	\$ 1,825	\$ 1,504
Trade receivables	2,499	2,622
Inventories	1,209	1,318
Prepaid expenses and other current assets	292	334
Assets held for sale	420	—
Total current assets	6,245	5,778
Net plant and equipment	1,693	1,791
Goodwill	4,430	4,633
Intangible assets	890	1,084
Deferred income taxes	479	554
Other assets	1,223	1,030
	<u>\$ 14,960</u>	<u>\$ 14,870</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Short-term debt	\$ —	\$ 1,351
Accounts payable	493	524
Accrued expenses	1,229	1,271
Cash dividends payable	344	328
Income taxes payable	61	68
Liabilities held for sale	96	—
Total current liabilities	2,223	3,542
Noncurrent Liabilities:		
Long-term debt	7,643	6,029
Deferred income taxes	716	707
Noncurrent income taxes payable	462	495
Other liabilities	946	839
Total noncurrent liabilities	9,767	8,070
Stockholders' Equity:		
Common stock	6	6
Additional paid-in-capital	1,286	1,253
Retained earnings	22,104	21,217
Common stock held in treasury	(18,632)	(17,545)
Accumulated other comprehensive income (loss)	(1,798)	(1,677)
Noncontrolling interest	4	4
Total stockholders' equity	2,970	3,258
	<u>\$ 14,960</u>	<u>\$ 14,870</u>

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

**Three Months Ended September 30, 2019**

<b>Dollars in millions</b>	<b>Total Revenue</b>	<b>Operating Income</b>	<b>Operating Margin</b>
Automotive OEM	\$ 744	\$ 164	22.1%
Food Equipment	551	152	27.5%
Test & Measurement and Electronics	512	130	25.6%
Welding	402	113	28.2%
Polymers & Fluids	418	101	24.1%
Construction Products	416	105	25.1%
Specialty Products	441	116	26.2%
Intersegment	(5)	—	—%
<b>Total Segments</b>	<b>3,479</b>	<b>881</b>	<b>25.3%</b>
Unallocated	—	(13)	—%
<b>Total Company</b>	<b>\$ 3,479</b>	<b>\$ 868</b>	<b>25.0%</b>

**Nine Months Ended September 30, 2019**

<b>Dollars in millions</b>	<b>Total Revenue</b>	<b>Operating Income</b>	<b>Operating Margin</b>
Automotive OEM	\$ 2,338	\$ 505	21.6%
Food Equipment	1,617	421	26.0%
Test & Measurement and Electronics	1,569	387	24.7%
Welding	1,251	355	28.4%
Polymers & Fluids	1,261	287	22.8%
Construction Products	1,241	298	24.0%
Specialty Products	1,379	363	26.3%
Intersegment	(16)	—	—%
<b>Total Segments</b>	<b>10,640</b>	<b>2,616</b>	<b>24.6%</b>
Unallocated	—	(38)	—%
<b>Total Company</b>	<b>\$ 10,640</b>	<b>\$ 2,578</b>	<b>24.2%</b>





**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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating income	\$ 868	\$ 889	\$ 2,578	\$ 2,724
Adjusted tax rate	24.1%	25.5%	24.3%	24.7%
Income taxes	(210)	(227)	(628)	(674)
Operating income after taxes	\$ 658	\$ 662	\$ 1,950	\$ 2,050
Invested capital:				
Trade receivables	\$ 2,499	\$ 2,777	\$ 2,499	\$ 2,777
Inventories	1,209	1,338	1,209	1,338
Net assets held for sale	324	—	324	—
Net plant and equipment	1,693	1,799	1,693	1,799
Goodwill and intangible assets	5,320	5,785	5,320	5,785
Accounts payable and accrued expenses	(1,722)	(1,844)	(1,722)	(1,844)
Other, net	(535)	(494)	(535)	(494)
Total invested capital	\$ 8,788	\$ 9,361	\$ 8,788	\$ 9,361
Average invested capital	\$ 9,007	\$ 9,470	\$ 9,083	\$ 9,634
Adjusted return on average invested capital	29.2%	28.0%	28.6%	28.4%

A reconciliation of the tax rate for the three and nine month periods ended September 30, 2019 excluding the third quarter 2019 discrete tax benefit of \$21 million is as follows:

Dollars in millions	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	Income Taxes	Tax Rate	Income Taxes	Tax Rate
As reported	\$ 182	21.6%	\$ 577	23.5%
Discrete tax benefit	21	2.5%	21	0.8%
As adjusted	\$ 203	24.1%	\$ 598	24.3%

A reconciliation of the tax rate for the three and nine month periods ended September 30, 2018 excluding the third quarter 2018 net discrete tax benefit of \$15 million is as follows:

Dollars in millions	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Income Taxes	Tax Rate	Income Taxes	Tax Rate
As reported	\$ 197	23.7%	\$ 622	24.1%
Net discrete tax benefit	15	1.8%	15	0.6%
As adjusted	\$ 212	25.5%	\$ 637	24.7%

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

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

<b>Dollars in millions</b>	<b>Twelve Months Ended December 31, 2018</b>
Operating income	\$ 3,584
Adjusted tax rate	24.9%
Income taxes	(893)
Operating income after taxes	<u>\$ 2,691</u>
<b>Invested capital:</b>	
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 2018 net discrete tax benefit of \$15 million is as follows:

<b>Dollars in millions</b>	<b>Twelve Months Ended December 31, 2018</b>	
	<b>Income Taxes</b>	<b>Tax Rate</b>
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)**

<b>Dollars in millions</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net cash provided by operating activities	\$ 920	\$ 844	\$ 2,221	\$ 2,002
Less: Additions to plant and equipment	(90)	(101)	(244)	(282)
Free cash flow	\$ 830	\$ 743	\$ 1,977	\$ 1,720
Net income	\$ 660	\$ 638	\$ 1,880	\$ 1,956
Free cash flow to net income conversion rate	126%	116%	105%	88%

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