

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

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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

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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 |

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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 |

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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% |

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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> | | | | | | | | |

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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 | <u>\$ 586</u> | <u>\$ 634</u> |
| 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 | <u>\$ 8,548</u> | <u>\$ 9,186</u> |
| Average invested capital | <u>\$ 8,677</u> | <u>\$ 9,160</u> |
| Return on average invested capital | <u>27.0%</u> | <u>27.7%</u> |

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 | <u>\$ 554</u> | <u>\$ 539</u> |
| Net income | <u>\$ 566</u> | <u>\$ 597</u> |
| Free cash flow to net income conversion rate | <u>98%</u> | <u>90%</u> |

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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 | <u>\$ 6,264</u> |
| | |
| Net income | \$ 2,490 |
| Add: | |
| Interest expense | 209 |
| Other income | (118) |
| Income taxes | 743 |
| Depreciation | 268 |
| Amortization and impairment of intangible assets | 152 |
| EBITDA | <u>\$ 3,744</u> |
| | |
| Net debt to EBITDA ratio | <u>1.7</u> |

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