

ITW Reports Second Quarter 2024 Results

- Revenue of \$4.0 billion, a decrease of 1% with flat organic growth
- Operating income of \$1.05 billion, an increase of 4.5%
- Operating margin of 26.2%, an increase of 140 bps as enterprise initiatives contributed 140 bps
- GAAP EPS of \$2.54, an increase of 2%; Excl. a one-time 2023 tax item, EPS increased 5%
- Narrowing full year GAAP EPS guidance to a range of \$10.30 to \$10.40 per share

GLENVIEW, IL., July 30, 2024 - Illinois Tool Works Inc. (NYSE: ITW) today reported its second quarter 2024 results and updated guidance for full-year 2024.

“While the demand environment continued to moderate across our portfolio, we delivered a solid quarter with strong operational execution and profitability,” said Christopher A. O’Herlihy, President and Chief Executive Officer. “Our ability to overcome near-term macro challenges and expand our margin and profitability to record levels as evidenced by margin improvement of 140 basis points to 26.2 percent and EPS growth of more than five percent, is a direct result of the focused execution by our team of dedicated ITW professionals around the world.”

“Looking ahead, we are lowering the top-end of our full year GAAP EPS guidance to reflect current levels of demand partially offset by better margin performance. We remain focused on managing and investing for the long-term as we build above-market organic growth, fueled by customer-back innovation, into a core ITW strength,” O’Herlihy concluded.

Second Quarter 2024 Results

Second quarter revenue of \$4.0 billion declined by 1.2 percent as organic growth declined 0.1 percent. Foreign currency translation impact reduced revenue by 1.2 percent and acquisitions added 0.1 percent.

GAAP EPS increased 2.4 percent to \$2.54 and excluding a one-time tax item in 2023, EPS increased 5.4 percent. Operating income increased 4.5 percent to \$1.05 billion, a second quarter record. Operating margin improved 140 basis points to 26.2 percent, a second quarter record, as enterprise initiatives contributed 140 basis points. Operating cash flow was \$687 million, and free cash flow was \$571 million with a conversion of 75 percent to net income. During the quarter, the company repurchased \$375 million of its own shares and the effective tax rate was 24.4 percent.



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2024 Guidance

ITW is lowering the top-end of its full year GAAP EPS guidance range of \$10.30 to \$10.70 per share to a narrower range of \$10.30 to \$10.40 per share, an increase of six percent compared to the prior year at the midpoint. Based on current levels of demand and foreign currency exchange rates exiting the second quarter, the company is projecting revenue growth and organic growth to be approximately flat for 2024. ITW is raising its operating margin guidance from 26 to 27 percent to a narrower range of 26.5 to 27 percent, an increase of 165 bps at the midpoint with enterprise initiatives projected to contribute more than 100 basis points. Free cash flow is expected to exceed 100 percent of net income and the company plans to repurchase approximately \$1.5 billion of its own shares. The projected effective tax rate remains unchanged in the range of 24 to 24.5 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. The estimated guidance of free cash flow to net income conversion rate is based on assumptions that are difficult to predict, and estimated guidance for the most directly comparable GAAP measure and a reconciliation of this forward-looking estimate to its most directly comparable GAAP estimate have been omitted due to the unreasonable efforts required in connection with such a reconciliation and the lack of reliable forward-looking cash flow information. For the same reasons, the company is unable to address the potential significance of the unavailable information, which could be material to future results.

Forward-looking Statements

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 global supply chain challenges, expected impact of inflation including raw material inflation and rising interest rates, the impact of enterprise initiatives, future financial and operating performance, free cash flow and free cash flow to net income conversion rate, organic and total revenue, operating and incremental margin, price/cost impact, statements regarding diluted income per share, expected dividend payments, after-tax return on invested capital, effective tax rates, exchange rates, expected timing and amount of share repurchases, end market economic and regulatory conditions, the impact of recent or potential acquisitions and/or divestitures, and the Company's 2024 guidance. These statements are subject to certain risks, uncertainties, assumptions, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that could cause actual results to differ materially from the Company's expectations include those that are detailed in ITW's Form 10-K for 2023 and subsequent reports filed with the SEC.

About Illinois Tool Works

ITW (NYSE: ITW) is a Fortune 300 global multi-industrial manufacturing leader with revenue of \$16.1 billion in 2023. 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, | |
| | 2024 | 2023 | 2024 | 2023 |
| Operating Revenue | \$ 4,027 | \$ 4,074 | \$ 8,000 | \$ 8,093 |
| Cost of revenue | 2,262 | 2,344 | 4,407 | 4,685 |
| Selling, administrative, and research and development expenses | 686 | 690 | 1,362 | 1,365 |
| Amortization and impairment of intangible assets | 25 | 30 | 50 | 61 |
| Operating Income | 1,054 | 1,010 | 2,181 | 1,982 |
| Interest expense | (75) | (69) | (146) | (129) |
| Other income (expense) | 26 | 20 | 42 | 30 |
| Income Before Taxes | 1,005 | 961 | 2,077 | 1,883 |
| Income Taxes | 246 | 207 | 499 | 415 |
| Net Income | \$ 759 | \$ 754 | \$ 1,578 | \$ 1,468 |
| | | | | |
| Net Income Per Share: | | | | |
| Basic | \$ 2.55 | \$ 2.49 | \$ 5.29 | \$ 4.83 |
| Diluted | \$ 2.54 | \$ 2.48 | \$ 5.27 | \$ 4.81 |
| | | | | |
| Cash Dividends Per Share: | | | | |
| Paid | \$ 1.40 | \$ 1.31 | \$ 2.80 | \$ 2.62 |
| Declared | \$ 1.40 | \$ 1.31 | \$ 2.80 | \$ 2.62 |
| | | | | |
| Shares of Common Stock Outstanding During the Period: | | | | |
| Average | 297.6 | 303.3 | 298.3 | 304.1 |
| Average assuming dilution | 298.5 | 304.2 | 299.3 | 305.2 |

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

| In millions | June 30, 2024 | December 31, 2023 |
|---|----------------------|--------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and equivalents | \$ 862 | \$ 1,065 |
| Trade receivables | 3,250 | 3,123 |
| Inventories | 1,819 | 1,707 |
| Prepaid expenses and other current assets | 325 | 340 |
| Total current assets | 6,256 | 6,235 |
| Net plant and equipment | 2,011 | 1,976 |
| Goodwill | 4,910 | 4,909 |
| Intangible assets | 641 | 657 |
| Deferred income taxes | 448 | 479 |
| Other assets | 1,311 | 1,262 |
| | \$ 15,577 | \$ 15,518 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Short-term debt | \$ 2,044 | \$ 1,825 |
| Accounts payable | 576 | 581 |
| Accrued expenses | 1,615 | 1,663 |
| Cash dividends payable | 416 | 419 |
| Income taxes payable | 153 | 187 |
| Total current liabilities | 4,804 | 4,675 |
| Noncurrent Liabilities: | | |
| Long-term debt | 6,429 | 6,339 |
| Deferred income taxes | 381 | 326 |
| Noncurrent income taxes payable | — | 151 |
| Other liabilities | 1,001 | 1,014 |
| Total noncurrent liabilities | 7,811 | 7,830 |
| Stockholders' Equity: | | |
| Common stock | 6 | 6 |
| Additional paid-in-capital | 1,636 | 1,588 |
| Retained earnings | 27,866 | 27,122 |
| Common stock held in treasury | (24,622) | (23,870) |
| Accumulated other comprehensive income (loss) | (1,925) | (1,834) |
| Noncontrolling interest | 1 | 1 |
| Total stockholders' equity | 2,962 | 3,013 |
| | \$ 15,577 | \$ 15,518 |

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

| Three Months Ended June 30, 2024 | | | |
|---|----------------------|-------------------------|-------------------------|
| Dollars in millions | Total Revenue | Operating Income | Operating Margin |
| Automotive OEM | \$ 815 | \$ 157 | 19.4 % |
| Food Equipment | 667 | 180 | 27.1 % |
| Test & Measurement and Electronics | 678 | 159 | 23.5 % |
| Welding | 466 | 153 | 32.9 % |
| Polymers & Fluids | 454 | 128 | 28.2 % |
| Construction Products | 504 | 148 | 29.4 % |
| Specialty Products | 449 | 144 | 31.9 % |
| Intersegment | (6) | — | — % |
| Total Segments | 4,027 | 1,069 | 26.6 % |
| Unallocated | — | (15) | — % |
| Total Company | \$ 4,027 | \$ 1,054 | 26.2 % |

| Six Months Ended June 30, 2024 | | | |
|---------------------------------------|----------------------|-------------------------|-------------------------|
| Dollars in millions | Total Revenue | Operating Income | Operating Margin |
| Automotive OEM | \$ 1,631 | \$ 319 | 19.6 % |
| Food Equipment | 1,298 | 344 | 26.5 % |
| Test & Measurement and Electronics | 1,374 | 322 | 23.4 % |
| Welding | 942 | 309 | 32.8 % |
| Polymers & Fluids | 886 | 239 | 27.0 % |
| Construction Products | 992 | 291 | 29.4 % |
| Specialty Products | 889 | 274 | 30.8 % |
| Intersegment | (12) | — | — % |
| Total Segments | 8,000 | 2,098 | 26.2 % |
| Unallocated | — | 83 | — % |
| Total Company | \$ 8,000 | \$ 2,181 | 27.3 % |

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

| Q2 2024 vs. Q2 2023 Favorable/(Unfavorable) | | | | | | | | |
|---|-------------------|-------------------|---|---------------|----------------------|--------------------------|-----------------------|---------------|
| Operating Revenue | Automotive OEM | Food Equipment | Test & Measurement and Electronics | Welding | Polymers & Fluids | Construction Products | Specialty Products | Total ITW |
| Organic | 0.4 % | 2.5 % | (3.1) % | (4.7) % | 2.6 % | (3.8) % | 6.7 % | (0.1) % |
| Acquisitions/ Divestitures | — % | — % | 0.8 % | — % | — % | — % | — % | 0.1 % |
| Translation | (1.7) % | (0.4) % | (0.9) % | (0.3) % | (3.9) % | (0.5) % | (0.5) % | (1.2) % |
| Operating Revenue | (1.3)% | 2.1 % | (3.2)% | (5.0)% | (1.3)% | (4.3)% | 6.2 % | (1.2)% |

| Q2 2024 vs. Q2 2023 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 | — | 50 bps | (90) bps | (70) bps | 50 bps | (80) bps | 130 bps | — |
| Changes in Variable Margin & OH Costs | 210 bps | (100) bps | 190 bps | (50) bps | 130 bps | 150 bps | 390 bps | 140 bps |
| Total Organic | 210 bps | (50) bps | 100 bps | (120) bps | 180 bps | 70 bps | 520 bps | 140 bps |
| Acquisitions/ Divestitures | — | — | (50) bps | — | — | — | — | (10) bps |
| Restructuring/Other | 50 bps | (20) bps | (20) bps | 20 bps | 50 bps | (60) bps | 70 bps | 10 bps |
| Total Operating Margin Change | 260 bps | (70) bps | 30 bps | (100) bps | 230 bps | 10 bps | 590 bps | 140 bps |
| Total Operating Margin % * | 19.4% | 27.1% | 23.5% | 32.9% | 28.2% | 29.4% | 31.9% | 26.2% |
| <i>* Includes unfavorable operating margin impact of amortization expense from acquisition-related intangible assets</i> | <i>20 bps</i> | <i>40 bps</i> | <i>190 bps</i> | <i>—</i> | <i>150 bps</i> | <i>10 bps</i> | <i>20 bps</i> | <i>70 bps **</i> |
| <i>** Amortization expense from acquisition-related intangible assets had an unfavorable impact of (\$0.06) on GAAP earnings per share for the second quarter of 2024.</i> | | | | | | | | |

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

| H1 2024 vs. H1 2023 Favorable/(Unfavorable) | | | | | | | | |
|---|-------------------|-------------------|---|----------------|----------------------|--------------------------|-----------------------|----------------|
| Operating Revenue | Automotive OEM | Food Equipment | Test & Measurement and Electronics | Welding | Polymers & Fluids | Construction Products | Specialty Products | Total ITW |
| Organic | 1.9 % | 0.6 % | (2.2) % | (4.1) % | 0.9 % | (5.4) % | 6.1 % | (0.4) % |
| Acquisitions/ Divestitures | — % | — % | 0.8 % | — % | — % | — % | (1.1) % | — % |
| Translation | (1.3) % | 0.1 % | (0.7) % | (0.1) % | (3.2) % | (0.4) % | — % | (0.8) % |
| Operating Revenue | 0.6 % | 0.7 % | (2.1) % | (4.2) % | (2.3) % | (5.8) % | 5.0 % | (1.2) % |

| H1 2024 vs. H1 2023 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 | 40 bps | 20 bps | (60) bps | (60) bps | 20 bps | (90) bps | 120 bps | (20) bps |
| Changes in Variable Margin & OH Costs | 250 bps | (80) bps | 80 bps | 40 bps | 130 bps | 220 bps | 300 bps | 290 bps |
| Total Organic | 290 bps | (60) bps | 20 bps | (20) bps | 150 bps | 130 bps | 420 bps | 270 bps |
| Acquisitions/ Divestitures | — | — | (50) bps | — | — | — | 30 bps | — |
| Restructuring/Other | 30 bps | (10) bps | (10) bps | 10 bps | 30 bps | (30) bps | 50 bps | 10 bps |
| Total Operating Margin Change | 320 bps | (70) bps | (40) bps | (10) bps | 180 bps | 100 bps | 500 bps | 280 bps |
| Total Operating Margin % * | 19.6% | 26.5% | 23.4% | 32.8% | 27.0% | 29.4% | 30.8% | 27.3% |
| <i>* Includes unfavorable operating margin impact of amortization expense from acquisition-related intangible assets</i> | <i>30 bps</i> | <i>50 bps</i> | <i>190 bps</i> | <i>—</i> | <i>150 bps</i> | <i>10 bps</i> | <i>20 bps</i> | <i>70 bps **</i> |
| <i>** Amortization expense from acquisition-related intangible assets had an unfavorable impact of (\$0.13) on GAAP earnings per share for the first half of 2024.</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 | | Six Months Ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2024 | 2023 | 2024 | 2023 |
| Numerator: | | | | |
| Net Income | \$ 759 | \$ 754 | \$ 1,578 | \$ 1,468 |
| Discrete tax benefit related to the second quarter 2023 | — | (20) | — | (20) |
| Interest expense, net of tax ⁽¹⁾ | 57 | 53 | 111 | 99 |
| Other (income) expense, net of tax ⁽¹⁾ | (20) | (15) | (32) | (23) |
| Operating income after taxes | \$ 796 | \$ 772 | \$ 1,657 | \$ 1,524 |
| Denominator: | | | | |
| Invested capital: | | | | |
| Cash and equivalents | \$ 862 | \$ 922 | \$ 862 | \$ 922 |
| Trade receivables | 3,250 | 3,216 | 3,250 | 3,216 |
| Inventories | 1,819 | 1,921 | 1,819 | 1,921 |
| Net plant and equipment | 2,011 | 1,901 | 2,011 | 1,901 |
| Goodwill and intangible assets | 5,551 | 5,595 | 5,551 | 5,595 |
| Accounts payable and accrued expenses | (2,191) | (2,215) | (2,191) | (2,215) |
| Debt | (8,473) | (8,222) | (8,473) | (8,222) |
| Other, net | 133 | (24) | 133 | (24) |
| Total net assets (stockholders' equity) | 2,962 | 3,094 | 2,962 | 3,094 |
| Cash and equivalents | (862) | (922) | (862) | (922) |
| Debt | 8,473 | 8,222 | 8,473 | 8,222 |
| Total invested capital | \$ 10,573 | \$ 10,394 | \$ 10,573 | \$ 10,394 |
| Average invested capital ⁽²⁾ | \$ 10,480 | \$ 10,366 | \$ 10,357 | \$ 10,292 |
| Net income to average invested capital ⁽³⁾ | 29.0 % | 29.1 % | 30.5 % | 28.5 % |
| After-tax return on average invested capital ⁽³⁾ | 30.4 % | 29.8 % | 32.0 % | 29.6 % |

⁽¹⁾ Effective tax rate used for interest expense and other (income) expense for the three months ended June 30, 2024 and 2023 was 24.4% and 23.6%, respectively. Effective tax rate used for interest expense and other (income) expense for the six months ended June 30, 2024 and 2023 was 24.0% and 23.1%, respectively.

⁽²⁾ Average invested capital is calculated using the total invested capital balances at the start of the period and at the end of each quarter within each of the periods presented.

⁽³⁾ Returns for the three months ended June 30, 2024 and 2023 were converted to an annual rate by multiplying the calculated return by 4. Returns for the six months ended June 30, 2024 and 2023 were converted to an annual rate by multiplying the calculated return by 2.

After-tax ROIC for the six months ended June 30, 2024 included 170 basis points of favorable impact related to the cumulative effect of the change from the LIFO method of accounting to the FIFO method for certain U.S. businesses (\$117 million pre-tax, or \$88 million after-tax) in the first quarter of 2024.

A reconciliation of the tax rate for the three and six months ended June 30, 2023, excluding the second quarter 2023 discrete tax benefit of \$20 million related to amended 2021 U.S. taxes, is as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, 2023 | | June 30, 2023 | |
| Dollars in millions | Income Taxes | Tax Rate | Income Taxes | Tax Rate |
| As reported | \$ 207 | 21.4 % | \$ 415 | 22.0 % |
| Discrete tax benefit related to the second quarter 2023 | 20 | 2.2 % | 20 | 1.1 % |
| As adjusted | <u>\$ 227</u> | <u>23.6 %</u> | <u>\$ 435</u> | <u>23.1 %</u> |

AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL (UNAUDITED)

| Dollars in millions | Twelve Months Ended |
|---|----------------------------|
| | December 31, 2023 |
| Numerator: | |
| Net income | \$ 2,957 |
| Discrete tax benefit related to the second quarter 2023 | (20) |
| Interest expense, net of tax ⁽¹⁾ | 204 |
| Other (income) expense, net of tax ⁽¹⁾ | (38) |
| Operating income after taxes | <u>\$ 3,103</u> |
| Denominator: | |
| Invested capital: | |
| Cash and equivalents | \$ 1,065 |
| Trade receivables | 3,123 |
| Inventories | 1,707 |
| Net plant and equipment | 1,976 |
| Goodwill and intangible assets | 5,566 |
| Accounts payable and accrued expenses | (2,244) |
| Debt | (8,164) |
| Other, net | (16) |
| Total net assets (stockholders' equity) | 3,013 |
| Cash and equivalents | (1,065) |
| Debt | 8,164 |
| Total invested capital | <u>\$ 10,112</u> |
| Average invested capital ⁽²⁾ | <u>\$ 10,214</u> |
| Net income to average invested capital | <u>29.0 %</u> |
| After-tax return on average invested capital | <u>30.4 %</u> |

⁽¹⁾ Effective tax rate used for interest expense and other (income) expense for the year ended December 31, 2023 was 23.2%.

⁽²⁾ Average invested capital is calculated using the total invested capital balances at the start of the period and at the end of each quarter within the period presented.

A reconciliation of the 2023 effective tax rate excluding the second quarter 2023 discrete tax benefit of \$20 million related to amended 2021 U.S. taxes is as follows:

| Dollars in millions | Twelve Months Ended December 31, 2023 | |
|---|--|-----------------|
| | Income Taxes | Tax Rate |
| As reported | \$ 866 | 22.6 % |
| Discrete tax benefit related to the second quarter 2023 | 20 | 0.6 % |
| As adjusted | <u>\$ 886</u> | <u>23.2 %</u> |

FREE CASH FLOW (UNAUDITED)

| Dollars in millions | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---|---------------|--------------------------------------|-----------------|
| | 2024 | 2023 | 2024 | 2023 |
| | Net cash provided by operating activities | \$ 687 | \$ 790 | \$ 1,276 |
| Less: Additions to plant and equipment | (116) | (85) | (211) | (198) |
| Free cash flow | <u>\$ 571</u> | <u>\$ 705</u> | <u>\$ 1,065</u> | <u>\$ 1,320</u> |
| Net income | <u>\$ 759</u> | <u>\$ 754</u> | <u>\$ 1,578</u> | <u>\$ 1,468</u> |
| Net cash provided by operating activities to net income conversion | <u>91 %</u> | <u>105 %</u> | <u>81 %</u> | <u>103 %</u> |
| Free cash flow to net income conversion rate | <u>75 %</u> | <u>94 %</u> | <u>67 %</u> | <u>90 %</u> |

ADJUSTED NET INCOME PER SHARE - DILUTED (UNAUDITED)

| | Three Months Ended June 30, 2023 | |
|---|---|-------------|
| | As reported | \$ |
| Discrete tax benefit related to the second quarter 2023 | | (0.07) |
| As adjusted | <u>\$</u> | <u>2.41</u> |