



Illinois Tool Works (ITW)

Updated February 1st, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	22.8%
Fair Value Price:	\$137	5 Year Growth Estimate:	8.0%	Momentum Percentile:	19.9%
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Growth Percentile:	73.5%
Dividend Yield:	2.9%	5 Year Price Target	\$201	Valuation Percentile:	49.8%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	63.4%

Overview & Current Events

Illinois Tool Works is a diversified industrial manufacturer with a market capitalization of \$46 billion. The company has seven unique operating segments and generates more than half of its revenue from outside of the United States. Illinois Tool Works has increased its dividend for 54 consecutive years, which qualifies it to be a member of the Dividend Aristocrats Index.

Illinois Tool Works reported its fourth quarter and full year earnings results on February 1. The company generated revenues of \$3.58 billion, which was 1.4% less than the company's revenues during the previous year's quarter. This revenue decline was expected by the analyst community. Illinois Tool Works grew its revenues from its Food Equipment business by 4% year over year, with organic growth totaling an even better 5%, the highest during the last four years. The company's Test/Masurement Electronics segment reported a 1% revenue decline.

Despite the revenue decline that Illinois Tool Works suffered from, the company has nevertheless been able to grow its earnings-per-share at a compelling pace of 15% compared to the prior year's quarter, to \$1.83. This was possible due to a combination of higher operating earnings (due to margin growth outpacing Illinois Tool Works' revenue decline), a lower tax rate, and the positive impact that the company's share repurchases had on its per-share performance.

Illinois Tool Works guides for earnings-per-share in a range of \$7.90 to \$8.20 during fiscal 2019.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.93	\$3.03	\$3.74	\$4.09	\$3.63	\$4.67	\$5.13	\$5.70	\$6.64	\$7.60	\$8.05	\$11.83
DPS	\$1.24	\$1.30	\$1.40	\$1.48	\$1.60	\$1.75	\$2.07	\$2.40	\$2.73	\$3.56	\$4.10	\$6.00
Shares	502	498	484	455	430	383	364	347	342	337	331	315

Illinois Tool Works has grown relatively consistently throughout the last decade. The company had to report an earnings-per-share decline of roughly 40% between 2008 and 2009, which shows that the company is vulnerable to steep economic downturns. Illinois Tool Works recovered relatively fast, though, as earnings-per-share during 2010 were almost on par with the company's earnings-per-share from 2008. All in all, Illinois Tool Works has compounded its earnings-per-share at a rate of 9.0% per year since 2008, which is quite attractive when we account for the fact that a major recession took place during that time frame.

Illinois Tool Works' current growth strategy is very straightforward; it simply needs to continue reinvesting in its current business. The company reported an after-tax return on invested capital of 28.2% for fiscal 2018, which implies that attractive returns can be achieved without venturing outside Illinois Tool Works' existing core competencies. Illinois Tool Works can continue to invest cash into its sales networks, R&D, and production capacity. The company's cost-cutting allowed Illinois Tool Works to grow its operating profits despite the fact that revenues were down year over year during the fourth quarter, although currency headwinds were partially responsible for the not-so-great revenue performance.

The company has published targets for 8%-10% earnings-per-share growth through 2022, so we are forecasting a 5-year earnings-per-share growth rate of 8%, which is slightly less than the company's historic growth rate.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Illinois Tool Works (ITW)

Updated February 1st, 2019 by Jonathan Weber

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	20.1	15.4	13.7	13.9	19.4	18.5	17.0	19.0	21.5	16.7	16.6	17.0
Avg. Yld.	3.2%	2.8%	2.7%	2.6%	1.7%	2.0%	2.2%	2.2%	1.9%	3.0%	2.9%	3.0%

Illinois Tool Works has produced solid growth rates over the last decade, both regarding its dividend as well as its earnings-per-share. The market rewarded this by valuing Illinois Tool Works' shares at a high-teens to low-20s earnings multiple throughout the last couple of years. More recently shares got less expensive, though. They are currently trading below our fair value estimate. Investors get a dividend yield of 2.9% on top of that, which is at the top end of the range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	64.2%	42.9%	37.4%	36.2%	44.1%	37.5%	40.4%	42.1%	41.1%	46.8%	50.9%	50.7%

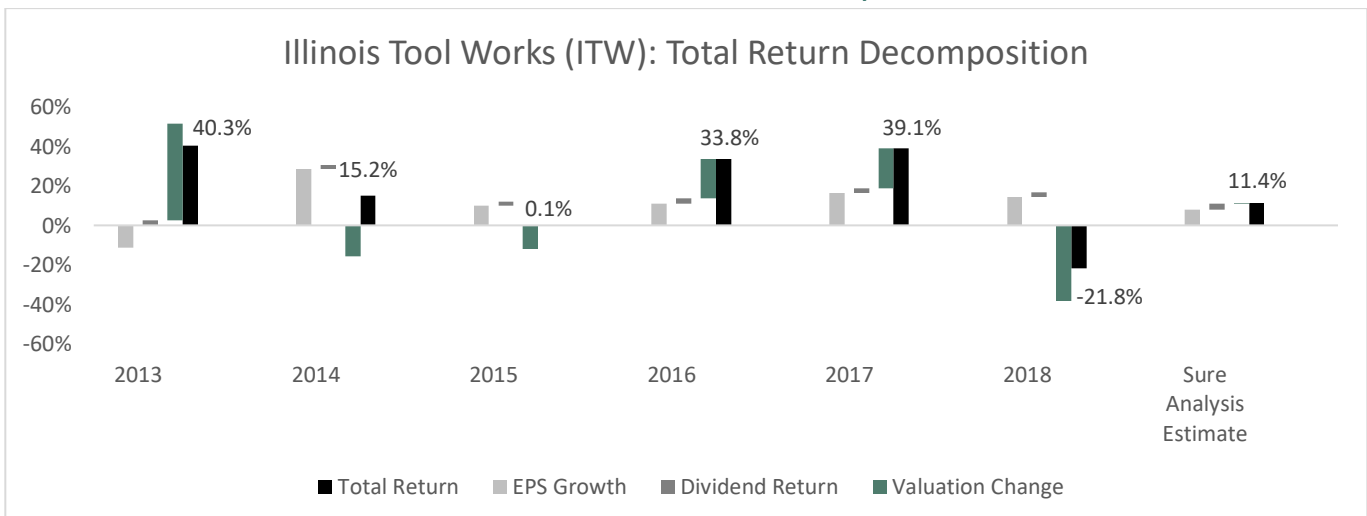
Illinois Tool Works has a strong dividend growth history. Its payout ratio has been relatively high during the last financial crisis, but the company was not forced to cut the payout. The dividend payout ratio has declined to roughly 50% since, which makes us believe that the dividend is quite safe. Illinois Tool Works will likely not cut its dividend during future recessions, either, as the company will most likely focus on preserving its dividend growth track record.

Illinois Tool Works' industry is not glamorous or one with outstanding growth rates, but the company has established itself as a major player that continues to generate solid growth rates. Its experienced management and strong fundamentals, such as an above-average return on capital, function as competitive advantages. The company's profits were reduced during the last financial crisis, but Illinois Tool Works is, we believe, still suitable for risk-averse investors.

Final Thoughts & Recommendation

Illinois Tool Works combines solid earnings growth rates, an above-average dividend yield, a long and successful dividend growth history, and a track record that shows that it does not hurt to hold the company's shares during recessions. Its valuation has been a bit high throughout the last couple of years, but right now shares trade slightly below fair value. With all this in mind, Illinois Tool Works earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Illinois Tool Works (ITW)

Updated February 1st, 2019 by Jonathan Weber

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	13877	15416	14515	14791	14135	14484	13405	13599	14314	14768
Gross Profit	4732	5419	5426	5657	5581	5811	5517	5703	6005	6164
Gross Margin	34.1%	35.2%	37.4%	38.2%	39.5%	40.1%	41.2%	41.9%	42.0%	41.7%
SG&A Exp.	3037	2957	2846	2928	2815	2678	2417	2415	2400	2391
D&A Exp.	675	549	594	613	613	507	477	470	462	N/A
Operating Profit	1492	2255	2361	2477	2516	2888	2867	3064	3399	3584
Op. Margin	10.7%	14.6%	16.3%	16.7%	17.8%	19.9%	21.4%	22.5%	23.7%	24.3%
Net Profit	947	1503	2071	2870	1679	2946	1899	2035	1687	2563
Net Margin	6.8%	9.7%	14.3%	19.4%	11.9%	20.3%	14.2%	15.0%	11.8%	17.4%
Free Cash Flow	1899	1200	1603	1690	2160	1255	2015	2029	2105	N/A
Income Tax	244	637	448	973	717	809	820	873	1583	831

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	16082	16250	17984	19309	19966	17465	15729	15201	16780	14870
Cash & Equivalents	1319	1190	1178	2779	3618	3990	3090	2472	3094	1504
Acc. Receivable	N/A	N/A	2819	2742	2365	2293	2203	2357	2628	2622
Inventories	1356	1547	1716	1585	1247	1180	1086	1076	1220	1318
Goodwill & Int.	6584	6574	7431	7788	6885	6466	5999	6021	6024	5717
Total Liabilities	7264	6869	7950	8739	10257	10641	10501	10942	12191	11612
Accounts Payable	690	754	697	676	634	512	449	511	590	524
Long-Term Debt	3129	2830	3990	5048	6344	7419	7422	7829	8328	7380
Total Equity	8808	9370	10017	10561	9703	6819	5224	4254	4585	3254
D/E Ratio	0.36	0.30	0.40	0.48	0.65	1.09	1.42	1.84	1.82	2.27

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.1%	9.3%	12.1%	15.4%	8.6%	15.7%	11.4%	13.2%	10.6%	16.2%
Return on Equity	11.5%	16.5%	21.4%	27.9%	16.6%	35.7%	31.5%	42.9%	38.2%	65.4%
ROIC	8.1%	12.4%	15.8%	19.4%	10.6%	19.4%	14.1%	16.5%	13.5%	21.8%
Shares Out.	502	498	484	455	430	383	364	347	342	337
Revenue/Share	27.65	30.63	29.35	31.26	31.46	35.80	36.22	38.08	41.27	43.81
FCF/Share	3.78	2.38	3.24	3.57	4.81	3.10	5.44	5.68	6.07	N/A

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.