



# Illinois Tool Works Inc. (ITW)

Updated October 24<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$222	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$67 B
<b>Fair Value Price:</b>	\$190	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	12/29/23
<b>% Fair Value:</b>	117%	<b>5 Year Valuation Multiple Estimate:</b>	-3.1%	<b>Dividend Payment Date<sup>1</sup>:</b>	01/12/23
<b>Dividend Yield:</b>	2.5%	<b>5 Year Price Target</b>	\$279	<b>Years Of Dividend Growth:</b>	59
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

Illinois Tool Works is a diversified multi-industrial manufacturer with seven unique operating segments: Automotive, Food Equipment, Test & Measurement, Welding, Polymers & Fluids, Construction Products and Specialty Products. Last year the company generated \$15.9 billion in revenue. The \$67 billion market cap company is geographically diversified, with more than half of its revenue generated outside of the United States. Illinois Tool Works is a member of the Dividend Aristocrats Index and is a Dividend King.

On October 24<sup>th</sup>, 2023, Illinois Tool Works reported third quarter 2023 results for the period ending September 30<sup>th</sup>, 2023. For the quarter, revenue came in at \$4.0 billion, up 0.5% year-over-year. Sales were up 6.0% in the Automotive OEM segment, the largest out of the company's seven segments. The Food Equipment segment also grew revenue by 7.2%. Meanwhile, Specialty Products, Polymers & Fluids, Test & Measurement and Electronics, Welding, and Construction Products saw revenue decline 5.5%, 3.1%, 2.4%, 1.8%, and 1.2%.

Net income equaled \$772 million or \$2.55 per share compared to \$727 million or \$2.35 per share in Q3 2022.

Illinois Tool Works narrowed its 2023 guidance and expects full-year GAAP EPS to be \$9.65 to \$9.85 (compared to \$9.55 to \$9.95 previously). Additionally, the company expects to repurchase roughly \$1.5 billion of its own shares in the year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.63	\$4.67	\$5.13	\$5.70	\$6.78	\$7.60	\$7.74	\$6.63	\$8.51	\$9.77	<b>\$9.75</b>	<b>\$14.33</b>
<b>DPS</b>	\$1.60	\$1.75	\$2.07	\$2.40	\$2.73	\$3.56	\$4.14	\$4.42	\$4.72	\$5.06	<b>\$5.60</b>	<b>\$7.85</b>
<b>Shares<sup>2</sup></b>	430	383	364	347	342	328	320	318	315	308	<b>302</b>	<b>280</b>

In the 2007 through 2019 period Illinois Tool Works increased its earnings-per-share by an average compound rate of 7.2% per annum. While there was cyclicity during the great recession, including a -40% drop in earnings from 2007 to 2009, generally the company has exhibited consistent progress. In the past, Illinois Tool Works was able to grow via moderate top-line growth that was aided significantly by margin expansion and share repurchases.

Results for 2020 dipped -14% amid the pandemic, but 2021 bounced back materially and 2022's results were outright impressive. Moving forward, growth becomes a bit more difficult as the company gets larger. Still, the balance sheet is in good shape, allowing for some flexibility from a capital allocation standpoint. Moreover, attractive returns can be achieved without venturing outside Illinois Tool Works' existing core competencies. Illinois Tool Works can continue to invest in its sales networks, R&D, and production capacity and the company's cost-cutting efforts could continue to buoy margins.

We are using the midpoint of management's guidance, \$9.75, along with an 8% expected annual growth rate over the intermediate term. This is at the low end of the company's 9% to 10% annual EPS growth, but we prefer to remain conservative in our estimates.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

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.



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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.4	18.5	18	19	21	19.3	19.8	27.4	25.7	24.4	22.8	19.5
Avg. Yld.	1.70%	2.00%	2.20%	2.20%	1.90%	2.40%	2.70%	2.40%	2.20%	2.20%	2.5%	2.8%

Over the past decade shares of Illinois Tool Works have traded hands with an average P/E ratio of about 21.5 times earnings. We believe that a P/E ratio of 19.5 is a fair starting point, considering the quality of the business and growth prospects. With shares currently trading at nearly 23 times the midpoint of management's guidance, this implies the potential for a valuation headwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	37%	40%	42%	40%	47%	53%	67%	55%	52%	57%	55%

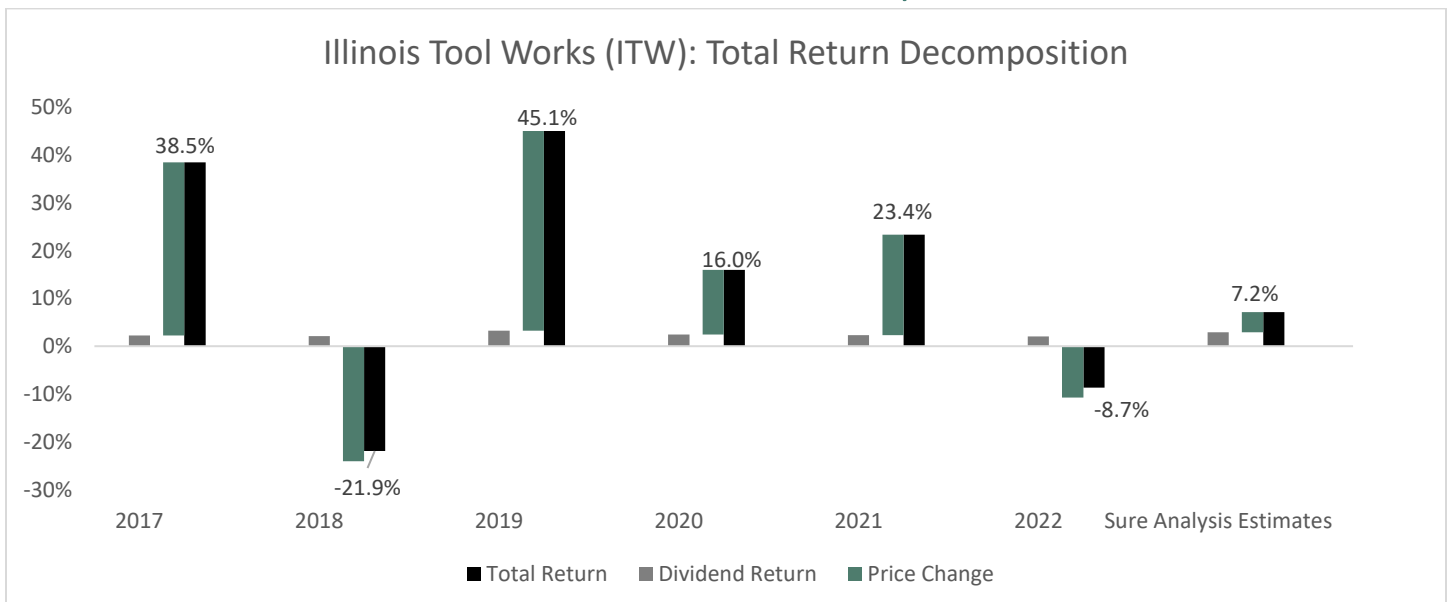
Illinois Tool Works has an excellent dividend growth history. Its payout ratio was relatively high during the last financial crisis, but the company was not forced to cut the payout. Today the dividend payout ratio sits at 57% of expected earnings, above the company's long-term target, meaning that future dividend growth may trail earnings growth.

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 grow profitably. 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, posting earnings-per-share of \$3.36, \$3.05, \$1.93, and \$3.03 during the 2007 through 2010 stretch. This is something to consider for the next downturn, as the business was tested in 2020 as well.

## Final Thoughts & Recommendation

Shares are up 1% year-to-date, which is unfavorable compared to the broader market's 11% gain. Illinois Tool Works has several positives, including solid earnings growth, a nice dividend yield, a long and successful dividend growth history, and a compelling long-term track record. However, total return potential comes in at 7.2% per annum, stemming from 8.0% growth and a 2.5% dividend yield offset by the possibility of a valuation headwind. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	14135	14484	13405	13599	14314	14768	14109	12570	14460	15932
<b>Gross Profit</b>	5581	5811	5517	5703	6005	6164	5922	5199	5966	6503
<b>Gross Margin</b>	39.5%	40.1%	41.2%	41.9%	42.0%	41.7%	42.0%	41.4%	41.3%	40.8%
<b>SG&amp;A Exp.</b>	2815	2678	2417	2415	2400	2391	2361	2163	2356	2579
<b>D&amp;A Exp.</b>	613	507	477	470	462	---	---	427	---	---
<b>Operating Profit</b>	2516	2888	2867	3064	3399	3584	3402	2882	3477	3790
<b>Op. Margin</b>	17.8%	19.9%	21.4%	22.5%	23.7%	24.3%	24.1%	22.9%	24.0%	23.8%
<b>Net Profit</b>	1679	2946	1899	2035	1687	2563	2521	2109	2694	3034
<b>Net Margin</b>	11.9%	20.3%	14.2%	15.0%	11.8%	17.4%	17.9%	16.8%	18.6%	19.0%
<b>Free Cash Flow</b>	2160	1255	2015	2029	2105	---	---	2571	---	1936
<b>Income Tax</b>	717	809	820	873	1583	831	767	595	632	808

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	19966	17465	15729	15201	16780	14870	15068	15610	16080	15422
<b>Cash &amp; Equivalents</b>	3618	3990	3090	2472	3094	1504	1981	2564	1527	708
<b>Acc. Receivable</b>	2365	2293	2203	2357	2628	2622	2461	2506	2840	3171
<b>Inventories</b>	1247	1180	1086	1076	1220	1318	1164	1189	1694	2054
<b>Goodwill &amp; Int.</b>	6885	6466	5999	6021	6024	5717	5343	5471	5937	5632
<b>Total Liabilities</b>	10257	10641	10501	10942	12191	11612	12038	12430	12450	12333
<b>Accounts Payable</b>	634	512	449	511	590	524	472	534	585	594
<b>Long-Term Debt</b>	6344	7419	7422	7829	8328	7380	7758	8122	7687	7763
<b>Total Equity</b>	9703	6819	5224	4254	4585	3254	3026	3181	3625	3088
<b>LTD/E Ratio</b>	0.65	1.09	1.42	1.84	1.82	2.27	2.56	2.56	2.12	2.51

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	8.6%	15.7%	11.4%	13.2%	10.6%	16.2%	16.8%	13.8%	17.0%	19.3%
<b>Return on Equity</b>	16.6%	35.7%	31.5%	42.9%	38.2%	65.4%	80.3%	68.0%	79.2%	90.4%
<b>ROIC</b>	10.6%	19.4%	14.1%	16.5%	13.5%	21.8%	23.5%	19.1%	23.8%	27.4%
<b>Shares Out.</b>	430	383	364	347	342	328	320	318	316	311
<b>Revenue/Share</b>	31.46	35.80	36.22	38.08	41.27	43.81	43.33	39.5	45.69	51.28
<b>FCF/Share</b>	4.81	3.10	5.44	5.68	6.07	---	---	8.08	---	6.23

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

### Disclaimer

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