



Illinois Tool Works Inc. (ITW)

Updated November 6th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$275	5 Year CAGR Estimate:	5.0%	Market Cap:	\$79 B
Fair Value Price:	\$224	5 Year Growth Estimate:	7.0%	Ex-Dividend Date¹:	12/31/24
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date¹:	01/10/24
Dividend Yield:	2.2%	5 Year Price Target	\$314	Years Of Dividend Growth:	61
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 \$16.1 billion in revenue. The \$79 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 30th, 2024, Illinois Tool Works reported third quarter 2024 results for the period ending September 30th, 2024. For the quarter, revenue came in at \$4.0 billion, shrinking 1.6% year-over-year. Sales declined 3.3% in the Automotive OEM segment, the largest out of the company's seven segments. The Specialty Products segment grew revenues by 5.7%. Meanwhile, Food Equipment, Test & Measurement and Electronics, Welding, Polymers & Fluids, and Construction Products saw revenue decline -0.2%, -0.2%, -1.3%, -1.9%, and -8.1%, respectively.

Net income equaled \$1,160 million or \$3.91 per share compared to \$772 million or \$2.55 per share in Q3 2023.

In the third quarter, ITW repurchased \$375 million of its shares. It also raised its dividend by 7% to \$6.00 annually, marking its 61st consecutive annual dividend increase.

Illinois Tool Works increased its 2024 guidance due to the impact of its divestiture of Wilsonart, and now expects full-year GAAP EPS to be \$11.63 to \$11.73 (compared to \$10.30 to \$10.40 previously. Excluding the divestiture, we expect non-GAAP EPS of \$10.42. Additionally, the company expects to repurchase roughly \$1.5 billion of its own shares this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.67	\$5.13	\$5.70	\$6.78	\$7.60	\$7.74	\$6.63	\$8.51	\$9.77	\$9.74	\$10.42	\$14.61
DPS	\$1.75	\$2.07	\$2.40	\$2.73	\$3.56	\$4.14	\$4.42	\$4.72	\$5.06	\$5.42	\$6.00	\$8.42
Shares²	383	364	347	342	328	320	318	315	308	304	297	280

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 cyclicality 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 as well as 2023'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 manufacturing capacity, while cost-cutting measures could continue to boost margins.

¹ Estimated date.

² In millions.

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We are using the midpoint of management's guidance, excluding the gain on a divestiture, \$10.42, along with a 7% expected annual growth rate over the intermediate term. This is below the company's 9% to 10% annual EPS growth target, but we prefer to remain conservative in our estimates.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.5	18	19	21	19.3	19.8	27.4	25.7	24.4	23.7	26.4	21.5
Avg. Yld.	2.0%	2.2%	2.2%	1.9%	2.4%	2.7%	2.4%	2.2%	2.2%	2.2%	2.2%	2.7%

Over the past decade shares of Illinois Tool Works have traded hands with an average P/E ratio of 21.7 times earnings. We believe that a P/E ratio of 21.5 is a fair starting point, considering the quality of the business and growth prospects. With shares currently trading at over 26 times the midpoint of management's guidance, this implies the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	37%	40%	42%	40%	47%	53%	67%	55%	52%	56%	58%	58%

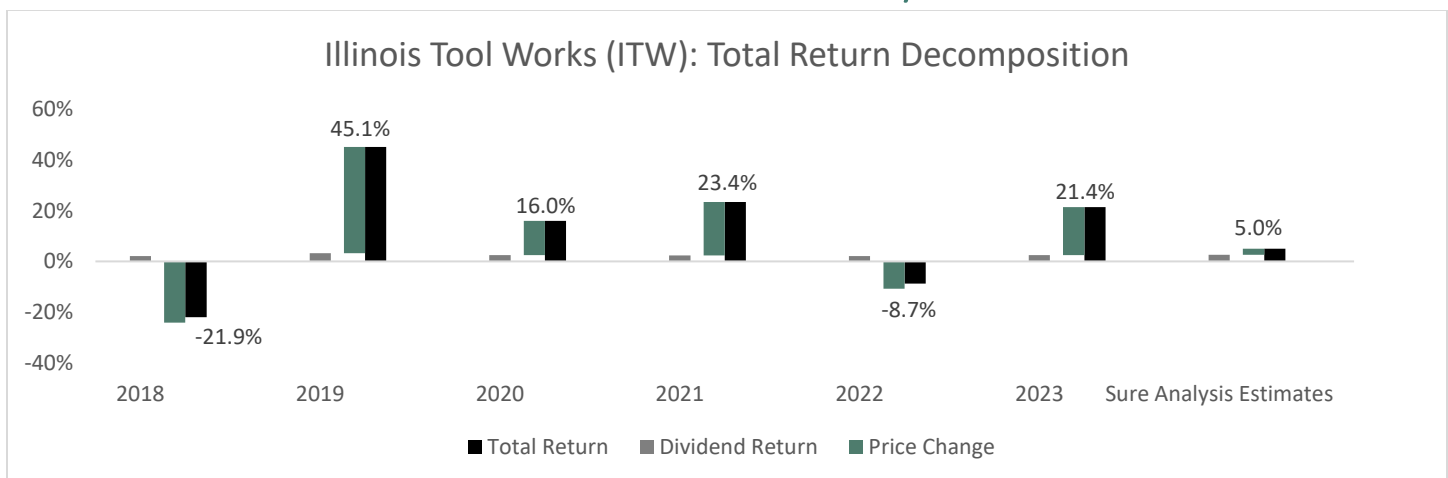
Illinois Tool Works has an excellent dividend growth history. Its payout ratio was relatively high during the last financial crisis, but the company was not forced to cut the payout. Today the dividend payout ratio sits at 58% of expected earnings, above the company's long-term target, meaning that future 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 of ITW have risen 5.5% year-to-date, which is unfavorable compared to the broader market's 24% 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 5.0% per annum, stemming from 7.0% annual EPS growth and the 2.2% starting dividend yield, partly offset by -4.0% valuation contraction. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	14484	13405	13599	14314	14768	14109	12570	14460	15932	16110
Gross Profit	5811	5517	5703	6005	6164	5922	5199	5966	6503	6791
Gross Margin	40.1%	41.2%	41.9%	42.0%	41.7%	42.0%	41.4%	41.3%	40.8%	42.2%
SG&A Exp.	2678	2417	2415	2400	2391	2361	2163	2356	2579	2638
D&A Exp.	507	477	470	462	461	426	427	410	410	395
Operating Profit	2888	2867	3064	3399	3584	3402	2882	3477	3790	4040
Op. Margin	19.9%	21.4%	22.5%	23.7%	24.3%	24.1%	22.9%	24.0%	23.8%	25.1%
Net Profit	2946	1899	2035	1687	2563	2521	2109	2694	3034	2957
Net Margin	20.3%	14.2%	15.0%	11.8%	17.4%	17.9%	16.8%	18.6%	19.0%	18.4%
Free Cash Flow	1255	2015	2029	2105	2447	2669	2571	2261	1936	3084
Income Tax	809	820	873	1583	831	767	595	632	808	866

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17465	15729	15201	16780	14870	15068	15610	16080	15422	15520
Cash & Equivalents	3990	3090	2472	3094	1504	1981	2564	1527	708	1065
Acc. Receivable	2293	2203	2357	2628	2622	2461	2506	2840	3171	3123
Inventories	1180	1086	1076	1220	1318	1164	1189	1694	2054	1707
Goodwill & Int.	6466	5999	6021	6024	5717	5343	5471	5937	5632	5566
Total Liabilities	10641	10501	10942	12191	11612	12038	12430	12450	12333	12500
Accounts Payable	512	449	511	590	524	472	534	585	594	581
Long-Term Debt	7419	7422	7829	8328	7380	7758	8122	7687	7763	8164
Total Equity	6819	5224	4254	4585	3254	3026	3181	3625	3088	3012
LTD/E Ratio	1.09	1.42	1.84	1.82	2.27	2.56	2.56	2.12	2.51	2.71

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.7%	11.4%	13.2%	10.6%	16.2%	16.8%	13.8%	17.0%	19.3%	19.1%
Return on Equity	35.7%	31.5%	42.9%	38.2%	65.4%	80.3%	68.0%	79.2%	90.4%	97.0%
ROIC	19.4%	14.1%	16.5%	13.5%	21.8%	23.5%	19.1%	23.8%	27.4%	26.9%
Shares Out.	383	364	347	342	328	320	318	316	311	304
Revenue/Share	35.80	36.22	38.08	41.27	43.81	43.33	39.5	45.69	51.28	53.05
FCF/Share	3.10	5.44	5.68	6.07	7.26	8.20	8.08	7.15	6.23	10.16

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

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