

Illinois Tool Works

High valuation, challenged growth & margins; downgrade to Underperform

Rating Change: UNDERPERFORM | PO: 235.00 USD | Price: 256.41 USD

Downgrade to Underperform on earnings risk in 2024

We downgrade ITW shares to Underperform (from Neutral). We think the company is likely to miss consensus 2024 EPS on lower-than-expected margins (as Welding, the highest margin business, lags and Auto OEM, the largest segment, contributes to headwinds as well). We see risk of multiple de-rating as '24 is likely to be another year of below-average growth for ITW. As a result, we lower our price objective to \$235 (was \$260) on 16x (was 17x) 2025E EV/EBITDA. This compares to the peer average at 15x and high-quality compounders at ~18x. We maintain a slight premium to the industrial group given above-average EBITDA margins.

Margins at risk in ~45% of company on lower volume

We see margin challenges as recovery in the largest segment, Auto OEM, continues to be muted; the most profitable segment, Welding, lags; and Test & Measurement & Electronics (T&M&E) is weaker as well. Together, these businesses represent 45% of the company's operating profit. Auto OEM expands margins on volumes and grows with auto production. We see topline & margin risk to consensus in this segment based on industry forecasts. Global auto production peaked in 2017; the segment has struggled to recover lost margin since volumes have not come back. Welding has high fixed costs. We are concerned it will have margin compression on lower volumes next year. T&M&E is pressured by a cyclical downturn. Its margin expansion story is on integrating the MTS acquisition (closed 12/21). We think benefits will be partly obscured by volume headwinds.

Solid returns, challenged growth

The company has executed well but struggles to grow. Revenue has grown at a +1.3% CAGR from 2013-2023E as organic growth averaged +2.1% y/y over this timeframe. We think the company's focus on SG&A optimization limits its ability to grow. Our 1.0% y/y EPS growth forecast is bottom quartile for our coverage. Our analysis indicates EPS CAGR is the metric most closely tied with stock performance over the past five years.

Lower 2024E/2025E GAAP EPS estimates

We lower our 2024E GAAP EPS to 3% below consensus and 2% on 2025E. Our 1.4% y/y GAAP EPS growth forecast is bottom quartile for our coverage. We expect the company to receive 100bps y/y of expansion from its enterprise initiatives program in 2024. However, the bottoms-up view indicates this will be partially offset by limited leverage.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.51	9.77	9.73	9.87	10.72
EPS Change (YoY)	28.4%	14.8%	-0.4%	1.4%	8.6%
Consensus EPS (Bloomberg)			9.75	10.20	10.89
DPS	4.72	5.06	5.42	5.79	6.15
Valuation (Dec)					
P/E	30.1x	26.2x	26.4x	26.0x	23.9x
Dividend Yield	1.8%	2.0%	2.1%	2.3%	2.4%
EV / EBITDA*	22.1x	20.4x	19.2x	19.2x	18.0x
Free Cash Flow Yield*	2.9%	2.5%	4.0%	4.1%	4.2%

* For full definitions of *IQmethod*SM measures, see page 13.

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Timestamp: 10 January 2024 06:00AM EST

10 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-3-7
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	260.00	235.00
2023E Rev (m)	16,117.0	16,107.2
2024E Rev (m)	16,282.0	16,295.3
2025E Rev (m)	17,033.4	17,012.9
2023E EPS	9.75	9.73
2024E EPS	10.03	9.87
2025E EPS	10.80	10.72

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Stock Data

Price	256.41 USD
Price Objective	235.00 USD
Date Established	10-Jan-2024
Investment Opinion	B-3-7
52-Week Range	217.06 USD - 265.00 USD
Mkt Val (mn) / Shares Out (mn)	77,150 USD / 300.9
Free Float	95.4%
Average Daily Value (mn)	238.34 USD
BofA Ticker / Exchange	ITW / NYS
Bloomberg / Reuters	ITW US / ITW.N
ROE (2023E)	98.7%
Net Dbt to Eqty (Dec-2022A)	228.4%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Illinois Tool Works

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	21.1%	23.3%	24.9%	25.0%	27.1%
Return on Equity	79.1%	90.4%	98.7%	106.6%	115.1%
Operating Margin	24.1%	23.8%	25.1%	24.9%	25.5%
Free Cash Flow	2,261	1,936	3,079	3,125	3,243

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.9x	0.8x	1.2x	1.2x	1.1x
Asset Replacement Ratio	0.7x	1.0x	0.8x	0.8x	0.8x
Tax Rate	19.0%	21.0%	23.0%	23.5%	24.0%
Net Debt-to-Equity Ratio	169.9%	228.4%	246.0%	276.7%	241.4%
Interest Cover	17.2x	18.7x	15.4x	15.0x	16.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	14,455	15,936	16,107	16,295	17,013
% Change	15.0%	10.2%	1.1%	1.2%	4.4%
Gross Profit	5,966	6,507	6,798	6,796	7,095
% Change	14.8%	9.1%	4.5%	0%	4.4%
EBITDA	3,887	4,200	4,461	4,471	4,761
% Change	17.5%	8.1%	6.2%	0.2%	6.5%
Net Interest & Other Income	(151)	52	(213)	(219)	(209)
Net Income (Adjusted)	2,694	3,034	2,953	2,932	3,138
% Change	27.7%	12.6%	-2.7%	-0.7%	7.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,694	3,034	2,953	2,932	3,138
Depreciation & Amortization	410	410	414	418	422
Change in Working Capital	(439)	(818)	(136)	163	40
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(108)	(278)	170	(63)	(17)
Capital Expenditure	(296)	(412)	(322)	(326)	(340)
Free Cash Flow	2,261	1,936	3,079	3,125	3,243
% Change	-12.1%	-14.4%	59.0%	1.5%	3.8%
Share / Issue Repurchase	(950)	(1,721)	(1,500)	(1,500)	(1,100)
Cost of Dividends Paid	(1,463)	(1,542)	(1,646)	(1,720)	(1,799)
Change in Debt	(141)	276	476	(340)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,527	708	1,117	682	1,026
Trade Receivables	2,840	3,171	3,249	3,153	3,152
Other Current Assets	2,007	2,391	2,408	2,346	2,408
Property, Plant & Equipment	1,809	1,848	1,891	1,936	1,992
Other Non-Current Assets	7,894	7,304	7,169	7,032	6,894
Total Assets	16,077	15,422	15,834	15,149	15,472
Short-Term Debt	778	1,590	0	0	0
Other Current Liabilities	2,692	3,143	3,102	3,107	3,208
Long-Term Debt	6,909	6,173	8,239	7,899	7,899
Other Non-Current Liabilities	2,072	1,427	1,597	1,535	1,517
Total Liabilities	12,451	12,333	12,938	12,541	12,624
Total Equity	3,626	3,089	2,896	2,608	2,847
Total Equity & Liabilities	16,077	15,422	15,834	15,149	15,472

* For full definitions of iQmethodSM measures, see page 13.

Company Sector

Industrials/Multi-Industry

Company Description

ITW is a highly diversified industrial conglomerate that designs and manufactures fasteners, components, equipment, consumables, and a variety of specialty products and equipment for a broad array of industries. Across its seven segments, Auto OE accounts for 20% of sales, Food Equipment 16%, Test & Measurement 17%, Welding 12%, Polymers & Fluids 11%, Construction Products 12%, and Specialty Products 10%. By region, North America accounts for about 52% of sales, EMEA 27%, APAC 19%, and SA 2%.

Investment Rationale

ITW is a large cap industrial conglomerate that has best in class margins and returns. The company has executed well but struggles to grow. Organic growth has been lackluster and we see margin challenges in 50% of the company in 2024. We see risk of multiple de-rating as '24 is likely to be another year of below-average growth for ITW.

Stock Data

Average Daily Volume 929,517

Quarterly Earnings Estimates

	2022	2023
Q1	2.11A	2.33A
Q2	2.37A	2.48A
Q3	2.35A	2.55A
Q4	2.95A	2.37E

Lower 2024E/2025E below consensus

We lower our 2024E GAAP EPS estimate 3% below consensus and 2% on 2025E. The key to the stock working has historically been margin expansion rather than organic growth. We are lowering our operating margin estimate to 60bp below consensus at 24.9%, which reflects 20bp y/y compression and 10bp y/y expansion excluding Unallocated. We think that the stock will not work in a period of declining margins. While we expect the company to expand margins with its enterprise initiatives program by 100bps next year, the bottoms-up view indicates this will be more than offset by lower volumes and narrowing price/cost spread.

Exhibit 1: BofA 2024E/2025E estimates vs. consensus

We lower our 2024 estimate 3% below consensus and 2% on 2025E

	2024			2025		
	Old	BofA New	Consensus	Old	BofA New	Consensus
Organic Sales Growth		2.1%	2.1%		4.4%	4.2%
FX		-0.9%	-0.8%		0.2%	0.0%
M&A		-0.1%	-0.1%		0.0%	0.0%
Total Sales Growth		1.0%	1.2%		4.6%	4.4%
Sales		\$16.3bn	\$16.3bn		\$17.0bn	\$17.0bn
Segment Operating Margin		25.1%	24.9%		25.5%	25.9%
Tax Rate		23.0%	23.5%		23.0%	24.0%
GAAP EPS		\$10.03	\$9.87		\$10.80	\$10.72
FCF Conversion		107%	107%		103%	103%

Source: BofA Global Research, Visible Alpha

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We see margin challenges in the company's most profitable segment (**Welding**); the biggest potential source of upside (**Automotive OEM**); and cyclically-challenged **Test & Measurement & Electronics**. At the same time, we are raising our Food Equipment estimate to reflect a less cyclical, institutional-exposed profile.

Exhibit 2: BofA organic growth & margin segment estimates vs. consensus

We forecast Food Equipment to be the fastest growing segment in 2024E and Welding in 2025E

Segment Drivers	2024			2025		
	Old	BofA New	Consensus	Old	BofA New	Consensus
Organic Growth						
Automotive OEM	4.1%	3.0%	4.7%	7.0%	6.0%	4.9%
Food Equipment	3.2%	5.0%	2.9%	3.0%	3.0%	3.2%
Test & Measurement & Electronics	1.0%	1.0%	2.6%	5.0%	5.0%	4.2%
Welding	3.5%	1.8%	1.7%	6.1%	6.1%	3.9%
Polymers & Fluids	2.0%	1.5%	2.4%	3.0%	3.0%	3.3%
Construction Products	0.2%	0.2%	1.6%	3.0%	3.0%	3.1%
Specialty Products	-0.5%	1.0%	1.7%	2.0%	2.0%	2.8%
Operating Margin						
Automotive OEM	18.9%	18.6%	18.7%	20.9%	20.7%	19.9%
Food Equipment	28.4%	28.0%	27.8%	28.3%	27.9%	28.1%
Test & Measurement & Electronics	24.1%	24.7%	25.4%	24.7%	25.3%	25.7%
Welding	31.8%	31.1%	32.3%	32.0%	31.3%	32.4%
Polymers & Fluids	27.7%	26.6%	26.9%	27.7%	26.6%	27.1%
Construction Products	28.4%	27.4%	28.9%	27.6%	27.9%	28.9%
Specialty Products	25.8%	25.8%	25.5%	26.1%	26.1%	26.9%

Source: BofA Global Research, company files, Visible Alpha, Bloomberg

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Downside risk: Auto, Welding, T&M&E

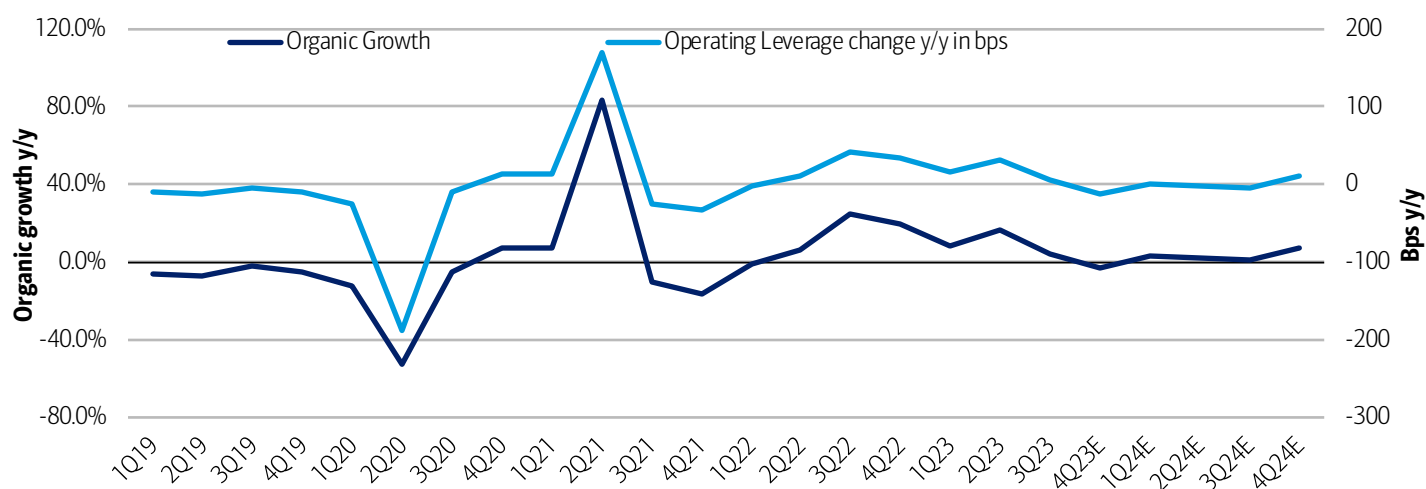
Auto OEM (20% of 2024E sales, 15% operating income)

Margins at the Automotive OEM segment have lagged the rest of ITW in recent years after global auto production volumes peaked in 2018. Other segment margins have steadily expanded in the same timeframe. In 2024E, we model the segment as 19% of ITW's revenue but only 13% of segment EBIT.

We estimate that the company has very little pricing in its Auto OEM segment given industry structure and large exposure to the Big 3 (we estimate ~30% of the segment). As a result, the segment has very little variation in topline vs. operating leverage, and the two move in a tight band.

Exhibit 3: Automotive OEM organic growth vs. operating leverage y/y

There is a 97% correlation between organic growth and operating leverage



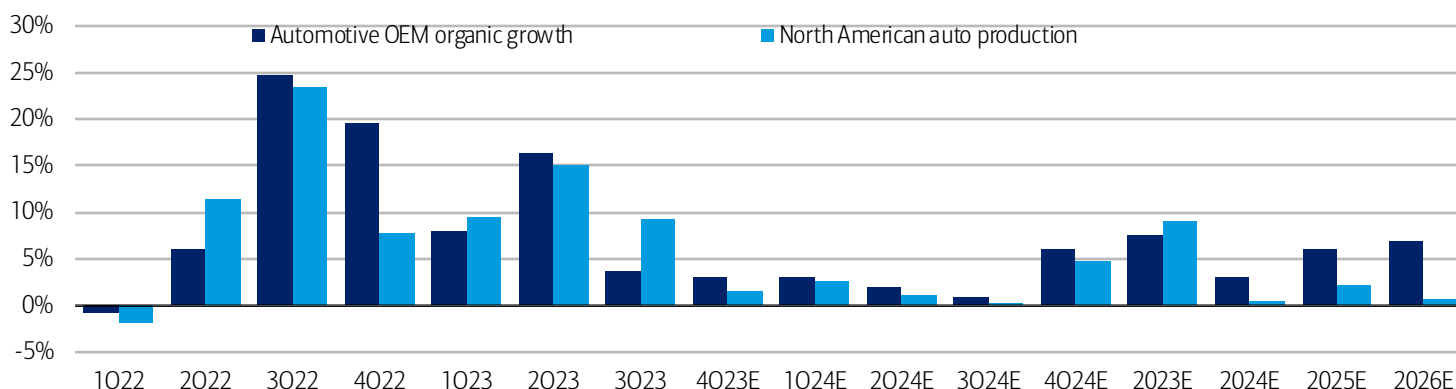
Source: BofA Global Research estimates

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Auto OEM topline is correlated tightly with auto production volumes (96% correlation to global, 89% correlation to US). We forecast +7.6% organic growth in 2023E with 140bp of a strike drag in 4Q23E. Given decelerating 2024E auto production volumes, we forecast decelerating organic growth in 2024E and decelerating leverage benefit.

Exhibit 4: Automotive OEM topline is correlated with Global auto production volumes

We forecast +3.0% organic growth in 2024, which compares to the IHS forecast for +0.5% y/y growth in North America and (0.5)% globally



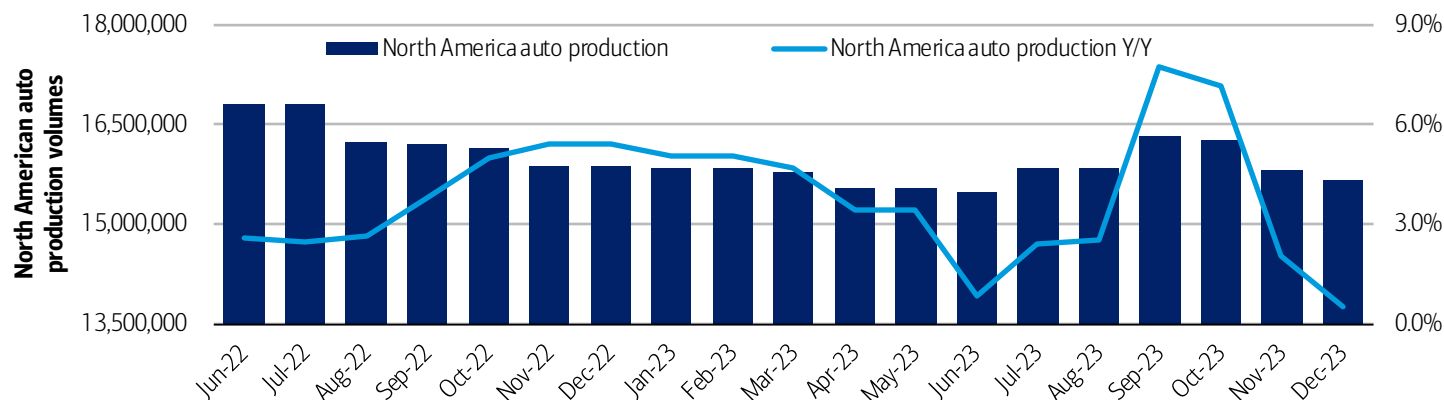
Source: BofA Automotive Research, BofA Global Research estimates

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We see further downside risk to the Automotive OEM topline (and as a result, the operating leverage and margin profile of the segment). This is due to downward revisions in 2024 North American production volumes since September 2023. The estimate for y/y production growth is (7)% below its July 2022 peak of 16.8mn vehicles.

Exhibit 5: North America IHS Auto production revisions, y/y

The IHS forecast for auto production volumes in 2024 have been revised down from a 16.8mn peak in July 2022 and +0.5% y/y growth is the lowest growth rate



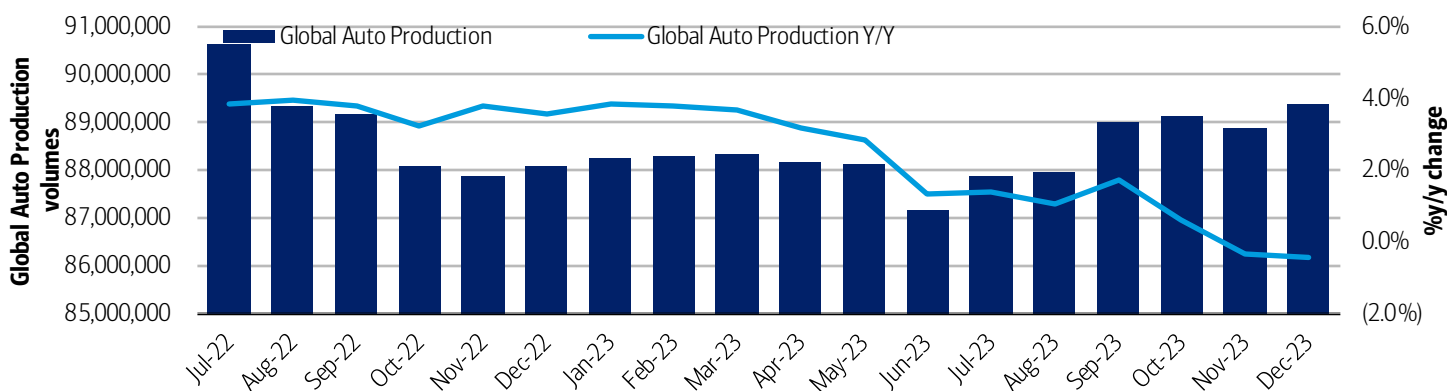
Source: IHS Forecast

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Global auto production volumes have had less pronounced revisions due to positive China revisions and South Asia revisions. However, the IHS still is forecasting (0.5)% y/y declines in global auto production.

Exhibit 6: North America IHS Auto production revisions, y/y

South Asia (which is not a key market for ITW Autos) has driven most of the positive revisions



Source: IHS Forecast

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The company typically guides Auto OEM topline in line with IHS forecasts for global and North American auto production. IHS is forecasting +0.5% y/y production growth in North America and (0.5)% y/y declines for global. While sometimes the company has guided above or below one metric and not the other, it has never guided above both North America and Global auto volumes. With the exception of 2021, ITW Auto OEM guide has consistently bracketed one of the two forecasts.

Exhibit 7: ITW initial guidance for Auto OEM topline versus IHS Forecast

We think Auto OEM topline may disappoint consensus

	2019	2020	2021	2022	2023E	2024E
Initial Guide	(4)-0%	(5)%	14-18%	6-10%	5-7%	
Forecast (North America)	-1.0%	1.1%	24.4%	16.6%	5.4%	0.5%
Forecast (Global)	0.4%	-1.9%	13.4%	9.1%	3.3%	(0.4)%
Actual	-5.4%	-16.0%	5.8%	11.7%	7.1%	

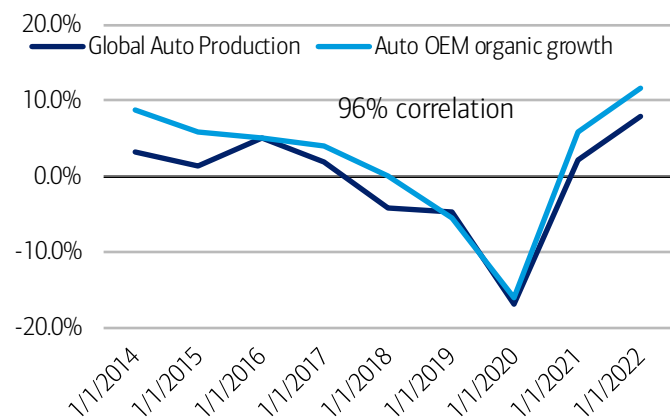
Source: BofA Global Research

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We think ITW will ultimately outperform auto builds (it has over time), but the company tends to be conservative in its guidance and we think it could disappoint. **+0.5% organic growth and the related lack of leverage would result in a \$0.10 downside to our already lowered forecast.**

Exhibit 8: Auto Production y/y vs. Auto OEM organic growth

96% correlation, 2014-2022

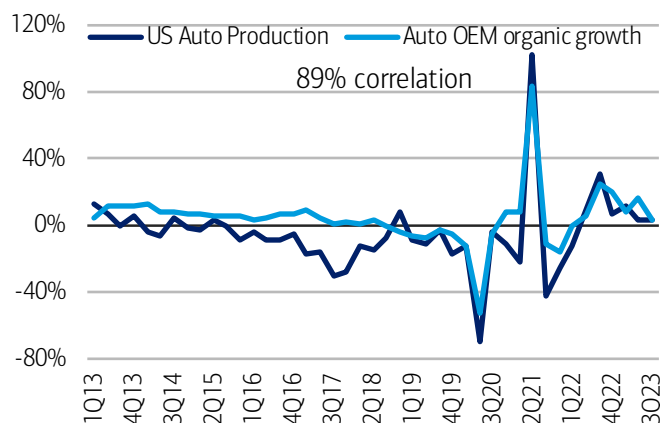


Source: BofA Global Research, company filings

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Exhibit 9: US Auto Production vs. Auto OEM organic growth

89% correlation, 1Q14-3Q23



Source: BofA Global Research, company filings

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A note on the UAW strike: keeping our estimate unchanged

Back in October, we modeled that the United Auto Workers strike ended in mid-November. This translated to ~\$(32)mn of lost revenue and (28)bp of incremental margin pressure. Given the strike ended in mid-November and based on management commentary, we view our estimate as in line with how the strike played out.

Welding (12% of 2024E sales, 15% operating income)

Welding has been a surprising source of upside in 2023, with record-high margins. ITW's margins are well above peers (ESAB, Lincoln Electric) due to a higher mix of equipment than consumables. The segment has benefitted materially from ITW's 80/20 philosophy on restructuring & enterprise initiatives, with 160bps/yearly margin expansion since 2020.

However, we see reasons to be cautious on 2024E margins. We estimate this is a business that has high fixed costs and there could be volume underabsorption in 2024. We note that the company does not disclose price vs. volume and we are estimating based on ESAB disclosures. Our sense is that ITW pricing is structurally better than ESAB, given a higher mix of equipment vs. consumables. Our work likely overstates price and understates volumes.

- **High fixed cost explanation:** On our estimates, the company has ~35% volume leverage (e.g., adjusted for price, it costs \$0.65 for every \$1 of revenue the company adds). In periods where volume has declined, the company has been able to reduce ~13% of the costs associated with volumes.

The upside risk here is that the narrative from ESAB, covered by our colleague Sherif El-Sabbahy, has been constructive on the pricing environment in 2024 to benefit margins. We think ITW has likely outperformed ESAB on pricing and that ESAB has more innovation and pricing to catch up on (e.g., more low-hanging fruit to expand margins).

ITW also has ~32% operating margins in its Welding business versus ESAB's adjusted EBITA of 16.4%. gOur estimates incorporate ~4% y/y price.

Test & Measurement & Electronics (17% of sales, 17% operating income)

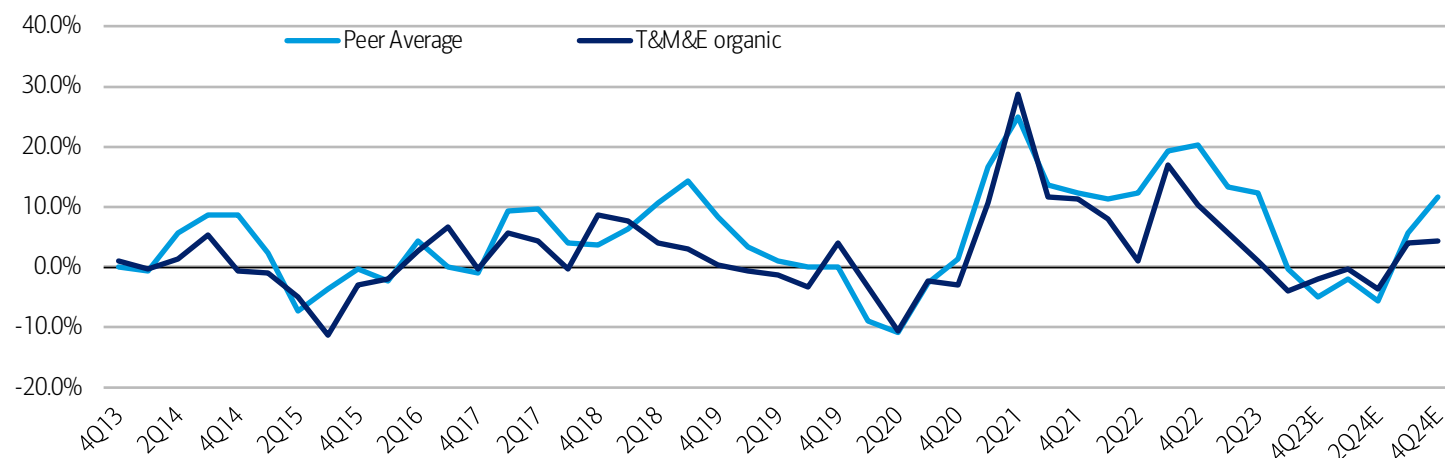
The T&M&E segment has a believable path back to its ~27% margin profile in 2021. The company acquired MTS Simulation from Amphenol in 2021. ITW's goal is to increase MTS margins from 7% to segment average. Long-term, we believe this is achievable.

However, near-term, we see continuing cyclical pressures, particularly in 1H24. Test & Measurement sells into R&D budgets at corporations. Other test & measurement peers (we use Fortive Precision Tech, Keysight EIS, and National Instruments, which was

recently acquired by Emerson) have a strong topline relationship with ITW's T&M&E business. The narrative from peers have been that we should see a positive inflection in the market sometime in 2H24.

Exhibit 10: Peer average, 4Q13-4Q24E vs. T&M&E organic growth

There is a strong positive correlation between Test & Measurement peers and T&M&E growth



Source: BofA Global Research

We use a simple average of KEYS EIS topline, NATI revenue y/y, and FTV Precision Tech y/y. KEYS organic growth is 1 month behind peers

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We note that the comps in semis (~18% of T&M&E revenue) will get much easier in 2Q/3Q24 given this market was declining 20-25% y/y. A 2H recovery in the ~\$500mn semis business and a (1)% decline elsewhere drives our +1.0% y/y estimate in 2024E. While we model overhead y/y benefit to margin on the back of MTS integration, we forecast volume deleveraging in 1H24.

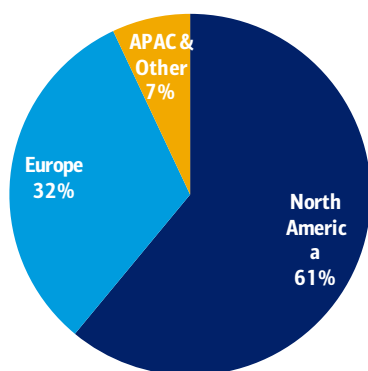
Sources of upside: Food Equipment, capital allocation

Food Equipment (18% of sales, 19% of operating income)

We are raising our Food Equipment topline estimate to +5.0% y/y from +3.1% prior (vs. +3.2% consensus). We believe the Street over-indexes the fast-casual part of the business (30% of sales), but that topline will be more driven by the acyclical institutional vertical (35% of sales). Management is confident that the robust growth in Food Equipment will continue in 2024, despite moderating off several years of difficult comps.

Exhibit 11: Food Equipment geographic breakdown

North America (61%) is the largest geography

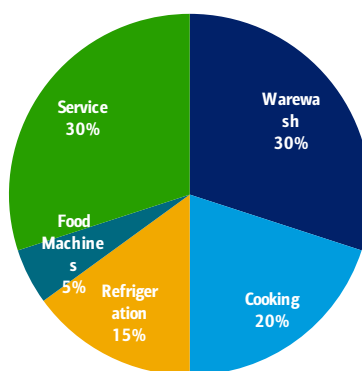


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Exhibit 12: Food Equipment product breakdown

Warewashing (30%) is the largest product

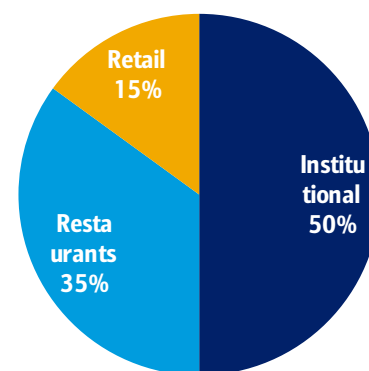


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Exhibit 13: Food Equipment end market breakdown

Institutional (50%) is the largest end market



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Cash-generative business model allows the company to step up buybacks

While the company signaled more willingness to do M&A over share buybacks at its 2023 investor day, we would expect it to step up share buybacks in a weaker earnings year. The company has a cash generative business model that allows it to return cash to shareholders & fund internal investments, with a median of 104% free cash flow conversion over the past decade (2013-2023E).

The company has been willing to lever up for share buybacks. Share buybacks as a function of free cash flow generation has averaged 88% from 2005-2022. Management is guiding for \$1.5bn in share buybacks this year; we raise our 2024E forecast to \$1.5bn as well (vs. ~\$1bn prior).

Another upside risk to numbers: Unallocated & Other Income

The "Unallocated" above-the-line item includes expenses not charged to specific segments (e.g., corporate health insurance; central transaction costs). This segment is prone to fluctuations and has driven upside in the past (e.g., in 3Q23 as a one-time insurance recovery that added \$0.07 to EPS).

ITW's "Other Income" is a below-the-line item that flows through to GAAP EPS. This includes investment income, periodic benefit income, and gain on sale of operations. In the event the company is active on the divestiture front, we could see material upside to EPS in a given quarter. An incremental \$10mn in other income would contribute to \$0.03 in EPS.

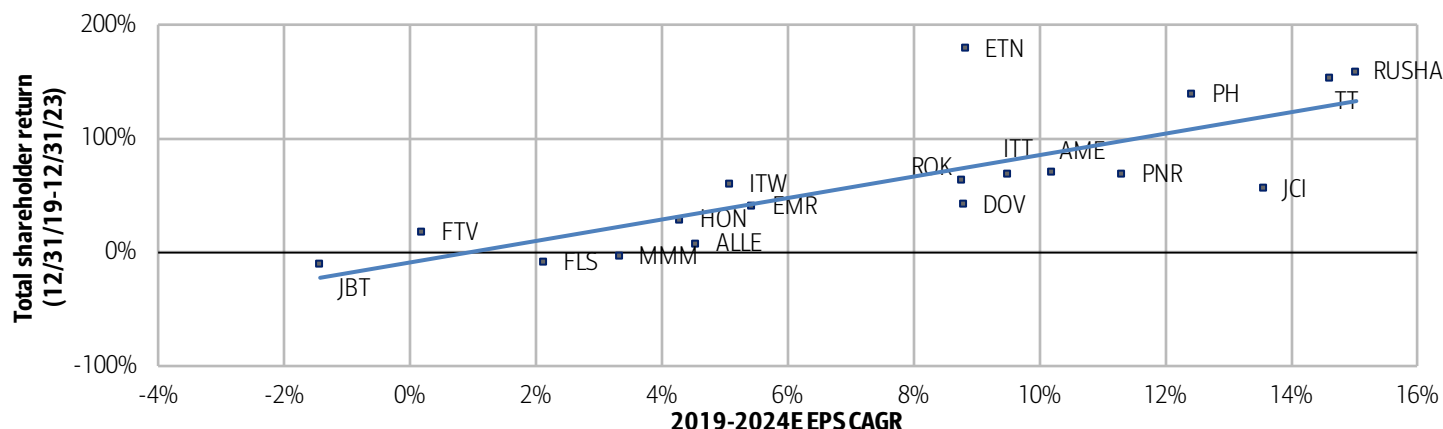
Multi-industrials paid for EPS growth

In our recent weekly (see [here](#)), we looked at fundamental metrics for our coverage over 2019-2024E to judge relative performance. We find that adjusted EPS growth has been the single best explanatory factor for stock performance. However, gross margin expansion was the best explanatory factor for changes in relative P/E multiples.

ITW EPS growth versus 2019 falls towards the middle, with a 5% CAGR (versus a 6% average, excluding meaningful divestitures at GE). Total shareholder return of 60% over the past five years also scores in the middle of the pack (63% average excluding GE). We exclude GE from the below charts.

Exhibit 14: Growth in EPS was closely tied with stock performance

ITW had below-average EPS CAGR and below-average TSR over the last 5 years



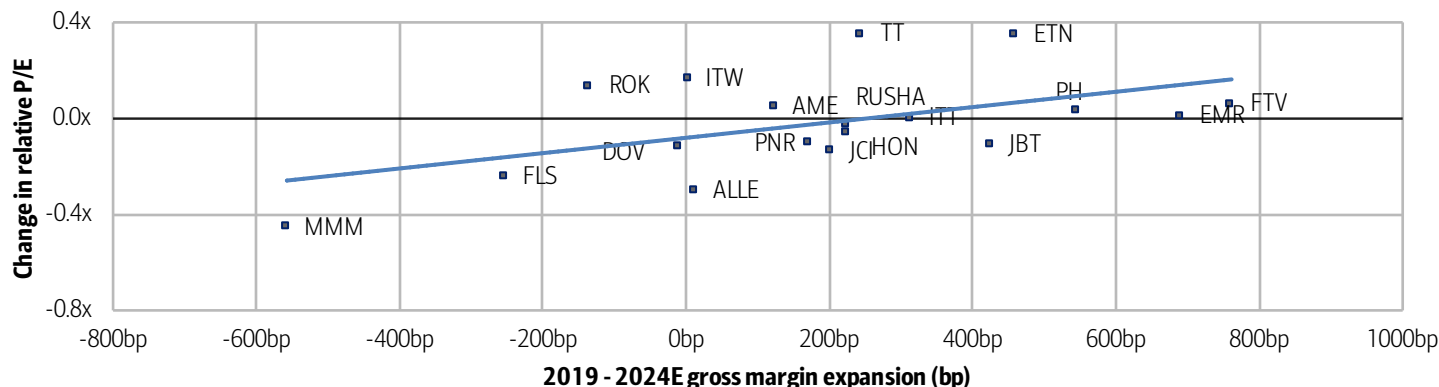
Source: BofA Global Research estimates, Bloomberg

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ITW screens as one of the bottom 5 in our coverage in terms of gross margin expansion, with BofAe for (27)bp of gross margin contraction vs. 2019. Our coverage had an average of 225bp expansion. Relative to the average, ITW has seen outsized relative P/E expansion relative to its gross margin performance. We exclude GE from the below charts.

Exhibit 15: Gross margin expansion drove changes in relative P/E

PH, EMR, and FTV had largest gross margin expansion



Source: BofA Global Research estimates, Bloomberg

Note: PH and HON reclassified certain costs to SG&A from COGS. We have estimated 2019 gross margins based on the relative impact in 2023.

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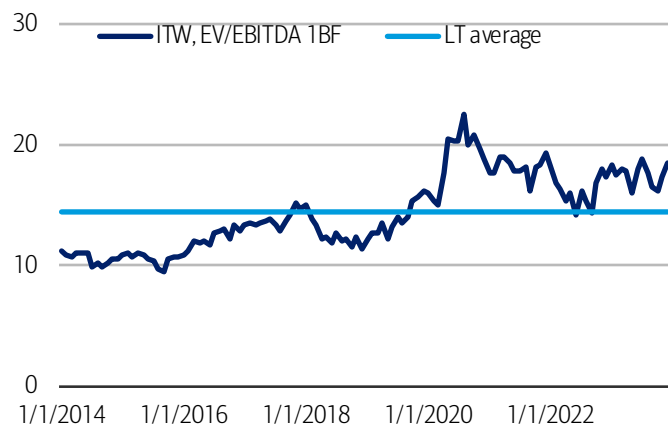
From 2019-2023E, ITW's SG&A as a % of revenue has come down 80bps. Over the same period of time, gross margin has expanded 23bps. We forecast the company to give some price/cost benefit to gross margins back in 2024 as inflation normalizes. We forecast an incremental 10bps of SG&A leverage.

Valuation

ITW is currently trading at a 30% premium to its long-term average on both a next-twelve months (1BF) and next-24 months (2BF) basis. We recognize that some of this premium reflects a stronger track record delivering on the Enterprise Strategy, which relaunched in 2012.

Exhibit 16: ITW 1BF EV/EBITDA vs. LT average

ITW trades at 19x 2BF EV/EBITDA, well above its 14x LT average

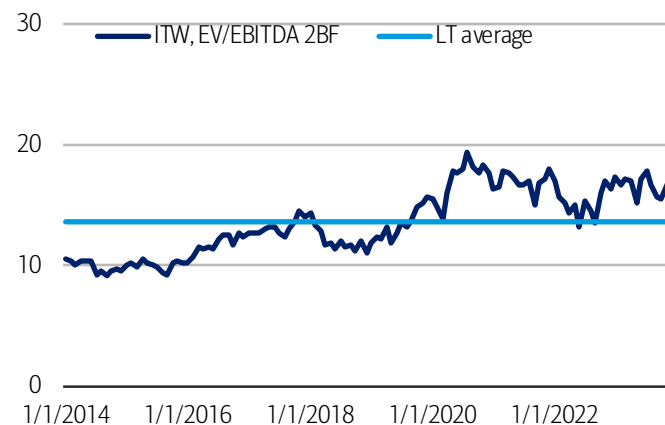


Source: BofA Global Research, Bloomberg

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Exhibit 17: ITW 2BF EV/EBITDA vs. LT average

ITW trades at 18x 2BF EV/EBITDA, well above its 14x LT average



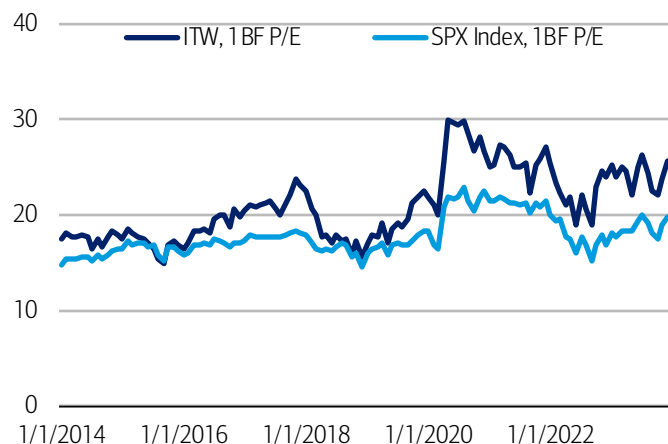
Source: BofA Global Research, Bloomberg

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On a relative basis to the S&P, ITW is trading in line its historical premium on a 1BF basis but at a larger spread on a 2BF basis. We believe this reflects more muted expectations for EPS growth.

Exhibit 18: ITW 1BF P/E vs. SPX Index 1BF P/E

ITW currently trades at a 107% premium to the SPX, in line with its LT average

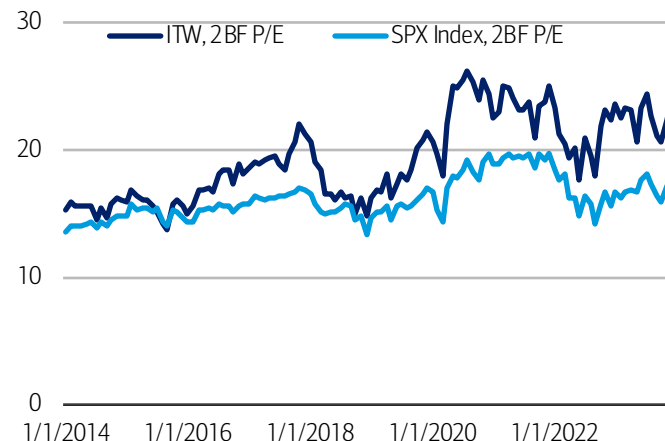


Source: BofA Global Research, Bloomberg

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Exhibit 19: ITW 1BF P/E vs. SPX Index 2BF P/E

ITW currently trades at a 136% premium to the SPX, above its LT average



Source: BofA Global Research, Bloomberg

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Comparable company analysis

We base our \$235 price objective on 16x 2025E EV/EBITDA. This compares to the peer average at 15x and high-quality compounders at ~18x. Shares currently trade at 18.5x 2024E; we think de-rating from here is likely given a lack of earnings growth. We maintain a slight premium to the industrial group given above-average EBITDA margins.

Exhibit 21: Comparable company analysis

ITW trades at 18x 2024E EV/EBITDA vs. peers at 15x

Company	Ticker	Stock Price 1/9/2024	P/E		EV/EBITDA		EBITDA Margin		EPS Growth		P/FCF	
			2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Ametek	AME	\$163.00	23.9 x	22.0 x	17.8 x	16.9 x	30.4%	30.7%	7.7%	8.5%	25.0 x	23.2 x
Dover	DOV	\$147.58	16.3 x	14.7 x	12.5 x	11.5 x	21.6%	22.1%	2.8%	10.7%	16.0 x	14.5 x
Emerson	EMR	\$94.62	17.7 x	16.2 x	12.9 x	12.0 x	28.8%	27.4%	15.5%	8.7%	20.2 x	18.2 x
Eaton	ETN	\$239.48	24.1 x	22.6 x	18.8 x	17.6 x	22.4%	22.5%	10.3%	6.4%	28.2 x	25.8 x
Fortive	FTV	\$71.87	20.4 x	19.0 x	17.0 x	16.0 x	27.2%	27.6%	4.1%	7.7%	19.7 x	18.3 x
Honeywell	HON	\$201.63	20.0 x	18.0 x	13.6 x	12.7 x	26.6%	27.1%	9.7%	11.4%	126.2 x	19.5 x
Idex	IEX	\$209.98	25.5 x	23.5 x	18.3 x	17.6 x	26.5%	25.6%	1.2%	8.2%	24.5 x	22.5 x
ITT	ITT	\$116.11	19.2 x	17.2 x	12.3 x	11.2 x	21.5%	22.3%	16.3%	11.4%	19.4 x	16.6 x
Johnson Controls	JCI	\$57.66	14.7 x	12.6 x	10.3 x	9.3 x	15.3%	16.5%	10.3%	16.5%	18.4 x	14.0 x
3M	MMM	\$109.10	10.4 x	9.8 x	7.9 x	7.5 x	27.7%	28.1%	14.4%	6.0%	18.4 x	11.6 x
Rockwell	ROK	\$302.97	21.6 x	19.0 x	18.4 x	15.5 x	21.3%	23.2%	12.8%	13.9%	22.4 x	20.1 x
Trane Technologies	TT	\$244.49	<u>25.4 x</u>	<u>23.8 x</u>	<u>17.6 x</u>	<u>16.6 x</u>	<u>18.0%</u>	<u>18.2%</u>	<u>7.0%</u>	<u>6.6%</u>	<u>25.4 x</u>	<u>24.1 x</u>
Average			19.9 x	18.2 x	14.8 x	13.7 x	23.9%	24.3%	9.4%	9.7%	30.3 x	19.0 x
ILLINOIS TOOL WORKS		\$256.41	26.0 x	23.9 x	18.4 x	17.3 x	27.4%	28.0%	1.4%	8.7%	24.4 x	23.1 x
ILLINOIS TOOL WORKS at PO		\$235.00	23.8 x	21.9 x	17.0 x	16.0 x	27.4%	28.0%	1.4%	8.7%	22.3 x	21.2 x

Source: BofA Global Research, company files

BofA GLOBAL RESEARCH



Price objective basis & risk

Illinois Tool Works (ITW)

We base our \$235 price objective on 16x 2025E EV/EBITDA. This compares to the peer average at 15x and high-quality compounders at 18x. We maintain a slight premium to the industrial group given above-average EBITDA margins.

Upside risks to our PO are 1) Auto production volumes revised upward, driving better near-term margin expansion and topline, 2) Welding price/cost and volumes better than expected, and 3) T&M&E recovers from cyclical downturn faster than forecasted. More margin expansion vs. our forecast would alleviate pressure on the multiple and drive positive earnings revisions. Downside risks are: 1) Auto volumes remain depressed, limiting near-term margin expansion, 2) investor sentiment pressured more than expected on lackluster earnings growth.

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US - Multi-Industrials/Engineering and Construction Coverage Cluster

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BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Ansys, Inc.	ANSS	ANSS US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA
	Pentair plc	PNR	PNR US	Andrew Obin

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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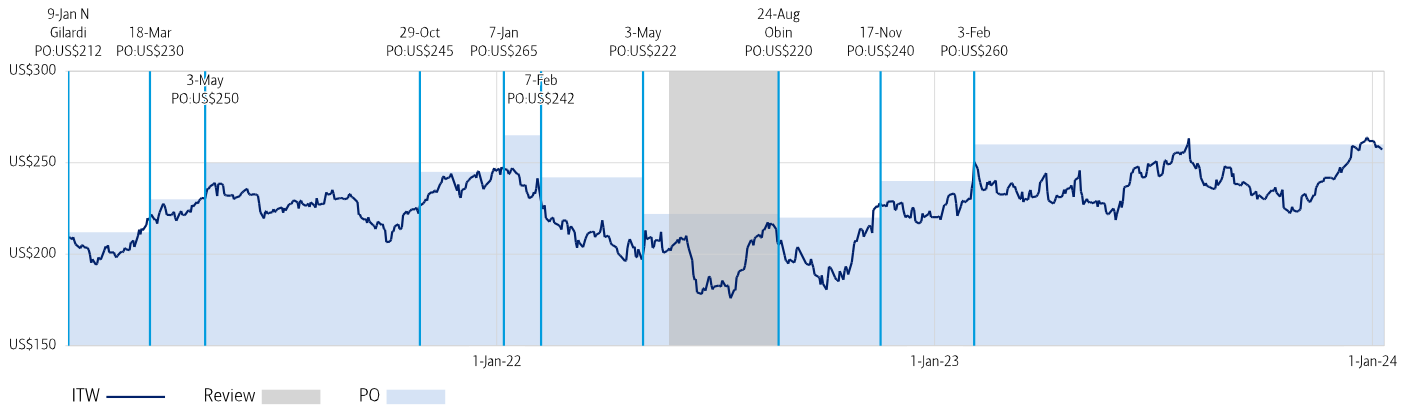
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Disclosures

Important Disclosures

Illinois Tool Works (ITW) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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