





Item 2.02 Results of Operations and Financial Condition

On February 1, 2019, Illinois Tool Works Inc. (the "Company") announced its 2018 fourth quarter results of operations in the press release furnished as Exhibit 99.1.

Non-GAAP Financial Measures

The Company presents certain financial measures for 2017 excluding the impact of the "Tax Cuts and Jobs Act" and the benefit of a legal settlement in fiscal year 2017. These non-GAAP measures are consistent with the way management analyzes and assesses the Company's operating performance. The Company believes these non-GAAP measures enhance investors' understanding of the Company's underlying financial performance, as well as their ability to compare the Company's financial results and overall performance to that of its peers. A reconciliation of the impact of the "Tax Cuts and Jobs Act" and legal settlement is included in the press release furnished as Exhibit 99.1.

The Company uses free cash flow to measure cash flow generated by operations that is available for dividends, share repurchases, acquisitions and debt repayment. The Company believes this non-GAAP financial measure is useful to investors in evaluating the Company's financial performance and measures the Company's ability to generate cash internally to fund Company initiatives. Free cash flow represents net cash provided by operating activities less additions to plant and equipment. Free cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies. A reconciliation of free cash flow to net cash provided by operating activities is included in the press release furnished as Exhibit 99.1.

The Company uses adjusted after-tax return on average invested capital ("ROIC") to measure the effectiveness of its operations' use of invested capital to generate profits. ROIC is a non-GAAP financial measure that the Company believes is a meaningful metric to investors in evaluating the Company's financial performance and may be different than the method used by other companies to calculate ROIC. For comparability, the Company excluded the third quarter net discrete tax benefit of \$15 million from the effective tax rate for the year ended December 31, 2018. The Company also excluded the \$658 million income tax charge from the effective tax rate for the three and twelve months ended December 31, 2017 and the \$95 million confidential legal settlement from the calculation of ROIC for the year ended December 31, 2017. Average invested capital represents the net assets of the Company, excluding cash and equivalents and outstanding debt, which are excluded as they do not represent capital investment in the Company's operations. Average invested capital is calculated using balances at the start of the period and at the end of each quarter. A calculation of ROIC is included in the press release furnished as Exhibit 99.1.

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Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit Number	Exhibit Description
<u>99.1</u>	<u>Press Release issued by Illinois Tool Works Inc. dated February 1, 2019 (furnished pursuant to Item 2.02).</u>

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ILLINOIS TOOL WORKS INC.

Dated: February 1, 2019 By: /s/ Michael M. Larsen  
Michael M. Larsen  
Senior Vice President & Chief Financial Officer