

ILLINOIS TOOL WORKS INC
Form 10-K
February 19, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-4797

ILLINOIS TOOL WORKS INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware 36-1258310
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

3600 W. Lake Avenue, Glenview, Illinois 60026-1215
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (847) 724-7500

Securities registered pursuant to Section 12(b) of the Act:

| | |
|---------------------|---|
| Title of Each Class | Name of Each Exchange on Which Registered |
| Common Stock | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2012 was approximately \$20,600,000,000 based on the New York Stock Exchange closing sales price as of June 30, 2012. Shares of Common Stock outstanding at January 31, 2013: 451,435,783.

Documents Incorporated by Reference

Portions of the 2013 Proxy Statement for Annual Meeting of Stockholders to be held on May 3, 2013.

Part III

PART I

ITEM 1. Business

General

Illinois Tool Works Inc. (the “Company” or “ITW”) was founded in 1912 and incorporated in 1915. The Company is a multinational manufacturer of a diversified range of industrial products and equipment with operations in 58 countries. As of December 31, 2012, these businesses are internally reported as 40 operating segments to senior management. The Company’s 40 operating segments have been aggregated into the following seven external reportable segments:

Transportation: Businesses in this segment produce components, fasteners, fluids and polymers, as well as truck remanufacturing and related parts and service.

In the Transportation segment, products and services include:

- plastic and metal components, fasteners and assemblies for automobiles, light trucks, and other industrial uses;
- fluids, polymers and other supplies for auto aftermarket maintenance and appearance;
- fillers and putties for auto body repair;
- polyester coatings and patch and repair products for the marine industry; and
- truck remanufacturing and related parts and service.

Power Systems & Electronics: Businesses in this segment produce equipment and consumables associated with specialty power conversion, metallurgy and electronics.

In the Power Systems & Electronics segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories;
- metal solder materials for PC board fabrication;
- equipment and services for microelectronics assembly;
- electronic components and component packaging;
- static and contamination control equipment;
- airport ground support equipment;
- pressure sensitive adhesives and components for telecommunications, electronics, medical and transportation applications; and
- metal jacketing and other insulation products.

Industrial Packaging: Businesses in this segment produce steel, plastic and paper products and equipment used for bundling, shipping and protecting goods in transit.

In the Industrial Packaging segment, products include:

- steel and plastic strapping and related tools and equipment;
- plastic stretch film and related equipment; and
- paper and plastic products that protect goods in transit.

Food Equipment: Businesses in this segment produce commercial food equipment and provide related service.

In the Food Equipment segment, products and services include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales;
- kitchen exhaust, ventilation and pollution control systems; and
- food equipment service, maintenance and repair.

Construction Products: Businesses in this segment produce construction fastening systems and truss products.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood and metal applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and

packaged hardware, fasteners, anchors and other products for retail.

2

Polymers & Fluids: Businesses in this segment produce adhesives, sealants, lubrication and cutting fluids, and hygiene products.

In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications; and
- hand wipes and cleaners for industrial applications.

All Other: This segment contains all other operating segments.

In the All Other segment, products include:

- equipment and related software for testing and measuring of materials, structures, gases and fluids;
- plastic reclosable packaging for consumer food storage;
- plastic consumables that multi-pack cans and bottles and related equipment;
- plastic and metal fasteners and components for appliances;
- foil, film and related equipment used to decorate consumer products;
- product coding and marking equipment and related consumables; and
- line integration, conveyor systems and line automation for the food and beverage industries.

Divestiture of Majority Interest in Decorative Surfaces Segment

On August 15, 2012, the Company entered into a definitive agreement (the "Investment Agreement") to divest a 51% majority interest in its Decorative Surfaces segment to certain funds managed by Clayton, Dubilier & Rice, LLC ("CD&R"). Under the terms of the Investment Agreement, the Company contributed the assets and stock of the Decorative Surfaces segment to a newly formed joint venture, Wilsonart International Holdings LLC ("Wilsonart"). The transaction closed on October 31, 2012, reducing the Company's ownership of Wilsonart to 49% immediately following the close of the transaction. The Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest in Wilsonart using the equity method of accounting. Effective November 1, 2012, the Company made changes to its management reporting structure and Decorative Surfaces is no longer a reportable segment of the Company. See the Divestiture of Majority Interest in Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

The Decorative Surfaces business produces decorative high-pressure laminate surfacing materials for furniture, office and retail space, countertops, worktops and other applications. Principal end markets served included commercial, renovation and residential construction.

Enterprise Initiatives

During 2012, the Company embarked on three key initiatives - portfolio management, strategic sourcing, and business structure simplification. These initiatives are expected to enhance the business over the next five years and are targeted at organic revenue growth, and improving profitability and returns.

Portfolio Management

The Company's portfolio management initiative incorporates both acquisitions and divestitures. The Company has historically acquired businesses with complementary products and services as well as larger acquisitions that represent potential new platforms. Going forward, the focus will be on businesses with strong differentiation and growth potential. The Company also reviews its operations for businesses which may no longer be aligned with its enterprise initiatives and long-term objectives. As a result, the Company expects its divestiture activity in the 2012 to 2014 period to increase over historical periods. Refer to the Acquisitions note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's acquisitions, the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations, and the Divestiture of Majority Interest in Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for discussion of the Decorative Surfaces divestiture.

Strategic Sourcing

The Company's strategic sourcing initiative focuses on costs that cross the Company's many businesses and is expected to leverage purchasing scale to enhance profitability and global competitiveness. This initiative will transform sourcing into a core strategic function in the Company and build capabilities at both the enterprise and segment levels.

Business Structure Simplification

The business structure simplification initiative simplifies and adds scale to the Company's operating divisions in order to improve focus, enhance global competitiveness and drive operational efficiencies. This initiative will reduce the number of the Company's operating divisions and increase the average revenue size of each division, while retaining the positive attributes of a decentralized operating model. The Company expects to enhance its profitability and returns through a combination of applying its 80/20 business process to the new divisions, more focused growth investments and reduced infrastructure.

80/20 Business Process

A key element of the Company's business strategy is its continuous 80/20 business process for both existing businesses and new acquisitions. The basic concept of this 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). The Company's operations use this 80/20 business process to simplify and focus on the key parts of their business, and as a result, reduce complexity that often disguises what is truly important. The Company's operations utilize the 80/20 process in various aspects of their business. Common applications of the 80/20 business process include:

- Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or, as a last resort, eliminating low-value products.

- Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.

- Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.

- Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that the Company has over time improved its long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs and improve margins. Corporate management works closely with those businesses that have operating results below expectations to help those businesses better apply this 80/20 business process and improve their results.

Current Year Developments

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Information about Segments and Markets

Segment and operating results are included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Segment Information note in Item 8. Financial Statements and Supplementary Data.

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

The principal end markets served by the Company's seven reportable segments by percentage of revenue are as follows:

| End Markets Served | Transportation | Power Systems & Electronics | Industrial Packaging | Food Equipment | Construction Products | Polymers & Fluids | All Other | Total | |
|----------------------------------|----------------|--------------------------------------|-------------------------|-------------------|--------------------------|----------------------|--------------|-------|---|
| General Industrial | 5 | % 43 | % 27 | % 1 | % 2 | % 33 | % 27 | % 20 | % |
| Automotive OEM/Tiers | 53 | 3 | 1 | — | 1 | 4 | 4 | 12 | |
| Automotive Aftermarket | 31 | 2 | — | — | — | 1 | — | 7 | |
| Commercial Construction | 1 | 6 | 6 | — | 25 | 11 | 1 | 6 | |
| Residential Construction | — | 1 | 3 | — | 44 | 2 | 1 | 6 | |
| Renovation Construction | — | 1 | — | — | 26 | 1 | — | 3 | |
| Food & Beverage | — | — | 10 | — | — | 3 | 21 | 5 | |
| Food Institutional/Restaurant | — | — | — | 42 | — | 1 | — | 5 | |
| Food Service | — | — | — | 38 | — | 2 | 2 | 5 | |
| Food Retail | — | — | 1 | 16 | — | — | 2 | 2 | |
| Consumer Durables | 3 | 2 | 4 | — | 2 | 4 | 12 | 4 | |
| Electronics | — | 17 | 1 | — | — | 2 | 1 | 4 | |
| Primary Metals | — | 1 | 22 | — | — | — | — | — | |