

## Risk Factors Comparison 2024-02-09 to 2023-02-10 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

The Company's business, financial condition, results of operations and cash flows are subject to various risks, including, but not limited to, those set forth below, which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report on Form 10-K. **Economic Risks** ~~Any of such Risks~~ **risks** The COVID-19 pandemic has **and matters, individually or in combination, could have a material** ~~adversely~~ **adverse** affected the Company's business, financial condition and results of operations and could affect the Company's liquidity. The full and long-term extent of the effects ~~effect~~ of the COVID-19 pandemic or other outbreaks, pandemics, or public health crises on our business depend on future events that continue to be highly uncertain and cannot be predicted. The COVID-19 pandemic and the measures taken globally to reduce its spread have negatively impacted the global economy, disrupted consumer / customer demand and global supply chains, and created significant volatility and disruption of financial markets. The COVID-19 pandemic continues to have the potential to alter demand for our products and to disrupt our supply chain as a result of shifts in demand, illness, travel restrictions, transportation disruptions, increased border controls or closures, or financial hardship. We have been able to procure the critical raw materials and components necessary to continue production, but prices for some raw materials have increased significantly and there is no guarantee that we will be able to procure critical raw materials in the future without materially adversely impacting our operating margins. A prolonged extension of the conditions resulting from the pandemic could force both customer and supplier bankruptcies, which we expect would adversely impact our results; however, given the uncertainty around the continued duration and breadth of the COVID-19 pandemic, we cannot reasonably estimate the extent of these adverse effects on our operations. The ultimate significance of the COVID-19 pandemic or other outbreaks, pandemics or public health crises on our business will depend on events that are beyond our control and that we cannot predict. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business, financial condition or, results of operations **and cash flows, as well as on the attractiveness and value of an investment in the Company's securities**. **Economic Risks** The Company's results are impacted by global economic conditions. Downturns in the markets served by the Company could adversely affect its businesses, results of operations or financial condition. The Company's businesses are impacted by economic conditions around the globe. Slower economic growth, financial market instability, **inflation supply chain disruptions**, natural disasters, public health crises (such as the COVID-19 pandemic), labor market challenges, **rapid inflation supply chain disruptions**, armed conflicts (such as ~~the Russia and~~ **'s ongoing invasion of Ukraine conflict**), government deficit reduction, sequestration and other austerity measures impacting the markets the Company serves can adversely affect the Company's businesses by reducing demand for the Company's products and services, limiting financing available to the Company's customers, causing production delays, increasing order cancellations and the difficulty in collecting accounts receivable, increasing price competition, or increasing the risk that counterparties to the Company's contractual arrangements will become insolvent or otherwise unable to fulfill their obligations. Rising interest rates could have a dampening effect on overall economic activity and / or the financial condition of the Company's customers, either or both of which could negatively affect customer demand for the Company's products and customers' ability to repay obligations to the Company. Rising interest rates could have an impact on the Company and its customers' cost of capital. The global nature of the Company's operations subjects it to political, economic and social risks that could adversely affect its business, results of operations or financial condition. Over 50 % of the Company's net sales are derived from customers outside the United States, and the Company currently operates in 51 countries. The risks inherent in the Company's global operations include: • fluctuation in currency exchange rates; • limitations on ownership or participation in local enterprises; • price controls, exchange controls and limitations on repatriation of earnings; • **supply chain disruptions, including** transportation delays and disruptions; • political, social and economic instability and disruptions, including political unrest and armed conflicts; • acts of terrorism; • the impact of widespread public health crises **and (such as the COVID-19 pandemic pandemics)**; • government embargoes, sanctions or foreign trade restrictions; • the imposition of duties and tariffs and other trade barriers and retaliatory countermeasures; • government actions impacting international trade agreements, including the EU- UK Trade and Cooperation Agreement; • import and export controls; • social and labor unrest and current and changing regulatory environments; • the potential for expropriation or nationalization of enterprises; • difficulties in staffing and managing multi- national operations; • multiple and potentially conflicting laws, regulations and policies that are subject to change; • limitations on its ability to enforce legal rights and remedies; and • potentially adverse tax consequences. The global geopolitical and trade environment has resulted in raw material inflation and potential for increased escalation of domestic and international tariffs and retaliatory trade policies. Further changes in U. S. trade policy (including new or additional increases in duties or tariffs) and retaliatory actions by U. S. trade partners, including sanctions against Russia and developments in U. S.- China trade relations, could result in a worsening of economic conditions. If the Company is unable to successfully manage the risks associated with managing and expanding its international businesses, the Company's business, results of operations or financial condition may be adversely impacted. A significant fluctuation between the U. S. Dollar and other currencies could adversely impact the Company's operating income. Although the Company's financial results are reported in U. S. Dollars, a significant portion of its sales and operating costs are realized in other currencies, with the largest concentration of foreign sales occurring in Europe. The Company's profitability is affected by movements of the U. S. Dollar against the Euro and other foreign currencies in which it generates revenues and incurs expenses. Significant long- term fluctuations in relative currency values, and in particular, an increase in the value of the U. S. Dollar against foreign currencies, has had and could have an

adverse effect on profitability and financial condition. Business and Operational Risks The benefits from the Company's enterprise strategy may not be as expected and the Company's financial results could be adversely impacted, or the Company may not meet its long-term financial performance targets. As the Company continues to execute on its enterprise strategy initiatives, it remains focused on the core principles of portfolio discipline, 80 / 20 Front- to- Back practice excellence, and organic growth. Product line and customer base simplification activities, which are core elements of the Company's 80 / 20 Front- to- Back process, continue to be applied by the Company's operating divisions and are active elements of the enterprise strategy. Although these activities are expected to improve future operating margins and organic revenue growth, they are also expected to have a negative impact on the Company's overall organic revenue growth in the short term. Additionally, other core activities of the enterprise strategy related to portfolio discipline and organic growth, including customer- back innovation ~~and strategic sales excellence~~, may not have the desired impact on future operating results. If the Company is unable to realize the expected benefits from its enterprise strategy initiatives, the Company's financial results could be adversely impacted, or the Company may not meet its long-term financial performance targets. The timing and amount of the Company's share repurchases are subject to a number of uncertainties. Share repurchases constitute a significant component of the Company's capital allocation strategy. The Company has historically funded its share repurchases with free cash flow and short-term borrowings. The amount and timing of share repurchases will be based on a variety of factors. Important factors that could cause the Company to limit, suspend or delay its share repurchases include unfavorable trading market conditions, the price of the Company's common stock, the nature of other investment opportunities presented to the Company from time to time, regulatory developments relating to share repurchase programs, the ability to obtain financing at attractive rates and the availability of U. S. cash. If the Company is unable to successfully introduce new products, its future growth may be adversely affected. The Company's ability to develop new products based on innovation can affect its competitive position and sometimes requires the investment of significant time and resources. Difficulties or delays in research, development, production or commercialization of new products and services may reduce future revenues and adversely affect the Company's competitive position. If the Company is unable to create sustainable product differentiation, its organic growth may be adversely affected. If the Company is unable to adequately protect its intellectual property, its competitive position and results of operations may be adversely impacted. Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns patents, trade secrets, copyrights, trademarks and / or other intellectual property rights related to many of its products, and also has exclusive and non-exclusive license rights under intellectual property owned by others. The Company's intellectual property rights may be challenged or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Unauthorized use of the Company's intellectual property rights by third parties, particularly in countries where property rights are not highly developed or protected, or inability to preserve existing intellectual property rights could adversely impact the Company's competitive position and results of operations. The Company has significant goodwill and other intangible assets, and future impairment of these assets could have a material adverse impact on the Company's financial results. The Company has recorded significant goodwill and other identifiable intangible assets on its balance sheet as a result of acquisitions, including the acquisition of the MTS Test & Simulation business in December 2021. A number of factors may result in impairments to goodwill and other intangible assets, including significant negative industry or economic trends, disruptions to our business, increased competition and significant changes in the use of the assets. Impairment charges could adversely affect the Company's financial condition or results of operations in the periods recognized. Raw material price increases and supply shortages could adversely affect results. The supply of raw materials to the Company and to its component parts suppliers could be interrupted for a variety of reasons, including availability and pricing. ~~The Company and its customers have experienced supply chain disruptions related to the COVID-19 pandemic and the global reaction to Russia's ongoing invasion of Ukraine, and continued disruptions to the supply chain could adversely affect the Company's ability to meet commitments to customers.~~ Prices for raw materials necessary for production have fluctuated significantly in the past and the Company has experienced upward pricing pressure on raw materials such as steel, resins and chemicals. Significant price increases could adversely affect the Company's results of operations and operating margins. In particular, inflation, changes in trade policies, the imposition of duties and tariffs, potential retaliatory countermeasures, public health crises **and pandemics** (such as the COVID- 19 pandemic, **which adversely impacted the price and availability of raw materials**), threatened or actual military conflicts **(such as Russia's ongoing invasion of Ukraine)** and severe weather events could adversely impact the price or availability of raw materials. The Company may not be able to pass along increased raw material and components parts prices to its customers in the form of price increases or its ability to do so could be delayed. Consequently, its results of operations and financial condition may be adversely affected. The Company's defined benefit pension plans are subject to financial market risks that could adversely affect its results of operations and cash flows. The performance of financial markets and interest rates impact the Company's funding obligations under its defined benefit pension plans. Significant changes in market interest rates, decreases in the fair value of plan assets and investment losses on plan assets may increase the Company's funding obligations and adversely impact its results of operations and cash flows. If the Company is unable to protect its information technology infrastructure against service interruptions, data corruption, cyber-based attacks or network security breaches, or if there is a violation of data privacy laws, there could be a negative impact on operating results or the Company may suffer financial or reputational damage. The Company relies on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including procurement, manufacturing, distribution, invoicing and collection. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components; power outages; hardware failures; computer viruses; employee error or malfeasance; and attacks by computer hackers, which have continued to increase on a global scale in both magnitude and frequency, taken on novel and unprecedented forms and become more difficult to detect. Minor security breaches have occurred from time to time and are

expected to occur in the future. Although the cyber- attacks experienced to date have not had a material impact, future security breaches of our technology networks and systems or those of our vendors and third- party service providers could result in unauthorized disclosure of confidential information or personal data belonging to our employees, partners, customers or suppliers, which could cause reputational and legal harm as we are subject to data privacy laws, including the EU General Data Protection Regulation, in the various countries in which we operate. If our information technology systems suffer severe damage, disruption, or shutdown, and business continuity plans do not effectively resolve the issues in a timely manner, or if we violate data privacy laws, there could be a negative impact on operating results **and / or the financial reporting process and the Company may suffer financial or reputational damage**. **In addition, cybersecurity laws and regulations continue to evolve, and are increasingly demanding, both in the U. S. and globally, which adds compliance complexity and may increase costs of compliance and expose the Company to reputational damage or litigation, monetary damages, regulatory enforcement actions or fines in one or more jurisdictions**. Strategic Transaction Risks The Company's acquisition of businesses could negatively impact its profitability and returns. The Company has engaged in various acquisitions in the past, such as the acquisition of the MTS Test & Simulation business in December 2021, and could choose to acquire additional businesses in the future. Acquisitions involve a number of risks and financial, accounting, managerial and operational challenges, including the following, any of which could adversely affect the Company's profitability and returns:

- The acquired business' inability to adapt to the ITW Business Model or otherwise perform in accordance with the Company's anticipated results or timetable, could cause it to under- perform relative to the Company's expectations and the price paid for it.
- The acquired business could cause the Company's financial results to differ from expectations in any given fiscal period, or over the long term.
- Acquisition- related earnings charges could adversely impact operating results.
- The acquired business could place unanticipated demands on the Company's management, operational resources and financial and internal control systems.
- The Company may assume unknown liabilities, known contingent liabilities that become realized or known liabilities that prove greater than anticipated, internal control deficiencies or exposure to regulatory sanctions resulting from the activities of the acquired business. The realization of any of these liabilities or deficiencies may increase the Company's expenses, adversely affect its financial position or cause noncompliance with its financial reporting obligations.
- As a result of acquisitions, the Company has in the past recorded significant goodwill and other identifiable intangible assets on its balance sheet. If the Company is not able to realize the value of these assets, it may recognize charges relating to the impairment of these assets.

Divestitures pose the risk of retained liabilities that could adversely affect the Company's financial results. The Company has had significant divestiture activity in the past in accordance with its portfolio management initiative, and it divested ~~two one~~ **businesses -- business** in the ~~fourth first~~ **quarter of 2022-2023** as it continues portfolio refinements to maintain portfolio discipline. The Company has retained certain liabilities directly or through indemnifications made to the buyers against known and unknown contingent liabilities such as lawsuits, tax liabilities, product liability claims and environmental matters, which could adversely affect the Company's financial results. Tax, Legal and Regulatory Risks Unfavorable tax law changes and tax authority rulings may adversely affect results. The Company is subject to income taxes in the U. S. and in various foreign jurisdictions. Domestic and international tax liabilities are based on the income and expenses in various tax jurisdictions. The Company's effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or changes in tax laws. The amount of income taxes is subject to ongoing audits by U. S. federal, state and local tax authorities and by non- U. S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments. Adverse outcomes in legal proceedings or enforcement actions may adversely affect results. The Company's businesses expose it to potential costs and adverse rulings associated with commercial, intellectual property, employment, toxic tort and other product liability claims and lawsuits. The Company's global operations also subject it to government investigations in numerous countries. We cannot predict the outcome of claims, investigations and lawsuits and we may incur costs, judgments or fines or enter into settlements that could adversely impact our businesses, reputation or future financial results. The Company currently maintains insurance programs consisting of self- insurance up to certain limits and excess insurance coverage for claims over established limits. There can be no assurance that the Company will be able to obtain insurance on acceptable terms or that its insurance programs will provide adequate protection against actual losses. In addition, the Company is subject to the risk that one or more of its insurers may become insolvent and become unable to pay claims that may be made in the future. Even if it maintains adequate insurance programs, claims, judgments or settlements could have a material adverse effect on the Company's financial condition, liquidity and results of operations and on its ability to obtain suitable, adequate or cost- effective insurance in the future. Uncertainty related to environmental regulation and industry standards, as well as physical risks of climate change, could impact the Company's results of operations and financial position. Increased public awareness and concern regarding environmental risks, including global climate change, may result in more international, regional and / or federal requirements or industry standards to reduce or mitigate global warming and other environmental risks. These regulations or standards could mandate even more restrictive requirements, such as stricter limits on greenhouse gas emissions and production of single use plastics, than the voluntary commitments that the Company has made or require such changes on a more accelerated time frame. There continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty. In addition, the physical risks of climate change may impact the availability and cost of materials and natural resources, sources and supply of energy, product demand and manufacturing and could increase insurance and other operating costs, including, potentially, to repair damage incurred as a result of extreme weather events or to renovate or retrofit facilities to better withstand extreme weather events. If environmental laws or regulations or industry standards are either changed or adopted and impose significant operational restrictions and compliance requirements upon the Company or its products, or the Company's operations are disrupted due to physical impacts of climate change, the Company's business, capital expenditures, results of operations, financial condition and competitive position could be negatively impacted. The Company may incur fines or penalties, damage

to its reputation or other adverse consequences if its employees, agents or business partners violate anti-bribery, competition, export and import, trade sanctions, data privacy, environmental, human rights or other laws. The Company has a decentralized operating structure under which its individual businesses are allowed significant decision-making autonomy within the Company's strategic framework and internal financial and compliance controls. The Company ~~cannot ensure~~ **is subject to complex U. S., foreign and other local laws and regulations that are applicable to its operations** internal controls will always protect against reckless or criminal acts committed by its employees, such as agents or business partners that might violate U. S. and / or non-U. S. laws, including anti-bribery **and anti-corruption**, competition, export and import, trade sanctions, data privacy, environmental and human rights laws. ~~As recent years have seen a substantial increase in~~ **Although the Company has implemented compliance programs which include internal controls, policies and procedures and employee training to deter prohibited practices, the these global enforcement of anti-corruption measures may not be effective in preventing employees, agents or business partners from violating or circumventing such internal policies and violating applicable laws and regulations. Any adoption of new trade sanctions and human rights laws, any** such improper actions could subject the Company to civil or criminal investigations, could lead to substantial civil or criminal monetary and non-monetary penalties against the Company or its subsidiaries, or could damage its reputation. Forward-Looking Statements This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "believe," "expect," "plans," "intend," "may," "strategy," "prospects," "estimate," "will," "should," "could," "project," "target," "anticipate," "guidance," "forecast," and other similar words, and may include, without limitation, statements regarding the duration and potential effects of ~~the COVID-19 pandemic and~~ global supply chain challenges, related government actions and the Company's strategy in response thereto on the Company's business, future financial and operating performance, free cash flow, economic and regulatory conditions in various geographic regions, the impact of foreign currency fluctuations, the timing and amount of benefits from the Company's enterprise strategy initiatives, the timing and amount of dividends and share repurchases, the protection of the Company's intellectual property, the likelihood of future goodwill or intangible asset impairment charges, the impact of adopting new accounting pronouncements, the adequacy of internally generated funds and credit facilities to service debt and finance the Company's capital allocation priorities, the sufficiency of U. S. generated cash to fund cash requirements in the U. S., the cost and availability of additional financing, the availability of raw materials and energy and the impact of raw material cost inflation, enterprise initiatives, the Company's portion of future benefit payments related to pension and postretirement benefits, the Company's information technology infrastructure, potential acquisitions and divestitures and the expected performance of acquired businesses and impact of divested businesses, the impact of U. S. and global tax legislation and the estimated timing and amount related to the resolution of tax matters, the cost of compliance with environmental regulations, the impact of failure of the Company's employees to comply with applicable laws and regulations, and the outcome of outstanding legal proceedings. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that may influence future results include those risks described above. These risks are not all inclusive and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Any forward-looking statements made by ITW speak only as of the date on which they are made. ITW is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise, **except as required by law**. ITW practices fair disclosure for all interested parties. Investors should be aware that while ITW regularly communicates with securities analysts and other investment professionals, it is against ITW's policy to disclose to them any material non-public information or other confidential commercial information. Investors should not assume that ITW agrees with any statement or report issued by any analyst irrespective of the content of the statement or report.