



3M Company (MMM)

Updated April 26th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$192	5 Year CAGR Estimate:	4.8%	Volatility Percentile:	14.9%
Fair Value Price:	\$163	5 Year Growth Estimate:	5.0%	Momentum Percentile:	36.1%
% Fair Value:	118%	5 Year Valuation Multiple Estimate:	-3.2%	Growth Percentile:	35.9%
Dividend Yield:	3.0%	5 Year Price Target	\$209	Valuation Percentile:	28.4%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	24.3%

Overview & Current Events

3M sells more than 60,000 products that are used every day in homes, hospitals, office buildings and schools around the world. It has more than 90,000 employees and serves customers in more than 200 countries. 3M is composed of five separate divisions. The Industrial division produces tapes, abrasives, adhesives and supply chain management software and solutions among others. Safety & Graphics manufactures personal protective gear and security products. The Healthcare segment supplies medical and surgical products as well as drug delivery systems. Electronic & Energy division produces fibers and circuits with a goal of using renewable energy sources while reducing costs. The Consumer division sells office supplies, home improvement products, protective materials and stationary supplies. 3M trades with a market capitalization of \$110 billion, and generates nearly \$33 billion in annual sales.

3M released financial results for the first quarter on 4/25/2019. The company's earnings-share totaled \$2.23, which topped estimates by \$0.27, but declined 11% from the previous year. Earnings-per-share was reduced by \$0.72 per share due to litigation-related charges. Revenues were down 5% to \$7.9 billion, which was \$162 million below expectations.

Sales for the Industrial segment dropped 2.8% due to weakness in several businesses, including industrial adhesives and tapes. Safety & Graphics was down just 0.1% as declines in commercial solutions, transportation safety and roofing granules was offset by organic sales growth in personal safety. Health Care grew 0.7% on the strength of food safety and health information systems. Drug delivery was down double digits and had a 2% negative impact on the segment as a whole. Electronics & Energy was lower by 3% as electronics-related sales declined 6%. The Consumer segment improved 0.9% due mostly to organic sales growth in home improvement. 3M returned more than \$1.5 billion to shareholders in the form of dividend and share repurchases. The company also announced that the Industrial and Safety & Graphics will be combined into a single segment, and Electronics & Energy will be renamed Transportation & Electronics effective 4/1/2019.

3M announced that it would cut 2,000 jobs in a restructuring that will help save the company at least \$225 million in annual costs. The company lowered its earnings-per-share guidance to \$9.25 to \$9.75 from \$10.45 to \$10.90 previously. Achieving the midpoint of this guidance would result in a drop of 9% from 2018's results. Organic growth is expected to fall to -1% to 2% for 2019, down from 1% to 4% previously. Shares of 3M declined 13% following the release of results.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$4.52	\$5.75	\$5.96	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.50	\$12.12
DPS	\$2.04	\$2.10	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$7.35
Shares	711	712	695	687	663	635	609	597	595	585	576	550

3M has grown earnings at a rate of 6.4% per year over the last decade. We are lowering our expected growth rate to 5% due to organic growth revisions for the current year. Share repurchases will also contribute to growth going forward. 3M has increased its dividend for the past 61 years, which shows the company can thrive in a wide variety of economic conditions. The company raised its dividend 5.9% for the 3/12/2019 payment.

Disclosure: This analyst has a long position in the security discussed in this research report.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.1	14.5	14.5	14.1	17	19.1	20.6	20.6	22.5	19.4	20.2	17.2
Avg. Yld.	3.2%	2.5%	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.0%	3.5%

Shares of 3M have declined \$5, or 2.5%, from our January 30th update. Based off the company's updated guidance for 2019, shares trade with a price-to-earnings ratio of 20.2. If the stock were to revert to its average historical average of 17.2, then the valuation would be a 3.2% headwind to total returns. The current yield is well above the stock's 10-year average yield of 2.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	45%	37%	37%	37%	38%	46%	54%	54%	52%	52%	61%	61%

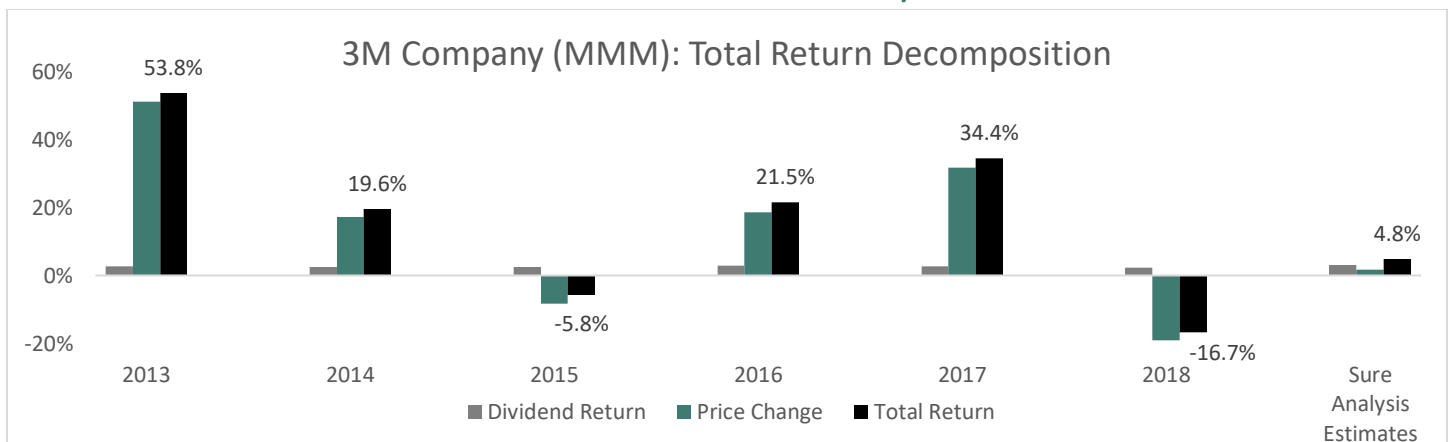
Like many companies, 3M saw earnings decline during the last recession. While earnings declined in both 2008 and 2009, they quickly recovered in 2010 to grow more than 27% from 2009. 3M is not recession proof, but the company has proven itself to be resilient during the difficult times in the economic cycle. While dividend growth has outpaced earnings growth in recent years, 3M's dividend track record is virtually second to none. If/when the next recession occurs, it is likely that growth will slow, though we don't feel the dividend is in any danger of being cut.

3M's innovation is one of the company's greatest competitive advantages. The company targets R&D spending equivalent to 6% of sales (\$1.8 billion in 2018) in order to create new products to meet consumer demand. This spending has proven to be very beneficial to the company as 30% of sales during the last fiscal year were from products that didn't exist five years ago. 3M's commitment to developing innovative products has led to a portfolio of more than 100,000 patents.

Final Thoughts & Recommendation

3M's first quarter results were very poor as the company's top and bottom lines both declined. Earnings-per-share and organic growth guidance for 2019 were both revised downward, and job cuts were announced. We have lowered our expected total return through 2024 to 4.8% from 7.9% previously. We have also lowered our 2024 price target \$41 to \$209. We view the stock as a hold, but suggest that investors looking for income should note that 3M's current yield is near its highest point in almost a decade. The company also has 6+ decades of dividend growth. This could make the stock attractive to those investors seeking income producing companies with long histories of dividend growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	23123	26662	29611	29904	30871	31821	30274	30109	31657	32765
Gross Profit	11014	12831	13918	14219	14765	15374	14891	15069	15656	16083
Gross Margin	47.6%	48.1%	47.0%	47.5%	47.8%	48.3%	49.2%	50.0%	49.5%	49.1%
SG&A Exp.	4907	5479	6170	6102	6384	6469	6229	6222	6572	7602
Operating Profit	4814	5918	6178	6483	6666	7135	6899	7112	7234	6660
Op. Margin	20.8%	22.2%	20.9%	21.7%	21.6%	22.4%	22.8%	23.6%	22.9%	20.3%
Net Profit	3193	4085	4283	4444	4659	4956	4833	5050	4858	5349
Net Margin	13.8%	15.3%	14.5%	14.9%	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%
Free Cash Flow	4038	4083	3905	3816	4152	5133	4959	5242	4867	4862
Income Tax	1388	1592	1674	1840	1841	2028	1982	1995	2679	1637

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	27250	30156	31616	33876	33550	31209	32883	32906	37987	36500
Cash & Equivalents	3040	3377	2219	2883	2581	1897	1798	2398	3053	2853
Acc. Receivable	3250	3615	3867	4061	4253	4238	4154	4392	4911	5020
Inventories	2639	3155	3416	3837	3864	3706	3518	3385	4034	4366
Goodwill & Int.	7174	8640	8963	9310	9033	8485	11850	11486	13449	12708
Total Liabilities	13948	14139	15754	15836	15602	18067	21415	22563	26365	26652
Accounts Payable	1453	1662	2159	2278	2346	2340	2260	1798	1945	2266
Long-Term Debt	5710	5452	5166	6001	6009	6811	10797	11650	13949	14622
Total Equity	12764	15663	15420	17575	17502	13109	11429	10298	11563	N/A
D/E Ratio	0.45	0.35	0.34	0.34	0.34	0.52	0.94	1.13	1.21	N/A

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	12.0%	14.2%	13.9%	13.6%	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%
Return on Equity	28.2%	28.7%	27.6%	26.9%	26.6%	32.4%	39.4%	46.5%	44.4%	N/A
ROIC	17.7%	20.2%	20.2%	19.7%	19.4%	22.6%	22.9%	22.8%	20.4%	N/A
Shares Out.	710.6	712	695	687.1	663.3	635.1	609.3	596.7	594.9	585
Revenue/Share	32.72	36.75	41.18	42.52	44.51	48.07	47.51	48.66	51.67	54.43
FCF/Share	5.71	5.63	5.43	5.43	5.99	7.75	7.78	8.47	7.94	8.08

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

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