



3M Company (MMM)

Updated July 25th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$178	5 Year CAGR Estimate:	6.5%	Volatility Percentile:	37.5%
Fair Value Price:	\$163	5 Year Growth Estimate:	5.0%	Momentum Percentile:	25.1%
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Growth Percentile:	36.6%
Dividend Yield:	3.2%	5 Year Price Target	\$209	Valuation Percentile:	44.3%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	36.1%

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. As of the second quarter of 2019, 3M is now composed of four separate divisions. The Safety & Industrial division produces tapes, abrasives, adhesives and supply chain management software as well as manufactures personal protective gear and security products. The Healthcare segment supplies medical and surgical products as well as drug delivery systems.

Transportation & Electronics 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 \$103 billion, and generates \$33 billion in annual sales.

3M released financial results for the second quarter on 7/25/2019. Adjusted earnings-per-share for the quarter was \$2.20, which topped estimates by \$0.13, but declined 28% year-over-year. Earnings-per-share was reduced by \$0.72 per share due to litigation-related charges. Revenues decreased 2.6% to \$8.2 billion, but managed to beat estimates by \$70 million. Organic growth slowed by 0.9%. Currency translation reduced revenue results by 1.8%.

By region, only the U.S. showed growth. The Europe/Middle East/Africa region led to the downside with a 9.4% drop in revenues. The Safety & Industrial segment declined 9% as higher demand for roofing granules and personal safety products were offset by declining sales in adhesives, electrical markets, abrasives and automotive aftermarket.

Transportation & Electronics revenues were down 2.9% as gains made in materials and transportation safety were not enough to make up for declines in electronics, commercial solutions and aerospace. Consumer sales dropped 0.5%.

Consumer health care, stationary and office supplies demand was outweighed by a decline in home care sales. The lone segment to show growth during the quarter was Health Care which was up 5.8%. Health information systems, medical solutions, food safety and oral care were sources of strength during the quarter. Sales increased in all geographic regions for this division. 3M reiterated that it expects to earn between \$9.25 and \$9.75 in 2019. After rising 5% in pre-market trading, shares of 3M ended the trading session nearly 1% lower.

3M announced last quarter that it would cut 2,000 jobs in a restructuring that will help save the company at least \$225 million in annual costs.

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.

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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	17.0	19.1	20.6	20.6	22.5	19.4	18.7	17.2
Avg. Yld.	3.2%	2.5%	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.2%	3.5%

Shares of 3M have declined \$14, or 7.3%, from our 4/26/2019 update. Based off the company's guidance for 2019, shares trade with a price-to-earnings ratio of 18.7. If the stock were to revert to its average historical average of 17.2, then the valuation would be a 1.7% 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%

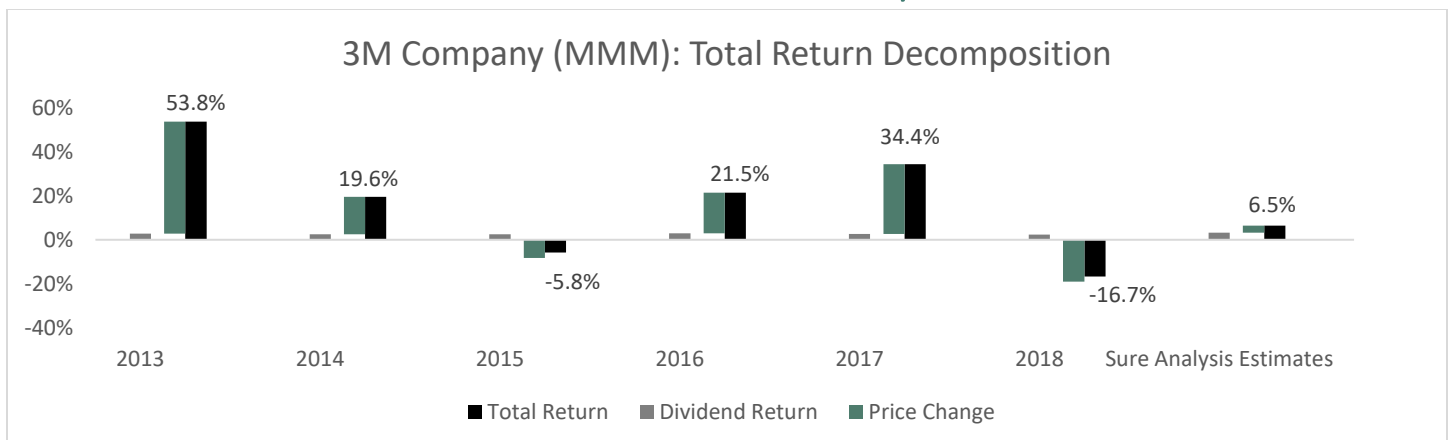
Like many companies, 3M saw earnings decline during the last recession. While earnings declined in both 2008 and 2009, they quickly recovered in 2010 to grow more than 27% from 2009. 3M is not recession proof, but the company has proven itself to be resilient during the difficult times in the economic 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

After factoring in second quarter results, 3M is expected to offer a total annual return of 6.5% through 2024, up from 4.8% previously. All but one segment showed a year-over-year decline. The only region that had increasing sales was the U.S. as currency remains a headwind for the company. On the other hand, 3M has shown itself to be a very stable company having increased its dividend for more than six decades. The current yield is also near a decade high. Though 3M is rated as a hold by Sure Dividend, we think investors with a long term horizon and those looking for income from the industrial sector should start considering purchasing the stock. We maintain our 2024 price target of \$209.

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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