



3M Company (MMM)

Updated January 29th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$166	5 Year CAGR Estimate:	7.1%	Market Cap:	\$95.2 billion
Fair Value Price:	\$157	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/14/2020 ¹
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.1%	Dividend Payment Date:	3/12/2020 ²
Dividend Yield:	3.5%	5 Year Price Target	\$201	Years Of Dividend Growth:	61
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	5.9%

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.

In August, 3M paid \$35 million to the West Morgan-East Lawrence Water Authority in Alabama over allegations that the company contaminated the water supply with industrial chemicals discharged into the Tennessee River.

3M released fourth quarter and full-year results on 1/28/2020. The company earned \$1.95 per share, \$0.15 below estimates and 16% below the previous year. Revenue improved 2% to \$8.1 billion, though this was \$10 million lower than expected. For the year, adjusted earnings-per-share declined 13% to \$9.10, which was \$0.06 above our estimates, and sales were lower by 1.9% to \$32 billion. Organic growth was down 2.6% in local currency for the quarter. U.S. sales were lower by 2.9% and Japan declined 6.9%. Brazil had growth of 5.8%, Canada grew 2.6% and China/Hong Kong inched up 0.8%. Every remaining region declined year-over-year. Safety & Industrial was down 2.8% as personal safety and roofing granules were the only areas of strength. Transportation & Electronics was lower by 5.9%. Improvements in transportation safety were more than offset by weakness in other areas. Health Care declined 0.2%. Gains made in the areas of food safety, health information systems, drug delivery and medical solutions were countered by decreases in separation and purification and oral care. Consumer was the lone segment to grow, improving by 0.2% due to increased sales in home improvement and home care. Sales for stationery and office were down once again. Free cash flow for the quarter grew 10% to an all-time record \$5.4 billion. 3M announced that it would lay off 1,500 employees across its businesses and geographies. The company took a \$134 million restructuring charge in the fourth quarter and expects pre-tax savings of at least \$110 million annually. 3M expects organic local currency growth of flat to 2% and guided towards earnings-per-share in a range of \$9.30 to \$9.75 for 2020. Shares declined 10% following the earnings release.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$5.75	\$5.96	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$9.53	\$12.16
DPS	\$2.10	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.76	\$7.35
Shares³	712	695	687	663	635	609	597	595	585	582	582	550

3M has grown earnings at a rate of 6.4% per year over the last decade. We are reaffirming our expected growth rate to 5% due to organic growth for the current year. Share repurchases will also contribute to growth going forward. 3M has

¹ Estimated date

² Estimated dividend payment date

³ Share count in millions

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



3M Company (MMM)

Updated January 29th, 2020 by Nathan Parsh

increased its dividend for the past 61 years, which shows that the company can thrive in a wide variety of economic conditions. The company raised its dividend 5.9% for the 3/12/2019 payment.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.5	14.5	14.1	17.0	19.1	20.6	20.6	22.5	19.4	19.4	17.4	16.5
Avg. Yld.	2.5%	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.3%	3.5%	3.7%

Shares of 3M have increased \$4, or 2.5%, from our 10/24/2019 update. Based off the company's guidance for 2020, shares trade with a price-to-earnings ratio of 17.4. We are reaffirming our target P/E ratio of 16.5 due to organic growth forecasts. If the stock were to revert to this target, then the valuation would be a 1.1% headwind to total returns. The current yield of 3.5% is nearly 100 bps above the stock's 10-year average yield of 2.6%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

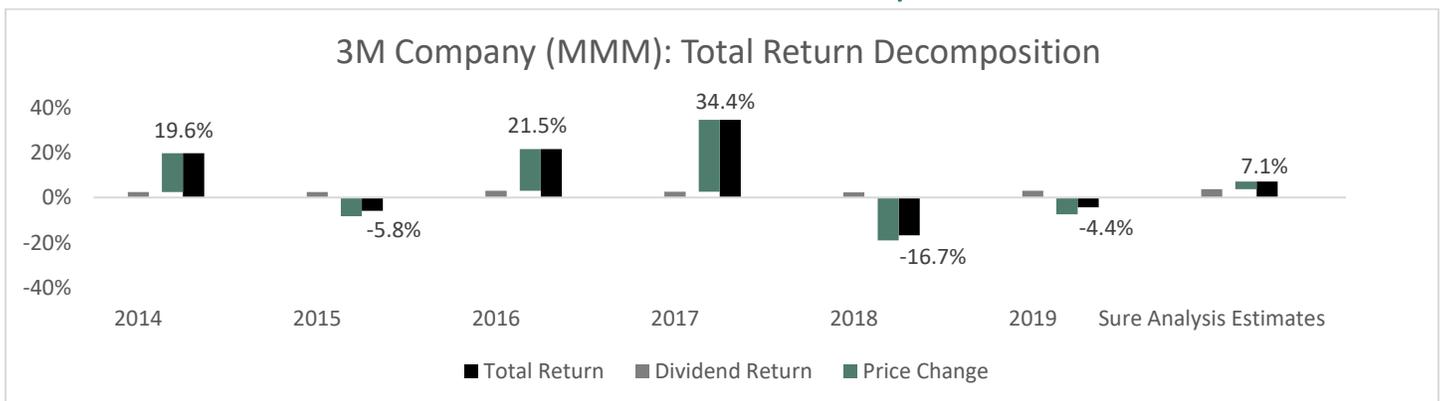
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	37%	37%	37%	38%	46%	54%	54%	52%	52%	63%	60%	60%

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 (\$1.9 billion in 2019) 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 is expected to return 7.1% annually through 2025, up from our previous estimate of 6.7%. 3M had a difficult 2019. The company saw organic growth decline and earnings-per-share that were down from the previous year. Most divisions had sales decline and the company's expectations for organic growth for 2020 are very low. Still, the stock offers a yield that is nearly double that of the S&P 500. Growth-oriented investors might not find the company's prospects appealing in the short term, but investors looking for income might will likely find the 3.5% yield attractive. We have raised our 2025 price target \$11 to \$201 due to guidance for the current year, and rate the stock a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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



3M Company (MMM)

Updated January 29th, 2020 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.