



3M Company (MMM)

Updated July 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$156	5 Year CAGR Estimate:	5.5%	Market Cap:	\$89.4 billion
Fair Value Price:	\$135	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	8/15/2020 ¹
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	9/11/2020 ²
Dividend Yield:	3.8%	5 Year Price Target	\$172	Years Of Dividend Growth:	62
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.0%

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 reported second quarter results on 7/28/2020. Revenue declined 12.1% to \$7.2 billion, \$110 million below estimates. Adjusted earnings-per-share declined \$0.35, or 16.4%, to \$1.78. This was \$0.01 below estimates. Organic sales were lower by 13.1% compared to consensus estimates of 10.4%. Currency exchange reduced EPS by \$0.05.

North America was the weakest region as organic sales were down 15.6%. EMEA was lower by 14.5% while Asia Pacific declined 8.1%. Much of the declines in each region were due to the economic impact from COVID-19. Respirator organic growth related to the pandemic added 2.8% to the company's total. Safety & Industrial organic growth was down 6.1% as only personal safety saw a year-over-year improvement. Transportation & Electronics declined 18.9% due to steep declines in nearly all businesses. Health Care fell 12.4% as gains in separation and purification were more than offset by declines in medical solutions, food safety, health information systems and oral care. Organic sales for the Consumer segment decreased 5%. This segment had strength in home care and home improvement and weakness in consumer health care and stationery and office supplies. 3M had \$1.5 billion of free cash flow in the quarter, an 18% improvement from the previous year. The company ended the quarter with \$4.5 billion in cash and equivalents and reduced debt by \$1.7 billion. The company did not issue guidance for the year due to the uncertainty related to COVID-19, but analysts expect adjusted EPS of \$8.18 for 2020, down from \$8.43 previously.

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	\$8.18	\$10.44
DPS	\$2.10	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$6.49
Shares³	712	695	687	663	635	609	597	595	585	582	581	550

3M has grown earnings at a rate of 6.4% per year over the last decade. We are reaffirming our expected growth rate of 5%. 3M has increased its dividend for the past 62 years, which shows that the company can thrive in a wide variety of

¹ Estimated date

² Estimated dividend payment date

³ Share count in millions

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economic conditions. The company raised its dividend 2% for the 3/12/2020 payment. We expect dividend growth to slow to 2% going forward in order to bring the payout ratio within the historical range.

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	19.1	16.5
Avg. Yld.	2.5%	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.3%	3.8%	3.8%

Shares of 3M have declined \$2, or 1.3%, from our 4/28/2020 update. Based off updated estimates for 2020, shares trade with a price-to-earnings ratio of 19.1. We are reaffirming our target P/E ratio of 16.5. If the stock were to revert to this target, then the valuation would be a 2.9% headwind to total returns. The current yield of 3.8% is 120 bps above the stock's 10-year average yield of 2.6% and nearly double the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

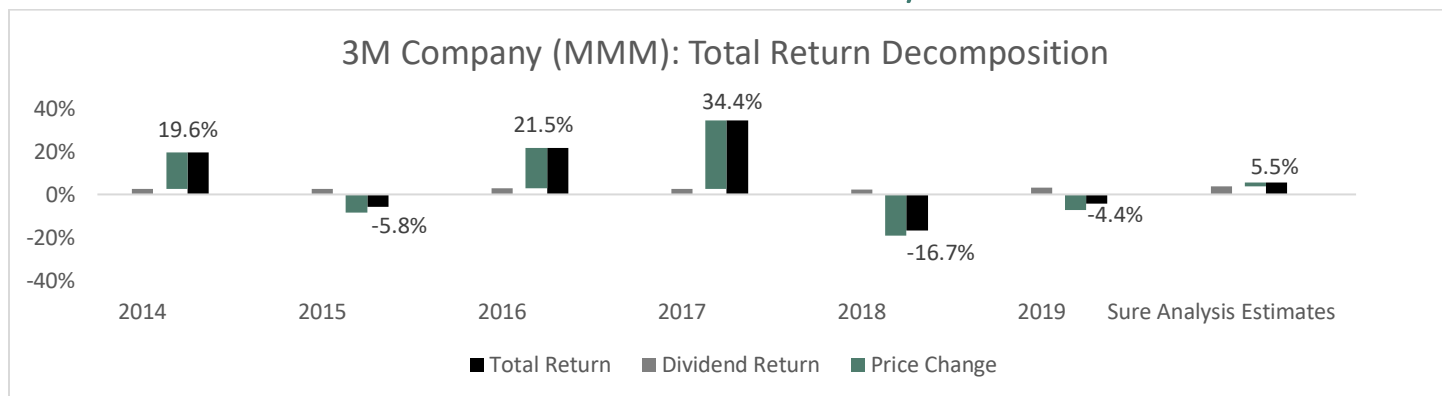
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	37%	37%	37%	38%	46%	54%	54%	52%	52%	63%	72%	62%

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 (~\$2 billion annually) 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

Following second quarter earnings, 3M is expected to return 5.5% annually through 2025, down from our previous estimate of 5.7%. 3M warned on the last conference call that Q2 would likely be the weakest quarter of 2020, and results were as advertised. The company saw a double-digit decline in both organic growth and adjusted EPS. Each segment was down from the prior year, with very few individual businesses performing well. Income investors will likely find the dividend yield, and its comparison to the stock's average yield appealing, but we maintain our hold rating on the stock due to projected returns. We have lowered our 2025 price target \$6 to \$172 due to revised earnings estimates

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	26662	29611	29904	30871	31821	30274	30109	31657	32765	32136
Gross Profit	12831	13918	14219	14765	15374	14891	14991	15602	16083	15000
Gross Margin	48.1%	47.0%	47.5%	47.8%	48.3%	49.2%	49.8%	49.3%	49.1%	46.7%
SG&A Exp.	5479	6170	6102	6384	6469	6229	6311	6626	7602	7029
Operating Profit	1120	1236	1288	1371	1408	1435	1474	1544	1488	1593
Op. Margin	22.2%	20.9%	21.7%	21.6%	22.4%	22.8%	23.0%	22.4%	20.3%	18.9%
Net Profit	4085	4283	4444	4659	4956	4833	5050	4858	5349	4570
Net Margin	15.3%	14.5%	14.9%	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.2%
Free Cash Flow	4083	3905	3816	4152	5133	4959	5242	4867	4862	5371
Income Tax	1592	1674	1840	1841	2028	1982	1995	2679	1637	1130

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	30156	31616	33876	33550	31209	32883	32906	37987	36500	44659
Cash & Equivalents	3377	2219	2883	2581	1897	1798	2398	3053	2853	2353
Acc. Receivable	3615	3867	4061	4253	4238	4154	4392	4911	5020	4791
Inventories	3155	3416	3837	3864	3706	3518	3385	4034	4366	4134
Goodwill & Int.	8640	8963	9310	9033	8485	11850	11486	13449	12708	19823
Total Liabilities	14139	15754	15836	15602	18067	21415	22563	26365	26652	34533
Accounts Payable	1662	2159	2278	2346	2340	2260	1798	1945	2266	2228
Long-Term Debt	5452	5166	6001	6009	6811	10797	11650	13949	14622	20313
Total Equity	15663	15420	17575	17502	13109	11429	10298	11563	9796	10063
D/E Ratio	0.35	0.34	0.34	0.34	0.52	0.94	1.13	1.21	1.49	2.02

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	14.2%	13.9%	13.6%	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%
Return on Equity	28.7%	27.6%	26.9%	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%
ROIC	20.2%	20.2%	19.7%	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%
Shares Out.	712	695	687	663	635	609	597	595	585	582
Revenue/Share	36.75	41.18	42.52	44.51	48.07	47.51	48.66	51.67	54.43	54.92
FCF/Share	5.63	5.43	5.43	5.99	7.75	7.78	8.47	7.94	8.08	9.18

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

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