



# 3M Company (MMM)

Updated October 27<sup>th</sup>, 2020 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$161	<b>5 Year CAGR Estimate:</b>	7.7%	<b>Market Cap:</b>	\$92.8 billion
<b>Fair Value Price:</b>	\$159	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/20/2020 <sup>1</sup>
<b>% Fair Value:</b>	101%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	12/11/2020 <sup>2</sup>
<b>Dividend Yield:</b>	3.7%	<b>5 Year Price Target</b>	\$202	<b>Years Of Dividend Growth:</b>	62
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	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. From 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 announced third quarter earnings results on 10/27/2020. Revenue increased 5.1% to \$8.4 billion, topping estimates by \$20 million. Adjusted earnings-per-share of \$2.43 declined 5.8% from the previous year, but was \$0.16 better than expected. Organic local-currency growth was 0.9%.

North America returned to growth, with organic sales higher by 3.4%. This was offset by a 0.3% decline in the EMEA region and a 2.6% decreased in the Asia Pacific region. 3M saw broad-based sequential improvement in many areas, but COVID-19 continues to impact many end-markets. Safety & Industrial sales turned positive in the quarter, growing almost 7%. This segment saw continued strength in personal safety, but also growth in roofing granules and automotive aftermarket. Electrical materials, industrial adhesives and takes continue to be weak. Transportation & Electronics were the lone segment to decline as sales fell 7.1%. Electronics were up year-over-year, but all other businesses were lower. Health Care grew 8.1% due to gains made in medical solutions, separation and purification and oral care. Food safety and health information systems were down once again. Consumer sales increased 5.5% due to gains in home care and home improvement. Consumer health care was flat while stationery and office supplies were down. Adjusted free cash flow improved 13% to \$2.2 billion for the quarter and is higher by 19% to \$4.6 billion for the first nine months of 2020. The company retired \$1.3 billion of debt during the Q3 and has reduced its total debt by \$2.8 billion, or 16%, so far this year. The company once again did not issue guidance for the year due to the uncertainty related to COVID-19, but analysts expect adjusted EPS of \$8.35 for 2020, up from \$8.18 previously.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$5.75	\$5.96	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	<b>\$8.35</b>	<b>\$10.66</b>
<b>DPS</b>	\$2.10	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	<b>\$5.88</b>	<b>\$6.49</b>
<b>Shares<sup>3</sup></b>	712	695	687	663	635	609	597	595	585	582	<b>581</b>	<b>550</b>

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

<sup>1</sup> Estimated date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> Share count in millions

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



# 3M Company (MMM)

Updated October 27<sup>th</sup>, 2020 by Nathan Parsh

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	19.3	19.0
Avg. Yld.	2.5%	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.3%	3.7%	3.2%

Shares of 3M have increased \$5, or 3.2%, from our 7/28/2020 update. We have increased our 2025 target price-to-earnings ratio to 19 as this is more in-line with the stock's average multiple since 2014. Based off updated estimates for 2020, shares trade with a price-to-earnings ratio of 19.3. If the stock were to revert to this target, then the valuation would be a 0.3% headwind to total returns. The current yield of 3.7% is 110 bps above the stock's 10-year average yield of 2.6% and double the average yield of the S&P 500.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

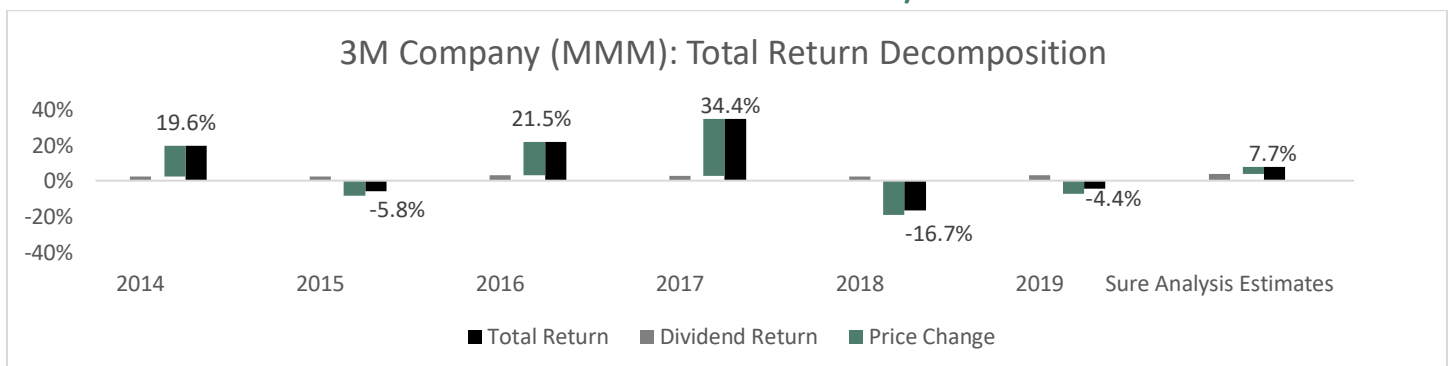
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	37%	37%	37%	38%	46%	54%	54%	52%	52%	63%	70%	61%

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 (~\$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

3M is expected to return 7.7% annually through 2025, up from our previous estimate of 5.5%. 3M performed much better in the most recent quarter as organic growth inched higher. Three out of four segments performed better than the previous year. We have increased our 2025 price target \$30 to \$202 due to a combination of revised estimates for 2020 and our increase in the five-year target valuation. While the projected returns fall short of our usual 10% threshold to earn a buy recommendation, we note that income investors may find 3M's higher than usual yield appealing enough to warrant purchasing today.

## 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 October 27<sup>th</sup>, 2020 by Nathan Parsh

## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	30156	31616	33876	33550	31209	32883	32906	37987	36500	44659
<b>Cash &amp; Equivalents</b>	3377	2219	2883	2581	1897	1798	2398	3053	2853	2353
<b>Acc. Receivable</b>	3615	3867	4061	4253	4238	4154	4392	4911	5020	4791
<b>Inventories</b>	3155	3416	3837	3864	3706	3518	3385	4034	4366	4134
<b>Goodwill &amp; Int.</b>	8640	8963	9310	9033	8485	11850	11486	13449	12708	19823
<b>Total Liabilities</b>	14139	15754	15836	15602	18067	21415	22563	26365	26652	34533
<b>Accounts Payable</b>	1662	2159	2278	2346	2340	2260	1798	1945	2266	2228
<b>Long-Term Debt</b>	5452	5166	6001	6009	6811	10797	11650	13949	14622	20313
<b>Total Equity</b>	15663	15420	17575	17502	13109	11429	10298	11563	9796	10063
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	14.2%	13.9%	13.6%	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%
<b>Return on Equity</b>	28.7%	27.6%	26.9%	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%
<b>ROIC</b>	20.2%	20.2%	19.7%	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%
<b>Shares Out.</b>	712	695	687	663	635	609	597	595	585	582
<b>Revenue/Share</b>	36.75	41.18	42.52	44.51	48.07	47.51	48.66	51.67	54.43	54.92
<b>FCF/Share</b>	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.

### 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.