



3M Company (MMM)

Updated January 26th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$176	5 Year CAGR Estimate:	8.1%	Market Cap:	\$98 billion
Fair Value Price:	\$180	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/12/2021 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	3/12/2021 ²
Dividend Yield:	3.3%	5 Year Price Target	\$229	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. 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 released fourth quarter and full year earnings results on 1/26/2021. Revenue grew 5.8% to \$8.6 billion, \$190 million ahead of estimates. Adjusted earnings-per-share increased 43.4% to \$2.38, \$0.21 better than expected. For the year, revenue grew 0.2% to \$32.2 billion. Adjusted EPS decreased 1.6% to \$8.75, but topped our estimates of \$8.35. Organic local-currency growth declined 1.7% for the full year, but improved 5.5% for the quarter.

Every business within 3M performed better year-over-year in the fourth quarter. Leading the way was Safety & Industrial, which grew 11.4% organically to \$3.1 billion. This segment benefited from higher respirator mask demand. Also showing strength was personal safety, roofing granules and industrial adhesives and tapes. Automotive remained weak. Transportation & Electronics grew 1.4% to \$2.3 billion due to strength in aerospace, transportations safety and advanced materials. Health Care was up 6.6% to \$2.3 billion due to higher demand in the areas of medical solutions, food safety and separation and purification. Consumer was higher by almost 10% to \$1.4 billion as home improvement, home care and consumer healthcare all saw higher sales. Adjusted free cash flow grew 16% to \$2.1 billion in the fourth quarter. Net debt was lower by 23% to \$13.7 billion for the year. 3M expects adjusted EPS of \$9.20 to \$9.70 and organic growth of 3% to 6% for 2021.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$5.96	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$8.75	\$9.45	\$12.06
DPS	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$5.88	\$6.49
Shares³	695	687	663	635	609	597	595	585	582	578	578	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 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.

¹ Estimated date

² Estimated dividend payment date

³ Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	14.5	14.1	17.0	19.1	20.6	20.6	22.5	19.4	19.4	20.0	18.6	19.0
Avg. Yld.	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.2%	2.8%	3.3%	3.4%	3.3%	2.8%

Shares of 3M have increased \$15, or 9.3%, from our 10/27/2020 update. We have increased our 2026 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 2021, shares trade with a price-to-earnings ratio of 18.6. If the stock were to revert to this target, then the valuation would be a 0.4% tailwind to total returns. The current yield of 3.3% is well 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

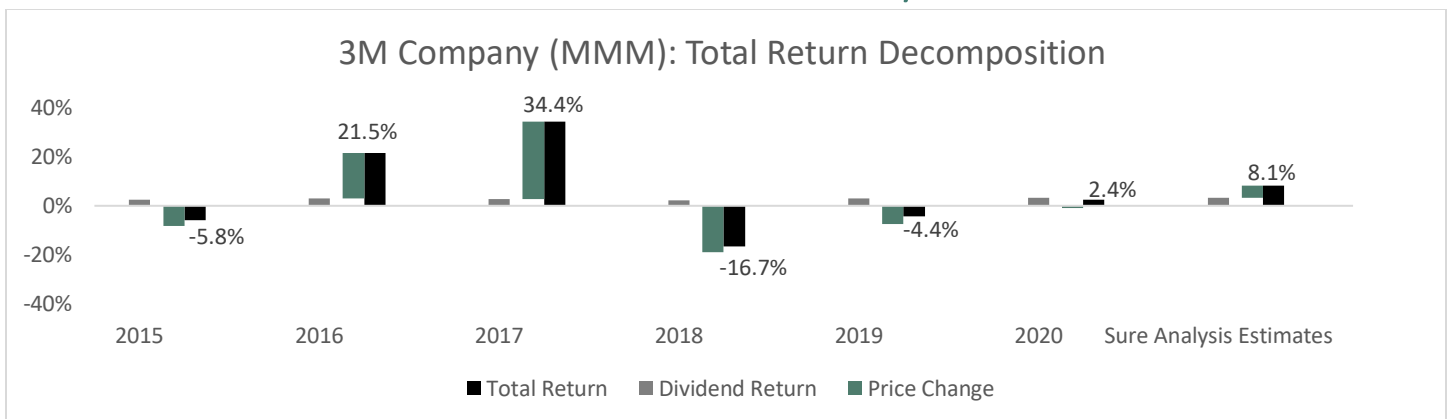
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	37%	37%	38%	46%	54%	54%	52%	52%	63%	67%	62%	54%

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 8.1% annually through 2026, up from our previous estimate of 7.7%. The projected return stems from a 5% earnings growth rate, 3%+ dividend yield and a slight contribution from multiple expansion. 3M's quarter showed a solid organic growth and each business had positive growth. The company's guidance shows that management expects a return to organic growth for the current year. We have increased our 2026 price target \$27 to \$229 due to EPS estimates for the current year. We maintain our hold rating on 3M due to projected returns, but believe income orientated investors will find the higher than usual yield attractive enough to purchase at the current price.

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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