



# 3M Company (MMM)

Updated April 27<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$191	<b>5 Year CAGR Estimate:</b>	6.4%	<b>Market Cap:</b>	\$110.6 B
<b>Fair Value Price:</b>	\$180	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	5/21/2021 <sup>1</sup>
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.2%	<b>Dividend Payment Date:</b>	6/10/2021 <sup>2</sup>
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$229	<b>Years Of Dividend Growth:</b>	63
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase:</b>	0.7%

## 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 95,000 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 first quarter earnings results on 4/27/2021. Revenue grew 9.6% to \$8.9 billion, coming in \$460 million above expectations. Adjusted earnings-per-share of \$2.77 was a 27% improvement from the prior year and \$0.48 better than expected.

Organic growth was 8%, with each segment posting at least high single-digit growth. Safety & Industrial remains the best performing segment as sales grew 10.3% organically to \$3.3 billion. Respirator sales added 6.4% to growth, but 3M saw improvements in auto, construction and industrial end markets. Transportation & Electronics was up 9.8% to \$2.5 billion due to growing demand in data center, semiconductor and consumer electronics. Automotive OEM outpaced global car production. Health Care improved 9.3% to \$2.2 billion due to gains in oral care as more patient visits were recorded. COVID-19 vaccine demand led to improvements in separation and purification sales. Consumer was up 7.8% to \$1.4 billion as home improvement demand remains high. Office and stationery products benefited from a return-to-school in many areas. Adjusted free cash flow grew 49% to \$1.4 billion. Net debt declined \$5 billion to \$13 billion.

3M expects reaffirmed prior guidance of 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
<b>EPS</b>	\$5.96	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$8.75	<b>\$9.45</b>	<b>\$12.06</b>
<b>DPS</b>	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	<b>\$5.92</b>	<b>\$6.54</b>
<b>Shares<sup>3</sup></b>	695	687	663	635	609	597	595	585	582	578	<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 economic conditions. The company raised its dividend 1% for the 3/12/2021 payment. We expect dividend growth to come in at 2% going forward in order to bring the payout ratio within the historical range.

<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.



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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	22.3	21.1	19.8	18.7	20.2	19.0
Avg. Yld.	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.3%	2.6%	3.2%	3.9%	3.1%	2.9%

Shares of 3M have increased \$15, or 8.5%, from our 1/26/2021 update. We have reaffirmed our 2026 target price-to-earnings ratio to 19 as this is in-line with the stock's average multiple since 2011. Based off of estimates for 2021, shares trade with a price-to-earnings ratio of 20.2. If the stock were to revert to this target, then the valuation would be a 1.2% headwind to total returns. The current yield of 3.1% is well above the stock's 10-year average yield of 2.7% and double the average yield of the S&P 500.

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

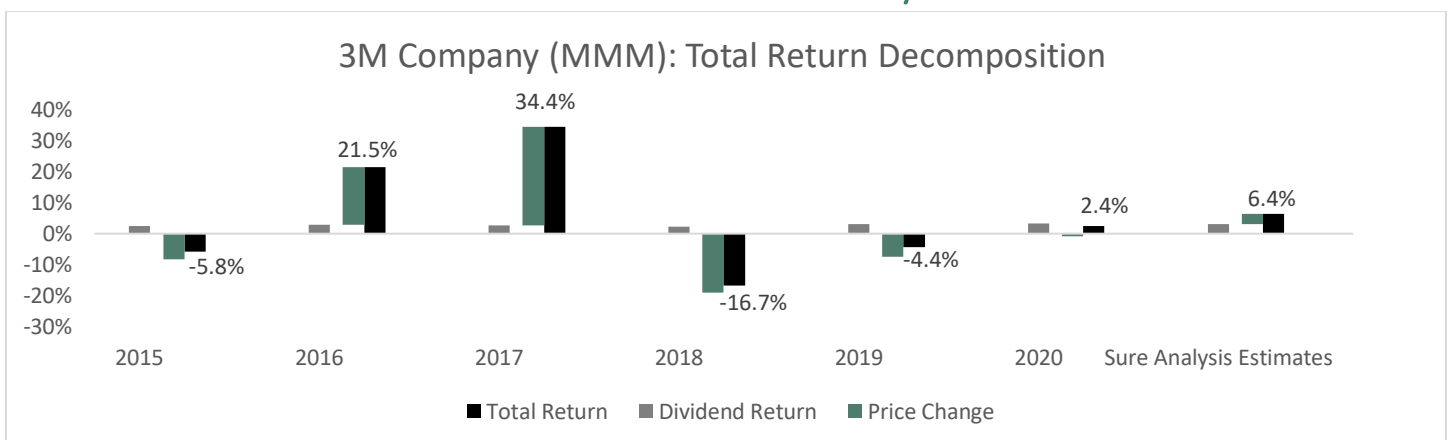
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	37%	37%	38%	46%	54%	54%	52%	52%	63%	67%	63%	54%

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. 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 6.4% annually through 2026, down from our previous estimate of 8.1%. The projected return stems from a 5% earnings growth rate and a 3.1% dividend yield offset by a slight headwind from multiple contraction. 3M's most recent quarter showed strength across the board, though some of this might be due to easy comparable in the prior year. Still, we take comfort in the company's organic growth as this has been a weak point for 3M for some time now. We maintain our \$229 price target and hold rating on shares of 3M. Income investors might find the current yield and dividend growth history attractive enough to purchase.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	29611	29904	30871	31821	30274	30109	31657	32765	32136	32184
Gross Profit	13918	14219	14765	15374	14891	14991	15602	16083	15000	15579
Gross Margin	47.0%	47.5%	47.8%	48.3%	49.2%	49.8%	49.3%	49.1%	46.7%	48.4%
SG&A Exp.	6170	6102	6384	6469	6229	6311	6626	7602	7029	6929
Operating Profit	1236	1288	1371	1408	1435	1474	1544	1488	1593	1911
Op. Margin	6178	6483	6666	7135	6899	6916	7106	6660	6060	6772
Net Profit	20.9%	21.7%	21.6%	22.4%	22.8%	23.0%	22.4%	20.3%	18.9%	21.0%
Net Margin	4283	4444	4659	4956	4833	5050	4858	5349	4570	5384
Free Cash Flow	14.5%	14.9%	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.2%	16.7%
Income Tax	3905	3816	4152	5133	4959	5242	4867	4862	5371	6612

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	31616	33876	33550	31209	32883	32906	37987	36500	44659	47344
Cash & Equivalents	2219	2883	2581	1897	1798	2398	3053	2853	2353	4634
Acc. Receivable	3867	4061	4253	4238	4154	4392	4911	5020	4791	4705
Inventories	3416	3837	3864	3706	3518	3385	4034	4366	4134	4239
Goodwill & Int.	8963	9310	9033	8485	11850	11486	13449	12708	19823	19637
Total Liabilities	15754	15836	15602	18067	21415	22563	26365	26652	34533	34413
Accounts Payable	2159	2278	2346	2340	2260	1798	1945	2266	2228	2561
Long-Term Debt	5166	6001	6009	6811	10797	11650	13949	14622	20313	18795
Total Equity	15420	17575	17502	13109	11429	10298	11563	9796	10063	12867
D/E Ratio	0.34	0.34	0.34	0.52	0.94	1.13	1.21	1.49	2.02	1.46

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.9%	13.6%	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%	11.7%
Return on Equity	27.6%	26.9%	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%	47.0%
ROIC	20.2%	19.7%	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%	17.3%
Shares Out.	695	687	663	635	609	597	595	585	582	578
Revenue/Share	41.18	42.52	44.51	48.07	47.51	48.66	51.67	54.43	54.92	55.28
FCF/Share	5.43	5.43	5.99	7.75	7.78	8.47	7.94	8.08	9.18	11.36

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

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