



3M Company (MMM)

Updated October 27th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$182	5 Year CAGR Estimate:	8.1%	Market Cap:	\$105 B
Fair Value Price:	\$186	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/19/2021 ¹
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.5%	Dividend Payment Date:	12/10/2021
Dividend Yield:	3.3%	5 Year Price Target	\$238	Years Of Dividend Growth:	63
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	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 about 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 reported third quarter earnings results on 10/26/2021. Revenue was higher by 7.1% to just under \$9 billion and was \$270.5 million above expectations. Adjusted earnings-per-share of \$2.45 was up slightly from the prior year and topped estimates by \$0.22.

Organic growth was 6.3% for the quarter and 11.5% year-to-date, with each segment again showing growth. Safety & Industrial improved 6.1%. General industrial demand remains high, especially in the areas of adhesives and tapes, abrasives and roofing granules. Personal safety fell year-over-year due to high demand in the prior year. Transportation & Electronics improved 5.1%. Advanced materials, commercial solutions and transportation safety all performed well. Auto OEM continues to outpace global car and light truck builds. Semiconductor shortages have impacted electronic sales. Health Care was higher by 3.3% due to gains in food safety, oral care and health information systems. Medical solutions were weaker due to lower disposable respirator sales. Consumer was the best performing segment as sales improved 7.6%. Home improvement, home cleaning and stationery were the leading product categories. Adjusted free cash flow fell 29% to \$1.5 billion. Net debt declined \$2.6 billion to \$12.4 billion. The company noted that it expects an \$0.80 to \$0.90 headwind from higher raw materials and logistics expenses, up from \$0.65 to \$0.80 and \$0.30 to \$0.50 previously. Price increases nearly made up for higher input costs in the third quarter.

3M revised its guidance for the year, with earnings-per-share expected in a range of \$9.70 to \$9.90, compared to \$9.70 to \$10.10 previously. Organic growth is projected to be 8% to 9% compared to 6% to 9% and 3% to 6% previously.

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	\$9.80	\$12.51
DPS	\$2.20	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$5.92	\$6.54
Shares²	695	687	663	635	609	597	595	585	582	578	580	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 63 years, which shows that the company can thrive in a wide variety of

¹ Estimated date

² Share count in millions

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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.

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	18.6	19.0
Avg. Yld.	2.5%	2.7%	2.2%	2.4%	2.6%	2.6%	2.3%	2.6%	3.2%	3.9%	3.3%	2.8%

Shares of 3M have declined \$18, or 9%, from our 7/27/2021 update. We have reaffirmed our 2026 target price-to-earnings ratio of 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 18.6. If the stock were to revert to this target, then the valuation would add 0.5% to annual returns through 2026. The current yield of 3.3% is above the stock's 10-year average yield of 2.7% and more than double the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

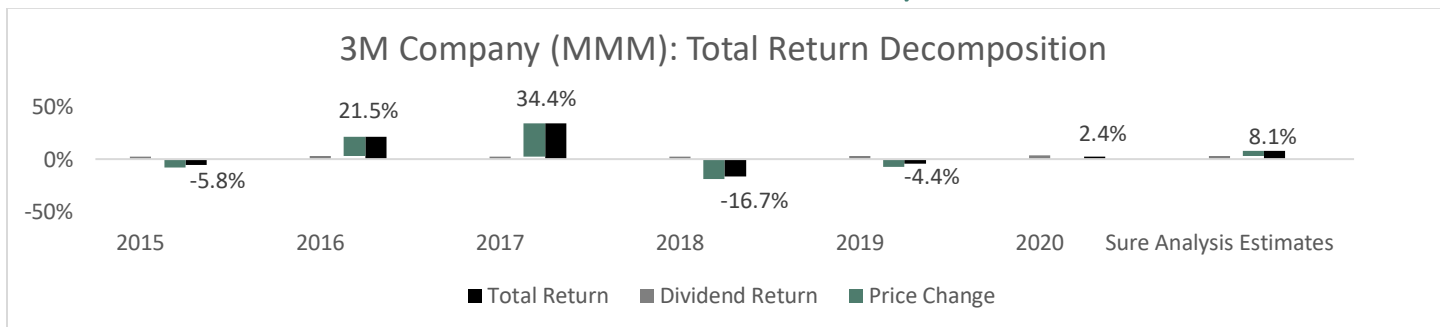
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	37%	37%	38%	46%	54%	54%	52%	52%	63%	67%	60%	52%

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 8.1% annually through 2026, up from our previous estimate of 6.3%. The projected return stems from a 5% earnings growth rate, a 3.3% dividend yield and a small tailwind from multiple expansion. The company is facing higher raw material and logistic expenses and did see a tough comparison from the prior year in certain business. Still, 3M delivered solid organic growth and once again raised top-line estimates. We have, however, lowered our 2026 price target \$2 to \$238 due to revised EPS guidance. Income investors will find 3M's yield and dividend growth history attractive. We encourage total return investors to wait for a further pullback before purchasing the stock, and it is rated a hold.

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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