



3M Company (MMM)

Updated April 26th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$144	5 Year CAGR Estimate:	15.7%	Market Cap:	\$82 B
Fair Value Price:	\$209	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/20/22 ¹
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.7%	Dividend Payment Date:	6/10/22
Dividend Yield:	4.1%	5 Year Price Target	\$267	Years Of Dividend Growth:	64
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 is facing several lawsuits, including nearly 300,000 claims that its earplugs used by U.S. combat troops and produced by a subsidiary were defective.

On February 8th, 2022, 3M announced it was raising its quarterly dividend 0.7% to \$1.49, extending the company's dividend growth streak to 64 consecutive years.

On April 26th, 2022, 3M reported first quarter earnings results for the period ending March 31st, 2022. Revenue fell 0.3% to \$8.8 billion, but was \$50 million better than expected. Adjusted earnings-per-share of \$2.65 compared to \$2.77 in the prior year, but was \$0.34 above estimates.

Organic growth for the quarter was 2%. Safety & Industrial grew 0.5% due to strength in industrial adhesives and tapes, abrasives, and masking systems, though personal safety declined. Transportation & Electronics decreased by 0.3%. Commercial solutions growth was offset by a decline in transportation and safety. Health Care grew 4.7%. All businesses showed growth, with food safety, separation and purification, and medical solutions and health information systems acting especially well. Consumer was higher by 3.4% as demand for home care, stationery and office and home improvement products continues to be strong. Adjusted free cash flow fell 50% to \$700 million while net debt increased 2% to \$13.3 billion. Higher raw material costs were a \$0.30 headwind during the quarter. Leadership stated that supply chain constraints are likely to be in place, especially for semiconductors.

3M provided an updated outlook for 2022, with the company now expecting adjusted earnings-per-share of \$10.75 to \$11.25.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$6.32	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$8.75	\$10.12	\$11.00	\$14.04
DPS	\$2.36	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$5.92	\$5.96	\$6.58
Shares²	687	663	635	609	597	595	585	582	578	580	580	565

¹ Estimated date

² Share count in millions

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3M has grown earnings at a rate of 5.4% per year over the last decade. We are reaffirming our expected growth rate of 5%. 3M's dividend growth streak shows that the company can thrive in a wide variety of economic conditions. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.1	17.0	19.1	20.6	20.6	22.3	21.1	19.8	18.7	17.6	13.1	19.0
Avg. Yld.	2.7%	2.2%	2.4%	2.6%	2.6%	2.3%	2.6%	3.2%	3.9%	3.3%	4.1%	2.5%

Shares of 3M have declined \$30, or 17.2%, from our January 25th, 2022 update. We have reaffirmed our 2027 target price-to-earnings ratio of 19 as this is in-line with the stock's average multiple since 2012. Based off of estimates for 2022, shares trade with a price-to-earnings ratio of 13.1. If the stock were to revert to this target, then the valuation would add 7.7% to annual returns through 2027. The current yield of 4.1% is above the stock's 10-year average yield of 2.8% and is nearly triple the average yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

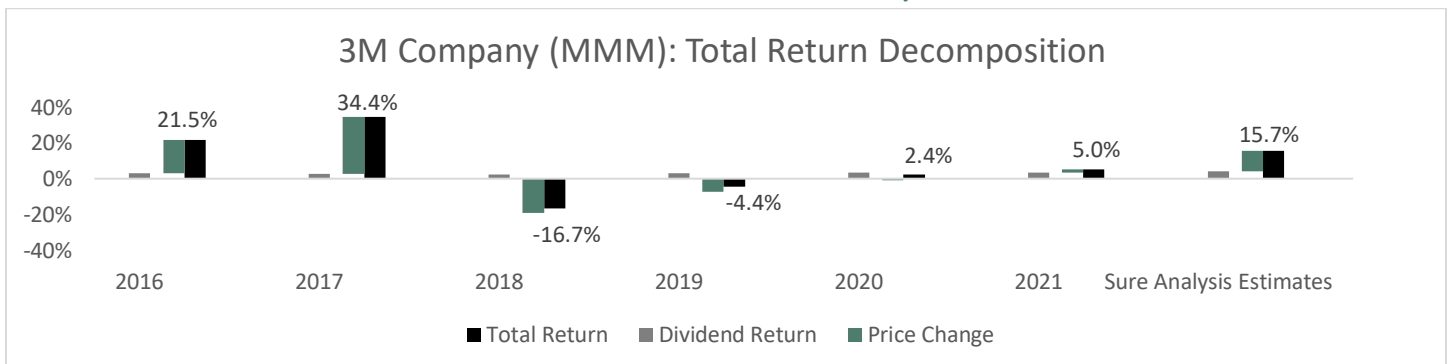
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	38%	46%	54%	54%	52%	52%	63%	67%	58%	54%	47%

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

Following first quarter results, 3M is expected to return 15.7% annually through 2027, up from our previous estimate of 10%. The projected return stems from a 5% earnings growth rate, a 4.1% dividend yield, and a high single-digit tailwind from multiple expansion. Inflationary pressures remain an ongoing headwind for the company, but most segments showed growth in the quarter. The company's dividend growth streak is near unmatched in terms of longevity. We have raised our 2027 price target \$19 to \$267 and reiterate our buy rating on shares of 3M.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	29904	30871	31821	30274	30109	31657	32765	32136	32184	35355
Gross Profit	14219	14765	15374	14891	14991	15602	16083	15000	15579	16560
Gross Margin	47.5%	47.8%	48.3%	49.2%	49.8%	49.3%	49.1%	46.7%	48.4%	46.8%
SG&A Exp.	1288	1371	1408	1435	1474	1544	1488	1593	1911	1915
Operating Profit	6483	6666	7135	6899	7112	7234	6733	6059	6906	7666
Op. Margin	21.7%	21.6%	22.4%	22.8%	23.6%	22.9%	20.5%	18.9%	21.5%	21.7%
Net Profit	4444	4659	4956	4833	5050	4858	5349	4517	5449	5921
Net Margin	14.9%	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.1%	16.9%	16.7%
Free Cash Flow	3816	4152	5133	4959	5242	4867	4862	5371	6612	5851
Income Tax	1840	1841	2028	1982	1995	2679	1637	1114	1337	1285

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	33876	33550	31209	32883	32906	37987	36500	44659	47344	47072
Cash & Equivalents	2883	2581	1897	1798	2398	3053	2853	2353	4634	4564
Acc. Receivable	4061	4253	4238	4154	4392	4911	5020	4791	4705	4660
Inventories	3837	3864	3706	3518	3385	4034	4366	4134	4239	4985
Goodwill & Int.	9310	9033	8485	11850	11486	13449	12708	19823	19637	18774
Total Liabilities	15836	15602	18067	21415	22563	26365	26652	34533	34413	31955
Accounts Payable	2278	2346	2340	2260	1798	1945	2266	2228	2561	2994
Long-Term Debt	6001	6009	6811	10797	11650	13949	14622	20313	18795	17363
Total Equity	17575	17502	13109	11429	10298	11563	9796	10063	12867	15046
LTD/E Ratio	0.34	0.34	0.52	0.94	1.13	1.21	1.49	2.02	1.46	1.15

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.6%	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%	11.7%	12.5%
Return on Equity	26.9%	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%	47.0%	42.4%
ROIC	19.7%	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%	17.3%	18.4%
Shares Out.	687	663	635	609	597	595	585	582	578	580
Revenue/Share	42.52	44.51	48.07	47.51	48.66	51.67	54.43	54.92	55.28	60.40
FCF/Share	5.43	5.99	7.75	7.78	8.47	7.94	8.08	9.18	11.36	10.00

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

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