



# 3M Company (MMM)

Updated January 25<sup>th</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$116	<b>5 Year CAGR Estimate:</b>	13.8%	<b>Market Cap:</b>	\$64 B
<b>Fair Value Price:</b>	\$149	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	02/17/23 <sup>1</sup>
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.1%	<b>Dividend Payment Date:</b>	03/10/23
<b>Dividend Yield:</b>	5.1%	<b>5 Year Price Target</b>	\$190	<b>Years Of Dividend Growth:</b>	64
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 July 26<sup>th</sup>, 2022, 3M announced that Aearo Technologies had filed for bankruptcy as it looks to conclude lawsuits related to its combat ear plugs. On August 26<sup>th</sup>, a U.S. judge ruled that bankruptcy for Aearo would not stop lawsuits against the parent company. On October 13<sup>th</sup>, 2022, a federal appeals court agreed to hear the company's appeal related to the lower court's ruling on bankruptcy for the subsidiary.

On July 26<sup>th</sup>, 2022, 3M announced that it would be spinning off its Health Care segment into a standalone entity, which would have had \$8.6 billion of revenue in 2021. The transaction is expected to close by the end of 2023.

On January 24<sup>th</sup>, 2023, 3M reported announced earnings results for the fourth quarter and full year for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue declined 5.9% to \$8.1 billion, but was \$10 million more than expected. Adjusted earnings-per-share of \$2.28 compared to \$2.31 in the prior year and was \$0.11 less than projected. For 2022, revenue decreased 3% to \$34.2 billion. Adjusted earnings-per-share for the period totaled \$10.10, which compared unfavorably to \$10.12 in the previous year and was at the low end of the company's guidance.

Organic growth for the quarter was 1.2%. Health Care, Transportation & Electronics, and Safety & Industrial grew 1.9%, 1.4%, and 1.3%, respectively. Consumer fell 5.7%. The company will cut 2,500 manufacturing jobs.

3M provided an outlook for 2023, with the company expecting adjusted earnings-per-share in a range of \$8.50 to \$9.00. On a comparable basis, adjusted earnings-per-share for 2022 was \$9.88.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$8.75	\$10.12	\$10.10	<b>\$8.75</b>	<b>11.17</b>
<b>DPS</b>	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$5.92	\$5.98	<b>\$5.96</b>	<b>\$6.58</b>
<b>Shares<sup>2</sup></b>	663	635	609	597	595	585	582	578	580	552	<b>552</b>	<b>540</b>

3M has grown earnings at a rate of 4.6% 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.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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



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On February 8<sup>th</sup>, 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.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.0	19.1	20.6	20.6	22.3	21.1	19.8	18.7	17.6	11.9	13.3	17.0
Avg. Yld.	2.2%	2.4%	2.6%	2.6%	2.3%	2.6%	3.2%	3.9%	3.3%	5.0%	5.1%	3.5%

Shares of 3M have declined \$2, or 1.7%, from our October 25<sup>th</sup>, 2022 update. We now anticipate a five-year target price-to-earnings ratio of 17 compared previously to 19 as this takes into account the long-term quality of the firm balanced out with near term headwinds. Based off of estimates for 2023, shares trade with a price-to-earnings ratio of 13.3. If the stock were to revert to this target, then the valuation would add 5.1% to annual returns through 2027. The current yield of 5.1% is well above the stock's 10-year average yield of 3.0% and is more than triple the average yield of the S&P 500.

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

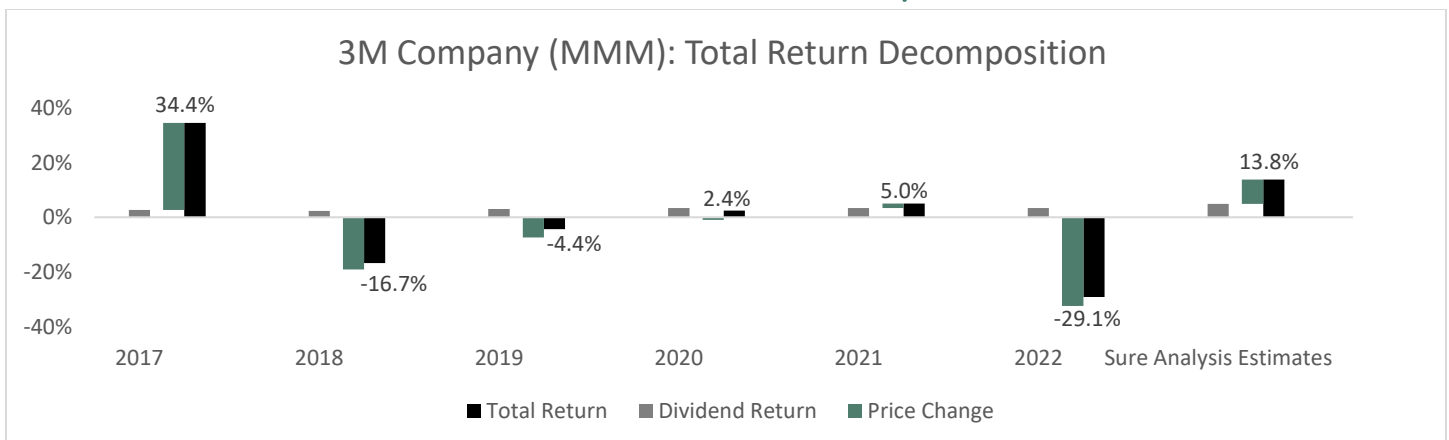
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	38%	46%	54%	54%	52%	52%	63%	67%	58%	59%	68%	59%

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 13.8% annually through 2028, down from our previous estimate of 16.5%. The projected return stems from a 5% earnings growth rate, a 5.1% dividend yield, and a mid-single-digit tailwind from multiple expansion. Most areas saw growth during the quarter, but guidance was weak. We have lowered our 2028 price target \$32 to \$190 due to estimates for the year, but reiterate our buy rating on shares of 3M due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	30871	31821	30274	30109	31657	32765	32136	32184	35355	34229
<b>Gross Profit</b>	14765	15374	14891	14991	15602	16083	15000	15579	16560	14997
<b>Gross Margin</b>	47.8%	48.3%	49.2%	49.8%	49.3%	49.1%	46.7%	48.4%	46.8%	43.8%
<b>SG&amp;A Exp.</b>	1371	1408	1435	1474	1544	1488	1593	1911	1915	9049
<b>Operating Profit</b>	6666	7135	6899	7112	7234	6733	6059	6906	7666	
<b>Op. Margin</b>	21.6%	22.4%	22.8%	23.6%	22.9%	20.5%	18.9%	21.5%	21.7%	4086
<b>Net Profit</b>	4659	4956	4833	5050	4858	5349	4517	5449	5921	11.9%
<b>Net Margin</b>	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.1%	16.9%	16.7%	5777
<b>Free Cash Flow</b>	4152	5133	4959	5242	4867	4862	5371	6612	5851	16.9%
<b>Income Tax</b>	1841	2028	1982	1995	2679	1637	1114	1337	1285	3842

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	33550	31209	32883	32906	37987	36500	44659	47344	47072	46455
<b>Cash &amp; Equivalents</b>	2581	1897	1798	2398	3053	2853	2353	4634	4564	3655
<b>Acc. Receivable</b>	4253	4238	4154	4392	4911	5020	4791	4705	4660	4532
<b>Inventories</b>	3864	3706	3518	3385	4034	4366	4134	4239	4985	5372
<b>Goodwill &amp; Int.</b>	9033	8485	11850	11486	13449	12708	19823	19637	18774	17489
<b>Total Liabilities</b>	15602	18067	21415	22563	26365	26652	34533	34413	31955	31685
<b>Accounts Payable</b>	2346	2340	2260	1798	1945	2266	2228	2561	2994	3183
<b>Long-Term Debt</b>	6009	6811	10797	11650	13949	14622	20313	18795	17363	15939
<b>Total Equity</b>	17502	13109	11429	10298	11563	9796	10063	12867	15046	14770
<b>LTD/E Ratio</b>	0.34	0.52	0.94	1.13	1.21	1.49	2.02	1.46	1.15	1.08

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%	11.7%	12.5%	12.4%
<b>Return on Equity</b>	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%	47.0%	42.4%	38.8%
<b>ROIC</b>	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%	17.3%	18.4%	18.3%
<b>Shares Out.</b>	663	635	609	597	595	585	582	578	580	552
<b>Revenue/Share</b>	44.51	48.07	47.51	48.66	51.67	54.43	54.92	55.28	60.40	60.30
<b>FCF/Share</b>	5.99	7.75	7.78	8.47	7.94	8.08	9.18	11.36	10.00	6.77

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

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