



3M Company (MMM)

Updated January 25th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$116	5 Year CAGR Estimate:	13.8%	Market Cap:	\$64 B
Fair Value Price:	\$149	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/17/23 ¹
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	03/10/23
Dividend Yield:	5.1%	5 Year Price Target	\$190	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 July 26th, 2022, 3M announced that Aearo Technologies had filed for bankruptcy as it looks to conclude lawsuits related to its combat ear plugs. On August 26th, a U.S. judge ruled that bankruptcy for Aearo would not stop lawsuits against the parent company. On October 13th, 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 26th, 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 24th, 2023, 3M reported announced earnings results for the fourth quarter and full year for the period ending December 31st, 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
EPS	\$6.72	\$7.49	\$7.58	\$8.16	\$9.10	\$10.46	\$9.10	\$8.75	\$10.12	\$10.10	\$8.75	11.17
DPS	\$2.54	\$3.42	\$4.10	\$4.44	\$4.70	\$5.44	\$5.76	\$5.88	\$5.92	\$5.98	\$5.96	\$6.58
Shares²	663	635	609	597	595	585	582	578	580	552	552	540

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.

¹ Estimated date

² Share count in millions

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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.

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 25th, 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

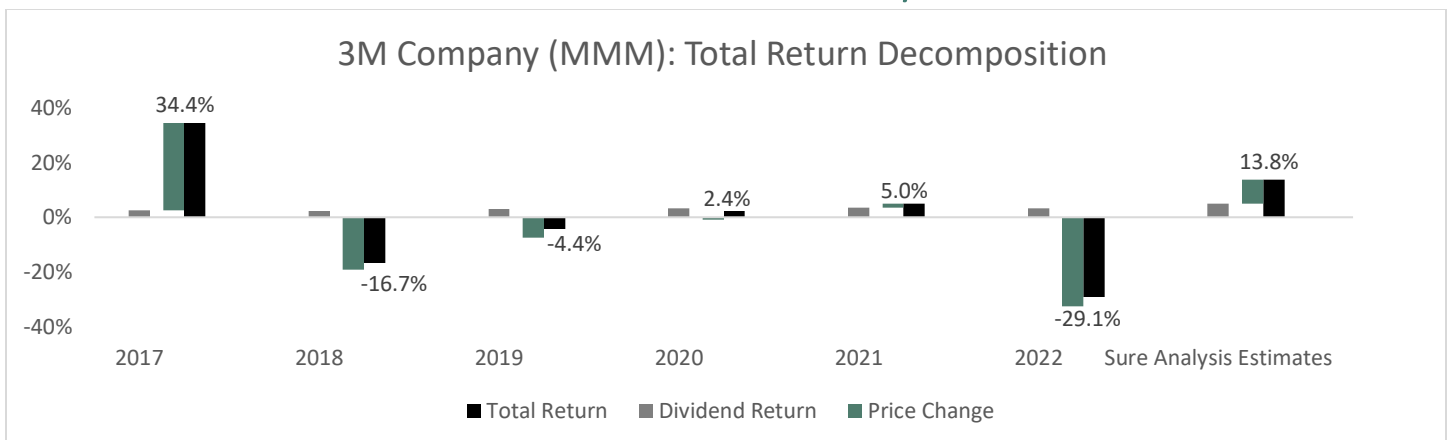
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	38%	46%	54%	54%	52%	52%	63%	67%	58%	59%	68%	59%

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
Revenue	30,871	31,821	30,274	30,109	31,657	32,765	32,136	32,184	35,355	34,229
Gross Profit	14,765	15,374	14,891	14,991	15,602	16,083	15,000	15,579	16,560	14,997
Gross Margin	47.8%	48.3%	49.2%	49.8%	49.3%	49.1%	46.7%	48.4%	46.8%	43.8%
SG&A Exp.	6,384	6,469	6,229	6,115	6,498	7,529	7,030	6,795	6,900	8,801
Operating Profit	1,371	1,408	1,435	1,474	1,544	1,488	1,593	1,911	1,915	1,831
Op. Margin	6,666	7,135	6,899	7,112	7,234	6,733	6,059	6,906	7,666	4,334
Net Profit	21.6%	22.4%	22.8%	23.6%	22.9%	20.5%	18.9%	21.5%	21.7%	12.7%
Net Margin	4,659	4,956	4,833	5,050	4,858	5,349	4,517	5,449	5,921	5,777
Free Cash Flow	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.1%	16.9%	16.7%	16.9%
Income Tax	4,152	5,133	4,959	5,242	4,867	4,862	5,371	6,612	5,851	3,842

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	33,550	31,209	32,883	32,906	37,987	36,500	44,659	47,344	47,072	46,455
Cash & Equivalents	2,581	1,897	1,798	2,398	3,053	2,853	2,353	4,634	4,564	3,655
Acc. Receivable	4,253	4,238	4,154	4,392	4,911	5,020	4,791	4,705	4,660	4,532
Inventories	3,864	3,706	3,518	3,385	4,034	4,366	4,134	4,239	4,985	5,372
Goodwill & Int.	9,033	8,485	11,850	11,486	13,449	12,708	19,823	19,637	18,774	17,489
Total Liabilities	15,602	18,067	21,415	22,563	26,365	26,652	34,533	34,413	31,955	31,685
Accounts Payable	2,346	2,340	2,260	1,798	1,945	2,266	2,228	2,561	2,994	3,183
Long-Term Debt	6,009	6,811	10,797	11,650	13,949	14,622	20,313	18,795	17,363	15,939
Total Equity	17,502	13,109	11,429	10,298	11,563	9,796	10,063	12,867	15,046	14,722
LTD/E Ratio	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
Return on Assets	13.8%	15.3%	15.1%	15.4%	13.7%	14.4%	11.3%	11.7%	12.5%	12.4%
Return on Equity	26.6%	32.4%	39.4%	46.5%	44.4%	50.1%	46.0%	47.0%	42.4%	38.8%
ROIC	19.4%	22.6%	22.9%	22.8%	20.4%	21.4%	16.6%	17.3%	18.4%	18.3%
Shares Out.	663	635	609	597	595	585	582	578	580	552
Revenue/Share	44.51	48.07	47.51	48.66	51.67	54.43	54.92	55.28	60.40	60.30
FCF/Share	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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