



3M Company (MMM)

Updated April 25th, 2023 by Nathan Parsh

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|-----------------------|
| Current Price: | \$106 | 5 Year CAGR Estimate: | 15.9% | Market Cap: | \$58 B |
| Fair Value Price: | \$149 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 05/17/23 ¹ |
| % Fair Value: | 71% | 5 Year Valuation Multiple Estimate: | 7.0% | Dividend Payment Date: | 06/12/23 |
| Dividend Yield: | 5.7% | 5 Year Price Target | \$190 | Years Of Dividend Growth: | 65 |
| 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 first quarter for the period ending March 31st, 2023. For the quarter, revenue declined 9.7% to \$7.7 billion, but was \$190 million more than expected. Adjusted earnings-per-share of \$1.97 compared to \$2.65 in the prior year, but was \$0.37 more than projected.

Organic growth for the quarter fell 5.6% for the period, due primary to the decline in disposable respirators and the exit of the company's Russian operations. Health Care had organic growth of 1.4%, while Transportation & Electronics, Consumer, and Safety & Industrial were down 11.3%, 6.8%, and 6%, respectively. The company also announced that it will cut 6,000 manufacturing jobs, up from 2,500 previously.

3M reaffirmed its prior outlook for 2023, with the company still 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 | \$6.00 | \$6.62 |
| 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 | 12.1 | 17.0 |
| Avg. Yld. | 2.2% | 2.4% | 2.6% | 2.6% | 2.3% | 2.6% | 3.2% | 3.9% | 3.3% | 5.0% | 5.7% | 3.5% |

Shares of 3M have declined \$10, or 8.6%, from our January 25th, 2023 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 12.1. If the stock were to revert to this target, then the valuation would add 7.0% to annual returns through 2028. The current yield of 5.7% 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

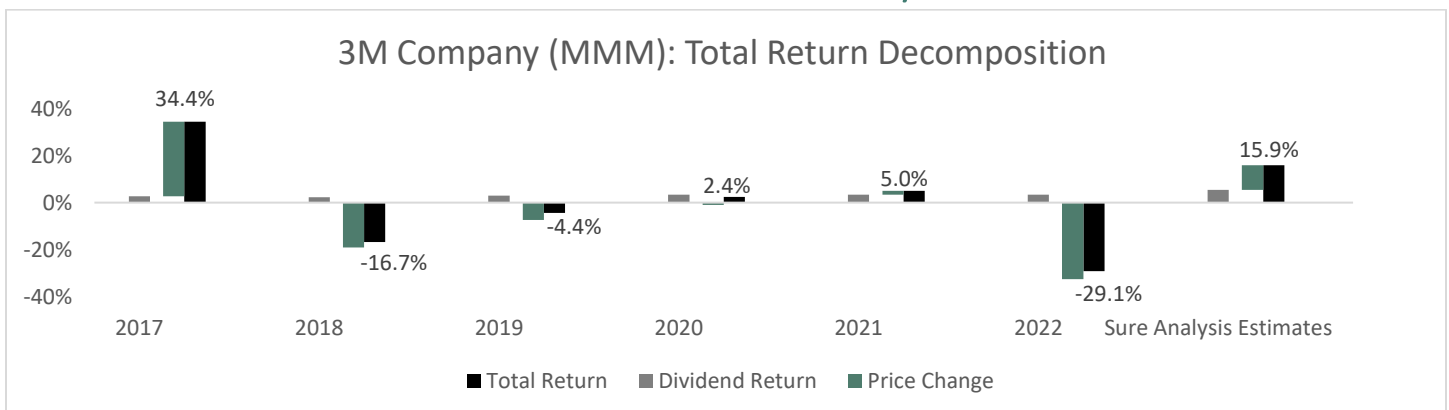
| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 38% | 46% | 54% | 54% | 52% | 52% | 63% | 67% | 58% | 59% | 69% | 59% |

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 15.9% annually through 2028, up from our previous estimate of 13.8%. The projected return stems from a 5% earnings growth rate, a 5.7% dividend yield, and a mid-single-digit tailwind from multiple expansion. Most businesses were down for the quarter and the company announced further job cuts. We maintain our 2028 price target of \$190 due to estimates for the year and 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 | 6,666 | 7,135 | 6,899 | 7,112 | 7,234 | 6,733 | 6,059 | 6,906 | 7,666 | 4,334 |
| Op. Margin | 21.6% | 22.4% | 22.8% | 23.6% | 22.9% | 20.5% | 18.9% | 21.5% | 21.7% | 12.7% |
| Net Profit | 4,659 | 4,956 | 4,833 | 5,050 | 4,858 | 5,349 | 4,517 | 5,449 | 5,921 | 5,777 |
| Net Margin | 15.1% | 15.6% | 16.0% | 16.8% | 15.3% | 16.3% | 14.1% | 16.9% | 16.7% | 16.9% |
| Free Cash Flow | 4,152 | 5,133 | 4,959 | 5,242 | 4,867 | 4,862 | 5,371 | 6,612 | 5,851 | 3,842 |
| Income Tax | 1,841 | 2,028 | 1,982 | 1,995 | 2,679 | 1,637 | 1,114 | 1,337 | 1,285 | 612 |

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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