



# 3M Company (MMM)

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

## Key Metrics

<b>Current Price:</b>	\$89	<b>5 Year CAGR Estimate:</b>	20.7%	<b>Market Cap:</b>	\$49 B
<b>Fair Value Price:</b>	\$154	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	11/17/23 <sup>1</sup>
<b>% Fair Value:</b>	58%	<b>5 Year Valuation Multiple Estimate:</b>	11.6%	<b>Dividend Payment Date:</b>	12/12/23
<b>Dividend Yield:</b>	6.7%	<b>5 Year Price Target</b>	\$196	<b>Years Of Dividend Growth:</b>	65
<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 June 9<sup>th</sup>, 2023, the U.S. Bankruptcy Court in Indiana granted a motion to dismiss Aearo's bankruptcy filing. On September 18<sup>th</sup>, 2023, 3M agreed to pay \$6.01 billion to settle lawsuits regarding the defective ear plugs. Additionally, the company is still waiting to hear if its \$10.3 billion water utility settlement will be approved with more than 20 states.

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 likely to be completed in the first half of 2024.

On October 24<sup>th</sup>, 2023, 3M reported earnings results for the third quarter for the period ending June 30<sup>th</sup>, 2023. For the quarter, revenue declined 3.6% to \$8.3 billion, but this was \$280 million above estimates. Adjusted earnings-per-share of \$2.68 compared to \$2.69 in the prior year, but was \$0.33 more than projected.

Adjusted organic growth fell 3.1% for the period. Health Care had organic growth of 2.4%, while Transportation & Electronics, Consumer, and Safety & Industrial were down 1.8%, 7.2%, and 5.8%, respectively.

3M updated its outlook for 2023 as well, with the company now expecting adjusted earnings-per-share in a range of \$8.95 to \$9.15 for the year, up from \$8.60 to \$9.10 and \$8.50 to \$9.00. On a comparable basis, adjusted earnings-per-share for 2022 was \$9.88. Organic growth for 2023 is now projected to be down 3% compared to a prior range of down 3% to flat.

## 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>\$9.05</b>	<b>\$11.55</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>\$6.00</b>	<b>\$6.62</b>
<b>Shares<sup>2</sup></b>	663	635	609	597	595	585	582	578	580	552	<b>552</b>	<b>540</b>

<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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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.

On February 7<sup>th</sup>, 2023, 3M announced it was raising its quarterly dividend 0.7% to \$1.50, extending the company's dividend growth streak to 65 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	9.8	17.0
Avg. Yld.	2.2%	2.4%	2.6%	2.6%	2.3%	2.6%	3.2%	3.9%	3.3%	5.0%	6.7%	3.4%

Shares of 3M have fallen \$22, or 19.8%, from our July 27<sup>th</sup>, 2023 update. We reaffirm our five-year target price-to-earnings ratio of 17 compared to 19 as this considers the long-term quality of the firm balanced out with near-term headwinds. Based off estimates for 2023, shares trade with a price-to-earnings ratio of 9.8. If the stock were to revert to this target, then the valuation would add 11.6% to annual returns through 2028. The current yield of 6.7% is well above the stock's 10-year average yield of 3.0% and is more than four times the average yield of the S&P 500.

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

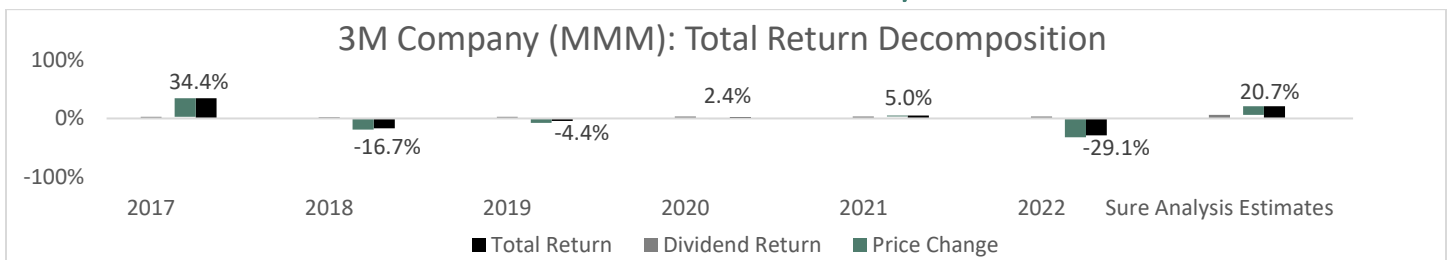
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	38%	46%	54%	54%	52%	52%	63%	67%	58%	59%	66%	57%

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 do not 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) 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 did not 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 20.7% annually through 2028, up from our previous estimate of 15.1%. The projected return stems from a 5% earnings growth rate, a 6.7% dividend yield, and a low double-digit tailwind from multiple expansion. 3M still faces several headwinds, but the settlement of the ear plug lawsuit removes one issue. Most businesses were down for the quarter once again, but the company raised its earnings guidance for the year. We have raised our 2028 price target \$4 to \$196 due to EPS estimates for the year. 3M is not without its issues, but shares earn a buy rating 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>	30,871	31,821	30,274	30,109	31,657	32,765	32,136	32,184	35,355	34,229
<b>Gross Profit</b>	14,765	15,374	14,891	14,991	15,602	16,083	15,000	15,579	16,560	14,997
<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>	6,384	6,469	6,229	6,115	6,498	7,529	7,030	6,795	6,900	8,801
<b>Operating Profit</b>	6,666	7,135	6,899	7,112	7,234	6,733	6,059	6,906	7,666	4,334
<b>Op. Margin</b>	21.6%	22.4%	22.8%	23.6%	22.9%	20.5%	18.9%	21.5%	21.7%	12.7%
<b>Net Profit</b>	4,659	4,956	4,833	5,050	4,858	5,349	4,517	5,449	5,921	5,777
<b>Net Margin</b>	15.1%	15.6%	16.0%	16.8%	15.3%	16.3%	14.1%	16.9%	16.7%	16.9%
<b>Free Cash Flow</b>	4,152	5,133	4,959	5,242	4,867	4,862	5,371	6,612	5,851	3,842
<b>Income Tax</b>	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
<b>Total Assets</b>	33,550	31,209	32,883	32,906	37,987	36,500	44,659	47,344	47,072	46,455
<b>Cash &amp; Equivalents</b>	2,581	1,897	1,798	2,398	3,053	2,853	2,353	4,634	4,564	3,655
<b>Acc. Receivable</b>	4,253	4,238	4,154	4,392	4,911	5,020	4,791	4,705	4,660	4,532
<b>Inventories</b>	3,864	3,706	3,518	3,385	4,034	4,366	4,134	4,239	4,985	5,372
<b>Goodwill &amp; Int.</b>	9,033	8,485	11,850	11,486	13,449	12,708	19,823	19,637	18,774	17,489
<b>Total Liabilities</b>	15,602	18,067	21,415	22,563	26,365	26,652	34,533	34,413	31,955	31,685
<b>Accounts Payable</b>	2,346	2,340	2,260	1,798	1,945	2,266	2,228	2,561	2,994	3,183
<b>Long-Term Debt</b>	6,009	6,811	10,797	11,650	13,949	14,622	20,313	18,795	17,363	15,939
<b>Total Equity</b>	17,502	13,109	11,429	10,298	11,563	9,796	10,063	12,867	15,046	14,722
<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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