

The Case for 3M (MMM)



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Analyst, Co-Portfolio Manager
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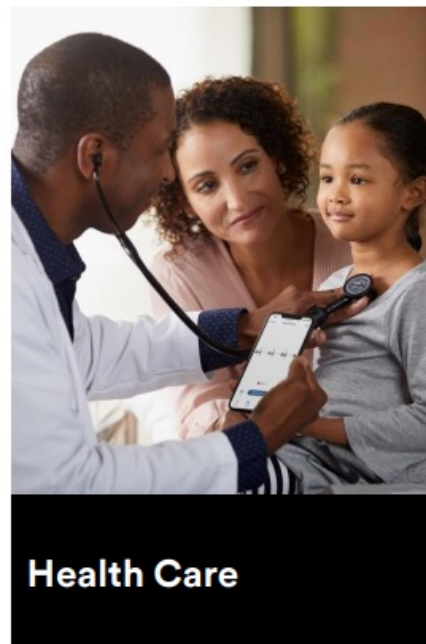
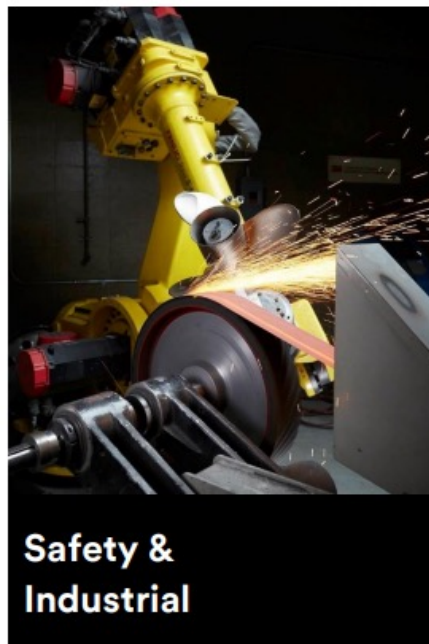
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Business Group performance



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Source: 3M

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Consumer



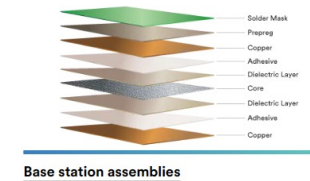
Post-it® Note



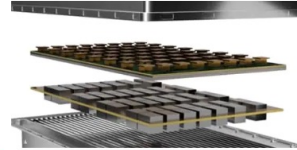
Transportation & Electronics

Adhesive Sealants

Electrical Tapes



Base station assemblies



Copper clad laminates (CCLs)

Healthcare



Bandages & Dressings



Safety & Industrial



Safety Goggles



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Research

Price & Earnings
3M CO (MMM)

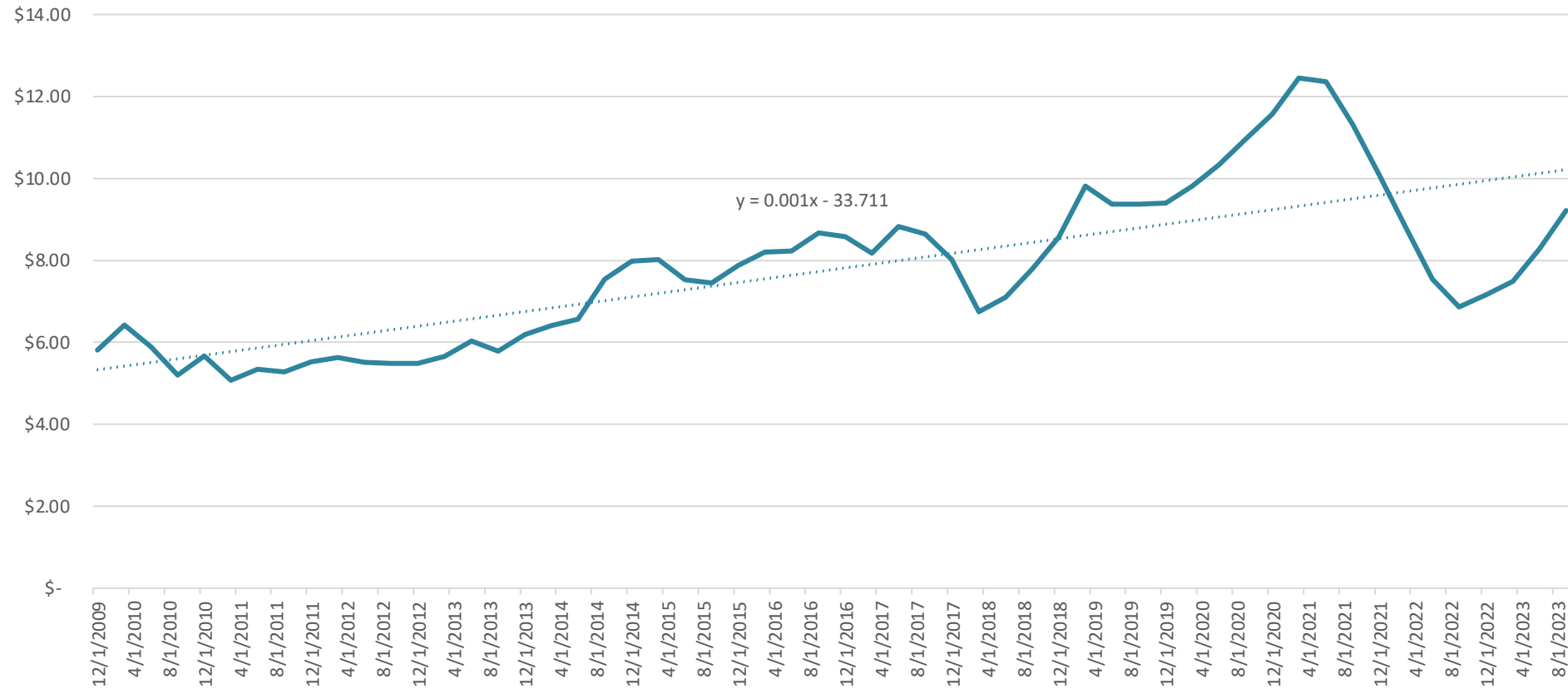
Price \$ | EPS*10



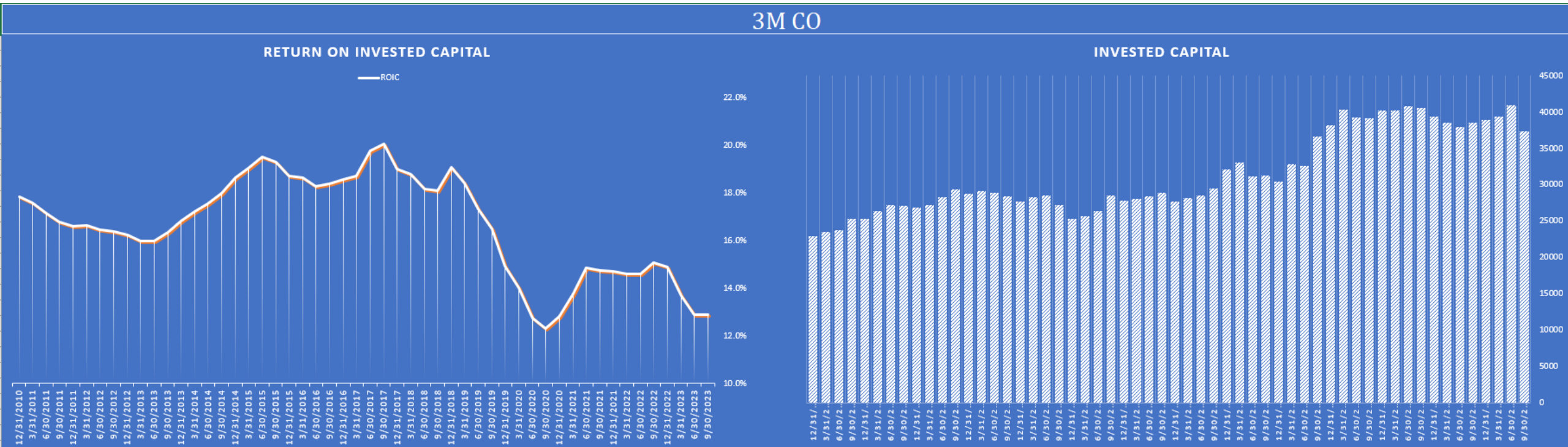
Price Change (%)	Diff SP5	Estimates	2024	2025	2026	Key Statistics			
Intraday	0.62%	1.23%	Mean Estimate	9.77	10.35	11.25	Revenue TTM (\$Mil)	32,681	
1 - Week	-2.97%	-2.05%	Change Y/Y	6%	6%	9%	Market Value	50,749	
4 - Weeks	-15.00%	-17.58%	High	10.60	10.60	11.25	Shares Out (Mil)	553	
QTD	-16.01%	-20.32%	Low	9.38	10.05	11.25	20 Day Daily Vol. (Thou)	5,448	
YTD	-16.01%	-20.32%	Total	5	4	1	20 Day Daily Vol. (\$)	500,247	
2023	-8.84%	-33.07%	#Up (4 weeks)	1	0	0	Dividend Estimate (\$)	1.51	
2022	-32.49%	-13.05%	#Down (4 weeks)	3	1	0	Payout Rate	65%	
2021	1.62%	-25.27%					Retention Rate	35%	
Last Rpt FYE	Dec-2023	EPS	9.24	PE Intraday	9.4	8.9	8.2	Indicated Dividend Yield	6.62%



MMM Free Cash Flow per share TTM



Core Business Continues to Fetch Attractive Returns on Invested Capital





Summary of Legal Troubles for 3M:

1. Public Water Systems (PWS): State of California sued the company for its usage of PFAS – also known as ‘forever chemicals’ – which are used in products such as fire retardants and even nonstick cookware. The plaintiffs alleged these chemicals have spilled into the environment and also caused damaged health with links to cancer for “98% of California’s approximately 39 million people”. 3M agreed to pay nearly \$12 billion in damages to settle this lawsuit.
2. Combat Arms Earplug (CAE): class action lawsuit from several thousands of US military servicemen and women alleging the company’s earplugs were defective and lead to hearing loss from loud sounds such as gunfire while deployed in combat or in training. 3M agreed to pay \$6 billion to settle these lawsuits.

Majority of these settlements will be paid over 13 years (2023-2036), i.e. not all up front. This is expected to support the company’s liquidity position.



Plans to spin off Healthcare segment, but will retain 20% ownership of the new entity. Spinoff is expected to unlock value by receiving a higher multiple than what investors currently assign the company.

Spinoff expected to generate a \$7 billion one-time dividend, which will bolster the balance sheet.

Laying off 6000 employees worldwide, supply chain simplification, prioritize high growth markets, cost-cutting measures. Company reiterated net impact of this restructuring should be accretive to operating income by \$700-900 million in 2024.



On January 22, 2024, Fitch Ratings assigned 3M “A-” Rating with Outlook Stable based on expectations of:

\$6.5 billion EBITDA

Mid-20% EBITDA margins

\$4 billion free cash flow before settlement payments and dividends

\$7 billion one-time dividend from new healthcare spinoff Solventum,

and \$3.5-5 billion additional proceeds from the sale, which will be instrumental in shoring up the balance sheet

Overall expects the company to sustain & move past the \$19 billion total hit from the two lawsuits



2024 full-year guidance

**Adjusted organic
sales growth**

Flat to +2%

(Includes ~ 1 ppt headwind from
portfolio/geographic prioritization)

**Adjusted earnings
per share**

\$9.35 to \$9.75

**Adjusted free cash
flow conversion**

95% to 105%

Note: 2024 guidance approach includes the Health Care business as part of the company for the full year, but does not reflect the potential impact of funding amounts due under the Public Water System and Combat Arms Earplug settlements, absent the receipt of cash payments in the Health Care business spin. See additional details on earlier slide.

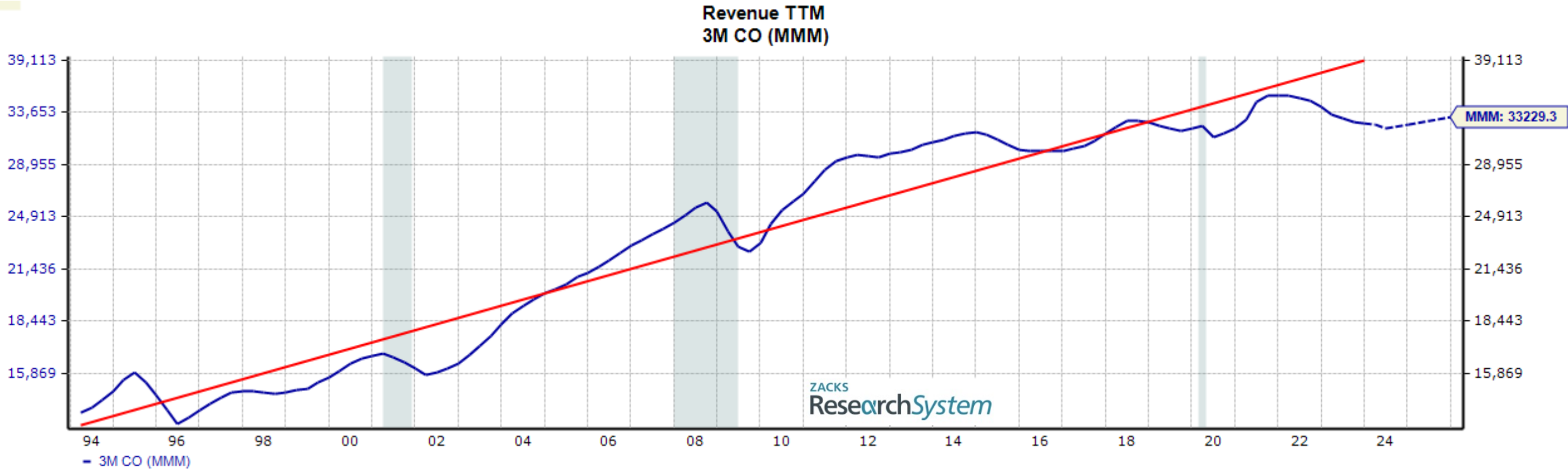


Primary Conclusions



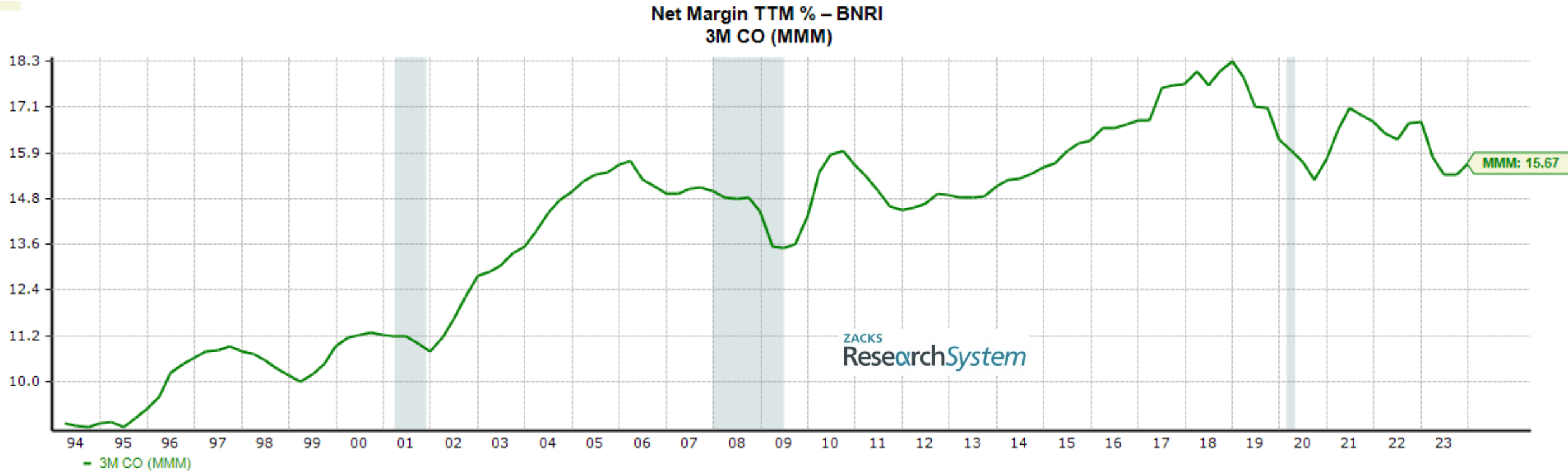
- ☑ Stable forward core business organic growth
- ☑ Stable adjusted margins
- ☑ High quality earnings with 95%-105% free cash flow conversion
- ☑ Deep value multiple @ 10x forward P/E
- ☑ 6.5% dividend yield which is supportable by core FCF

Topline Stabilization & Recovery



Title	High	Low	Median	Current	Start Date	End Date
3M CO (MMM)	35,355.00	13,695.00	24,422.00	32,681.00	03-31-1994	12-31-2023

Adj Net Margin Stabilization & Recovery

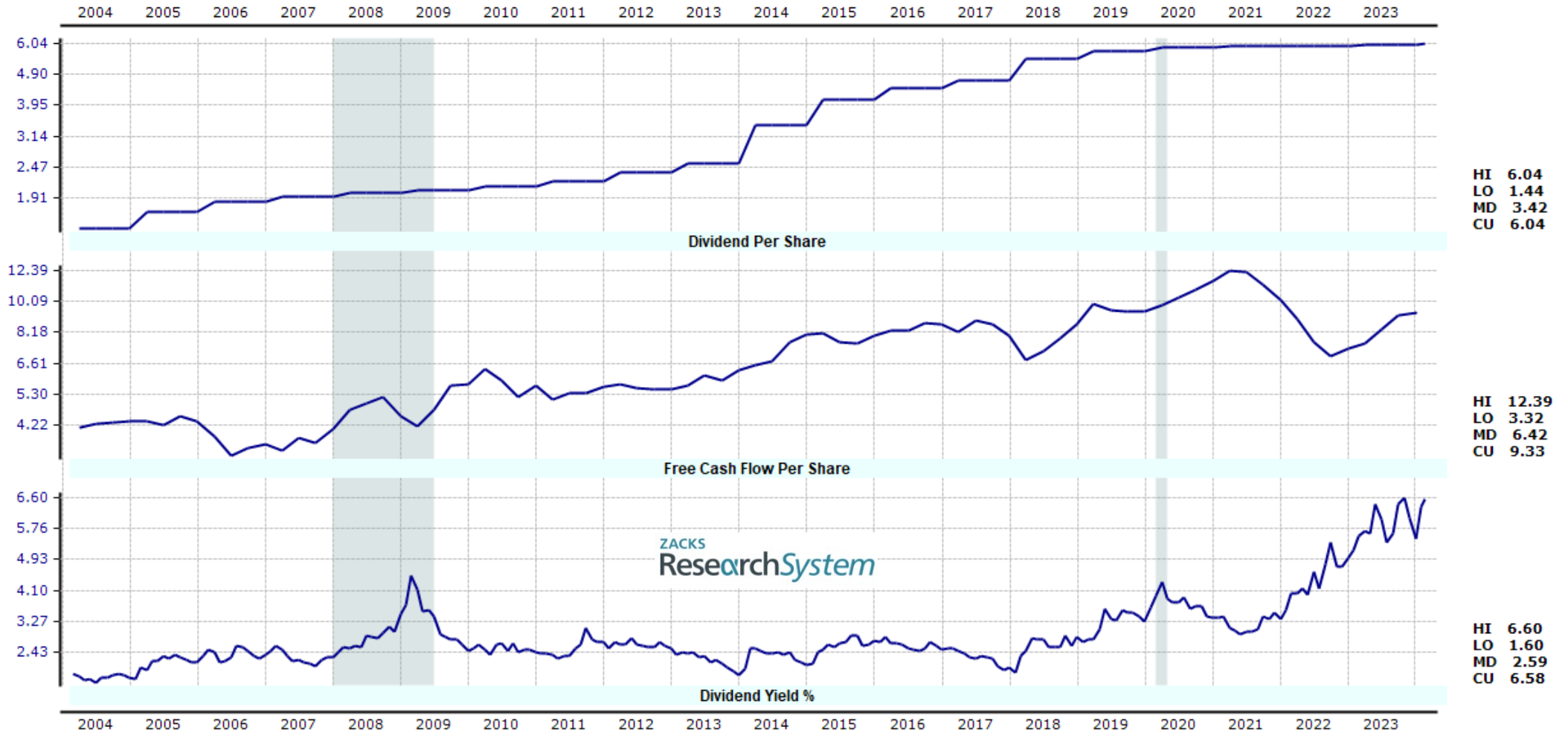


Title	High	Low	Median	Current	Start Date	End Date
3M CO (MMM)	18.33%	8.82%	14.88%	15.67%	03-31-1994	12-31-2023

Core Business Provides Ample Funding for Dividend



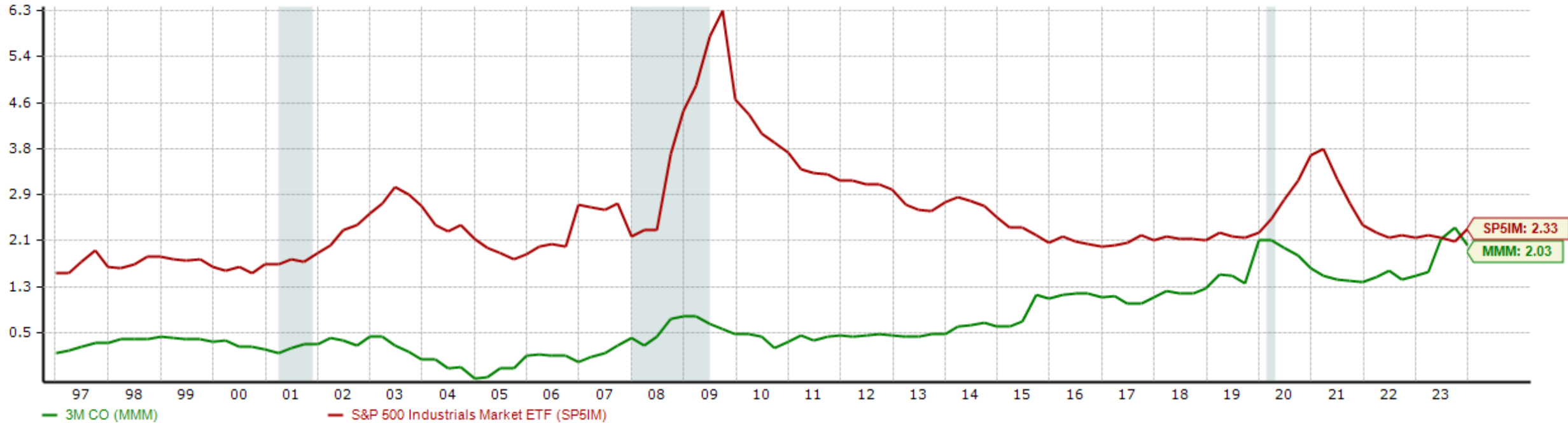
Dividend vs Free Cash Flow
3M CO (MMM), Price: \$91.82



Balance Sheet Really Isn't Atrocious—and on Track to Heal



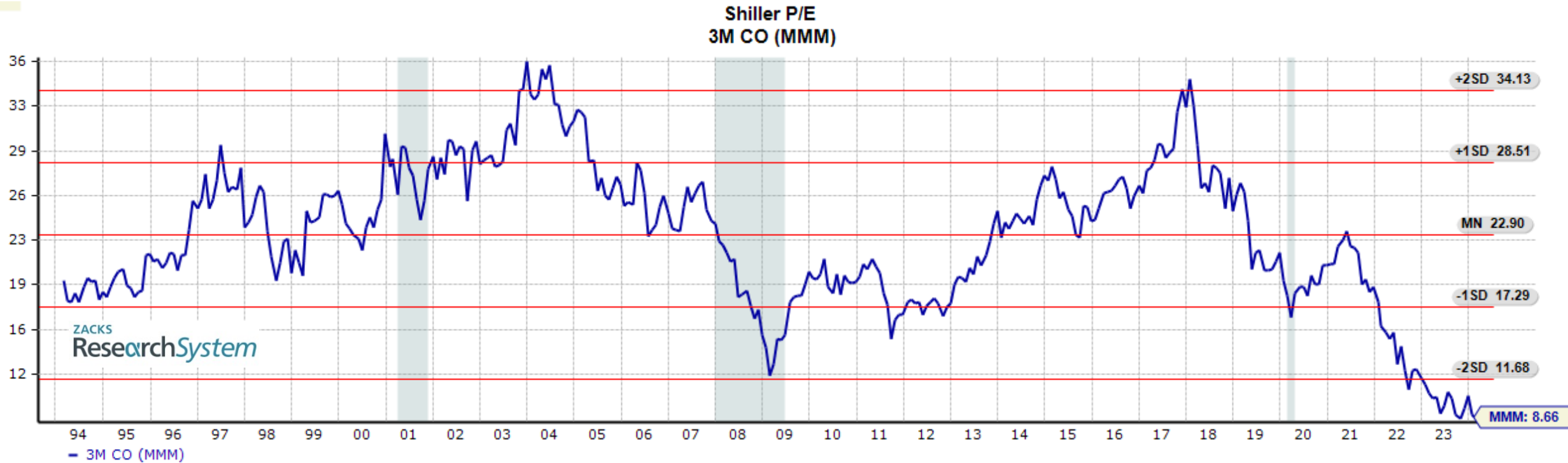
Net Debt / EBITDA
3M CO (MMM) vs. S&P 500 Industrials Market ETF (SP5IM)



Title	High	Low	Median	Current	Start Date	End Date
3M CO (MMM)	2.36	-0.37	0.39	2.03	12-31-1996	12-31-2023
S&P 500 Industrials Market ETF (SP5IM)	6.27	1.52	2.26	2.33	12-31-1996	12-31-2023

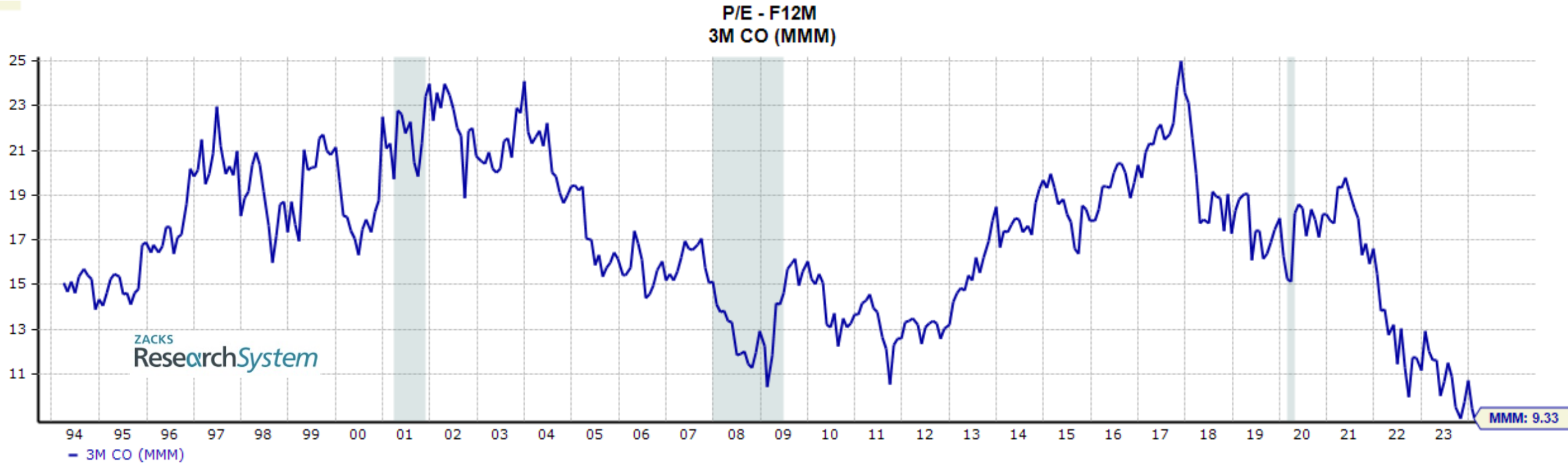
Balance Sheet																		
3M CO (MMM)		Next Expect																
		<input type="radio"/> Annual	<input checked="" type="radio"/> Desc. Dates	<input type="radio"/> Common Size	<input type="radio"/> % Q/Q [Q-1]	<input checked="" type="radio"/> Aggregate	<input checked="" type="radio"/> Millions	<input checked="" type="radio"/> Chart Value	Fiscal Hist									
		<input checked="" type="radio"/> Quarterly	<input type="radio"/> Asc. Dates	<input type="radio"/> None	<input checked="" type="radio"/> % Q/Q [Q-4]	<input type="radio"/> Per Share	<input type="radio"/> Thousands	<input type="radio"/> Chart %Chg	15 Years									
Millions	2023 Q4 12/31/23	%YOY	2023 Q3 09/30/23	%YOY	2023 Q2 06/30/23	%YOY	2023 Q1 03/31/23	%YOY	2022 Q4 12/31/22	%YOY	2022 Q3 09/30/22	%YOY	2022 Q2 06/30/22	%YOY	2022 Q1 03/31/22	%YOY	2021 Q4 12/31/21	%YOY
Cash & Equivalents	5,986	53.8	5,213	45.2	4,314	44.6	3,969	18.2	3,893	-18.3	3,589	-37.4	2,984	-45.7	3,359	-34.6	4,765	-5.4
Accounts Receivable	4,750	4.8	4,852	2.8	4,947	0.7	4,638	-3.7	4,532	-2.7	4,722	-3.9	4,914	-1.5	4,815	0.0	4,660	-1.0
Inventory	4,822	-10.2	5,065	-9.8	5,280	-6.5	5,306	0.3	5,372	7.8	5,615	13.4	5,645	16.6	5,290	18.7	4,985	17.6
Other Current Assets	821	-7.9	1,068	10.2	1,213	24.9	1,050	6.3	891	-10.3	969	17.2	971	-3.9	988	5.9	993	-0.7
Total Current Assets	16,379	11.5	16,198	8.7	15,754	8.5	14,963	3.5	14,688	-4.6	14,895	-9.3	14,514	-11.2	14,452	-5.8	15,403	2.8
Net Property Plant & Equipment	9,159	-0.2	9,004	-2.1	9,211	-1.2	9,247	-1.5	9,178	-2.7	9,196	-1.4	9,319	-0.4	9,389	1.6	9,429	0.1
Other Non-Current Assets	7,130	66.9	6,592	73.5	5,764	98.1	4,353	64.9	4,271	63.8	3,800	42.5	2,909	19.2	2,640	11.3	2,608	6.9
Intangibles	17,153	-1.9	17,045	-2.5	17,339	-4.0	17,440	-5.8	17,489	-6.8	17,484	-8.1	18,057	-6.4	18,509	-4.4	18,774	-4.4
Total Assets	50,580	8.9	49,621	7.5	48,880	7.1	46,886	2.2	46,455	-1.3	46,176	-4.4	45,634	-5.5	45,855	-2.8	47,072	-0.6
Accounts Payable	3,245	1.9	3,104	1.3	3,231	-1.3	3,130	-1.1	3,183	6.3	3,063	7.0	3,273	11.7	3,164	18.5	2,994	16.9
Current Debt	2,947	52.1	3,137	69.0	3,033	34.4	3,012	60.5	1,938	48.3	1,856	-5.9	2,257	13.9	1,877	37.2	1,307	62.2
Other Current Liabilities	8,880	114.4	8,991	105.1	4,428	7.7	4,151	7.8	4,141	-7.4	4,383	-3.4	4,110	-3.5	3,850	-5.1	4,471	3.4
Total Current Liabilities	15,297	60.6	15,466	62.1	10,936	10.5	10,556	15.3	9,523	5.4	9,543	-1.0	9,896	4.8	9,152	9.4	9,035	13.7
Long Term Debt	13,088	-6.5	12,876	-7.0	12,954	-7.6	12,948	-12.5	14,001	-12.8	13,849	-14.5	14,019	-13.8	14,801	-12.0	16,056	-10.7
Minority Interest	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Other Long-Term Liabilities	16,793	121.5	15,998	98.5	16,563	126.3	7,404	17.7	7,581	20.9	8,058	9.8	7,319	-2.2	6,290	-16.8	6,273	-20.3
Total Liabilities	45,712	44.3	44,890	40.2	41,023	28.9	31,535	2.2	31,685	-0.8	32,020	-5.1	31,818	-5.8	30,851	-7.5	31,955	-7.1
Preferred Stock	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Common Equity	4,868	-67.0	4,731	-66.6	7,857	-43.1	15,351	2.3	14,770	-2.3	14,156	-2.6	13,816	-4.8	15,004	8.5	15,117	16.9
Shareholders Equity	4,868	-67.0	4,731	-66.6	7,857	-43.1	15,351	2.3	14,770	-2.3	14,156	-2.6	13,816	-4.8	15,004	8.5	15,117	16.9
Total Liabilities & Equity	50,580	8.9	49,621	7.5	48,880	7.1	46,886	2.2	46,455	-1.3	46,176	-4.4	45,634	-5.5	45,855	-2.8	47,072	-0.6

Shares now trade at the lowest multiple to 'normalized' EPS in decades



Title	High	Low	Median	Current	Start Date	End Date
3M CO (MMM)	36.45	8.57	23.33	8.66	02-28-1994	02-20-2024

Forward P/E Is Now Lowest in Modern History



Title	High	Low	Median	Current	Start Date	End Date
3M CO (MMM)	25.36	9.33	17.68	9.33	03-31-1994	02-20-2024



The combination of a world-class consumer brand, recession-resilience, strong core business, and deep value multiple is setting up for a tremendous opportunity to achieve outsized returns over the next 3-5 years.



Price Target: \$200 by 12/2028
16% IRR, plus 6.5% annual dividend

Only three things need to happen:

1. Company settles & moves past these two controversies.
2. Organic growth returns to the 3% range per annum
3. Operating margin stabilizes around 20%

I believe its likely 3M achieves these modest targets.
For a business like 3M, #2 and #3 are likely. Biggest question remains on #1.

Thank You for Attending!



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Questions?



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