3M Company (MMM)

$165.86 (As of 08/13/20)

Price Target (6-12 Months): **$172.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/29/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: B | Momentum: C	**3-Hold** VGM:B

Summary

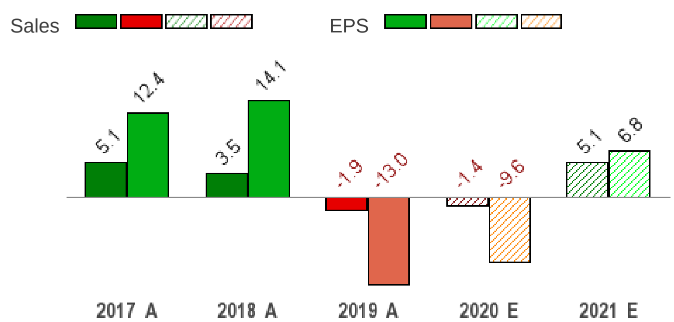
3M stands to gain from its solid product portfolio, restructuring actions and shareholder-friendly policies over the long run. Also, the company's acquisitions and divestments will work in its favour. Restructuring and cost-reduction actions too will be beneficial. Cost-savings of $400 million was realized in the second quarter. Earnings in the quarter surpassed estimates by 0.56%, while sales lagged the same by 1.27%. For the third quarter, the company expects the pandemic-induced demand for respirators to boost organic sales by 300-350 basis points. However, it refrained from providing projections for 2020 due to the pandemic-related uncertainties. This apart, woes related to stiff competition, huge debts and forex woes might be concerning. Over the past three months, the company's shares have underperformed the industry.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$182.55 - $114.04**
20 Day Average Volume (sh)	**2,834,203**
Market Cap	**$94.6 B**
YTD Price Change	**-6.9%**
Beta	**0.95**
Dividend / Div Yld	**$5.88 / 3.6%**
Industry	**[Diversified Operations]**
Zacks Industry Rank	**Bottom 23% (194 out of 253)**
Last EPS Surprise	**0.6%**
Last Sales Surprise	**-1.3%**
EPS F1 Est- 4 week change	**4.0%**
Expected Report Date	**10/22/2020**
Earnings ESP	**-0.1%**
P/E TTM	**19.4**
P/E F1	**20.2**
PEG F1	**2.0**
P/S TTM	**3.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	8,281 E	8,137 E	8,477 E	8,318 E	33,296 E
2020	8,075 A	7,176 A	7,990 E	8,121 E	31,676 E
2019	7,863 A	8,171 A	7,991 A	8,111 A	32,136 A

EPS Estimates

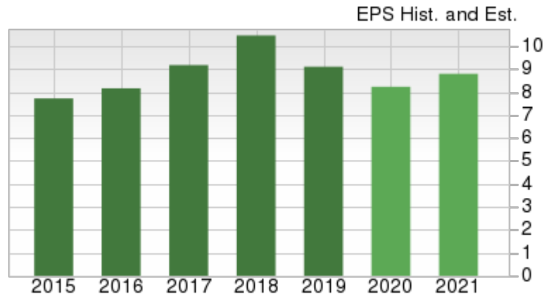
	Q1	Q2	Q3	Q4	Annual*
2021	$2.24 E	$2.13 E	$2.34 E	$2.19 E	$8.79 E
2020	$2.16 A	$1.78 A	$2.15 E	$2.21 E	$8.23 E
2019	$2.23 A	$2.20 A	$2.58 A	$1.95 A	$9.10 A

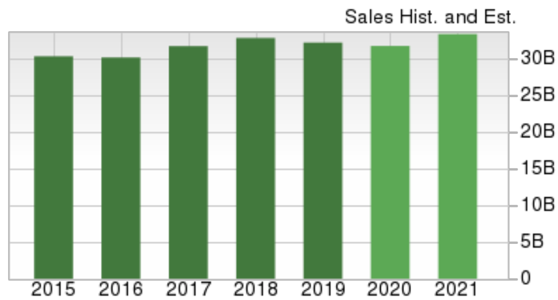
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/13/2020. The reports text is as of 08/14/2020.

Overview

Conglomerate 3M's focus on business transformation — with moves like the localization of decision making and integration of supply chains — enhances its competitive advantage. Also, its recognized product brands and investments in innovation are compelling. Inorganic actions (buyouts and divestments) are added advantages. Acelity, since acquired in October 2019, has been strengthening 3M's medical solutions business. Being one of the largest manufacturers of respiratory masks, the coronavirus outbreak added to the company's growth potential.





Headquartered in St. Paul, MN, and founded in 1902, 3M Company together with its subsidiaries operates as a diversified technology firm. It has manufacturing operations across the globe and serves diversified customer base primarily in the United States, Europe, Middle East and Africa; Latin America/Canada; and the Asia Pacific regions. Exiting 2019, the company had 96,000 employees. The company has four business segments.

- The Safety & Industrial segment mainly serves customers in the electrical, safety and industrial markets across the globe. The segment includes industrial adhesives and tapes, personal safety, abrasives, closure and masking systems, roofing granules, automotive aftermarket, electrical markets, and other safety and industrial businesses.

- The Transportation & Electronics segment primarily serves original equipment manufacturers (OEMs) in the electronics and transportation industries across the globe. The segment includes electronics, commercial solutions, advanced materials, transportation safety, automotive and aerospace, and other related businesses.

- The Health Care segment engages in serving customers in the global healthcare industry. Businesses within the segment are oral care, medical solutions, food safety, separation and purification sciences, health information systems, and other miscellaneous healthcare businesses.

- The Consumer segment provides office supply, stationery, home improvement products, home care products and consumer health care products. In addition, the segment's Construction and Home Improvement Division offers some retail auto care products.

Reasons To Buy:

▲ In the long term, 3M intends to become more competent on the back of product-portfolio solidification. Its household products like Nexcare, Post-it, Scotch, Scotch-Brite and Scotchgard are market leaders in their individual categories. Also, 3M's value model that comprises four priorities, namely Portfolio (detailed in the next point), Innovation, Transformation, and People and Culture helps strengthen its margins. In addition, the company is working to transform its businesses through a streamlined operational structure and its new operating model (global). In the near term, the company remains focused on generating healthy cash flow, and ensuring the safety of its employees, shareholders and customers in the present environment. It noted that it is presently experiencing high demand in personal safety, general cleaning, home improvement, biopharma filtration and other markets. For third-quarter 2020, the company expects sequential improvement in global economy. Also, the company's sales trend — as evident from available data for the month of July — is quite promising. In addition, 3M believes that the pandemic-induced demand for respirators is anticipated to increase organic sales by 300-350 basis points in the third quarter.

3M expects to gain from a solid product portfolio, restructuring actions, acquired assets and shareholder-friendly policies. The pandemic-induced demand for certain product might help.

▲ In sync with its portfolio priority, the company divested its communication markets business in 2018, gas and flame detection business to Teledyne Technologies in August 2019, and advanced ballistic-protection business to Avon Rubber in January 2020. Also, in May 2020, 3M completed the divestment of its drug delivery business to an affiliate of Altaris Capital Partners. With regard to buyouts, 3M added M*Modal's technology business to its portfolio in February 2019. The buyout has been strengthening 3M's health information systems business and will likely continue aiding it over the long term. Moreover, 3M acquired Acelity Inc. and its KCI subsidiaries in October 2019. The buyout has been fortifying 3M's medical solutions business under the Health Care segment. Notably, its acquired assets and divestments had a net positive impact of 4.2% on sales in the first quarter and 2.4% on sales in the second quarter of 2020.

▲ 3M worked on restructuring and other actions to cut costs, boost productivity and increase cash flow generation (by lowering capital investments, reducing inventories and increasing indirect cost actions) in the second quarter of 2019. These restructuring actions positively impacted the company's top-line performance in second-quarter 2020. Also, it is working on lowering its workforce by 1,500. In addition, the company's cost-saving actions in the light of the pandemic generated savings of $400 million in the second quarter of 2020. Further, the company remains committed to rewarding its shareholders handsomely through dividend payments and share buybacks. During the first half of 2020, it paid out dividends totaling $1,693 million to its shareholders and bought back shares worth $366 million (all repurchases were done in first-quarter 2020). Notably, dividend payouts of $1,660 million and share buybacks worth $1,101 million were done in the first half of 2019. The quarterly dividend was hiked by 2% or 3 cents per share in February 2020. In the prevalent difficult conditions, 3M continues to use its capital for dividend payments and organic investments, while has suspended its share-buyback activities. Resumption of share repurchases will depend on the severity of the pandemic. In the past 30 days, the company's earnings estimates have been raised 4.9% for the third quarter of 2020, 4% for 2020 and 2.9% for 2021.

Reasons To Sell:

- In the past three months, 3M's shares have gained 20.8% compared with the industry's growth of 22.5%. In second-quarter 2020, the company's earnings declined 16.4% year over year due mainly due to the adverse impacts of fall in organic sales, multiple woes related to the pandemic and unfavorable movements in foreign currencies. The severity of these headwinds was partially offset by a fall in share count, lower tax rate and $400 million of savings from cost-reduction measures. The company remains wary of the pandemic's impact on its operations and refrained from providing projections for 2020.

- Geographical diversification is reflective of 3M's flourishing business. However, the diversity exposed the company to headwinds arising from geopolitical issues, macroeconomic challenges and unfavorable movements in foreign currencies. In the second quarter, forex woes had an adverse 1.5% impact on sales and 5 cents on earnings per share. Further, the company faces tremendous local competitive pressure, whether it is in Brazil, China, India or Indonesia. In order to reduce the competitive pressure, it has to invest significantly in R&D to locally develop and manufacture products. These are likely to put pressure on its finances and hence might impact profitability.

Adversities related to the coronavirus outbreak, forex woes and huge debts might be concerning for 3M in the quarters ahead. Also, stiff competition might ail.

- A highly leveraged balance sheet can inflate 3M's financial obligations and subsequently hurt profitability. In the last five years (2015-2019), the company's long-term debt rose 14.9% (CAGR). Notably, the metric stood at $19.3 billion at the end of the second quarter of 2020. Interest expenses (net of interest income) increased 37.6% year over year to $128 million in the second quarter. In addition to high debts, it is the company's ability to repay its financial obligations that are more concerning. The company's cash and cash equivalents was just $4.2 billion at the end of the second quarter, while its net cash generation from operating activities totaled $1.9 billion.

Last Earnings Report

3M Q2 Earnings Surpass Earnings, Fall Y/Y on Weak Sales

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	-1.27%
EPS Surprise	0.56%
Quarterly EPS	1.78
Annual EPS (TTM)	8.47

3M has reported better-than-expected bottom-line results for the second quarter of 2020, with earnings surpassing the Zacks Consensus Estimate by 0.56%. However, sales lagged estimates by 1.27%.

Its adjusted earnings in the reported quarter were $1.78 per share, surpassing the Zacks Consensus Estimate of $1.77. However, the bottom line decreased 16.4% from the year-ago quarter figure of $2.13.

The results suffered from the adverse impacts of organic sales decline, various woes related to the pandemic, acquisitions/divestitures and forex woes (5 cents per share). However, savings from cost-related actions (to the tune of $400 million), lower tax rate and a fall in share count positively impacted results.

Sales Details

In the quarter under review, 3M's net sales were $7,176 million, reflecting a decline of 12.2% from the year-ago quarter. Also, the company's net sales lagged the Zacks Consensus Estimate of $7,269 million.

Results suffered from a 13.1% year-over-year decrease in organic sales, a 1.5% negative impact of divestitures and a 1.5% adverse impact of foreign currency translation. However, acquisitions had a positive impact of 3.9%. Notably, higher demand for respirator due to the virus outbreak added $225 million (or 2.8 percentage points) in organic sales in the quarter.

Business was weak in automotive OEM/aftermarket, general industrial, commercial solutions, healthcare elective procedures and office supplies. Partially offsetting these headwinds were strength across the biopharma filtration, personal safety, general cleaning solutions, home improvement, semiconductor and data center.

On a geographical basis, sales in the Americas decreased 12.7% year over year, while that in the Asia Pacific declined 8.5%. Business in the Europe, Middle East and Africa region was weak, with sales falling 16.4% year over year.

The company reports top-line results under four business segments — including Safety & Industrial, Transportation & Electronics, Health Care, and Consumer. The segmental information is briefly discussed below.

Revenues from the Safety and Industrial segment totaled $2,668 million, declining 9.2% year over year. The decline resulted from a 2.2% adverse impact of forex woes, a 0.9% negative impact of divestitures and a 6.1% decrease in organic sales.

Revenues from the Transportation & Electronics segment totaled $1,937 million, reflecting a year-over-year decline of 20.9%. Results were adversely impacted by an 18.9% fall in organic sales, a 0.9% impact of forex woes and a 1.1% negative influence of divestitures.

Revenues from the Health Care segment were $1,825 million, down 0.3% year over year. The positive impact of 17.9% from acquisitions was more than offset by the adverse impact of 12.4% from a fall in organic sales, 4.3% from divestitures and 1.6% from forex woes.

Revenues from the Consumer segment decreased 6.2% year over year to $1,238 million. Forex woes had an adverse impact of 1.2% and organic sales decreased 5% year over year.

Margin Profile

In the quarter under review, 3M's cost of sales declined 11.8% year over year to $3,805 million. It represented 53% of net sales compared with 52.8% in the year-ago quarter. Selling, general and administrative expenses decreased 5.5% year over year to $1,594 million. It represented 22.2% of net sales versus 20.6% in the year-ago quarter. Research, development and related expenses dipped 9.8% year over year to $424 million. It represented 5.9% of the quarter's net sales versus 5.8% in the year-ago quarter.

Adjusted operating income in the quarter under review declined 17.3% year over year to $1,408 million. Operating margin decreased 120 bps year over year to 19.6%. Tax rate in the quarter was 20.7% versus 22.3% in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the second quarter, 3M had cash and cash equivalents of $4,219 million, down 0.8% from $4,253 million at the end of the last reported quarter. Long-term debt balance inched up 0.2% sequentially to $19,276 million.

In the reported quarter, it generated net cash of $1,905 million, reflecting year-over-year growth of 14.6%. Capital used for purchasing property, plant and equipment declined 10% year over year to $379 million. Adjusted free cash flow in the quarter was $1,540 million, up 17.8% from $1,307 million generated in the year-ago quarter. Adjusted free cash flow conversion was at 149%.

During the first half of 2020, the company used $1,693 million for paying out dividends to shareholders and repurchased $366 million treasury shares. Notably, the company paid out dividends of $1,660 million and repurchased shares worth $1,101 million in the first half of 2019.

Outlook

3M remains focused on generating healthy cash flow and ensuring the safety of its employees, shareholders and customers in the present environment. Also, cost-saving actions, and investment in productivity and growth remain priorities for it.

It mentioned that sales improved (on a year-over-year basis) in low-single digits so far in July. Operating margin (adjusted) in the third quarter is expected to be 20-21%. Global economy too is predicted to show sequential improvement in the third quarter.

The company targets to manufacture 2 billion respirators in 2020, more than three times the 2019 level. Further, it expects respirators to boost organic sales by 300-350 bps in the third quarter of 2020.

Recent News

Interim Consent Order

On **Jul 24, 2020**, 3M and the Alabama Department of Environmental Management announced an Interim Consent Order. Notably, the order will help in resolving matters associated with previously disclosed per- and polyfluoroalkyl substances discharges at 3M's Decatur, Ala. Facility.

Collaboration

On **Jul 14, 2020**, 3M announced its collaboration with researchers at MIT for developing a new rapid test, which can detect the virus that causes COVID-19.

Dividend

On **Jun 12, 2020**, 3M paid a quarterly dividend of $1.47 per share to its shareholders of record as of May 22.

Valuation

3M's shares have moved down 6.9% in the year-to-date period and increased 3.4% over the trailing 12 months. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector declined 7.7% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector have increased 3.6%.

The S&P 500 Index has increased 3.3% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 18.95x forward 12-month P/E, which compares to 26.84x for the Zacks sub-industry, 26.84x for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.25x and as low as 12.6x, with a 5-year median of 19.09x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $172 price target reflects 19.9x forward 12-month earnings per share.

The table below shows summary valuation data for MMM.

Valuation Multiples - MMM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.95	26.84	26.84	22.6
	5-Year High	26.25	26.84	26.84	22.62
	5-Year Low	12.6	15.76	15.76	15.25
	5-Year Median	19.09	18.47	18.47	17.58
P/S F12M	Current	2.9	3.85	3.85	3.65
	5-Year High	4.57	3.85	3.85	3.65
	5-Year Low	2.04	2.29	2.29	2.53
	5-Year Median	3.39	3.03	3.03	3.05

As of 08/12/2020

Industry Analysis **Zacks Industry Rank:** Bottom 23% (194 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation **(DHR)**	Outperform	1
Avery Dennison Corporation **(AVY)**	Neutral	3
Carlisle Companies Incorporated **(CSL)**	Neutral	3
Federal Signal Corporation **(FSS)**	Neutral	3
Honeywell International Inc. **(HON)**	Neutral	3
IDEX Corporation **(IEX)**	Neutral	3
ParkerHannifin Corporation **(PH)**	Neutral	3
General Electric Company **(GE)**	Underperform	4

Industry Comparison Industry: Diversified Operations

Industry Peers

	MMM	X Industry	S&P 500	AVY	CSL	HON
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	A	C
Market Cap	94.62 B	5.14 B	23.75 B	10.05 B	6.94 B	112.33 B
# of Analysts	7	1	14	6	4	10
Dividend Yield	3.58%	1.89%	1.68%	1.93%	1.57%	2.25%
Value Score	B	-	-	C	A	B
Cash/Price	0.05	0.25	0.07	0.03	0.11	0.14
EV/EBITDA	15.06	8.64	13.35	23.38	9.55	12.75
PEG Ratio	1.98	2.56	2.98	2.90	1.51	3.01
Price/Book (P/B)	8.67	1.00	3.20	8.28	2.76	6.12
Price/Cash Flow (P/CF)	13.66	7.19	12.97	13.60	10.54	16.18
P/E (F1)	20.15	19.91	22.17	19.74	22.64	23.12
Price/Sales (P/S)	3.02	0.91	2.54	1.48	1.55	3.25
Earnings Yield	5.01%	4.42%	4.31%	5.06%	4.42%	4.32%
Debt/Equity	1.82	0.80	0.77	1.65	0.83	0.96
Cash Flow ($/share)	12.02	2.35	6.94	8.86	12.06	9.89
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	4.06%	10.24%	10.41%	17.06%	10.24%	7.45%
Proj. EPS Growth (F1/F0)	-9.58%	-22.68%	-6.32%	-7.53%	-31.58%	-15.15%
Curr. Cash Flow Growth	-11.15%	9.67%	5.22%	3.06%	19.98%	-1.43%
Hist. Cash Flow Growth (3-5 yrs)	1.67%	7.02%	8.55%	8.17%	13.96%	5.69%
Current Ratio	1.94	1.64	1.33	1.22	3.51	1.63
Debt/Capital	64.56%	44.29%	44.59%	62.20%	45.22%	48.93%
Net Margin	16.38%	2.97%	10.13%	7.68%	8.43%	16.94%
Return on Equity	46.86%	10.35%	14.59%	45.88%	15.60%	29.93%
Sales/Assets	0.70	0.73	0.51	1.19	0.77	0.58
Proj. Sales Growth (F1/F0)	-1.43%	-0.72%	-1.40%	-5.27%	-11.76%	-12.89%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	0.54%	0.00%	0.67%	1.78%	-0.52%	-0.13%
1 Week Price Chg	5.22%	4.01%	2.30%	2.19%	5.74%	3.84%
4 Week Price Chg	3.09%	3.63%	4.87%	1.24%	5.60%	5.36%
12 Week Price Chg	9.74%	12.30%	13.54%	13.91%	8.89%	17.67%
52 Week Price Chg	3.43%	-13.71%	6.06%	9.61%	-8.87%	-2.42%
20 Day Average Volume	2,834,203	53,124	2,006,991	602,229	518,903	3,285,625
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	4.05%	0.00%	1.95%	4.57%	2.10%	0.17%
(F1) EPS Est 12 week change	3.90%	0.00%	2.72%	5.72%	0.00%	-0.33%
(Q1) EPS Est Mthly Chg	4.90%	0.00%	0.84%	7.85%	-12.36%	-6.98%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.