



## COMPANY UPDATE / ESTIMATE CHANGE

### Key Metrics

MMM - NYSE - as of	6/27/17	\$209.78
Price Target		--
52-Week Range	\$163.85 -	\$214.57
Shares Outstanding (mm)		597.2
Market Cap. (\$mm)		\$125,288.9
1-Mo. Average Daily Volume		1,837,019
Institutional Ownership		68.1%
Net Debt/Total Capital	Q1'17	46.4%
ROE	TTM	44.8%
Book Value / Share	Q1'17	\$17.96
Price / Book Value		11.7x
Dividend Yield		2.2%
Adj EBITDA Margin	TTM	28.8%

### EPS Fiscal Year 12/31

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$2.05	--	\$2.16	A --	--
2Q	\$2.08	\$2.30	\$2.29	--	--
3Q	\$2.15	\$2.29	\$2.31	--	--
4Q	\$1.88	\$2.02	\$2.05	--	--
Year	\$8.16	\$8.78	\$8.81	\$9.31	\$9.34
P/E	25.7x		23.8x		22.5x

\* adjusted for special items

### Revenue (\$mm)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$7,409	--	\$7,685	A --	--
2Q	\$7,662	\$7,910	\$7,890	--	--
3Q	\$7,709	\$7,880	\$7,930	--	--
4Q	\$7,329	\$7,630	\$7,680	--	--
Year	\$30,109	\$31,105	\$31,185	\$32,430	\$32,620

**Company Description:** *3M Company applies science in collaborative ways to improve lives daily. With ~\$30 billion in annual sales and nearly 90,000 employees globally, MMM connects with customers around the world. The St. Paul, MN, based company holds 5 segments: Industrial, Safety & Graphics, Electronics & Energy, Health Care and Consumer.*

### Industrials

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## 3M Company

MMM – NYSE – Neutral – 1

### General Update; Estimates Edge Higher but Reiterating Neutral Rating.

- Our 2017E/2018E EPS rise \$0.03 each to \$8.81/\$9.34, driven by FX adjustments and minor positive tweaks to our fundamental outlook, offset slightly by the planned divestiture of 3M's electronic monitoring business.
- Our model continues to assume the \$2B acquisition of Scott Safety closes on 10/1/17, driving about +\$0.11 of incremental EPS over Q4'17-Q3'18. We now reflect the \$200MM planned sale of electronic monitoring to close on October 1 as well (making them Q4 transactions).
- The \$850MM sale of 3M's identity management business closed, as expected, on May 1, and should contribute a ~\$0.55/share gain-on-sale to Q2 results.
- Though we expect MMM to further revise guidance next month, we remind investors that the aforementioned \$0.55 gain was included in management's most recent FY'17 EPS guide for \$8.70-\$9.05, although the 'net' impact was indicated to be closer to +\$0.05 to +0.10 after several other items, including higher but unrelated optimization charges in the current year.
- We are unsure if the \$0.15 expected gain-on-sale from electronic monitoring was anticipated by prior guidance.
- By our calculation, adjusting prior guidance to fit our model framework (simply: adjusting out one-time items and modeling in acquisitions/divestitures), nets a range of about \$8.67 to \$8.97. This fits well with our \$8.81 target for this year, but is less constructive, in our view, if investors are expecting MMM to hit consensus 2017E EPS of \$8.95 on an ongoing adjusted basis.
- On a separate standalone basis, we see some downside risk to 2018E EPS consensus at \$9.58.
- We are reiterating our Neutral rating. We are cautious ahead of Q2 results given recent momentum in the stock and the potential for confusion tied to adjustments to percolate in 2H'17, but fall well short of identifying an actionable negative catalyst for MMM shares.
- We expect to initiate 2019 estimates in conjunction with MMM's Q2'17 release on July 25.

**Note Important Disclosures on Pages 6-7.  
Note Analyst Certification on Page 6.**

**SUITABILITY**

We assign MMM a suitability rating of '1.' A complete description of our suitability scale is on page 6. With annual revenues in excess of \$30B and nearly 100,000 employees, 3M Company manufactures a diverse set of products across a broad set of end-markets; we view the '3M' brand as a difficult-to-replicate competitive advantage, and believe the company meets our standards for a large-cap core holding. Acceptable debt metrics, a 100 consecutive year history of paying dividends and a similar history of innovation, along with the size and scope to move past individual setbacks keep MMM well above our more aggressive '2' rating.

**CONSIDERATIONS AND RISKS**

3M Company services end-markets across most sectors of the economy, ranging for example from Energy to Healthcare, meaning that a range of negative economic occurrences could have a direct or tangential impact to the company.

MMM has been both an active acquirer and active seller of businesses in recent years, and we expect the firm could remain active on both fronts moving forward. Failure to effectively integrate potential purchases and/or overpayment for assets could result in asset impairments and a reduced capital position. Expected cost synergies and the ability to execute on the organic strategy for acquired assets may not materialize, and could cause 3M Company to fall short of investor expectations. Alternatively, divestitures of quality assets could disappoint investors, result in reduced profitability, or impact morale moving forward.

Tangible book value is currently negative, and we expect this to persist.

3M generates approximately 60% of revenue from non-US operations. International operations may carry a higher risk profile from items such as: intellectual property issues, political uncertainty, foreign exchange rates, nationalization/seizure of assets, terrorism threats, judicial uncertainty and/or more volatile economies.

We believe the '3M' brand/trademark holds substantial value, and is to an extent, a competitive advantage. Impairment to this brand equity could result in lasting losses in shareholder value.

Much of MMM's growth is attributable to product and technological innovation. An inability to innovate in the future could impair the firm's ability to grow, and could also weigh on investor sentiment.

Our Suitability rating is 1 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive)

Prices of other stocks mentioned: Johnson Controls (JCI--\$42.15, Not Rated).

*Additional information is available upon request.*

## 3M Company (MMM)

(\$'s in MM)

Income Statement Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Sales	\$ 31,821	\$ 30,274	\$ 7,409	\$ 7,662	\$ 7,709	\$ 7,329	\$ 30,109	\$ 7,685	\$ 7,890	\$ 7,930	\$ 7,680	\$ 31,185	\$ 32,620
Cost of Sales	16,447	15,383	3,678	3,799	3,847	3,716	15,040	3,869	3,906	3,953	3,917	15,644	16,387
Gross Profit	15,374	14,891	3,731	3,863	3,862	3,613	15,069	3,816	3,984	3,977	3,763	15,541	16,233
%	48.3%	49.2%	50.4%	50.4%	50.1%	49.3%	50.0%	49.7%	50.5%	50.2%	49.0%	49.8%	49.8%
SG & A	6,469	6,182	1,493	1,560	1,531	1,527	6,111	1,571	1,560	1,530	1,560	6,221	6,390
R & D	1,770	1,763	450	437	427	421	1,735	471	465	475	455	1,866	1,970
Operating Inc.	7,135	6,946	1,788	1,866	1,904	1,665	7,223	1,774	1,959	1,972	1,748	7,454	7,873
%	22.4%	22.9%	24.1%	24.4%	24.7%	22.7%	24.0%	23.1%	24.8%	24.9%	22.8%	23.9%	24.1%
Interest (Expense)	(142)	(149)	(47)	(38)	(50)	(64)	(199)	(45)	(50)	(54)	(54)	(203)	(231)
Interest Income (Expense)	33	26	5	7	8	9	29	8	8	8	8	32	32
Pre Tax Inc.	7,026	6,823	1,746	1,835	1,862	1,610	7,053	1,737	1,918	1,926	1,702	7,282	7,674
Income Tax (Expense)	(2,028)	(1,982)	(468)	(542)	(531)	(454)	(1,995)	(411)	(525)	(528)	(470)	(1,934)	(2,187)
Tax Rate	28.9%	29.0%	26.8%	29.5%	28.5%	28.2%	28.3%	23.7%	27.4%	27.4%	27.6%	26.6%	28.5%
Net Income incl Non-CI	4,998	4,841	1,278	1,293	1,331	1,156	5,058	1,326	1,392	1,398	1,232	5,348	5,487
Less: (NI)/Loss Attrib to non-CI	(42)	(8)	(3)	(2)	(2)	(1)	(8)	(3)	(2)	(2)	(2)	(9)	(8)
Net Income att to MMM	4,956	4,833	1,275	1,291	1,329	1,155	5,050	1,323	1,390	1,396	1,230	5,339	5,479
%	15.6%	16.0%	17.2%	16.8%	17.2%	15.8%	16.8%	17.2%	17.6%	17.6%	16.0%	17.1%	16.8%
Shares Out.	662.0	637.2	621.3	620.9	618.8	613.8	618.7	612.0	608.2	604.4	600.6	606.3	586.3
Diluted EPS (cont'd ops)	\$ 7.49	\$ 7.58	\$ 2.05	\$ 2.08	\$ 2.15	\$ 1.88	\$ 8.16	\$ 2.16	\$ 2.29	\$ 2.31	\$ 2.05	\$ 8.81	\$ 9.34
Adjusted EPS (cont'd ops)	\$ 7.49	\$ 7.72	\$ 2.05	\$ 2.08	\$ 2.15	\$ 1.88	\$ 8.16	\$ 2.16					
EPS from disc ops													
Dividends Paid	\$ 3,420	\$ 4,100	\$ 1,110	\$ 1,110	\$ 1,110	\$ 1,110	\$ 4,440	\$ 1,175	\$ 1,175	\$ 1,175	\$ 1,175	\$ 4,700	\$ 4,880
Rate of Change Analysis													
Net Sales	3.1%	-4.9%	-2.2%	-0.3%	0.0%	0.4%	-0.5%	3.7%	3.0%	2.9%	4.8%	3.6%	4.6%
SG & A	1.3%	-4.4%	-4.5%	0.6%	0.1%	-0.7%	-1.1%	5.2%	0.0%	-0.1%	2.2%	1.8%	2.7%
R & D	3.2%	-0.4%	-2.8%	-0.2%	-0.5%	-2.8%	-1.6%	4.7%	6.4%	11.2%	8.1%	7.6%	5.6%
Operating Income	7.0%	-2.6%	3.4%	1.4%	1.5%	11.0%	4.0%	-0.8%	5.0%	3.6%	5.0%	3.2%	5.6%
EPS--Adj if necessary	11.5%	3.2%	11.1%	2.8%	4.6%	13.4%	7.6%	5.3%	9.9%	7.5%	8.9%	7.9%	6.1%
EBITDA--Adj if necessary	6.3%	-0.2%	3.6%	2.2%	1.8%	0.4%	2.0%	3.2%	3.9%	3.1%	3.9%	3.5%	6.1%
Working Capital	-13.2%	28.5%	-7.6%	-3.4%	-13.8%	-4.9%	-4.9%	5.6%	-0.8%	-0.8%	-1.9%	-1.9%	4.6%
Inventory	-4.1%	-5.1%	-2.1%	-6.1%	-2.6%	-3.8%	-3.8%	-0.4%	3.0%	2.7%	4.9%	4.9%	3.4%
			*\$10MM E&E restrict, ~\$0.015/sh *\$40M p-tax gain Pres Foam sale	*EPS guide +\$0.05/- \$0.15 on bottom/top ends	*EPS guide +\$0.00/- \$0.10 on bottom/top ends			*EPS guide +\$0.25; Rev guide +1% to +2%	May 1 sale of Identity Mgm't, Exp +\$0.55 GoS	*2H'17 Expected close of Scott Safety \$2B	10/1: mdl Scott Sfty purch & Ele Monitor sale to close	*EPS guide \$8.70-\$9.05 **org rev guide +2% to 5%	

Source: Company reports and Hilliard Lyons estimates

**3M Company (MMM)**

Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	4,956	4,833	1,275	1,291	1,329	1,155	5,050	1,323	1,390	1,396	1,230	5,339	5,479
D & A	1,408	1,435	356	366	368	384	1,474	438	360	370	380	1,548	1,680
Pension Contributions/(Expense)	176	289	3	18	(164)	11	(132)	(167)	25	25	25	(92)	100
Deferred Income Tax	(146)	395	(38)	(96)	34	107	7	(84)	50	50	50	66	200
Share-base Compensation	280	276	144	49	51	54	298	147	50	50	50	297	200
(Increase) Decrease in Wrkg. Cap.	472	(887)	(399)	(372)	372	594	195	(841)	(90)	370	630	71	(170)
Operating CF	7,146	6,341	1,341	1,256	1,990	2,305	6,892	816	1,785	2,261	2,365	7,229	7,489
Cap Ex	(1,493)	(1,461)	(314)	(323)	(347)	(436)	(1,420)	(287)	(375)	(375)	(350)	(1,387)	(1,450)
Acquisitions, net of cash acq	(955)	(2,914)	(4)	-	(13)	1	(16)	-	(50)	(50)	(2,000)	(2,100)	(1,000)
Mrktbl Sec (Purch)/Sale	754	1,300	(150)	89	(181)	79	(163)	64	-	-	-	64	-
Divestitures [PP&E, Business]	135	156	74	-	-	126	200	54	850	10	200	1,114	40
Dividends	(2,216)	(2,561)	(672)	(672)	(670)	(664)	(2,678)	(702)	(715)	(710)	(706)	(2,832)	(2,861)
Free Cash Flow	3,371	861	275	350	779	1,411	2,815	(55)	1,496	1,136	(491)	2,088	2,218
FCF / Share	\$ 5.09	\$ 1.35	\$ 0.44	\$ 0.56	\$ 1.26	\$ 2.30	\$ 4.55	\$ (0.09)	\$ 2.46	\$ 1.88	\$ (0.82)	\$ 3.44	\$ 3.78
FCF as % of NI	68.0%	17.8%					55.7%					39.0%	40.4%
TTM FCF Yield (inc Acqs)	3.1%	0.9%	1.6%	0.7%	2.9%	2.6%	2.6%	2.1%	2.8%	3.1%	1.6%	1.6%	1.8%
TTM FCF Conversion (Margin)	10.6%	2.8%	5.6%	2.3%	10.5%	9.3%	9.3%	8.2%	11.9%	12.9%	6.7%	6.7%	6.8%
Changes in Short-Term Debt	27	860	138	(475)	(161)	(299)	(797)	(68)	200	(500)	(500)	(868)	(50)
Repayment of Debt >90 days	(1,625)	(800)	-	-	(992)	-	(992)	-	-	(650)	-	(650)	(1,050)
Proceeds from Debt >90 days	2,608	3,422	-	1,112	1,720	-	2,832	-	1,200	1,850	-	3,050	2,300
Stock (Repurchases)/Proceeds	(4,684)	(4,603)	(870)	(573)	(645)	(861)	(2,949)	(375)	(800)	(800)	(800)	(2,775)	(4,800)
Net C.F.	(303)	(260)	(457)	414	701	251	909	(498)	2,096	1,036	(1,791)	845	(1,382)
Net CF--Disc Ops													
Reported I/S EBITDA	8,543	8,381	2,144	2,232	2,272	2,049	8,697	2,212	2,319	2,342	2,128	9,002	9,553
Adjustments	0	144	0	0	0	0	0	0	0	0	0	0	0
Adjusted EBITDA	8,543	8,525	2,144	2,232	2,272	2,049	8,697	2,212	2,319	2,342	2,128	9,002	9,553
TTM Adj EBITDA Margin	26.8%	28.2%	28.6%	28.7%	28.9%	28.9%	28.9%	28.8%	28.9%	28.9%	28.9%	28.9%	29.3%

Source: Company reports and Hilliard Lyons estimates

Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash & Equivalents	\$ 3,336	\$ 1,916	\$ 1,513	\$ 1,865	\$ 2,666	\$ 2,678	\$ 2,678	\$ 2,173	\$ 4,269	\$ 5,304	\$ 3,514	\$ 3,514	\$ 2,132
Accounts Receivable, net	4,238	4,154	4,485	4,667	4,743	4,392	4,392	4,722	4,660	4,680	4,220	4,220	4,360
Inventories	3,706	3,518	3,627	3,613	3,611	3,385	3,385	3,612	3,720	3,710	3,550	3,550	3,670
Other	1,023	1,398	1,249	1,291	1,159	1,271	1,271	1,394	1,320	1,180	1,300	1,300	1,330
Total Current Assets	12,303	10,986	10,874	11,436	12,179	11,726	11,726	11,901	13,969	14,874	12,584	12,584	11,492
Net PP&E	8,489	8,515	8,614	8,604	8,671	8,516	8,516	8,551	8,580	8,600	9,270	9,270	9,390
Goodwill	7,050	9,249	9,375	9,356	9,430	9,166	9,166	9,258	9,290	9,320	10,420	10,420	10,980
Intangible Assets	1,435	2,601	2,551	2,477	2,422	2,320	2,320	2,269	2,270	2,280	2,480	2,480	2,600
Other Non-Current Assets	1,932	1,367	1,568	1,362	1,349	1,360	1,360	1,313	1,330	1,340	1,350	1,350	1,390
Total Assets	\$ 31,209	\$ 32,718	\$ 32,982	\$ 33,235	\$ 34,051	\$ 32,906	\$ 32,906	\$ 33,292	\$ 35,439	\$ 36,414	\$ 36,104	\$ 36,104	\$ 35,852
ST & CP of LTD	106	2,044	2,212	2,450	1,282	972	972	909	1,030	930	430	430	(50)
Accounts Payable, net	1,807	1,694	1,581	1,650	1,621	1,798	1,798	1,701	1,760	1,640	1,840	1,840	1,880
Other	4,051	3,380	3,385	3,154	3,497	3,449	3,449	3,385	3,220	3,570	3,520	3,520	3,590
Total Current Liabilities	5,964	7,118	7,178	7,254	6,400	6,219	6,219	5,995	6,010	6,140	5,790	5,790	5,420
LTD	6,705	8,753	8,927	9,299	11,079	10,678	10,678	10,802	12,080	12,890	12,890	12,890	14,500
Accrued Pension & Retirement	3,843	3,520	3,454	3,418	3,179	4,005	4,005	3,764	3,780	3,800	3,820	3,820	3,900
Other LT Liabilities	1,555	1,580	1,649	1,327	1,345	1,661	1,661	1,691	1,350	1,370	1,690	1,690	1,720
Total Liabilities	18,067	20,971	21,208	21,298	22,003	22,563	22,563	22,252	23,220	24,200	24,190	24,190	25,540
Stockholders' Equity	13,109	11,708	11,733	11,894	12,002	10,298	10,298	10,989	12,169	12,164	11,864	11,864	10,262
Noncontrolling Interest	33	39	41	43	46	45	45	51	50	50	50	50	50
Book Value	\$ 20.14	\$ 18.72	\$ 18.88	\$ 19.16	\$ 19.40	\$ 16.78	\$ 16.78	\$ 17.96	\$ 20.01	\$ 20.13	\$ 19.75	\$ 19.75	\$ 17.76
Tangible Book Value	\$ 7.10	\$ (0.23)	\$ (0.31)	\$ 0.10	\$ 0.24	\$ (1.94)	\$ (1.94)	\$ (0.88)	\$ 1.00	\$ 0.93	\$ (1.73)	\$ (1.73)	\$ (5.74)
Current Ratio	2.1x	1.5x	1.5x	1.6x	1.9x	1.9x	1.9x	2.0x	2.3x	2.4x	2.2x	2.2x	2.1x
Net LT Debt / Total Cap	20.4%	36.8%	38.6%	38.4%	41.1%	43.6%	43.6%	43.9%	39.0%	38.3%	44.0%	44.0%	54.5%
Net Total Debt / Total Cap	20.9%	43.1%	45.0%	45.3%	44.6%	46.5%	46.5%	46.4%	42.0%	41.1%	45.1%	45.1%	54.4%
Gross Debt / TTM Adj EBITDA	0.8x	1.3x	1.3x	1.4x	1.4x	1.3x	1.3x	1.3x	1.5x	1.5x	1.5x	1.5x	1.5x
TTM ROE—unadjusted	30.4%	37.8%	39.2%	40.4%	41.4%	43.8%	43.8%	44.8%	45.3%	45.7%	46.4%	46.4%	48.7%

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, Spencer E Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

### **Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price set back in the next 12 months.

### **Suitability Ratings**

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	34	27%	12%	88%
Hold/Neutral	80	65%	8%	93%
Sell	10	8%	0%	100%

As of 7 June 2017

### Other Disclosures

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