



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

MMM - NYSE - as of	3/15/17	\$191.20
Price Target		--
52-Week Range	\$159.35 -	\$191.96
Shares Outstanding (mm)		601.5
Market Cap. (\$mm)		\$115,000.3
1-Mo. Average Daily Volume		1,970,364
Institutional Ownership		68.0%
Net Debt/Total Capital	Q4'16	46.5%
ROE	TTM	43.8%
Book Value / Share	Q4'16	\$16.78
Price / Book Value		11.4x
Dividend Yield		2.5%
Adj EBITDA Margin	TTM	28.9%

EPS Fiscal Year 12/31

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$2.05	\$2.13	\$2.14	--	--
2Q	\$2.08	\$2.22	\$2.23	--	--
3Q	\$2.15	\$2.20	\$2.19	--	--
4Q	\$1.88	\$1.96	\$1.98	--	--
Year	\$8.16	\$8.51	\$8.54	\$8.94	\$9.02
P/E	23.4x		22.4x		21.2x

* adjusted for special items

Revenue (\$mm)

	Prior 2016A	Current 2017E	Prior 2017E	Prior 2018E	Current 2018E
1Q	\$7,409	\$7,470	\$7,520	--	--
2Q	\$7,662	\$7,690	\$7,740	--	--
3Q	\$7,709	\$7,710	\$7,770	--	--
4Q	\$7,329	\$7,410	\$7,590	--	--
Year	\$30,109	\$30,280	\$30,620	\$31,180	\$31,890

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

Analyst: Spencer E. Joyce, CFA
502.588.8402 / sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
March 16, 2017

3M Company

MMM – NYSE – Neutral – 1

\$2B Agreement to Acquire Scott Safety.

- In the morning of March 16, MMM announced a definitive agreement to acquire Scott Safety from Johnson Controls (JCI—\$41.93, Not Rated). Based in Monroe, NC, Scott employs about 1,500 people.
- Scott Safety is primarily a provider of protective and critical products across a range of end markets: fire, law enforcement, defense, oil & gas, chemical, and homeland defense. We expect the company to be folded into MMM's Safety & Graphics segment.
- The \$2B purchase price represents ~13x TTM EBITDA (JCI's figure), or ~11x adjusted pro forma first full year EBITDA after close (MMM's figure). A mix of cash and debt will be used to facilitate the purchase; Scott produced sales of \$570MM over the past year.
- Both JCI and MMM outlined an expectation for the deal to close in 2H'17; we update our model at this point to reflect a 10/1/17 consummation. We expect few anti-trust concerns, and see no problem with MMM funding the purchase, and are thus comfortable updating our model ahead of actual closing.
- MMM expects Scott to drive +\$0.10 in adjusted EPS in its first full year of operation (-\$0.10 on a GAAP basis); our model depicts +\$0.11/share, across Q4'17-Q3'18.
- TTM EBITDA margin for Scott is just over 27%, which is a touch below MMM's 29%; based on our calculations, 3M has traded at an average TTM EV/EBITDA multiple of 11.4x over the last 5 years.
- Despite being a sizeable deal, not much changes in our cash flow model, aside from timing adjustments and a slight decrease in our net share repurchase expectations for 2017 (falls to \$3.2B from \$3.7B).
- MMM's most recent FY'17 EPS guidance was the range of \$8.45-\$8.80, with organic revenue growth of +1% to +3%. Our 2017E/2018E EPS rise to \$8.54/\$9.02. Our revisions reflect a few other items as well, like FX delta.
- We are reiterating our Neutral rating. We really like this deal, but continue to believe MMM shares are appropriately priced by the market at this juncture.

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

ADDITIONAL DISCUSSION—SCOTT SAFETY

As briefly noted in our opening bullet points, we like this pending purchase of Scott Safety from JCI. The price is quite reasonable, in our view, with 3M projecting the deal to be integrated at roughly an equivalent valuation to 3M's own market multiple (EV/EBITDA) over the past few years. Furthermore, the deal is in a sweet spot size wise as far as we are concerned, which is large enough to be material/accretive, but small enough to be expeditiously integrated with few major revisions to our cash flow/capital allocation model. Anecdotally, this deal reminds us of the Capital Safety purchase from 2H'15, which in our view, has been a success.

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)

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	Q1'17E	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	\$ 7,520	\$ 7,740	\$ 7,770	\$ 7,590	\$ 30,620	\$ 31,890
Cost of Sales	16,447	15,383	3,678	3,799	3,847	3,716	15,040	3,685	3,793	3,873	3,871	15,222	16,022
Gross Profit	15,374	14,891	3,731	3,863	3,862	3,613	15,069	3,835	3,947	3,897	3,719	15,398	15,868
%	48.3%	49.2%	50.4%	50.4%	50.1%	49.3%	50.0%	51.0%	51.0%	50.2%	49.0%	50.3%	49.8%
SG & A	6,469	6,182	1,493	1,560	1,531	1,527	6,111	1,520	1,560	1,530	1,560	6,170	6,340
R & D	1,770	1,763	450	437	427	421	1,735	445	455	465	455	1,820	1,910
Operating Inc.	7,135	6,946	1,788	1,866	1,904	1,665	7,223	1,870	1,932	1,902	1,704	7,408	7,618
%	22.4%	22.9%	24.1%	24.4%	24.7%	22.7%	24.0%	24.9%	25.0%	24.5%	22.5%	24.2%	23.9%
Interest (Expense)	(142)	(149)	(47)	(38)	(50)	(64)	(199)	(64)	(71)	(78)	(78)	(291)	(331)
Interest Income (Expense)	33	26	5	7	8	9	29	9	9	9	9	36	36
Pre Tax Inc.	7,026	6,823	1,746	1,835	1,862	1,610	7,053	1,815	1,870	1,833	1,635	7,153	7,322
Income Tax (Expense)	(2,028)	(1,982)	(468)	(542)	(531)	(454)	(1,995)	(508)	(522)	(513)	(456)	(1,999)	(2,087)
Tax Rate	28.9%	29.0%	26.8%	29.5%	28.5%	28.2%	28.3%	28.0%	27.9%	28.0%	27.9%	28.0%	28.5%
Net Income incl Non-CI	4,998	4,841	1,278	1,293	1,331	1,156	5,058	1,307	1,348	1,320	1,179	5,154	5,235
Less: (NI)/Loss Attrib to non-CI	(42)	(8)	(3)	(2)	(2)	(1)	(8)	(2)	(2)	(2)	(2)	(8)	(8)
Net Income att to MMM	4,956	4,833	1,275	1,291	1,329	1,155	5,050	1,305	1,346	1,318	1,177	5,146	5,227
%	15.6%	16.0%	17.2%	16.8%	17.2%	15.8%	16.8%	17.3%	17.4%	17.0%	15.5%	16.8%	16.4%
Shares Out.	662.0	637.2	621.3	620.9	618.8	613.8	618.7	609.3	604.8	600.4	595.9	602.6	579.1
Diluted EPS (cont'd ops)	\$ 7.49	\$ 7.58	\$ 2.05	\$ 2.08	\$ 2.15	\$ 1.88	\$ 8.16	\$ 2.14	\$ 2.23	\$ 2.19	\$ 1.98	\$ 8.54	\$ 9.02
Adjusted EPS (cont'd ops)	\$ 7.49	\$ 7.72	\$ 2.05	\$ 2.08	\$ 2.15	\$ 1.88	\$ 8.16						
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%	1.5%	1.0%	0.8%	3.6%	1.7%	4.1%
SG & A	1.3%	-4.4%	-4.5%	0.6%	0.1%	-0.7%	-1.1%	1.8%	0.0%	-0.1%	2.2%	1.0%	2.8%
R & D	3.2%	-0.4%	-2.8%	-0.2%	-0.5%	-2.8%	-1.6%	-1.1%	4.1%	8.9%	8.1%	4.9%	4.9%
Operating Income	7.0%	-2.6%	3.4%	1.4%	1.5%	11.0%	4.0%	4.6%	3.6%	-0.1%	2.3%	2.6%	2.8%
EPS--Adj if necessary	11.5%	3.2%	11.1%	2.8%	4.6%	13.4%	7.6%	4.3%	7.1%	2.2%	5.0%	4.6%	5.7%
EBITDA--Adj if necessary	6.3%	-0.2%	3.6%	2.2%	1.8%	0.4%	2.0%	4.0%	2.7%	0.0%	1.7%	2.1%	3.8%
Working Capital	-13.2%	28.5%	-7.6%	-3.4%	-13.8%	-4.9%	-4.9%	-7.6%	-3.7%	-4.0%	-4.2%	-4.2%	4.9%
Inventory	-4.1%	-5.1%	-2.1%	-6.1%	-2.6%	-3.8%	-3.8%	1.5%	1.0%	0.8%	3.7%	3.7%	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				*2H'17 Expected close of Scott Safety \$2B	*Model Scott Safety to close 10/1/17		*2017 EPS guide \$8.45- \$8.80 *org rev guide +1% to 3%	

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	Q1'17E	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	1,305	1,346	1,318	1,177	5,146	5,227
D & A	1,408	1,435	356	366	368	384	1,474	360	360	370	380	1,470	1,600
Pension Contributions/(Expense)	176	289	3	18	(164)	11	(132)	25	25	25	25	100	100
Deferred Income Tax	(146)	395	(38)	(96)	34	107	7	50	50	50	50	200	200
Share-base Compensation	280	276	144	49	51	54	298	50	50	50	50	200	200
(Increase) Decrease in Wrkg. Cap.	472	(887)	(399)	(372)	372	594	195	(260)	(530)	370	580	161	(180)
Operating CF	7,146	6,341	1,341	1,256	1,990	2,305	6,892	1,530	1,301	2,183	2,262	7,277	7,147
Cap Ex	(1,493)	(1,461)	(314)	(323)	(347)	(436)	(1,420)	(350)	(375)	(375)	(350)	(1,450)	(1,450)
Acquisitions, net of cash acq	(955)	(2,914)	(4)	-	(13)	1	(16)	(50)	(50)	(50)	(2,000)	(2,150)	(1,000)
Mrktbl Sec (Purch)/Sale	754	1,300	(150)	89	(181)	79	(163)	-	-	-	-	-	-
Divestitures [PP&E, Business]	135	156	74	-	-	126	200	50	850	10	10	920	40
Dividends	(2,216)	(2,561)	(672)	(672)	(670)	(664)	(2,678)	(716)	(711)	(705)	(700)	(2,832)	(2,826)
Free Cash Flow	3,371	861	275	350	779	1,411	2,815	464	1,016	1,062	(778)	1,765	1,912
FCF / Share	\$ 5.09	\$ 1.35	\$ 0.44	\$ 0.56	\$ 1.26	\$ 2.30	\$ 4.55	\$ 0.76	\$ 1.68	\$ 1.77	\$ (1.31)	\$ 2.93	\$ 3.30
FCF as % of NI	68.0%	17.8%					55.7%					34.2%	36.5%
TTM FCF Yield (inc Acqs)	3.1%	0.9%	1.6%	0.7%	2.9%	2.6%	2.6%	2.7%	3.4%	3.6%	1.6%	1.6%	1.9%
TTM FCF Conversion (Margin)	10.6%	2.8%	5.6%	2.3%	10.5%	9.3%	9.3%	9.9%	12.1%	13.0%	5.8%	5.8%	6.0%
Changes in Short-Term Debt	27	860	138	(475)	(161)	(299)	(797)	750	200	(500)	(500)	(50)	(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)	(800)	(800)	(800)	(800)	(3,200)	(4,800)
Net C.F.	(303)	(260)	(457)	414	701	251	909	414	1,616	962	(2,078)	915	(1,688)
Net CF--Disc Ops													
Reported I/S EBITDA	8,543	8,381	2,144	2,232	2,272	2,049	8,697	2,230	2,292	2,272	2,084	8,878	9,218
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	2,230	2,292	2,272	2,084	8,878	9,218
TTM Adj EBITDA Margin	26.8%	28.2%	28.6%	28.7%	28.9%	28.9%	28.9%	29.1%	29.2%	29.1%	29.0%	29.0%	28.9%

Source: Company reports and Hilliard Lyons estimates

Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17E	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	\$ 3,092	\$ 4,707	\$ 5,670	\$ 3,592	\$ 3,592	\$ 1,903
Accounts Receivable, net	4,238	4,154	4,485	4,667	4,743	4,392	4,392	4,440	4,570	4,580	4,170	4,170	4,310
Inventories	3,706	3,518	3,627	3,613	3,611	3,385	3,385	3,680	3,650	3,640	3,510	3,510	3,630
Other	1,023	1,398	1,249	1,291	1,159	1,271	1,271	1,270	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	12,482	14,247	15,070	12,572	12,572	11,173
Net PP&E	8,489	8,515	8,614	8,604	8,671	8,516	8,516	8,520	8,550	8,570	9,240	9,240	9,440
Goodwill	7,050	9,249	9,375	9,356	9,430	9,166	9,166	9,190	9,220	9,250	10,350	10,350	10,910
Intangible Assets	1,435	2,601	2,551	2,477	2,422	2,320	2,320	2,330	2,340	2,350	2,550	2,550	2,670
Other Non-Current Assets	1,932	1,367	1,568	1,362	1,349	1,360	1,360	1,370	1,380	1,390	1,400	1,400	1,440
Total Assets	\$ 31,209	\$ 32,718	\$ 32,982	\$ 33,235	\$ 34,051	\$ 32,906	\$ 32,906	\$ 33,892	\$ 35,737	\$ 36,630	\$ 36,112	\$ 36,112	\$ 35,633
ST & CP of LTD	106	2,044	2,212	2,450	1,282	972	972	1,570	1,770	1,670	1,170	1,170	700
Accounts Payable, net	1,807	1,694	1,581	1,650	1,621	1,798	1,798	1,880	1,730	1,610	1,820	1,820	1,860
Other	4,051	3,380	3,385	3,154	3,497	3,449	3,449	3,450	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	6,900	6,720	6,850	6,510	6,510	6,150
LTD	6,705	8,753	8,927	9,299	11,079	10,678	10,678	10,910	12,110	12,910	12,910	12,910	14,530
Accrued Pension & Retirement	3,843	3,520	3,454	3,418	3,179	4,005	4,005	4,030	4,050	4,070	4,090	4,090	4,170
Other LT Liabilities	1,555	1,580	1,649	1,327	1,345	1,661	1,661	1,680	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	23,520	24,230	25,200	25,200	25,200	26,570
Stockholders' Equity	13,109	11,708	11,733	11,894	12,002	10,298	10,298	10,322	11,457	11,380	10,862	10,862	9,013
Noncontrolling Interest	33	39	41	43	46	45	45	50	50	50	50	50	50
Book Value	\$ 20.14	\$ 18.72	\$ 18.88	\$ 19.16	\$ 19.40	\$ 16.78	\$ 16.78	\$ 16.94	\$ 18.94	\$ 18.95	\$ 18.23	\$ 18.23	\$ 15.84
Tangible Book Value	\$ 7.10	\$ (0.23)	\$ (0.31)	\$ 0.10	\$ 0.24	\$ (1.94)	\$ (1.94)	\$ (1.97)	\$ (0.17)	\$ (0.37)	\$ (3.42)	\$ (3.42)	\$ (8.03)
Current Ratio	2.1x	1.5x	1.5x	1.6x	1.9x	1.9x	1.9x	1.8x	2.1x	2.2x	1.9x	1.9x	1.8x
Net LT Debt / Total Cap	20.4%	36.8%	38.6%	38.4%	41.1%	43.6%	43.6%	43.0%	39.1%	38.8%	46.1%	46.1%	58.2%
Net Total Debt / Total Cap	20.9%	43.1%	45.0%	45.3%	44.6%	46.5%	46.5%	47.5%	44.4%	43.8%	49.0%	49.0%	59.5%
Gross Debt / TTM Adj EBITDA	0.8x	1.3x	1.3x	1.4x	1.4x	1.3x	1.3x	1.4x	1.6x	1.6x	1.6x	1.6x	1.7x
TTM ROE—unadjusted	30.4%	37.8%	39.2%	40.4%	41.4%	43.8%	43.8%	45.2%	45.9%	46.2%	47.4%	47.4%	51.7%

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.