

3M Company

4Q23 first look: EPS beat on below the line; '24 guide conservatively below Street

Maintain Rating: NEUTRAL | PO: 120.00 USD | Price: 108.02 USD

EPS beats guide and consensus

4Q23 adjusted EPS of \$2.42 was \$0.10 above the Street's estimate of \$2.32. This compares to \$2.13-\$2.33 guidance. Top line was weaker than forecast as organic growth remained weaker than expected. Timing of restructuring costs and savings was ~\$0.03 drag v. our model as costs ran above the mid-point of guide. The EPS beat was primarily on below the line items like taxes (a \$0.10 benefit vs our model). However, Transportation & Electronics operating profit came in \$0.01 better than our model and corporate and unallocated was a \$0.18 benefit vs our model. The corporate and unallocated benefit was driven by costs moved into business segments based on final full year performance. We maintain our Neutral rating on 3M, as we believe that it balances 3M's low valuation and improving execution with litigation risk.

4Q EPS of \$2.42 comes above consensus of \$2.32

MMM's 4Q23 EPS of \$2.42 beat our estimate of \$2.33 and the Street's estimate of \$2.32. Organic revenue of (1.4)% y/y, was lower than our 0.4% y/y estimate with 60bp drag from N95. Safety & Industrial was a \$(0.15)/share miss on weaker organic growth down (3.9)% y/y vs our estimates of (1.0)% y/y. Transportation & Electronics was a \$0.01/share beat driven on better than expected organic growth. Health Care was a \$(0.08)/share miss driven by weaker top line (down 1.0% organically vs our estimate of +3.3%). Consumer was a \$(0.05)/share miss with operating profit 310bps lower than our model. However topline was better than we had anticipated (-2.2% y/y organically vs our model of -3.0% y/y).

'24 EPS guide introduced below Street's expectations

Management introduced '24 EPS outlook to \$9.35-\$9.75 below the Street's \$9.92 estimate. Organic rev guide of flat to +2% also came in below the Street's estimate of 3%. We plan to review our model after the call. FCF Guide is 95% - 105%; Street is at 90%, we were modeling 95%.

1Q EPS guide below Street

Management introduced 1Q EPS guidance of \$2.00 - \$2.15 below our estimate of \$2.38 and consensus of \$2.30. Restructuring charges are being guided for a (\$0.10) - (\$0.15) headwind, however 3M did not provide restructuring benefits in the quarter. Revenue for 1Q was guided to \$7.6bn vs consensus of \$7.93bn and BofA estimates of \$8.15bn. 3M also flagged a non-operating pension headwind of \$0.04/sh expected for 1Q. For 1Q 3M is guiding for a tax rate of 20% - 21% which is above our 18.5% estimate and consensus of 17.9% (representing ~\$0.06 drag /share). We view the guide as conservative but reflecting some of the macro uncertainty.

23 January 2024

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Stock Data

Price	108.02 USD
Price Objective	120.00 USD
Date Established	26-Jul-2023
Investment Opinion	B-2-8
52-Week Range	85.35 USD - 123.90 USD
Mrkt Val (mn) / Shares Out (mn)	64,013 USD / 592.6
Free Float	99.9%
Average Daily Value (mn)	352.92 USD
BofA Ticker / Exchange	MMM / NYS
Bloomberg / Reuters	MMM US / MMM.N
ROE (2023E)	64.3%
Net Dbt to Eqty (Dec-2022A)	83.2%
ESGMeter™	High

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Exhibit 1: 4Q23 earnings variance

Adj EPS of \$2.42 come in ahead of BofA \$2.33

	Actual	Reported		BofA Estimate		Variation Versus BofA Est.		
(in US\$ mn, except per share data)	4Q:22A	4Q:23A	YOY % Chg.	4Q:23E	YOY % Chg.	Dollar	Percentage	EPS
Segment Sales								
Safety & Industrial	2,735	2,661	-3%	2,708	-1%	(47)	-2%	
Transportation & Electronics	1,692	1,769	5%	1,719	2%	50	3%	
Health Care	2,044	2,037	0%	2,111	3%	(74)	-4%	
Consumer	1,244	1,226	-1%	1,207	-3%	19	2%	
Corporate and Unallocated	1	-	-100%	1	-6%	(1)	-100%	
Elimination of Dual Credit	-	-	0%	-	0%	-	0%	
Total	7,716	7,693	0%	7,746	0%	(53)	-0.7%	
Segment Operating Profit								
Safety & Industrial	556	524	-6%	627	13%	(103)	-16%	\$ (0.15)
Transportation & Electronics	291	370	27%	364	25%	6	2%	\$ 0.01
Health Care	412	372	-10%	423	3%	(51)	-12%	\$ (0.08)
Consumer	212	221	4%	255	20%	(34)	-13%	\$ (0.05)
Corporate and Unallocated	5	121	2320%	(2)	-134%	123	-7218%	\$ 0.18
Elimination of Dual Credit	-	-	0%	-	0%	-	0%	\$ -
Total	1,476	1,608	9%	1,669	13%	(61)	-4%	\$ (0.09)
Segment Operating Margin								
Safety & Industrial	20.3%	19.7%	(60 bp)	23.2%	280 bp	(350 bp)		
Transportation & Electronics	17.2%	20.9%	370 bp	21.2%	400 bp	(30 bp)		
Health Care	20.2%	18.3%	(190 bp)	20.1%	(10 bp)	(180 bp)	-	
Consumer	17.0%	18.0%	100 bp	21.1%	410 bp	(310 bp)	-	
Total	19.1%	20.9%	180 bp	21.5%	240 bp	(60 bp)	-	
Net Sales	7,716	7,693	0%	7,746	0%	(53)	-1%	
COGS	4,585	4,678	2%	4,525	-1%	153	3%	
Gross Profit	3,131	3,015	-4%	3,221	3%	(206)	-6%	\$ (0.30)
SG&A	1,210	940	-22%	1,103	-9%	(163)	-15%	\$ 0.24
R&D	445	467	5%	449	1%	18	4%	\$ (0.03)
Operating Income	1,476	1,608	9%	1,669	13%	(61)	-4%	\$ (0.09)
Interest Expense, net	35	36	3%	84	139%	(48)	-57%	\$ 0.07
EBT	1,441	1,572	9%	1,585	10%	(13)	-1%	\$ (0.02)
Taxes	240	237	-1%	293	22%	(56)	-19%	
Tax Rate	16.7%	15.1%	(160 bp)	18.5%	180 bp	(340 bp)	--	\$ 0.10
Net Income (Continuing Operations)	1,201	1,335	11%	1,292	8%	43	3%	\$ 0.08
Net Income attributable to noncontrolling interest	(6)	(9)	NM	2	NM	(11)	-550%	\$ 0.02
Net Income (Op. Earnings)	1,207	1,344	11%	1,290	7%	54	4%	\$ 0.10
FULLY DILUTED EPS	\$2.18	\$2.42	11%	\$2.33	7%	\$0.09	4%	-
Diluted Shares Outstanding	553	555	0%	554	0%	1	0%	\$ (0.00)
	Actual	Reported		Reported		Variation (b.p.)		
Margin Analysis	4Q:22A	4Q:23A		4Q:23A		BofA Est.	4Q:22A	
COGS	59.4%	60.8%		58.4%		240 bp	140 bp	
Gross Margin	40.6%	39.2%		41.6%		(240 bp)	(140 bp)	
SG&A	15.7%	12.2%		14.2%		(200 bp)	(350 bp)	
R&D	5.8%	6.1%		5.8%		30 bp	30 bp	
Operating Margin	19.1%	20.9%		21.5%		(60 bp)	180 bp	
EBT Margin	18.7%	20.4%		20.5%		0 bp	180 bp	
Net Margin	15.6%	17.5%		16.7%		80 bp	180 bp	
Incremental Margin	38.5%	-573.9%		646.5%		#####	(61240 bp)	

Source: BofA Global Research, company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

3M Company (MMM)

We base our \$120 price objective on 11x P/E on our 2025 estimates. Our 11x target multiple is at a discount to Industrial peers trading at 21x on 2024 estimates. 11x is also at a discount to high quality consumer goods peers trading at 23x on 2024E. We believe valuation at a discount to peers is warranted given 3M's lower growth outlook, choppy execution, and PFAS liability risk.

Upside risks to our PO are 1) little headline risk/market reaction to PFAS liability, 2) limited PFAS legislative action taken by the federal government, and 3) better-than-expected operational execution.

Downside risks to our PO are 1) a need for greater investment could be a margin headwind, 2) slower-than-anticipated recovery of end markets, and 3) PFAS litigation risk.

Analyst Certification

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3M (MMM) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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