

3M Company

Dupont opt-outs levels a positive for 3M

Maintain Rating: NEUTRAL | PO: 120.00 USD | Price: 108.54 USD

Dupont opt-outs a positive read across for 3M

On 1/3 the opt-outs for Dupont's settlement with Public Water Suppliers (PWS) was announced to be ~5% or 717 out of 14,167 Public Water Suppliers identified as class members. We view this as a positive for 3M who will be hearing its opt-out numbers with Public Water Suppliers at its Final Fairness Hearing on 2/2. Dupont and 3M both settled to resolve a material portion of drinking water claims related to PWS and water pollution claims tied to per- and polyfluorinated substances (PFAS) contamination on 6/2 and 6/22 respectively. The list of who opt-ed out was not included in the filing, so the sizes of the authorities who opted-out is still unknown. Of the 717 opt-outs some may be excluded for failure to opt-out properly and potentially would be back in the settlement. The filing noted of the 717, 427 did not comply as it was filed on behalf of another settlement member. 120 of the 717 did not comply with one or more of the requirements. We would also note that opt-outs are able to opt back into the settlement until March 1. We believe that 3M's opt-in/opt-out should be very similar to what was seen by Dupont. Previous objections to the settlement had represented ~9% of the US population ([see 3M note dated 11/29 here](#)). We maintain our Neutral rating on 3M, as we believe that it balances 3M's low valuation and improving execution with litigation risk.

Background on the settlement

3M as part of the settlement had agreed to contribute up to a present value of \$10.3bn, payable over 13 years. The settlement is for no less than \$10.5bn and no more than \$12.5bn to resolve these claims.

Other cases in the AFFF MDL

On 12/28 the Sovereign Committee requested a separated Sovereign bellwether and asked for the issue to be addressed at the 2/2 status conference. The Sovereign Committee is a subcommittee of the Plaintiffs' Executive Committee and is comprised of 28 U.S. States and Territories.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	10.55	9.88	9.15	10.47	11.10
GAAP EPS	9.94	9.95	(12.01)	10.47	11.10
EPS Change (YoY)	13.6%	-6.4%	-7.4%	14.4%	6.0%
Consensus EPS (Bloomberg)			9.11	9.80	10.50
DPS	5.92	5.96	6.00	6.00	6.00
Valuation (Dec)					
P/E	10.3x	11.0x	11.9x	10.4x	9.8x
GAAP P/E	10.9x	10.9x	NM	10.4x	9.8x
Dividend Yield	5.5%	5.5%	5.5%	5.5%	5.5%
EV / EBITDA*	8.5x	9.4x	9.8x	8.9x	8.4x
Free Cash Flow Yield*	9.1%	6.0%	6.2%	5.1%	8.1%

* For full definitions of *IQmethod*SM measures, see page 5.

04 January 2024

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Stock Data

Price	108.54 USD
Price Objective	120.00 USD
Date Established	26-Jul-2023
Investment Opinion	B-2-8
52-Week Range	85.35 USD - 129.90 USD
Mkt Val (mn) / Shares Out (mn)	64,321 USD / 592.6
Free Float	99.9%
Average Daily Value (mn)	385.54 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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AFFF: aqueous film-forming foams

MDL: multi-district litigation

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 04 January 2024 12:56PM EST

iQprofileSM 3M Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	15.9%	14.7%	14.4%	17.4%	18.5%
Return on Equity	44.0%	37.5%	64.3%	455.7%	259.1%
Operating Margin	22.6%	21.1%	20.3%	21.8%	22.3%
Free Cash Flow	5,851	3,842	3,992	3,286	5,219

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	1.0x	1.1x	0.9x	1.2x
Asset Replacement Ratio	0.8x	1.0x	0.9x	1.0x	1.0x
Tax Rate	18.1%	17.5%	18.3%	18.5%	18.5%
Net Debt-to-Equity Ratio	84.7%	83.2%	NM	NM	313.2%
Interest Cover	46.6x	47.3x	27.8x	44.8x	45.3x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	34,097	32,878	31,737	33,430	34,644
% Change	5.9%	-3.6%	-3.5%	5.3%	3.6%
Gross Profit	15,302	13,646	13,413	14,462	15,022
% Change	-1.8%	-10.8%	-1.7%	7.8%	3.9%
EBITDA	9,612	8,778	8,380	9,267	9,726
% Change	5.7%	-8.7%	-4.5%	10.6%	4.9%
Net Interest & Other Income	(165)	(147)	(232)	(163)	(171)
Net Income (Adjusted)	6,174	5,607	5,068	5,799	6,134
% Change	14.1%	-9.2%	-9.6%	14.4%	5.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	5,815	5,647	(6,650)	5,799	6,134
Depreciation & Amortization	1,915	1,831	1,931	1,970	2,009
Change in Working Capital	(751)	(670)	13,931	(839)	(57)
Deferred Taxation Charge	(166)	(663)	(3,837)	0	0
Other Adjustments, Net	641	(554)	305	(1,764)	(955)
Capital Expenditure	(1,603)	(1,749)	(1,688)	(1,879)	(1,912)
Free Cash Flow	5,851	3,842	3,992	3,286	5,219
% Change	-11.5%	-34.3%	3.9%	-17.7%	58.8%
Share / Issue Repurchase	(1,560)	(1,083)	(227)	19	(30)
Cost of Dividends Paid	(3,420)	(3,369)	(3,324)	(3,323)	(3,317)
Change in Debt	(1,145)	(838)	(1,789)	(1,101)	(1,795)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	4,564	3,655	2,307	1,188	1,266
Trade Receivables	4,660	4,532	4,749	5,048	5,184
Other Current Assets	6,179	6,501	6,109	6,431	6,466
Property, Plant & Equipment	9,429	9,178	8,935	8,844	8,748
Other Non-Current Assets	22,240	22,589	24,634	25,015	25,288
Total Assets	47,072	46,455	46,733	46,527	46,950
Short-Term Debt	1,307	1,938	0	0	0
Other Current Liabilities	7,728	7,585	12,335	12,498	12,885
Long-Term Debt	16,056	14,001	14,150	13,049	11,254
Other Non-Current Liabilities	6,864	8,161	19,248	19,435	19,622
Total Liabilities	31,955	31,685	45,733	44,982	43,761
Total Equity	15,117	14,770	1,000	1,544	3,190
Total Equity & Liabilities	47,072	46,455	46,733	46,527	46,950

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Industrials/Multi-Industry

Company Description

3M Company was founded in 1902 as a mining concern. Today, the Minnesota-based company is a diversified, global manufacturer. Its businesses are technology-driven and organized under four segments: Consumer, Safety and Industrial, Transportation and Electronics, and Health Care. Its popular brands include Scotch, Post-It, 3M, and Thinsulate. It holds over 500 US patents.

Investment Rationale

We see near-term positives, including the pending spin-off of Health Care, benefits from announced restructuring plans, and lapping of certain one-time headwinds. These are balanced by 3M's continuing litigation and regulatory risks.

Stock Data

Average Daily Volume

3,552,025

Quarterly Earnings Estimates

	2022	2023
Q1	2.63A	1.97A
Q2	2.46A	2.17A
Q3	2.60A	2.68A
Q4	2.18A	2.33E



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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US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Ansys, Inc.	ANSS	ANSS US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA
	Pentair plc	PNR	PNR US	Andrew Obin

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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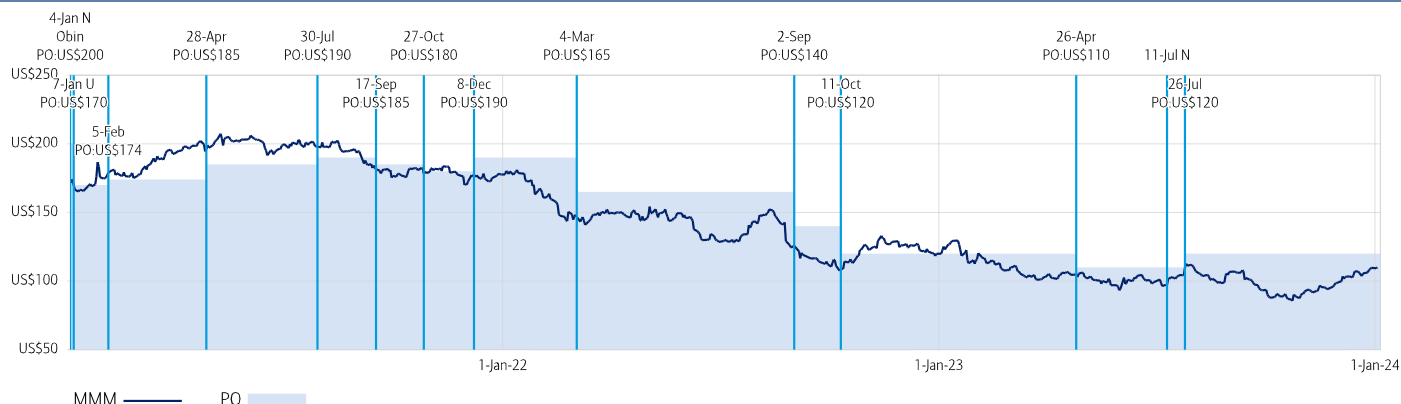
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3M (MMM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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