

## 3M Company

# Unexpected CEO transition may point to more execution driven story

Maintain Rating: NEUTRAL | PO: 110.00 USD | Price: 97.98 USD

## Well regarded outsider to take over as 3M CEO

On March 12, 2024 3M unexpectedly announced a new CEO. William Brown, well regarded former Chairman and CEO of L3Harris Technologies (Ticker: LHX, covered by our colleague Ron Epstein), will be taking over as the CEO of 3M effective May 1. Mike Roman will remain the company's executive Chairman. Mike Roman has served as 3M's CEO since July 2018 and its Chairman since May 2019. The 3M Board has waived mandatory 65 retirement age for both Brown (61) and Roman (64). We look forward to learning about the potential changes to 3M's strategy. We maintain our Neutral rating on 3M as it balances low valuation and improving execution with litigation risk.

## Much strategic work accomplished under Roman

Under Roman's leadership 3M navigated COVID, made material progress on resolving its legal liabilities (the announced Combat Arms and Water Utilities settlements) and has streamlined its portfolio with the sale of its Food Safety business to Neogen and the upcoming April 1 spin of the Health Care business (Solventum). The company has also announced the decision to exit its PFAS manufacturing operations by the end of 2025. At the same time 3M has struggled with growth over the past several years. EBITDA margins have recovered somewhat to pre-COVID levels, however the recovery has been largely driven by the SG&A reduction with gross margins still well below pre-COVID levels.

## New CEO likely to focus on rebooting growth

We think that while 3M has resolved ~40% of its legal liabilities (based on announced settlements and our previously published estimates for remaining liabilities), the potential finalization of the water utilities settlement has the potential of removing 70-80% of the uncertainty about the overall scope of the company's legal liabilities. With much of the legal and portfolio transformation heavy lifting completed under Roman, the new CEO can focus on driving profitable, R&D driven growth, the hallmark of the 3M culture and business model.

12 March 2024

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### Stock Data

Price	97.98 USD
Price Objective	110.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-2-8
52-Week Range	85.35 USD - 113.14 USD
Mkt Val (mn) / Shares Out (mn)	58,063 USD / 592.6
Free Float	99.9%
Average Daily Value (mn)	386.84 USD
BofA Ticker / Exchange	MMM / NYS
Bloomberg / Reuters	MMM US / MMM.N
ROE (2024E)	111.8%
Net Dbt to Eqty (Dec-2023A)	207.5%
ESGMeter™	High

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PFAS: per- and polyfluoroalkyl substances

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Timestamp: 12 March 2024 12:10PM EDT

## Price objective basis & risk

### 3M Company (MMM)

We base our \$110 price objective on 11x P/E on our 2025 estimates. Our 11x target multiple is at a discount to Industrial peers trading at 22x on 2024 estimates. 11x is also at a discount to high quality consumer goods peers trading at 24x 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.

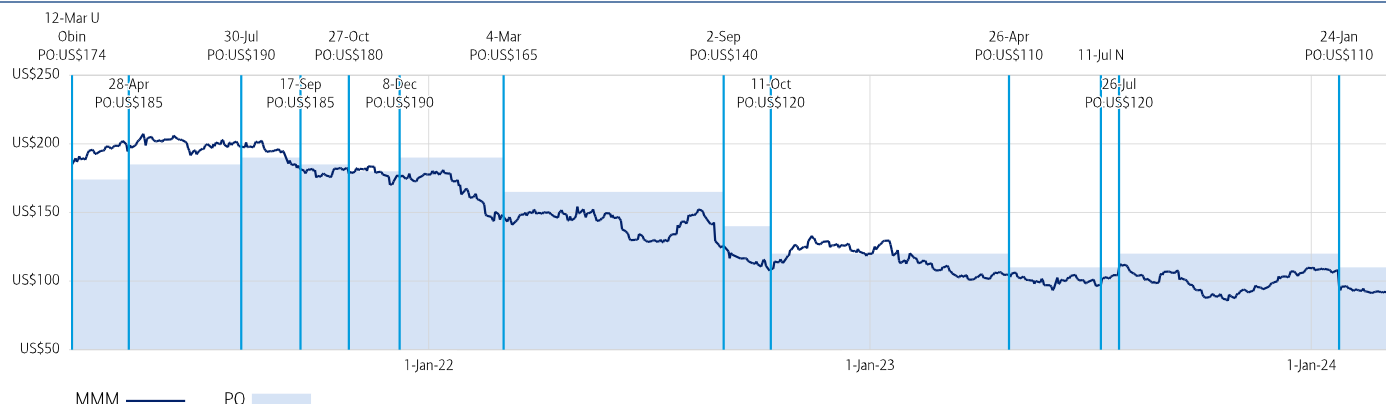
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### 3M (MMM) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

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

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