

## Analyst Report: 3M Company (MMM)

3M is at an inflection point, grappling with substantial PFAS liabilities while striving to reposition itself for growth in emerging markets.

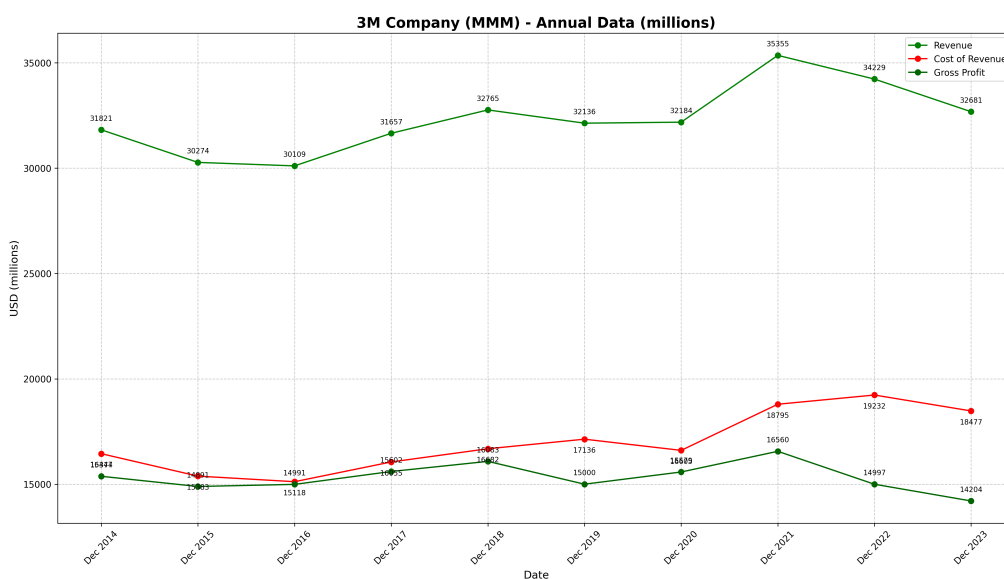
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$150.00 - \$170.00	\$110.00 - \$130.00
Sum of the Parts	\$140.00 - \$160.00	\$100.00 - \$120.00
Relative Multiples	\$130.00 - \$150.00	\$90.00 - \$110.00
Discounted Cash Flow	\$120.00 - \$140.00	\$80.00 - \$100.00

### SUMMARY DATA (ANNUAL)

<b>52-Week High</b>	<b>\$140.72</b>
52-Week Low	\$85.34
Shares	553.90
EPS	-12.63
Dividend	6
Revenue	32,681
Cost of Revenue	18,477
Gross Profit	14,204
EBIT	-9,686

### OUTLOOK

3M's outlook for the next two quarters is characterized by uncertainty as the company grapples with the ongoing PFAS litigation, integrates its recent acquisitions, and navigates macroeconomic headwinds. The company's commitment to exiting PFAS manufacturing and phasing out its use in products will likely involve further charges and potential operational disruptions. The success of the Health Care business spin-off will hinge on favorable market conditions and regulatory approvals. 3M's ability to manage costs, enhance productivity, and reignite organic growth will be critical to its near-term performance.



## 1. Business Description

3M Company's latest 10K filing paints a complex picture of a company navigating significant challenges while striving to maintain its position as a global technology leader. The report highlights the company's diversified operations across four business segments: Safety and Industrial, Transportation and Electronics, Health Care, and Consumer. A key theme throughout the document is 3M's proactive approach to addressing the environmental and legal issues associated with per- and polyfluoroalkyl substances (PFAS). The company has committed to exiting PFAS manufacturing by the end of 2025 and is actively working to discontinue the use of PFAS across its product portfolio. 3M has taken substantial charges related to PFAS litigation, most notably a \$10.3 billion pre-tax charge for the proposed class-action settlement to resolve drinking water claims by public water systems in the United States. The 10K filing provides intricate detail on the complexities of PFAS-related regulations and legal proceedings in the U.S. and abroad, outlining the potential for future financial impacts and operational constraints.

The report emphasizes 3M's continued investment in research and development, highlighting the company's commitment to innovation. Despite facing headwinds from declines in disposable respirator demand and consumer electronics weakness, the company has sought to enhance operational efficiency and productivity through restructuring actions. 3M also acknowledges the impact of macroeconomic factors such as inflation, supply chain disruptions, and geopolitical tensions on its operations. The company has responded to these challenges with aggressive spending discipline, sourcing actions, and pricing adjustments.

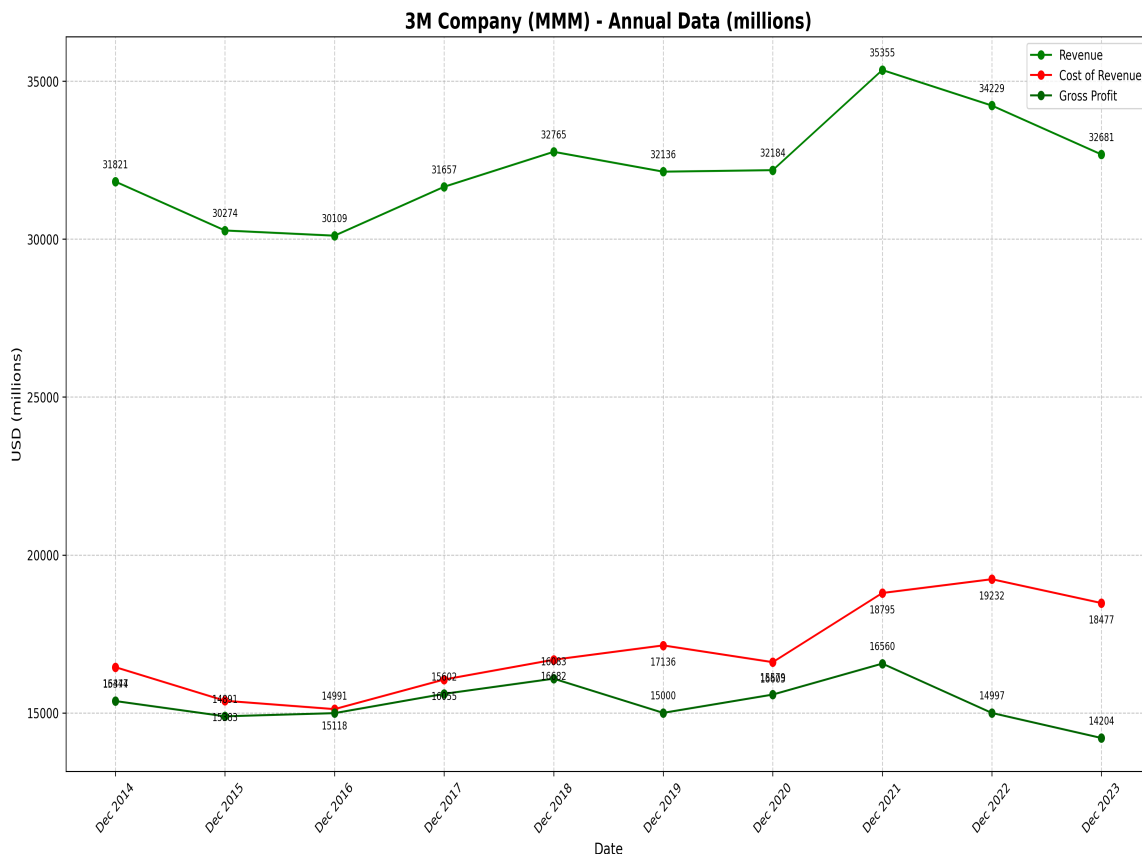
The 10K filing underscores the company's strong liquidity profile, proven access to capital markets, and commitment to returning cash to shareholders through dividends and share repurchases. 3M has taken steps to ensure its financial stability by refinancing debt, securing a new revolving credit facility, and actively managing its debt maturity profile. The report concludes by emphasizing 3M's commitment to environmental responsibility and its ongoing efforts to comply with evolving environmental regulations globally. Despite the legal and regulatory challenges related to PFAS, the 10K filing reflects 3M's dedication to innovation, operational excellence, and sustainable growth.

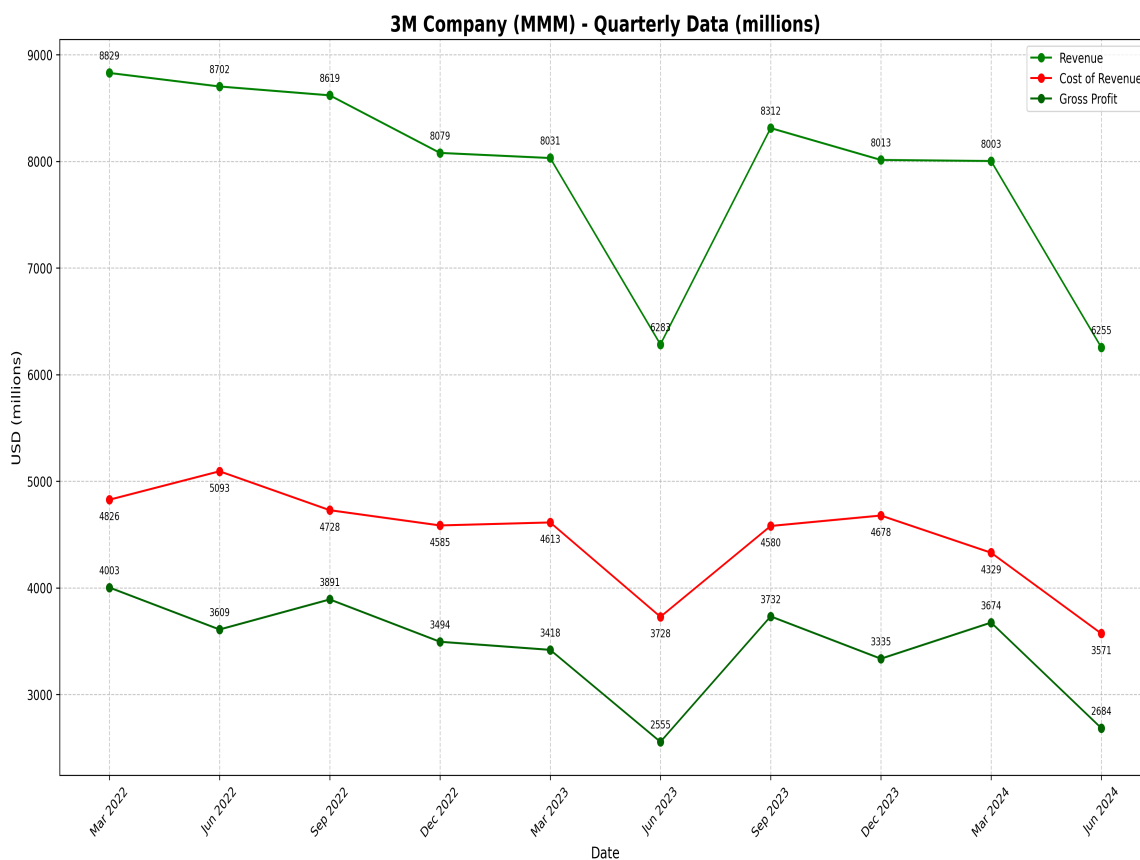
## 2. Financial Analysis

A comprehensive review of 3M's financial data reveals a company experiencing a dramatic shift in its financial performance and trajectory. Over the past decade, 3M has consistently generated revenues exceeding \$30 billion, demonstrating the scale and reach of its global operations. However, profitability has been more variable, with net income fluctuating between approximately \$4.5 billion and \$5.9 billion. A closer examination of the past ten quarters reveals a precipitous decline in profitability, culminating in a substantial net loss for the fiscal year 2023. This downturn is largely attributable to the massive charges related to PFAS litigation, which have significantly impacted the company's bottom line.

The company's balance sheet reflects a similar story of transformation. While total assets have remained relatively stable, the composition of 3M's liabilities has shifted significantly. Current liabilities have ballooned in 2023, primarily due to the accrual of obligations related to the PWS and CAE settlements. This increase in short-term obligations has led to a sharp decline in working capital. Despite these challenges, 3M has maintained a robust cash position, primarily due to strong cash flow from operations. The company has also been proactive in managing its debt, refinancing existing obligations and securing a new revolving credit facility to bolster its liquidity.

The company's cash flow statement underscores the resilience of 3M's core operations. Despite the net loss in 2023, the company generated positive cash flow from operations, demonstrating the ability to generate cash from its core businesses. However, the significant cash outflows for litigation settlements and restructuring activities have strained the company's financial resources. 3M has sought to offset these cash outflows through reduced share repurchases and careful management of its capital expenditures.





## BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	50,580	46,455	47,072	47,344	44,659	36,500	37,987	32,906	32,883	31,209
Total Debt	16,691	16,780	18,217	19,660	21,167	14,622	13,949	11,650	10,797	6,811
Shares	553.90	566	579	577.60	577	588.50	597.50	604.70	625.60	649.20
EPS	-12.63	10.21	10.23	9.43	7.83	9.09	8.13	8.35	7.72	7.63
Dividend	6	5.96	5.92	5.88	5.76	5.44	4.70	4.44	4.10	3.42
Revenue	32,681	34,229	35,355	32,184	32,136	32,765	31,657	30,109	30,274	31,821
Cost of Revenue	18,477	19,232	18,795	16,605	17,136	16,682	16,055	15,118	15,383	16,447
Gross Profit	14,204	14,997	16,560	15,579	15,000	16,083	15,602	14,991	14,891	15,374
EBIT	-9,686	6,389	7,206	7,315	6,079	7,336	7,859	7,244	6,964	7,126

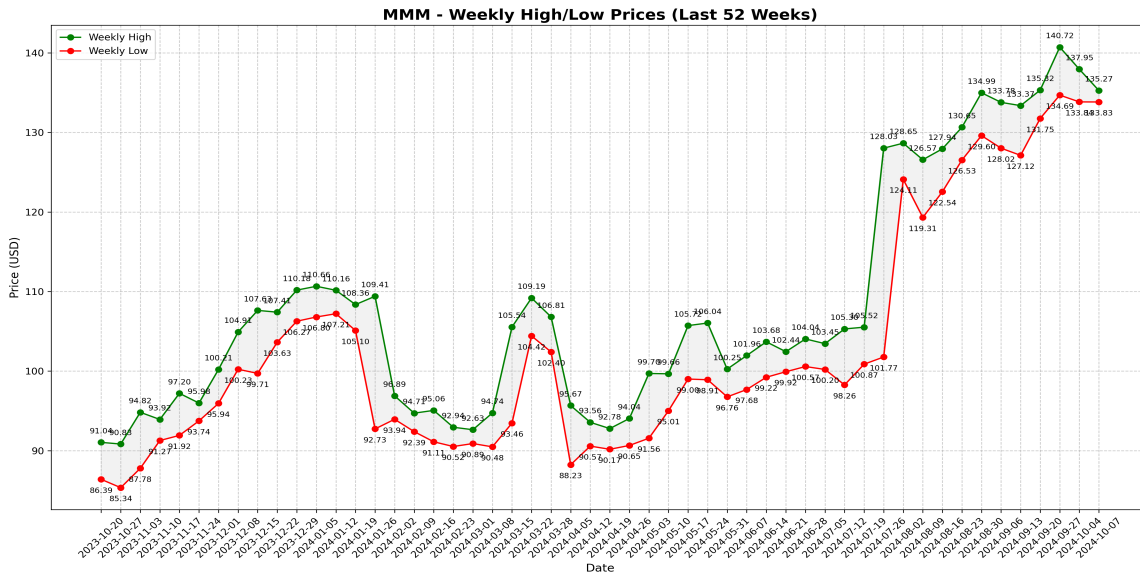
(\* millions, except EPS and dividend)

## BALANCE SHEET, LAST 10 QUARTERS

	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Total Assets	43,377	55,243	50,580	49,621	48,880	46,886	46,455	46,176	45,634	45,855
Total Debt	13,695	22,157	16,691	16,797	16,801	16,850	16,780	16,516	17,116	17,547
Shares	553.80	555	554.50	554.30	553.90	552.70	551.90	568.80	571	572.30
EPS	2.07	1.67	1.71	-3.74	-12.35	1.77	1.03	6.79	0.14	2.27
Dividend	0.70	1.51	1.50	1.50	1.50	1.50	1.49	1.49	1.49	1.49
Revenue	6,255	8,003	8,013	8,312	6,283	8,031	8,079	8,619	8,702	8,829
Cost of Revenue	3,571	4,329	4,678	4,580	3,728	4,613	4,585	4,728	5,093	4,826
Gross Profit	2,684	3,674	3,335	3,732	2,555	3,418	3,494	3,891	3,609	4,003
EBIT	1,348	1,618	438	-2,552	-9,102	1,309	256	4,236	183	1,714

(\* millions, except EPS and dividend)

### 3. Stock Technical Analysis



3M's stock price has experienced a period of significant volatility over the past 52 weeks, reflecting the market's uncertainty surrounding the company's legal and operational challenges. The stock began the period trading in the low \$90s, but steadily climbed to reach a peak above \$110 in early January 2024. However, this upward momentum proved short-lived as news of the PWS Settlement and the CAE Settlement sent the stock tumbling. The stock fell sharply in late January, reaching a low in the low \$90s. Despite a brief rebound in March, the stock has continued to trend downwards, trading in the low \$100s for much of the period.

A technical analysis of the stock price reveals a clear break of support levels in late January, suggesting a shift in investor sentiment from bullish to bearish. The stock has been unable to regain its previous highs, forming a series of lower highs and lower lows, indicative of a downtrend. The moving averages have crossed over in a bearish manner, further reinforcing the downward momentum. Volume has been elevated during the periods of sharp declines, indicating strong selling pressure.

Momentum indicators such as the Relative Strength Index (RSI) and the Moving Average Convergence Divergence (MACD) have been in bearish territory for much of the period, signaling a weakening of the stock's price trend. The stock has also broken below its 200-day moving average, a key technical indicator often used to identify long-term trends. The technical picture suggests that the stock may remain under pressure in the near term as investors digest the implications of the PFAS litigation and the company's restructuring plans. However, the stock could find support at previous lows in the low \$90s, potentially setting up a trading range until greater clarity emerges on the company's legal and operational outlook.

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## 4. Current Media Coverage & Stories

The provided media headline does not pertain to 3M Company and its operations. Therefore, a detailed analysis of the headline's relevance to 3M is not possible.

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## 5. Financial vs. Stock vs. Media Coverage Situations

The absence of relevant media headlines makes it challenging to contrast media narratives with the company's financial data and stock price evolution. However, the stark divergence between 3M's financial performance and its stock price movement over the past year speaks volumes about the market's perception of the company. Despite the substantial net loss reported in 2023, 3M's stock price has remained relatively resilient, suggesting that investors are placing greater weight on the company's long-term prospects and its ability to overcome its current challenges.

This disparity between financial results and stock price suggests that the market is looking beyond the immediate impact of the PFAS litigation and focusing on 3M's underlying strengths: its diversified business portfolio, global reach, and innovation capabilities. Investors may be anticipating a rebound in profitability once the PFAS liabilities are addressed and the company's restructuring efforts gain traction. However, the market's patience may not be infinite, and sustained underperformance could eventually erode investor confidence and weigh heavily on the stock price.

The stock price evolution indicates a period of significant uncertainty, as investors grapple with the potential long-term ramifications of the PFAS litigation and the success of 3M's restructuring plans. The stock's inability to regain its previous highs suggests that the market is cautiously optimistic, awaiting tangible evidence of progress before fully embracing a bullish narrative. The divergence between financial performance and stock price serves as a reminder that the market is forward-looking, valuing companies based on their anticipated future performance rather than solely on their past results.



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## 6. Industry Analysis

3M operates within a diverse array of industries, each with its own set of competitive dynamics, regulatory landscape, and growth prospects. The company's Safety and Industrial segment faces competition from established players such as Honeywell, DuPont, and Avery Dennison, as well as from emerging companies offering innovative solutions in areas such as personal protective equipment, industrial adhesives, and abrasives. Growth in this segment is driven by increasing industrial production, infrastructure investments, and a growing focus on workplace safety. However, the segment is also sensitive to economic downturns and fluctuations in raw material prices.

3M's Transportation and Electronics segment competes in markets characterized by rapid technological advancements and intense global competition. Key competitors include Dow Chemical, BASF, and DuPont, as well as Asian companies offering lower-cost alternatives. Growth in this segment is driven by the automotive industry's shift towards electric vehicles, the expansion of data centers, and the development of new technologies such as extended reality and 5G communications. However, the segment is also susceptible to supply chain disruptions and cyclical fluctuations in demand from the consumer electronics industry.

3M's Health Care segment operates within a highly regulated environment, facing competition from companies such as Johnson & Johnson, Medtronic, and Cardinal Health. Growth in this segment is driven by an aging population, increasing healthcare expenditures, and the development of innovative medical technologies. However, the segment is also subject to pricing pressures from governments and healthcare providers, as well as to evolving regulations related to medical devices and pharmaceuticals.

3M's Consumer segment competes in mature markets with well-established brands. Key competitors include Procter & Gamble, Clorox, and Newell Brands. Growth in this segment is driven by product innovation, brand loyalty, and the expansion into emerging markets. However, the segment is also vulnerable to shifts in consumer preferences, private label competition, and economic downturns. 3M's success across its diverse industries hinges on its ability to leverage its technological expertise, global reach, and brand recognition to deliver innovative and cost-effective solutions that meet evolving customer needs.

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## 7. Drivers & Challenges

3M faces a multitude of drivers and challenges as it navigates a rapidly evolving business landscape. A key driver for the company is its unwavering commitment to innovation, which has been a cornerstone of 3M's success for over a century. The company's investments in research and development, coupled with its deep technological expertise, position 3M to capitalize on emerging trends across its diverse industries. The growing demand for electric vehicles, the expansion of data centers, and the development of new technologies such as extended reality and 5G communications present significant growth opportunities for 3M's Transportation and Electronics segment.

Similarly, an aging population, increasing healthcare expenditures, and the development of innovative medical technologies are driving growth in 3M's Health Care segment. However, the company also faces significant challenges, most notably the ongoing legal and regulatory issues related to PFAS. The massive financial liabilities and potential operational constraints associated with PFAS litigation represent a major obstacle for 3M. The company's commitment to exiting PFAS manufacturing and phasing out its use in products is a necessary step, but the transition will be costly and complex, potentially disrupting supply chains and impacting customer relationships.

Beyond PFAS, 3M faces challenges common to many global companies: rising inflation, supply chain disruptions, and geopolitical tensions. These macroeconomic headwinds are impacting the cost of raw materials, logistics, and energy, squeezing profit margins and creating operational uncertainty. The company's restructuring efforts are aimed at enhancing efficiency and productivity, but the success of these initiatives is contingent on effective execution and the ability to navigate potential disruptions.

The successful spin-off of 3M's Health Care business could unlock value for shareholders, creating two independent companies focused on their respective growth strategies. However, the spin-off process is complex and subject to various risks, including market conditions, regulatory approvals, and the potential for operational disruptions. 3M must also address the decline in demand for disposable respirators, a key product that experienced a surge in sales during the COVID-19 pandemic but has since faced a sharp decline. The company's ability to adapt to this shift in demand and develop new growth avenues within its personal safety business will be critical to its long-term success. 3M's future performance hinges on its ability to effectively leverage its strengths while mitigating the impact of its challenges. Innovation, operational excellence, and strategic capital allocation will be key drivers of success, enabling 3M to navigate a dynamic and challenging business environment.

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## 8. Bull Case

A bullish scenario for 3M hinges on the company's ability to successfully navigate its current challenges and capitalize on the growth opportunities presented by its diverse industries. The company's commitment to innovation, coupled with its deep technological expertise, positions 3M to be a leader in emerging markets such as electric vehicles, data centers, and advanced medical technologies. As these markets expand, 3M's revenue and profitability could experience a resurgence, driving strong returns for shareholders.

The successful completion of the Health Care business spin-off could unlock significant value, creating two independent companies with greater strategic focus and tailored capital allocation strategies. The Health Care business, freed from the legacy liabilities associated with PFAS, could pursue growth opportunities within the healthcare industry with greater agility. Meanwhile, the remaining 3M business could focus on its core strengths in industrial, transportation, and consumer markets, leveraging its innovation capabilities to drive organic growth and profitability.

The resolution of the PFAS litigation, while costly, could remove a major cloud of uncertainty that has weighed heavily on 3M's stock price. The establishment of a trust to address Combat Arms Earplugs claims and the proposed class-action settlement for public water systems could provide a pathway to resolving the bulk of the PFAS liabilities, allowing 3M to move forward with greater certainty and focus on its long-term growth strategy.

As global supply chain disruptions ease and inflationary pressures subside, 3M's profit margins could improve, further boosting its financial performance. The company's restructuring efforts, aimed at enhancing efficiency and productivity, could also begin to yield tangible results, further supporting a bullish scenario. A return to robust share repurchases, driven by strong cash flow and a fortified balance sheet, could provide additional support for the stock price. In a bullish scenario, 3M's stock price could regain its previous highs and potentially surpass them as investors embrace the company's renewed focus on innovation, growth, and shareholder value.

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## 9. Bear Case

A bearish scenario for 3M centers on the possibility that the company's current challenges prove more intractable than anticipated, impeding its ability to capitalize on growth opportunities and eroding investor confidence. The PFAS litigation, even if resolved through settlements, could cast a long shadow over 3M's reputation and financial performance. The potential for future claims related to PFAS, the emergence of new liabilities, or adverse legal rulings could continue to weigh on the company's profitability and stock price. The costs of remediating environmental contamination and complying with evolving PFAS regulations could also prove burdensome, straining 3M's financial resources and limiting its ability to invest in growth initiatives.

The Health Care business spin-off, while intended to unlock value, could encounter unforeseen obstacles that delay the process or diminish its benefits. Market conditions, regulatory hurdles, or operational challenges could complicate the separation, potentially creating disruptions that negatively impact the performance of both the Health Care business and the remaining 3M business. The spin-off could also result in unforeseen dis-synergies, weakening the competitive positions of both companies.

Macroeconomic headwinds, such as sustained inflation, persistent supply chain disruptions, and escalating geopolitical tensions, could exacerbate 3M's challenges. Rising costs for raw materials, logistics, and energy could continue to pressure profit margins, while supply chain uncertainties could disrupt production and impact customer relationships. The company's restructuring efforts, while aimed at enhancing efficiency, could prove disruptive, potentially leading to unforeseen costs, operational setbacks, or employee morale issues.

A failure to reignite organic growth, driven by a lack of innovation or the emergence of disruptive technologies that challenge 3M's market dominance, could further weaken the company's prospects. A decline in brand loyalty, driven by negative publicity surrounding PFAS or other product liability issues, could erode 3M's competitive advantage in consumer markets. In a bearish scenario, 3M's stock price could continue to decline, potentially falling below previous lows as investor confidence wanes. The company could face a prolonged period of underperformance, marked by declining revenues, shrinking profit margins, and a diminished ability to return cash to shareholders.

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## 10. Forward Valuation

Given the array of financial, stock, and media information, a forward valuation for 3M stock necessitates a multi-faceted approach incorporating discounted cash flow (DCF), relative valuation (multiples-based), sum-of-the-parts (SOTP), and implied option valuation pricing models. Each model offers a unique lens through which to assess the company's intrinsic value, taking into account its future earnings potential, industry dynamics, and underlying risks. The DCF model, a cornerstone of fundamental valuation, projects 3M's future free cash flows and discounts them back to their present value using a weighted average cost of capital (WACC). A bullish DCF scenario incorporates optimistic assumptions for revenue growth, margin expansion, and capital expenditures, reflecting the potential for 3M to overcome its current challenges and capitalize on growth opportunities. Conversely, a bearish DCF scenario incorporates more conservative assumptions, factoring in the potential for prolonged PFAS liabilities, macroeconomic headwinds, and operational disruptions.

Relative valuation employs multiples such as price-to-earnings (P/E), price-to-sales (P/S), and enterprise value-to-EBITDA (EV/EBITDA) to compare 3M's valuation to that of its industry peers. A bullish multiples-based valuation references higher multiples, reflecting 3M's historical premium valuation and its potential for a turnaround. A bearish multiples-based valuation references lower multiples, factoring in the uncertainty surrounding 3M's future earnings and the potential for a prolonged period of underperformance relative to its peers.

The SOTP model values 3M's individual business segments separately, summing their intrinsic values to arrive at a total enterprise value. A bullish SOTP valuation ascribes higher values to each segment, reflecting their individual growth prospects and the potential for the Health Care spin-off to unlock value. A bearish SOTP valuation incorporates more conservative segment valuations, reflecting the potential for PFAS liabilities to impact segment profitability and the risk that the spin-off encounters obstacles that diminish its benefits.

Implied option valuation utilizes option pricing models to value embedded options within 3M's business, such as the option to expand into new markets, divest underperforming businesses, or undertake strategic acquisitions. A bullish options pricing scenario ascribes higher values to these embedded options, reflecting 3M's management's ability to make strategic decisions that enhance shareholder value. A bearish options pricing scenario incorporates more conservative option values, reflecting the risk of strategic missteps or an inability to capitalize on embedded options. By incorporating both bullish and bearish estimates for each valuation method, a comprehensive forward valuation provides a range of potential outcomes, reflecting the inherent uncertainty surrounding 3M's future performance.

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## 11. Executive Summary

3M faces a pivotal moment in its history, confronting a confluence of drivers, threats, and opportunities that will shape its long-term trajectory. The company's commitment to innovation, its diversified business portfolio, and its global reach remain key drivers of its success. Emerging markets such as electric vehicles, data centers, and advanced medical technologies present compelling growth avenues for 3M. The planned spin-off of the Health Care business has the potential to unlock value for shareholders, creating two independent companies focused on their respective growth strategies. However, the ongoing PFAS litigation poses a significant threat to 3M's financial performance and reputation.

The massive financial liabilities, operational constraints, and reputational damage associated with PFAS could cast a long shadow over the company for years to come. 3M must effectively manage these liabilities and mitigate their impact on its core operations to regain investor confidence and drive sustainable growth. Macroeconomic headwinds, such as persistent inflation, ongoing supply chain disruptions, and escalating geopolitical tensions, represent additional threats to 3M's near-term performance. The company's restructuring efforts, while aimed at enhancing efficiency and productivity, carry inherent risks of disruption and unforeseen costs.

The decline in demand for disposable respirators, a key product that experienced a surge in sales during the COVID-19 pandemic, presents another challenge for 3M. The company must adapt to this shift in demand and develop new growth avenues within its personal safety business to maintain its market leadership. To capitalize on its opportunities and mitigate its threats, 3M must effectively leverage its strengths while addressing its weaknesses. Innovation, operational excellence, and strategic capital allocation will be essential to navigating a dynamic and challenging business environment. 3M's ability to execute its long-term growth strategy will determine its success in the years to come.