

# 3M Company

**US CORE HOLDING\***

Recommended since 06.07.21

21.06.2022



<b>Country</b> US	<b>Market capitalization (bn)</b> USD 74.3	<b>Perf. since reco. (%)</b>
<b>Sector</b> Industrie	<b>Free float</b> 99.9%	3M Company -34.1
<b>Factset</b> MMM-US	<b>Closing price</b> USD 129.84	Sector -26.1
<b>ISIN</b> US88579Y1010	<b>ESG Risk score*</b> 33.6 High risk	

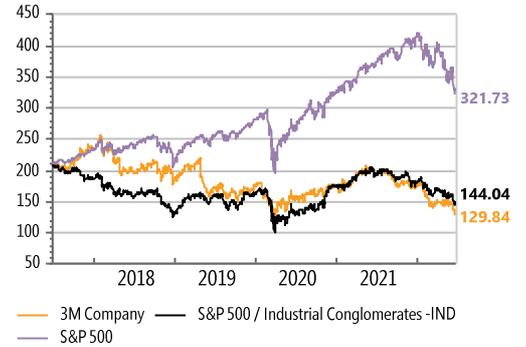
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

3M, founded in 1902 and listed since 1946, is an industrial conglomerate with a workforce today of 95,000 and operations in over 200 countries. The group, with its mission statement to "use science to improve lives", designs and manufactures products, chiefly abrasives, adhesives, masks, protective equipment, etc., organised into four business groups – Safety & Industrial, Transportation & Electronics, Health Care and Consumer.

## Market - competition - positions - barriers to entry

3M serves around ten end-user markets and is exposed to both industrial and consumer client-bases, with a range extending to almost 60,000 products. This makes 3M a company with practically no comparable peer in terms of the overall breadth of its businesses. Barriers to entry are technologies and R&D. The group channels on average 6% of its sales into these areas, employing roughly 8,000 R&D staff and having a portfolio totalling over 100,000 registered patents and filing for around 3,000 new patents each year. Its innovativeness is then translated into flagship brands.



Source: Factset

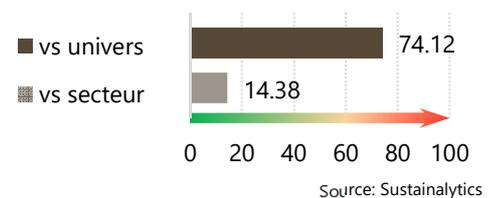
## Investment case

- 3M is a comparatively low-risk investment in financial terms given its diversification and fundamentals underpinning its business model, including its dividend that has been paid out non-stop since 1916 and increased annually for over 60 years. The Safety & Industrial business group (adhesives, tapes, abrasives, etc.) generates c. 35% of sales. Transportation & Electronics accounts for roughly 25% of sales. The Health Care business group (c. 25% of sales) encompasses medical products, surgical supplies, skin/wound and dental care, infection prevention, food purification and food safety. Lastly, the Consumer business group (c. 15% of sales) is exposed to the mass consumer sector. 3M's brands and positioning deliver comfortable profit margins and generate solid cash flows, both guarantees of its resilience.
- However, the group generated virtually no growth over the 2013-2018 period. This prompted management (change of CEO in 2018, who went on to become Chairman in 2019) to fully overhaul its strategy. At end-2018, 3M clarified its goals and priorities: investing more heavily and intensifying its R&D work focused on key global challenges and megatrends: healthcare, air quality, food safety, modernisation of energy networks, security of the Internet of Things; it also set a target to achieve annual growth averaging 3%-6%.
- After stable sales and a 2%pt increase in operating margin for FY2020, 3M posted growth in profits in FY2021 on the back of a c. 9% organic growth. For the 2022-2024 period, we consider a soft recession of global economy, before the group comes back on its c. 4% normative growth rate. Capex dedicated to R&D and environmental management should also increase, without questioning the strong free cash-flow profile of the group, translating into both growth potential and comfortable shareholders remuneration.
- All in all, the case on 3M, in our view, offers an attractive risk/return at current price and after a poor performance over the last year, and warrants a fundamental value more than 30% above the current share price, including a specific environmental risk premium without even taking into account a dividend yield of over 4% and regular share buybacks (2 bn\$ expected for FY2022 only).

## ESG - risks and key points

- 3M does have a "High Risk" rating for financial repercussions associated with ESG criteria.
- This stems from 3M's high exposure primarily to the "E" of ESG, e.g. various environmental issues, coupled with its material ESG risk management rated as being "Average". 3M products are often chemically processed, giving rise to issues relating to effluents or waste that are hazardous or subject to regulatory controls.
- As such, the group has been implicated, for example, in a number of controversies related to soil pollution, prompting us to integrate a specific risk premium.

## ESG risk vs. universe & sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price	Value Bordier Scenario
130	172

Our scenario is based on a 3.5% risk-free rate for the US and our trajectory for sales and margins as outlined above, and a specific environmental risk premium.

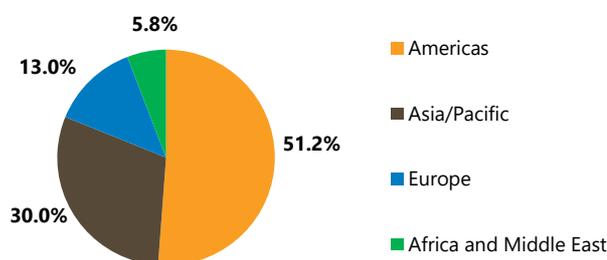
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

## "Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	32'184	35'355	34'648	34'301	35'673
Sales growth %	0.1%	9.9%	-2.0%	-1.0%	4.0%
o/w organic	-1.7%	8.8%	2.0%	-1.0%	4.0%
EBIT adjusted	7'022	7'493	7305	7060	7700
% of sales	21.8%	21.2%	21.1%	20.6%	21.6%
Net income	5'393	5'919	5796	5520	6024
Adjusted EPS	9.07	10.15	9.90	9.43	10.29
Adjusted EPS growth	13.7%	12.0%	-2.5%	-4.7%	9.1%
Free cash-flow	6'740	5'902	5372	5423	5778
FCF/Sales	20.9%	16.7%	15.5%	15.8%	16.2%
Dividend per share	5.86	5.89	6.00	6.05	6.20
Dividend yield	3.4%	4.5%	4.6%	4.7%	4.8%
ROCE - WACC	9.9%	12.8%	11.7%	10.8%	12.3%
ROE (%)	41.0%	39.5%	37.8%	31.9%	30.6%
Net debt/Ebitda	156.1%	137.9%	140.9%	124.0%	92.5%

Source: Factset, Bordier estimates

## Sales breakdown - 12/2021



## Ratios

	3M Company	Sector	Market
PE (x)***	Industrial Conglomerates	S&P 500	
	2021	12.8	24.3
	2022e	13.1	17.7
	2023e	13.8	14.5
P/B (x)***	2021	4.9	4.3
	2022e	4.8	3.5
	2023e	4.3	3.3
<b>Beta (2Y, daily) vs market: 1.00</b>			

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

## Governance and ownership structure

Mike Roman, CEO since July 2018 and Chairman since May 2019.

## Agenda

2Q2022 Results: 26.07.2022

## Key shareholders (if any):

Free float close to 100%; the largest shareholders are activist asset managers like Vanguard, State Street or BlackRock.

## Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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## Glossary

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition &amp; b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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