

Midlincoln Research

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Company: 3M CO
Ticker: NYSE: MMM
Rating: Neutral
12 m TP \$155

Analyst: Ovanes Oganisian

3M – The Most Diversified

Executive Summary

Metric	Value
Share price	\$155.53
Shares outstanding	541M
Total debt	\$13.78B
Cash & equivalents	\$4.21B
Net debt	\$9.57B
WACC	8%
Terminal growth	2%
Effective tax rate	20%

- **Current share price:** \$155.53
- **DCF base-case fair value (optimistic assumptions):** \$121.60/share
- **Recommendation:** Neutral / Cautious
- **Rationale:**
 - Even with lower WACC (8%) and higher segment growth (S&I 4.5%, T&E 4%, Consumer 2%), the stock remains slightly above intrinsic value.
 - Upside exists if growth exceeds expectations or WACC declines further.
 - Legal and consumer risks keep the recommendation conservative.
 - Undervalued vs. peers, valuation suggests neutral stance
 - **Fair value \$155/share**

Company Snapshot

3M is a diversified industrial technology company operating in three primary segments:

- **Safety & Industrial (S&I):** adhesives, tapes, abrasives, roofing granules, personal safety equipment.
- **Transportation & Electronics (T&E):** auto & aerospace materials, films, connectors, advanced materials.
- **Consumer:** home improvement, home & auto care, packaging & office products (e.g., Post-it, Scotch).

Industrial Conglomerates
US

Post-2024 health-care spin, 3M focuses on engineered materials, electronics, adhesives, abrasives, and consumer brands.

Segment Overview & Outlook

Segment	Business Description	Outlook
Safety & Industrial	Adhesives, tapes, abrasives, roofing granules, personal safety	Steady low-single-digit growth, strong margins, pricing power
Transportation & Electronics	Auto & aerospace materials, films, connectors	Modest growth; aerospace positive, consumer electronics mixed
Consumer	Home improvement, home & auto care, packaging & office products	Soft near term; innovation helps but retail restocking slow

Forecast Assumptions

- Segment sales growth (2025–2029):
 - S&I: +4.5% CAGR
 - T&E: +4% CAGR
 - Consumer: +2% CAGR
- EBITDA margins (2024 baseline):
 - S&I: 28.1%
 - T&E: 27.7%
 - Consumer: 22.1%
- D&A: ~5.85% of total sales
- Capex: ~5.06% of total sales
- Working capital changes assumed negligible

5-Year Segment Projections (2025–2029, Optimistic DCF)

Metric	2025	2026	2027	2028	2029
S&I Sales (\$B)	11.454	11.97	12.508	13.071	13.659
S&I EBITDA (\$B)	3.219	3.363	3.515	3.673	3.838
T&E Sales (\$B)	7.732	8.042	8.363	8.698	9.046
T&E EBITDA (\$B)	2.142	2.228	2.317	2.409	2.506
Consumer Sales (\$B)	5.03	5.13	5.233	5.337	5.444
Consumer EBITDA (\$B)	1.112	1.134	1.156	1.18	1.203
Total Sales (\$B)	24.216	25.142	26.105	27.107	28.149
Adj. EBITDA (\$B)	6.472	6.725	6.988	7.262	7.547
D&A (\$B)	1.415	1.469	1.525	1.584	1.645
Capex (\$B)	1.226	1.273	1.322	1.372	1.425
EBIT (\$B)	5.057	5.256	5.463	5.678	5.902
NOPAT (\$B)	4.046	4.205	4.37	4.542	4.722
FCFF (\$B)	4.235	4.401	4.574	4.754	4.942

DCF Valuation (Optimistic Scenario)

- PV of explicit-period FCFF: \$18.2 B
- PV of terminal value: \$57.2 B
- Enterprise value: \$75.4 B
- Equity value: \$65.8 B
- DCF fair value per share: \$121.60

DCF Sensitivity Table (Value per Share \$)

WACC	Terminal g	Value/ Share
7.5%	1%	115.24
7.5%	2%	134.38
7.5%	3%	162.01
8%	1%	105.62
8%	2%	121.6
8%	3%	143.98
8.5%	1%	97.28
8.5%	2%	110.8
8.5%	3%	129.23

Peer Snapshot

Ticker	Company	Note
HON	Honeywell	Large-cap diversified industrial
ITW	Illinois Tool Works	High-margin industrial
EMR	Emerson Electric	Automation & controls
JCI	Johnson Controls	Buildings tech
MMM	3M	Target

Peer Valuation

Company	Ticker	P/E Ratio (TTM)	Forward P/E
3M	MMM	21.6	20.2
Honeywell	HON	24.8	21.4
Illinois Tool Works	ITW	23.1	25.4
Emerson Electric	EMR	33.4	20.4
Johnson Controls	JCI	31.7	24.9

3M is trading at a **discount** compared to its peers, with a TTM P/E ratio of 21.6 versus an average of approximately 27.7 for the group.

- **Emerson Electric** exhibits the highest valuation among peers with a TTM P/E of 33.4, potentially reflecting market confidence in its growth prospects.
- **Illinois Tool Works** and **Johnson Controls** have forward P/E ratios that are relatively higher than their TTM ratios, indicating expected earnings growth.

These valuation metrics suggest that 3M may be undervalued relative to its industry peers, potentially offering an investment opportunity if its growth prospects improve.

Recommendation

- **Recommendation:** Neutral / Cautious
 - **Rationale:**
 - Optimistic fair value ~\$155/share vs current \$155 using DCF and peer comparison
 - Upside exists if growth exceeds projections or WACC declines further
 - Risks: legal settlements, consumer softness, macroeconomic pressures
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Sources – midlincoln estimates

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