



3M Co

05 September 2017



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01 Recommendation

Recommended exposure – 0.00%

- Q2 revenue of \$7.81bn
- Q2 EPS of 258 cents
- 3M has an industry-leading position
- Investors need to be cognisant of Dollar volatility
- Three strategic levers
- Pricing adjustments
- Sustainable dividend
- Share repurchasing program
- Share looks expensive
- Premium rating



02 Nature of business

Nature of business

3M is a global science company that never stops inventing. Using 46 technology platforms, an integrated team of scientists and researchers works with customers to create breakthroughs. 3M's inventions have improved daily life for hundreds of millions of people all over the world. With \$30 billion in sales, 90,000 employees connect with customers all around the world. Scientists, researchers and marketers work across countries and across subjects to solve challenges big and small.



Source <http://www.3m.co.uk>



03 Financial review

Financial review

- Revenue increased 3% to \$15.5bn
 - Q2 reported a 2% (3.5% on an organic basis) increase in revenue to \$7.8bn
 - Q2 volumes contributed positively
- Gross profit remained flat at \$7.6bn
- Gross margin decreased slightly from 50% to 49%
- Operating profit fell 4% to \$3.5bn
 - Q2 operating profit saw an 8% decline to \$1.7bn
- Operating margin decreased to 22.4% (2016: 24.0%)

The results are discussed on a six-month basis unless stated otherwise
2017 Q2 results are compared to 2016 Q2 results
Organic refers to both constant currency and operations on a continuing basis.



Financial review

- Other income improved to \$490m (2016: \$40m)
- Net interest expense increased 8% to \$79m
- Profit after tax increased 13% to \$2.9bn
 - Q2 profit after tax increased 23% to \$1.6bn
- Diluted earnings per share increased 15% to 474 cents
 - Q2 diluted earnings per share increased 24% to 258 cents
 - Weighted average number of shares decreased 1%
- Q2 dividend was up 6% to 118 cents

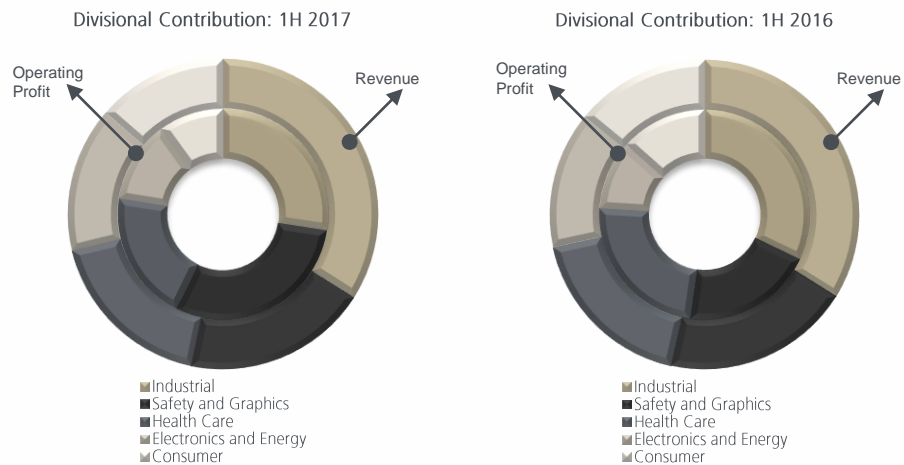
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04 Divisions

Divisions

- Segmental overview:



Excludes Corporate and Unallocated, Elimination of Dual Credit



Industrial (contributed 34% to revenue and 27% to operating profit)

- Revenue increased 3% to \$5.4bn
 - Q2 revenue increased 2% to \$2.7bn
- Operating profit decreased 8% to \$1.1bn
 - Operating profit decreased 8% to \$1.1bn
- Operating margin decreased to 21.1% (2016: 23.6%)
 - Q2 operating margin eased to 19.2% (2016: 23.4%)
 - Going forward management expects operating leverage to improve in the second half



Source: <http://products3m.com>

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Safety and Graphics (contributed 19% to revenue and 30% to operating profit)

- Revenue increased 1% to \$3.1bn
 - Q2 revenue decreased 1% to \$1.5bn
- Operating profit increased 60% to \$1.3bn
 - Q2 operating profit increased 102% to \$852m
- Operating margin increased to 40.7% (2016: 25.7%)
 - Q2 operating margin increased to 55.1% (2016: 27.0%)



Source: <http://www.3m.com>

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Health Care (contributed 18% to revenue and 20% to operating profit)

- Revenue increased 2% to \$2.9 bn
 - Q2 revenue increased 2% to \$1.4bn
- Operating profit decreased 8% to \$846m
 - Q2 operating profit decreased 11% to \$412m
- Operating margin decreased to 29.5% (2016: 32.8%)
 - Q2 operating margin eased to 28.6% (2016: 32.7%)
 - Going forward management expects organic growth to improve as the contract pipelines have increased.



Source: <http://www.3m.com>

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Electronics and Energy (contributed 16% to revenue and 13% to operating profit)

- Revenue increased 9% to \$2.4 bn
 - Q2 revenue increased 8% to \$1.2bn
- Operating profit increased 28% to \$526m
 - Q2 operating profit increased 39% to \$301m
- Operating margin increased to 21.7% (2016: 18.6%)
 - Q2 operating margin increased to 24.8% (2016: 19.2%).



Source: <http://www.3m.com>

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2017 Q2 results are compared to 2016 Q2 results
Organic refers to both constant currency and operations on a continuing basis.



Consumer (contributed 15% to revenue and 13% to operating profit)

- Revenue was flat at \$2.2 bn
 - Q2 revenue increased 1% to \$1.1bn
- Operating profit decreased 20% to \$417m
 - Q2 operating profit decreased 31% to \$195m
- Operating margin decreased to 19.1% (2016: 23.8%)
 - Q2 operating margin eased to 17.2% (2016: 24.9%)
 - Going forward: Management expects channel adjustments to continue to impact stationary and office supplies



Source: <http://multimedia.3m.com/>

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05 Company guidance

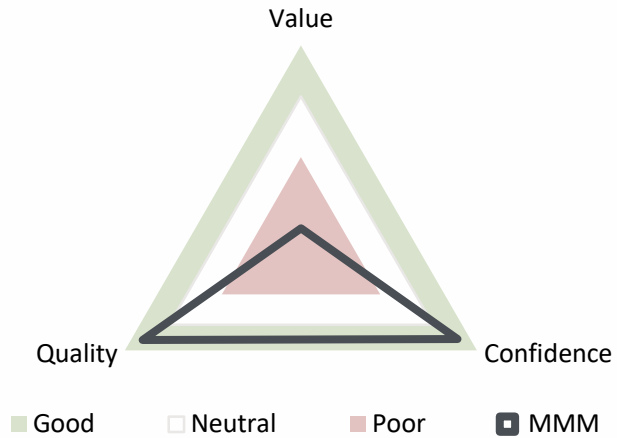
Company guidance

- Targets 3-5% organic local-currency sales growth for 2017
- Raised the lower end of the EPS range from \$8.70 - \$8.80 with a new range of \$8.80 - \$9.05 (yoy growth of 8%-11%) for the full year
- Three strategic levers
- Core pricing
 - will be roughly flat in the U.S. in 2017;
 - global trend is 30-50 bps increase yoy
- Accelerated growth investments
- Progress being made to optimize 3M's portfolio and manufacturing footprint



06 Portfolio guidance

Portfolio Guidance



- Recommended exposure of 0.00%
- We recommend an underweight exposure



END | thank you

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