

COMPANY PROFILE

# 3M Company

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## COMPANY OVERVIEW

3M Company (3M) is a diversified technology company that manufactures and markets a broad array of innovative products including tapes, adhesives, filtration products, transportation safety products, medical and surgical supplies, skin health and infection prevention products, dental and orthodontic products, packaging and interconnection devices, touch screen and touch monitors, home care products, , and consumer and office tapes and adhesives. The company offers its products to a wide range of industries, including industrial; safety and graphics; electronics and energy; health care; and consumer. 3M distributes its products directly to users and through several wholesalers, retailers, jobbers, distributors and dealers. The company operates in the Americas, Europe, Middle East, and Africa (EMEA), and Asia Pacific. 3M is headquartered in Saint Paul, Minnesota, the US.

The company reported revenues of (US Dollars) US\$31,657 million for the fiscal year ended December 2017 (FY2017), an increase of 5.1% over FY2016. In FY2017, the company's operating margin was 25%, compared to an operating margin of 24% in FY2016. In FY2017, the company recorded a net margin of 15.3%, compared to a net margin of 16.8% in FY2016.

The company reported revenues of US\$8,390.0 million for the second quarter ended June 2018, an increase of 1.4% over the previous quarter.

## KEY FACTS

<b>Head Office</b>	3M Company 3M Center, Building 220-11W-02 Saint Paul Minnesota Saint Paul Minnesota USA
<b>Phone</b>	1 651 7331110
<b>Fax</b>	
<b>Web Address</b>	www.3m.com
<b>Revenue / turnover (USD Mn)</b>	31,657.0
<b>Financial Year End</b>	December
<b>Employees</b>	91,536
<b>New York Stock Exchange Ticker</b>	MMM

## SWOT ANALYSIS

3M Company (3M) is a diversified technology company which operates in various industries, including industrial; safety and graphics; electronics and energy; health care; and consumer. The company's balanced revenue stream and geographical presence, strong R&D capability and robust portfolio of brands are its key strengths, whereas unfunded pension and post-retirement benefit obligations and involvement in lawsuits remain the area of concern for the company. In the future, intense competition, foreign currency fluctuations and environmental law compliance could erode the market share and reduce the profitability of 3M. However, growing global automotive manufacturing market, robust outlook of global renewable energy market and strategic acquisitions provide growth opportunities to the company.

<p><b>Strength</b></p> <p>Robust portfolio of brands Balanced revenue stream and geographical presence Strong R&amp;D capability</p>	<p><b>Weakness</b></p> <p>Involvement in lawsuits Unfunded pension and post-retirement benefit obligations</p>
<p><b>Opportunity</b></p> <p>Growing global automotive manufacturing market Robust outlook of global renewable energy market Strategic acquisition of Scott Safety</p>	<p><b>Threat</b></p> <p>Foreign currency fluctuations Environmental law compliance Intense competition</p>

### Strength

Robust portfolio of brands

3M is known for its strong brand name. The company is widely recognized across product lines and geographies. Some of the company's well-known brands include Scotch brand products, such as Scotch Magic Tape, Scotch Glue Stick, and Scotch Cushioned Mailer; and Post-it products, such as Post-it flags, Post-it note pads, Post-it labeling and cover-up tape, and Post-it pop-up notes and dispensers. In the construction and home improvement business, the company markets its surface-preparation and wood-finishing materials through its brand names, including Command adhesive products and Filtrete filters for furnaces and air conditioners. Its home care product brands include: Scotch-Brite scour pads, Scotch-Brite scrub sponges, Scotch-Brite microfiber cloth products, and OCel-O sponges. Additionally, 3M's protective material products include: Scotchgard fabric protectors; certain maintenance-free respirators; certain consumer retail personal safety products, including safety glasses, hearing protectors, and 3M Thinsulate Insulation, which is used in jackets, pants, gloves, hats and boots to keep people warm; Nexcare adhesive bandages; and ACE branded (and related brands) elastic bandage, supports and thermometer product lines. Strong brand portfolio increases brand recall and promotes repeat purchases. It also enhances the overall brand equity of the company and provides opportunities to introduce brand extensions and line extensions.

#### Balanced revenue stream and geographical presence

3M's revenue stream is diversified in terms of business lines and geographies. The company operates 80 manufacturing facilities in 29 states in the US; and 125 manufacturing and converting facilities in 37 countries outside the US. It operates through five business segments serving different industries. In FY2017, the Industrial segment accounted for 33.4% of the total revenue, followed by Safety and Graphics (18.8%), Health Care (17.8%), Electronics and Energy (15.8%) and Consumer (14.1%). In FY2017, the company generated 39.1% of its total revenues from the US, 31% from Asia Pacific, and 20.4% from Europe, Middle East and Africa. The remaining 9.6% of the total revenues were generated from Latin America and Canada. The company's wide geographic presence provides increased market opportunities. Moreover, diversification of revenue stream along business lines and geographies reduces dependence of the company on a single segment or geography thereby reducing its business risk.

#### Strong R&D capability

3M has strong research and development (R&D) capabilities. The company conducts research to develop new products and improve existing products, as well as to enhance manufacturing and production methods and improve service. In FY2017, the company incurred R&D expenses of US\$1.9 billion, which as a percentage of revenue, stood at 5.8%. Additionally, R&D, covering basic scientific research and the application of scientific advances in the development of new and improved products and their uses, totaled US\$1.3 billion in FY2017. The company's R&D activities generate a steady stream of inventions that are covered by new patents. The company has introduced several new products in 2017. For instance, in July 2017, the company launched the Rapid Readout Biological Indicator (BI) System for vaporized hydrogen peroxide sterilization (VH202). BI is the fastest readout compared to any other FDA cleared product in the market and can be read in just 24 minutes making the practice of every load monitoring increasingly feasible. Thus, strong R&D capability enables the company to develop innovative products, which enable it to remain at the forefront of its respective businesses and differentiate its offerings in a highly competitive market.

### **Weakness**

#### Involvement in lawsuits

3M and some of its subsidiaries are involved in numerous claims and lawsuits, principally in the US, and regulatory proceedings worldwide. As of December 31, 2017, the company was a named defendant, with multiple co-defendants, in numerous lawsuits in various courts that purport to represent approximately 2,230 individual claimants, compared to approximately 2,660 individual claimants with actions pending at December 31, 2016. The majority of the lawsuits currently pending against the company allege use of some of 3M's mask and respirator products and seek damages from the company and other defendants for alleged personal injury from workplace exposures to asbestos, silica, coal mine dust or other occupational dusts found in products manufactured by other defendants or generally in the workplace. In FY2017 and FY2016, the company had accruals for respirator mask/asbestos liabilities (excluding Aearo accruals) of US\$608 million and US\$595 million, respectively. Furthermore, in FY2017, the company's receivable for insurance recoveries related to the respirator mask/asbestos litigation was US\$4 million. The company estimates insurance receivables based on an analysis of its policies, including its

exclusions, pertinent case law interpreting comparable policies, its experience with similar claims, and an assessment of the nature of each claim and remaining coverage. In January 2017, several hundred plaintiffs sued 3M, its subsidiary Dyneon, and Daikin America alleging that the defendants' manufacturing and disposal facilities in Decatur have released and continue to release PFOA, PFOS and related chemicals into the groundwater and surface water of their sites, resulting in discharge into the Tennessee River. The plaintiffs assert various common law claims, including negligence, nuisance, wantonness, and fraudulent concealment, and they seek injunctive relief, attorneys' fees, compensatory and punitive damages for their alleged personal injuries. Further, in May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama filed a lawsuit in the Circuit Court of Cherokee County Alabama against 3M, DuPont, and various carpet and textile manufacturers alleging that the PFCs from the defendants' facilities contaminated the town's raw water source for drinking water and seeks unstated damages for the installation and operation of a filtration system, expenses to monitor PFC levels, lost profits and sales, and injunctive relief. Thus, involvement in lawsuits, in future, could burden the financial position of 3M which in turn may affect the company's overall business performance.

#### Unfunded pension and post-retirement benefit obligations

3M has significant unfunded pension obligations. 3M provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. On a worldwide basis, 3M's pension and post-retirement plans were 87% funded at year-end 2017. The US qualified plans, which are approximately 67% of the worldwide pension obligation, were 94% funded; the international pension plans were 90% funded; and the US non-qualified pension plan is not funded due to tax considerations and other factors. Thus, unfunded pension benefit obligation could force the company to make additional cash contributions toward bridging the gap between pension obligations, which, in turn would reduce the cash flow available for growth initiatives.

## Opportunity

#### Growing global automotive manufacturing market

The global automotive manufacturing industry has produced relatively consistent levels of growth overall the past few years. The industry is expected to continue to grow positively in future. According to MarketLine, the global automotive manufacturing industry generated US\$1,378.9 billion in 2016, an increase of 5.3% over the previous year. Furthermore, the industry is expected to grow at a CAGR of 3.2% during 2016–21 period to reach a value of approximately US\$1,617.8 billion in 2021. In addition, the volume is expected to rise to 160.2 million units by 2021, representing a CAGR of 1.8% for the 2016–21 period. The industrial segment of 3M serves a broad range of markets, including automotive original equipment manufacturer (OEM) and automotive aftermarket (auto body shops and retail). Thus, an expanding end market is likely to drive the demand for the company's products, enhancing its topline growth.

#### Robust outlook of global renewable energy market

The outlook for global renewable energy market is robust. According to MarketLine, the global renewable energy market generated total revenues of US\$669 billion in 2016, representing a growth of 15.4% over

the previous year. Furthermore, the market is expected to grow at a CAGR of 11.2% for the 2016–21 period to reach a value of approximately US\$1,135.8 billion in 2021. The company provides renewable energy component solutions for the solar and wind power industries, and infrastructure products solutions that provide municipalities both protection and detection solutions for electrical, oil, natural gas, water, rebar and other infrastructure assets. The company is helping to save energy, reduce the cost per watt and uncover new ways to create and sustain a more viable future. Thus, the robust outlook of global renewable energy market could provide increased business opportunities to 3M, helping it expand its revenues and market share.

#### Strategic acquisition of Scott Safety

3M's strategy of acquiring business in the recent past enhances its business profile and geographic footprint. In October 2017, the company acquired Scott Safety from Johnson Controls. The acquisition complements 3M's existing personal safety portfolio through Scott Safety's innovative products which include self-contained breathing apparatus systems, gas and flame detection instruments, and other safety devices. It also allows 3M to provide a broader range of safety products and solutions which will enhance its customer base worldwide. Acquisitions such as this complements both 3M's product range and geographical presence and strengthens its business as they would provide a strong platform to 3M for its future growth.

### Threat

#### Foreign currency fluctuations

3M operates in more than 70 countries across the Americas, Europe, Middle East, and Africa (EMEA), and Asia Pacific. The company's financial statements are denominated in US Dollars and approximately 60% of the company's revenues are derived from outside the US. Therefore, the company is subject to foreign currency risks due to fluctuations in exchange rates. The company's results of operations and its ability to realize projected growth rates in sales and earnings could be adversely affected if the US Dollar strengthens significantly against foreign currencies. 3M is also exposed to the translation of foreign currency earnings to the US Dollar. The company enters into foreign exchange forward and option contracts to hedge against the effect of exchange rate fluctuations on cash flows denominated in foreign currencies. However, there is no guarantee that these hedging techniques will provide a complete protection against risks pertaining to foreign currency exchange rate fluctuations. Hence, foreign currency exchange rates and fluctuations in those rates may affect the company's net investment in foreign subsidiaries and may cause fluctuations in cash flows, sales and earnings related to foreign denominated transactions.

#### Environmental law compliance

3M's manufacturing operations are affected by national, state and local environmental laws around the world. These regulations are related to air emissions, wastewater discharges, toxic substances, handling and disposal of solid and hazardous wastes enforced by national, state, and local authorities around the world, and private parties in the US and abroad. These laws and regulations provide, under certain circumstances, a basis for the remediation of contamination, for restoration of or compensation for

damages to natural resources, and for personal injury and property damage claims. 3M has made, and plans to continue making necessary expenditures for compliance with applicable laws. The company is also involved in remediation actions relating to environmental matters from past operations at certain sites. The company has incurred, and will continue to incur, costs and capital expenditures in complying with these laws and regulations. In FY2015, 3M invested about \$28 million in capital projects to protect the environment. This amount excludes expenditures for remediation actions relating to existing matters caused by past operations. Hence, the additional resources required for complying with the environmental laws and regulations could increase the compliance costs, which in turn would increase the company's operating costs impacting its margins.

#### Intense competition

3M operates in rapidly evolving and intensely competitive segments. As the company is a diversified manufacturing company, it faces intense competition from various large scale companies in its existing businesses. Some of its competitors have greater financial and other resources than the company. It faces direct competition from Balchem Corporation, Bayer AG, Bostik S.A., Cardinal Health, Inc., Checkpoint Systems, Inc., CONMED Corporation, Danaher Corporation, General Electric Company, H.B. Fuller Company, Honeywell International Inc., Illinois Tool Works Inc., ITT Corporation, Johnson & Johnson, Sika AG, Textron Inc. and Tyco International plc, among others. Hence, intense competition in the industry could lead to pricing pressures, thereby decreasing the product demand, market share and margins for the company.



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