

# 2020 First Quarter Business Review

(Unaudited)

April 28, 2020



## Events

### 2020 Earnings Calls

**Q2** | July 28

**Q3** | October 27

# Forward looking statement

This presentation contains forward-looking information about 3M's financial results and estimates and business prospects that involve substantial risks and uncertainties. You can identify these statements by the use of words such as "anticipate," "estimate," "expect," "aim," "project," "intend," "plan," "believe," "will," "should," "could," "target," "forecast" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance or business plans or prospects. Among the factors that could cause actual results to differ materially are the following: (1) worldwide economic, political, regulatory, capital markets and other external conditions and other factors beyond the Company's control, including natural and other disasters or climate change affecting the operations of the Company or its customers and suppliers; (2) risks related to public health crises such as the global pandemic associated with the coronavirus (COVID-19); (3) liabilities related to certain fluorochemicals, including lawsuits concerning various PFAS-related products and chemistries, and claims and governmental regulatory proceedings and inquiries related to PFAS in a variety of jurisdictions; (4) legal proceedings, including significant developments that could occur in the legal and regulatory proceedings described in the Company's Annual Report on Form 10-K for the year ended Dec. 31, 2019, and any subsequent quarterly reports on Form 10-Q (the "Reports"); (5) competitive conditions and customer preferences; (6) foreign currency exchange rates and fluctuations in those rates; (7) the timing and market acceptance of new product offerings; (8) the availability and cost of purchased components, compounds, raw materials and energy (including oil and natural gas and their derivatives) due to shortages, increased demand or supply interruptions (including those caused by natural and other disasters and other events); (9) unanticipated problems or delays with the phased implementation of a global enterprise resource planning (ERP) system, or security breaches and other disruptions to the Company's information technology infrastructure; (10) the impact of acquisitions, strategic alliances, divestitures, and other unusual events resulting from portfolio management actions and other evolving business strategies, and possible organizational restructuring; (11) operational execution, including scenarios where the Company generates fewer productivity improvements than estimated; (12) financial market risks that may affect the Company's funding obligations under defined benefit pension and postretirement plans; and (13) the Company's credit ratings and its cost of capital. Changes in such assumptions or factors could produce significantly different results. A further description of these factors is located in the Reports under "Cautionary Note Concerning Factors That May Affect Future Results" and "Risk Factors" in Part I, Items 1 and 1A (Annual Report) and in Part I, Item 2 and Part II, Item 1A (Quarterly Reports), as updated by applicable Current Reports on Form 8-K. The information contained in this presentation is as of the date indicated. The Company assumes no obligation to update any forward-looking statements contained in this presentation as a result of new information or future events or developments.

## Note on non-GAAP financial measures

This presentation refers to certain non-GAAP financial measures. Refer to 3M's April 28, 2020 press release for descriptions of non-GAAP financial measures such as adjusted free cash flow, adjusted free cash flow conversion, adjusted EBITDA, and various measures that adjust for the impacts of special items. These non-GAAP measures are not in accordance with, nor are they a substitute for, GAAP measures. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in that press release.





# Our COVID-19 response is guided by our purpose ... improving every life

- Ensuring the safety of our employees
- Protecting healthcare workers and first responders
- Delivering for our customers and shareholders in the near- and long-term

# Our top priority is the safety of our employees

- Mobilized global crisis action team in January
- Updated safe workplace protocols globally
- Executed new safety protocols across operations
- Implemented pandemic support programs





# Protecting healthcare workers and first responders

Addressing pandemic with urgency from all angles

## Leading in pandemic response

- Accelerated respirator production ... ramped up idle respirator lines
- Doubled global N95 respirator output to 100M/month (U.S.: ~35M/month)
- Increasing capital investments to double respirator output again
- Partnering to create innovative solutions to protect healthcare workers

## Prioritizing supplies to most critical areas

- Immediately redirected vast majority of global respirator output to healthcare
- Uniting with governments and distribution partners to expedite products to healthcare workers
- Closely collaborating with U.S. Administration, FDA, HHS, DoD and FEMA to import 166.5M respirators into U.S.

## Fighting fraud and price gouging

- Working with distributors and governments to ensure secure supply chains
- 3M has not increased respirator prices as a result of the pandemic
- Published N95 respirator prices; created hotline for fraud and price gouging
- Working with national and local legal authorities to bring lawsuits in multiple states and Canada

# 3M leading from a position of strength

A time-tested global business model

## Our Fundamental Strengths



Technology



Manufacturing



Global Capabilities



Brand

- In this crisis, the benefits of our model have never been clearer
- Vertically integrated, powered by fundamental strengths: technology, manufacturing, global capabilities, brand
- Manufacturing, supply chain and technology capabilities close to customers and end-markets globally
- Greatest capabilities in U.S.: 76 plants and distribution centers in 29 states; \$5B exporter; global R&D center in St. Paul
- Robust capabilities around world: plants and distribution centers in 54 countries, 3 R&D centers in Asia and Europe
- 3M model enabling us to respond powerfully to COVID-19, while maintaining business continuity

# Managing through the pandemic

Delivering value for customers and shareholders in near- and long-term

## Ensuring Business Continuity

- Maintaining strong customer service with new global enterprise operations team
- Ongoing adjustments, including targeted shutdowns due to weak demand or mandates
- Paid furloughs in businesses most impacted
- As of late April: ~75% of plants and distribution centers fully or partially operational



## Proactive Financial Actions

- Prioritizing organic investments
- Aggressive cost reductions: \$350-\$400 million estimated Q2 cost savings
- Adjusting capital allocation plans to protect liquidity and financial flexibility
- Suspended share repurchases
- Remain committed to our dividend as a high priority for capital allocation



# Q1 business and geographic performance

Organic growth of 0.3%; adjusted EPS of \$2.16

## Business/ area organic growth

- By business: Consumer: 6.1%; Safety & Industrial: 2.2%; Health Care: 1.2%; Transportation & Electronics: -3.0%
- By area: Americas: 4.2%; EMEA: -1.7%; Asia Pacific: -4.4%
- COVID-related respirator organic growth of ~\$100M, or +1.3 ppt organic growth to total company

## End-markets

- Strong end-market demand in personal safety (respirators), home improvement, general cleaning solutions, food safety, and biopharma filtration
- Significant end-market demand weakness in oral care, auto OEM/aftermarket, general industrial, commercial solutions, and stationery and office

## Intra-quarter trends

- Americas steady through mid-March; U.S. up 4%
- EMEA experienced significant deceleration in March
- Asia Pacific mixed ... China down 11%



# Q1 2020 P&L

**\$8.1B**

+2.7% year-on-year

**Net sales**

**\$1.7B**

flat year-on-year

**Adjusted operating income**

**\$1.3B**

-4.1% year-on-year

**Adjusted net income**

## Adjusted operating income margin reconciliation:

Q1 2019

21.3%

Organic volume/  
productivity  
and other

+0.4%

Solid productivity; benefit from Q2 2019 restructuring and other actions; COVID-19 impacted asset write-downs (-0.4%)

Acquisitions/divestitures\*

-0.9%

Primarily Acelity acquisition

Price/raw material

+0.4%

Selling prices +0.4%; lower raw material costs

FX

-0.4%

Net of hedge impact

Q1 2020

20.8%

\* Includes net impact from acquisitions and lost income from divested businesses.

# Q1 2020 adjusted EPS

**\$2.16**

-2.7% year-on-year

**Adjusted earnings  
per share**

## Adjusted earnings per share reconciliation:

|  |         |   |
|--|---------|---|
| Q1 2019                                      | \$2.22  |   |
| Organic volume/<br>productivity<br>and other | +\$0.07 | Solid productivity; benefit from Q2 2019 restructuring and other actions; COVID-19 impacted asset write-downs (-\$0.04) |
| Acquisitions/divestitures                    | -\$0.05 | Primarily Acelity acquisition, includes financing costs   |
| FX   | -\$0.08 | Pre-tax earnings impact of -\$58M   |
| Tax rate*                                    | -\$0.03 | Adjusted tax rate Q1 2020 20.6% vs. Q1 2019 19.5%   |
| Shares outstanding                           | +\$0.03 | Average diluted shares down 1%  |
| Q1 2020                                      | \$2.16  |   |

\* The effect of income taxes on items that had specific tax rates are reflected within their respective impacts in the table above.



# 3M's capital structure and liquidity are strong

## Protecting cash flow and financial flexibility

### Strong capital structure

- Cash and marketable securities of \$4.5B (March 31, 2020)
- Q1 debt issuance of \$1.75B at weighted average rate of 3.2%
- 2020 debt maturities of \$1.2B\* (May \$0.7B, August \$0.5B)

### Robust cash flow and access to cash

- Q1 operating cash flow \$1.2B, up 16%; adjusted free cash flow \$0.9B, up 40%
- Expected Q2 after-tax proceeds of \$0.4B from drug delivery divestiture
- Strong working capital management
- Revolving credit facility \$4.25B (undrawn)

### Adjusting capital allocation plans

- Q1 gross share repurchases of \$365M; share repurchase program suspended
- Q1 cap-ex of \$332M; FY 2020 cap-ex ~\$1.3B vs. \$1.6-1.8B previously
- Aggressively managing discretionary spending

\* Excludes Acelity debt of \$0.5B previously escrowed

# Temporarily withdrawing guidance due to COVID-19

## Active scenario planning guiding our actions

- Currently expecting Q2 to be weakest quarter in 2020 for global economic activity
- Through late April, sales down mid-teens organically:
  - Americas down ~20%
  - EMEA down ~15%
  - Asia Pacific up low-single digits, led by China, while Japan decelerating
- Increased respirator-related demand estimated to contribute ~150 bps to Q2 organic sales growth
- Negative impacts from continued weak end-market demand: general industrial, automotive OEM/ aftermarket, discretionary healthcare, oral care, commercial solutions and office supplies; cannot quantify expected impact at this time
- Three-quarters of manufacturing/supply chain facilities currently operating; expecting ongoing adjustments as customer demand, and government policies and actions evolve

Will begin reporting monthly sales information starting in May





# Q&A

## **Mike Roman**

Chairman and  
Chief Executive Officer

## **Nick Gangestad**

Senior Vice President and  
Chief Financial Officer

## **Bruce Jermeland**

Vice President,  
Investor Relations

# Appendix

# Non-GAAP measures – description of special items

In addition to reporting financial results in accordance with U.S. GAAP, the Company also provides various non-GAAP measures that incorporate adjustments for the impacts of special items. Special items incorporated in the preparation of these non-GAAP measures for the periods presented include the items described below:

## Gain/loss from sale of businesses:

- In the first quarter of 2020, 3M recorded a pre-tax gain of \$2 million (\$1 million after tax loss) related to the sale of its advanced ballistic-protection business and recognition of certain contingent consideration.
- In the first quarter of 2019, 3M recorded a gain related to the sale of certain oral care technology comprising a business in addition to reflecting an earnout on a previous divestiture, which together resulted in a net gain of \$8 million (\$7 million after tax).

## Divestiture-related restructuring actions:

- In the first quarter of 2019, 3M made payments of approximately \$13 million associated with restructuring charges taken in 2018 related to addressing corporate functional costs following the 2018 Communication Markets Division divestiture.

## Significant litigation-related charges/benefits:

- In the first quarter of 2020, 3M recorded a net pre-tax charge of \$17 million (\$13 million after-tax) related to PFAS (certain perfluorinated compounds) matters. The charge was more than offset by a reduction in tax expense of \$52 million related to resolution of tax treatment with authorities regarding the previously disclosed 2018 agreement reached with the State of Minnesota that resolved the Natural Resources Damages (NRD) lawsuit. These items, in aggregate, resulted in a \$39 million after tax benefit. In the first quarter of 2020, 3M made payments of approximately \$63 million related to significant litigation-related matters.
- In the first quarter of 2019, 3M recorded significant litigation-related charges of \$548 million (\$424 million after tax) related to historical PFAS manufacturing operations and coal mine dust respirator mask lawsuits. In the first quarter of 2019, 3M made immaterial payments related to significant litigation-related matters.

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# Q1 2020 P&L

| (\$M)                      | Q1<br>2019 | Q1<br>2020 | Change   |
|----------------------------|------------|------------|----------|
| Sales                      | \$7,863    | \$8,075    | +2.7%    |
| Gross profit               | \$3,553    | \$3,966    | +11.6    |
| % to sales                 | 45.2%      | 49.1%      | +3.9 pts |
| SG&A                       | \$1,948    | \$1,768    | -9.3%    |
| % to sales                 | 24.8%      | 21.9%      | -2.9 pts |
| R&D & related              | \$477      | \$537      | +12.4%   |
| % to sales                 | 6.1%       | 6.6%       | +0.5 pts |
| Gain on sale of businesses | (\$8)      | (\$2)      | -75.0%   |
| % to sales                 | (0.1%)     | (0.0%)     | +0.1 pts |
| Operating income           | \$1,136    | \$1,663    | +46.4%   |
| % to sales                 | 14.4%      | 20.6%      | +6.2 pts |
| Net income                 | \$891      | \$1,292    | +45.1%   |
| GAAP earnings per share    | \$1.51     | \$2.22     | +47.0%   |

# Q1 2020 sales recap

|                           | Americas | EMEA  | Asia Pacific |
|---------------------------|----------|-------|--------------|
| Organic volume            | +3.5%    | -2.8% | -3.9%        |
| Price                     | +0.7%    | +1.1% | -0.5%        |
| Organic local-currency    | +4.2%    | -1.7% | -4.4%        |
| Acquisitions/Divestitures | +7.2%    | +2.4% | +0.8%        |
| FX                        | -1.3%    | -2.8% | -1.8%        |
| Total growth              | +10.1%   | -2.1% | -5.4%        |

|                        | U.S. | Canada | Mexico | Brazil | China | Japan |
|------------------------|------|--------|--------|--------|-------|-------|
| Organic local-currency | +4%  | +8%    | +5%    | +7%    | -11%  | +2%   |

# Q1 Business Group performance

|   | Sales<br>Organic growth | Adjusted<br>Operating<br>Margin<br>Change | Commentary   |
|---|-------------------------|---|--|
| <b>Safety &amp; Industrial</b>          | <b>\$2.9B</b><br>+2.2%  | <b>24.7%</b><br>+3.2 ppts                 | <ul style="list-style-type: none"> <li>Organic sales increased in personal safety, roofing granules, and industrial adhesives and tapes; declined in closure and masking, electrical markets, automotive aftermarket, and abrasives</li> <li>Adjusted operating margins impacted by sales increases and productivity</li> </ul>  |
| <b>Transportation &amp; Electronics</b> | <b>\$2.2B</b><br>-3.0%  | <b>21.5%</b><br>-0.6 ppts                 | <ul style="list-style-type: none"> <li>Organic sales increased in electronics; flat in advanced materials and transportation safety; declined in commercial solutions and automotive and aerospace</li> <li>Adjusted operating margins impacted by sales declines</li> </ul>   |
| <b>Health Care</b>                      | <b>\$2.1B</b><br>+1.2%  | <b>21.7%</b><br>-4.7 ppts                 | <ul style="list-style-type: none"> <li>Organic sales grew in drug delivery, food safety, medical solutions, and separation and purification; flat in health information systems; declined in oral care</li> <li>Adjusted operating margins impacted by Acelity and M*Modal acquisitions impact of -4.6 ppts; and declines in healthcare and oral care discretionary/preventative procedures</li> </ul> |
| <b>Consumer</b>                         | <b>\$1.3B</b><br>+6.1%  | <b>21.4%</b><br>+1.8 ppt                  | <ul style="list-style-type: none"> <li>Organic sales grew in home improvement, home care, and consumer health care; declined in stationery and office supplies</li> <li>Adjusted operating margins impacted by sales increases and productivity</li> </ul>   |

# Business segment information

| (\$M)<br>Business groups     | Net Sales  |            | Q1 2020 Sales Growth          |       |       |                          | Organic local-currency<br>by Geographic Area |                 |       | Adjusted Operating Income |            |                   | Adjusted<br>Operating<br>Margin |            |
|------------------------------|------------|------------|-------------------------------|-------|-------|--------------------------|--|-----------------|-------|---------------------------|------------|-------------------|---------------------------------|------------|
|                              | Q1<br>2019 | Q1<br>2020 | Organic<br>local-<br>currency | FX    | M&A   | Total<br>Sales<br>change | Americas                                     | Asia<br>Pacific | EMEA  | Q1<br>2019                | Q1<br>2020 | Percent<br>Change | Q1<br>2019                      | Q1<br>2020 |
| Safety & Industrial          | \$2,963    | \$2,935    | 2.2%                          | -2.2% | -1.0% | -1.0%                    | 4%   | -2%             | 3%    | \$637                     | \$726      | 14.0%             | 21.5%                           | 24.7%      |
| Transportation & Electronics | \$2,355    | \$2,238    | -3.0%                         | -1.3% | -0.7% | -5.0%                    | -2%  | -3%             | -4%   | \$519                     | \$482      | -7.1%             | 22.1%                           | 21.5%      |
| Health Care                  | \$1,738    | \$2,103    | 1.2%                          | -1.8% | 21.6% | 21.0%                    | 8%   | -9%             | -4%   | \$459                     | \$456      | -0.7%             | 26.4%                           | 21.7%      |
| Consumer                     | \$1,200    | \$1,256    | 6.1%                          | -1.5% | 0.0%  | 4.6%                     | 10%  | -1%             | -3%   | \$235                     | \$269      | 14.5%             | 19.6%                           | 21.4%      |
| Corporate and Unallocated    | \$22       | \$1        |                               |       |       |                          |  |                 |       | (\$77)                    | (\$139)    |                   |                                 |            |
| Elimination of Dual Credit   | (\$415)    | (\$458)    |                               |       |       |                          |  |                 |       | (\$97)                    | (\$116)    |                   |                                 |            |
| Total                        | \$7,863    | \$8,075    | 0.3%                          | -1.8% | 4.2%  | 2.7%                     | 4.2%   | -4.4%           | -1.7% | \$1,676                   | \$1,678    | -1.3%             | 21.3%                           | 20.8%      |

Organic local-currency = organic volume + price



# Sales by division

| (\$M)   | Net Sales |         |
|---|-----------|---------|
| Business groups                                   | Q1 2019   | Q1 2020 |
| Abrasives   | 363       | 330     |
| Automotive Aftermarket                            | 306       | 284     |
| Closure and Masking Systems                       | 278       | 268     |
| Electrical Materials                              | 311       | 291     |
| Industrial Adhesives and Tapes                    | 683       | 674     |
| Personal Safety                                   | 924       | 990     |
| Roofing Granules                                  | 92        | 95      |
| Other Safety & Industrial                         | 6         | 3       |
| Total Safety & Industrial Business Group          | 2,963     | 2,935   |
| Advanced Materials                                | 311       | 288     |
| Automotive & Aerospace Solutions                  | 508       | 447     |
| Commercial Solutions                              | 462       | 429     |
| Electronics                                       | 861       | 863     |
| Transportation Safety                             | 216       | 211     |
| Other Transportation & Electronics                | (3)       | 0       |
| Total Transportation & Electronics Business Group | 2,355     | 2,238   |

| (\$M)                            | Net Sales |         |
|----------------------------------|-----------|---------|
| Business groups                  | Q1 2019   | Q1 2020 |
| Drug Delivery                    | 83        | 105     |
| Food Safety                      | 83        | 91      |
| Health Information Systems       | 260       | 277     |
| Medical Consumables              | 773       | 1,153   |
| Oral Care                        | 341       | 277     |
| Separation & Purification        | 203       | 202     |
| Other Health Care                | (5)       | (2)     |
| Total Health Care Business Group | 1,738     | 2,103   |
| Consumer Health Care             | 97        | 99      |
| Home Care                        | 257       | 270     |
| Home Improvement                 | 528       | 576     |
| Stationery and Office            | 295       | 273     |
| Other Consumer                   | 23        | 38      |
| Total Consumer Business Group    | 1,200     | 1,256   |
| Corporate and Unallocated        | 22        | 1       |
| Elimination of Dual Credit       | (415)     | (458)   |
| Total                            | 7,863     | 8,075   |

**3M** Science.  
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