

# 2020 Second Quarter Business Review

(Unaudited)

July 28, 2020



## Events

# 2020 Earnings Calls

**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 July 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.





## At 3M, we are:

- Fighting the pandemic from every angle as we protect employees, healthcare workers, and first responders
- Delivering strong operational execution, robust cash flow, and strengthened capital structure in a challenging environment
- Investing in innovation and productivity with a relentless customer focus
- Seeing improvement in July sales trends across all businesses and geographies
- Building on our legacy of strong finance leadership and stewardship

# Advancing our pandemic response in a dynamic environment

## Protecting employees, healthcare workers and public health

### Protecting Employees

- Protecting employees with strong, global work-place safety protocols
- Adjusting effectively to different ways to work while ensuring business continuity
- In early stages of return-to-workplace, mainly in Asia, Europe, and global R&D organization
- Complying with and supporting government guidelines



### Global Pandemic Response

- Producing more respirators than ever: 800M June year-to-date, on track to 2B in 2020, up more than 3X vs. 2019
- Partnering with U.S. Department of Defense and other governments to expand global respirator capacity
- Expanding partnerships including new innovative rapid diagnostic COVID-19 test with MIT
- Continuing fight against fraud and price gouging



# Q2 business and geographic performance

Organic sales decline of 13.1%; adjusted EPS of \$1.78

## Business/ area organic sales

- By business: Consumer: -5.0%; Safety & Industrial: -6.1%; Health Care: -12.4%; Transportation & Electronics: -18.9%
- By area: Asia Pacific: -8.1%; EMEA: -14.5%; Americas: -15.6%
- COVID-related respirator organic growth of ~\$225M, or +2.8 ppt organic growth to total company

## End-markets trends

- Organic sales trends steady throughout the quarter
- Strong end-market demand in personal safety, home improvement, general cleaning solutions, semiconductor, data center, and biopharma filtration
- Significant end-market demand weakness in healthcare elective procedures, auto OEM/aftermarket, general industrial, commercial solutions, and office supplies

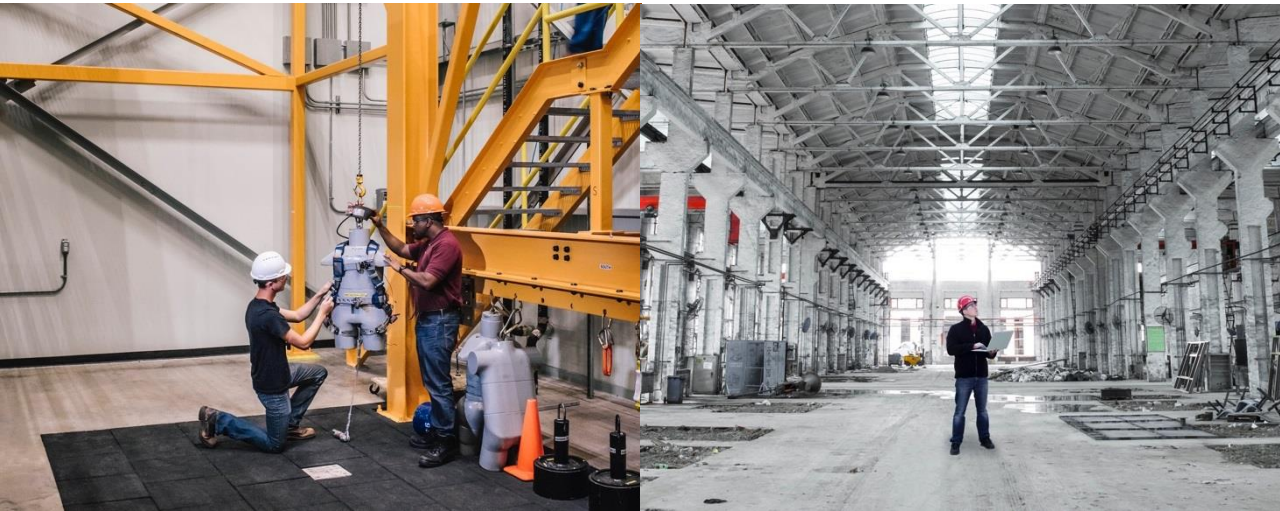
## Strong execution

- Expanded adjusted EBITDA margin by 110 bps to 26.5%
- Actions to help offset COVID-19 impacts: aggressively reduced costs ~\$400M year-on-year; restructuring charge of \$58M
- Strong adjusted free cash flow of \$1.5B; strengthened capital structure, net debt down 10% since March 31, 2020



# Focused on delivering on our four priorities

Positioning 3M for long-term growth and value creation



## Portfolio

Leveraging our 3M value model

Finalized sale of drug delivery business (May 2020)

## Transformation

Streamlining decision-making and improving cycle times

Nearly all manufacturing plants and distribution centers operational



## Innovation

Investing to solve big challenges for our customers

Priority Growth Platforms – outperforming markets they serve



## People & Culture

Accelerating efforts for more diverse and inclusive culture

Acting in support of COVID-19 relief and social justice



# Building on our legacy of strong finance leadership



**Nick Gangestad**  
Senior Vice President and  
Chief Financial Officer  
*(Retiring August 1, 2020)*



**Monish Patolawala**  
Senior Vice President and  
Chief Financial Officer  
*(Effective July 1, 2020)*



# Q2 2020 P&L

**\$7.2B**

-12.2% year-on-year

**Net sales**

**\$1.4B**

-17.3% year-on-year

**Adjusted operating income**

**\$1.0B**

-17.2% year-on-year

**Adjusted net income**

## Adjusted operating income margin reconciliation:

Q2 2019

20.8%

Organic volume/  
productivity  
and other

-1.0%

Organic sales volume decline, along with other COVID-19 impacts and additional actions, partially offset by cost reductions, and Q2 2019 restructuring and related benefits

Acquisitions/divestitures\*

-0.8%

Primarily Acelity acquisition

Price/raw material

+0.7%

Selling prices +0.5%; lower raw material costs

FX

-0.1%

Net of hedge impact

Q2 2020

19.6%

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

# Q2 2020 adjusted EPS

**\$1.78**

-16.4% year-on-year

**Adjusted earnings  
per share**

## Adjusted earnings per share reconciliation:

Q2 2019			\$2.13
Organic growth/ productivity and other	-\$0.28	Organic sales decline, along with other COVID-19 impacts and additional actions, partially offset by cost reductions, and Q2 2019 restructuring and related benefits	
Acquisitions/divestitures	-\$0.07	Acelity acquisition (including financing costs); divested income	
FX	-\$0.05	Pre-tax earnings impact of -\$37M	
Tax rate*	+\$0.03	Adjusted tax rate Q2 2020 20.7% vs. Q2 2019 22.3%	
Shares outstanding	+\$0.02	Average diluted shares down 1%	
Q2 2020			\$1.78

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



# Q2 2020 cash flow and balance sheet

**\$1.5B**

**Adjusted free cash flow**

**Adjusted free cash flow of \$1.5B**

- Up 18% year-on-year, benefited from management of working capital and timing of income tax payments

**\$4.5B**

**Cash & Marketable Securities**

**Adjusted free cash flow conversion of 149%**

**Capital expenditures:**

- Q2 2020: \$379M, down \$42M year-on-year
- FY 2020: ~\$1.4B vs. ~\$1.3B previously

**\$0.8B**

**Dividends**

**Net debt reduction of \$1.7B:**

- Q2 2020 \$16.3B vs. Q1 2020 \$18.0B

*See Appendix for additional information*

# Q2 Business Group performance

	Sales Organic growth	Segment Operating Margin Change	Commentary
<b>Safety &amp; Industrial</b>	<b>\$2.7B</b> -6.1%	<b>23.8%</b> +1.8 pts	<ul style="list-style-type: none"> <li>Organic sales increased in personal safety, with declines across rest of portfolio</li> <li>Segment operating margin improvement driven by strong productivity, cost actions, and benefits from Q2 2019 restructuring</li> </ul>
<b>Transportation &amp; Electronics</b>	<b>\$1.9B</b> -18.9%	<b>19.7%</b> -4.4 pts	<ul style="list-style-type: none"> <li>Organic sales declined in electronics, transportation safety, advanced materials, commercial solutions, and automotive and aerospace</li> <li>Segment operating margins negatively impacted by sales declines which were partially offset by cost actions, and benefits from Q2 2019 restructuring</li> </ul>
<b>Health Care</b>	<b>\$1.8B</b> -12.4%	<b>16.8%</b> -9.6 pts	<ul style="list-style-type: none"> <li>Organic sales grew in separation and purification; declined in medical solutions, food safety, health information systems, and oral care</li> <li>Segment operating margins negatively impacted by sales declines and Acelity acquisition which were partially offset by cost actions, and benefits from Q2 2019 restructuring</li> </ul>
<b>Consumer</b>	<b>\$1.2B</b> -5.0%	<b>23.2%</b> +2.5 ppt	<ul style="list-style-type: none"> <li>Organic sales grew in home care and home improvement; declined in consumer health care, and stationery and office supplies</li> <li>Segment operating margins improvement driven by strong productivity, cost actions, and benefits from Q2 2019 restructuring</li> </ul>



# Active scenario planning guiding our actions

## Full-year 2020 guidance remains withdrawn

- Expecting sequential improvement in global economy in Q3 versus Q2
- Improving sales trends, July month-to-date sales up low-single digits year-on-year
  - Broad-based improvement across all businesses and geographies
- Respirator-related demand estimated to contribute ~300–350 bps to total company organic sales growth in Q3
- Maintaining focus on cost management while continuing to invest in growth and productivity
- Adjusted operating income margin expected to be in range of 20–21 percent in Q3
- Ongoing focus on cash flow generation, disciplined capital allocation and strengthening capital structure

Will continue reporting monthly sales information

# Q&A

## **Mike Roman**

Chairman and  
Chief Executive Officer

## **Nick Gangestad**

Senior Vice President and  
Chief Financial Officer  
*(retiring August 1, 2020)*

## **Monish Patolawala**

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:

## Significant litigation-related charges/benefits:

- In the second quarter of 2020, 3M made payments of approximately \$18 million related to significant litigation-related matters.
- In the second quarter of 2019, 3M made payments of approximately \$39 million related to significant litigation-related matters.

## Loss on deconsolidation of Venezuelan subsidiary:

- In the second quarter of 2019, 3M recorded a pre-tax charge of \$162 million related to the deconsolidation of the Company's Venezuelan subsidiary.

## Gain/loss from sale of businesses:

- In the second quarter of 2020, 3M recorded a pre-tax gain of \$387 million (\$304 million after tax) related to the sale of its drug delivery business.
- In the second quarter of 2019, as a result of a "held for sale" tax benefit related to the legal entities associated with the pending divestiture of the Company's gas and flame detection business, 3M recorded an after tax gain of \$43 million.

## Divestiture-related restructuring actions:

- In the second quarter of 2020, following the divestiture of substantially all of the drug delivery business, management approved and committed to undertake certain restructuring actions addressing corporate functional costs and manufacturing footprint across 3M in relation to the magnitude of amounts previously allocated/burdened to the divested business. As a result, 3M recorded a pre-tax charge of \$55 million (\$46 million after tax).
- In the second quarter of 2019, 3M made payments of approximately \$44 million associated with restructuring charges taken in 2018 related to addressing corporate functional costs following the 2018 Communication Markets Division divestiture.

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# Q2 2020 P&L

(\$M)	Q2 2019	Q2 2020	Change
Sales	\$8,171	\$7,176	-12.2%
Gross profit	\$3,858	\$3,371	-12.6%
% to sales	47.2%	47.0%	-0.2 pts
SG&A	\$1,686	\$1,594	-5.4%
% to sales	20.6%	22.2%	+1.6 pts
R&D & related	\$470	\$424	-9.7%
% to sales	5.8%	5.9%	+0.1 pts
Gain on sale of businesses	\$0	(\$387)	NM
% to sales	(0.0%)	(5.4%)	-5.4 pts
Operating income	\$1,702	\$1,740	+2.3%
% to sales	20.8%	24.3%	+3.5 pts
Net income	\$1,127	\$1,290	+14.4%
GAAP earnings per share	\$1.92	\$2.22	+15.6%

# Q2 2020 sales recap

	Americas	EMEA	Asia Pacific
Organic volume	-16.6%	-15.2%	-7.8%
Price	+1.0%	+0.7%	-0.3%
Organic local-currency	-15.6%	-14.5%	-8.1%
Acquisitions/Divestitures	+4.3%	+0.2%	+0.8%
FX	-1.4%	-2.1%	-1.2%
Total growth	-12.7%	-16.4%	-8.5%

	U.S.	Canada	Mexico	Brazil	China	Japan
Organic local-currency	-13%	-23%	-38%	-13%	+3%	-12%



# Business segment information

(\$M)	Net Sales		Q2 2020 Sales Growth				Organic local-currency by Geographic Area			Business Segment Operating Income/Adjusted Operating Income*			Business Segment Operating Margin / Adjusted Operating Margin*	
	Q2 2019	Q2 2020	Organic local-currency	FX	M&A	Total Sales change	Americas	Asia Pacific	EMEA	Q2 2019	Q2 2020	Percent Change	Q2 2019	Q2 2020
Safety & Industrial	\$2,937	\$2,668	-6.1%	-2.2%	-0.9%	-9.2%	-9%	-4%	-1%	\$647	\$636	-1.6%	22.0%	23.8%
Transportation & Electronics	\$2,450	\$1,937	-18.9%	-0.9%	1.1%	-20.9%	-29%	-8%	-33%	\$591	\$382	-35.4%	24.1%	19.7%
Health Care	\$1,831	\$1,825	-12.4%	-1.6%	13.6%	-0.4%	-14%	-10%	-10%	\$483	\$306	-36.7%	26.4%	16.8%
Consumer	\$1,320	\$1,238	-5.0%	-1.2%	0.0%	-6.2%	-4%	-6%	-10%	\$273	\$287	4.8%	20.7%	23.2%
Elimination of Dual Credit	(\$415)	(\$490)								(\$100)	(\$123)			
Total Operating Business Segment										\$1,894	\$1,488			
Corporate and Unallocated	\$48	(\$2)								(\$192)	(\$80)			
Total	\$8,171	\$7,176	-13.1%	-1.5%	2.4%	-12.2%	-15.6%	-8.1%	-14.5%	\$1,702	\$1,408	-17.3%	20.8%	19.6%

\* "Corporate and Unallocated" and "Total" provided on an adjusted basis

Organic local-currency = organic volume + price

# Sales by division

(\$M)	Net Sales	
Business groups	Q2 2019	Q2 2020
Abrasives	358	243
Automotive Aftermarket	304	203
Closure and Masking Systems	275	235
Electrical Materials	302	253
Industrial Adhesives and Tapes	674	552
Personal Safety	917	1,095
Roofing Granules	100	86
Other Safety & Industrial	7	1
Total Safety & Industrial Business Group	2,937	2,668
Advanced Materials	331	236
Automotive & Aerospace Solutions	478	268
Commercial Solutions	477	328
Electronics	898	884
Transportation Safety	265	222
Other Transportation & Electronics	1	(1)
Total Transportation & Electronics Business Group	2,450	1,937

(\$M)	Net Sales	
Business groups	Q2 2019	Q2 2020
Drug Delivery	101	41
Food Safety	85	79
Health Information Systems	297	276
Medical Solutions	801	1,068
Oral Care	338	144
Separation & Purification	208	216
Other Health Care	1	1
Total Health Care Business Group	1,831	1,825
Consumer Health Care	101	83
Home Care	247	258
Home Improvement	589	601
Stationery and Office	351	263
Other Consumer	32	33
Total Consumer Business Group	1,320	1,238
Corporate and Unallocated	48	(2)
Elimination of Dual Credit	(415)	(490)
Total	8,171	7,176

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Applied to Life.™