

# 2012 First Quarter Business Review (unaudited)



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# Forward Looking Statements

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# Off to a Good Start in 2012

*Q1 Results Driven by Strength in Industrial-Related Businesses*

- Q1 2012 sales of \$7.5 billion, up 2.4%
  - Sales increased in Industrial & Transportation, Safety, Security & Protection Services, Consumer & Office and Health Care segments
  - Continued weakness in consumer electronics market negatively impacted Display & Graphics and Electro & Communications
  - Geographic growth led by Latin America/Canada and the U.S.
- Q1 2012 operating income of \$1.6 billion, up 3.5% YOY
  - Operating margins of 21.8%, up 20 bps YOY
  - 20%+ operating margins in 5 of 6 business segments
- GAAP EPS of \$1.59, up 7% YOY; includes \$0.04 per share charge for voluntary early retirement program and selective restructuring actions
- Announced 54<sup>th</sup> consecutive annual dividend increase (+7% per share); Q1 gross share repurchases of \$524 million

# Q1 2012 Sales Recap



|                        | Percent     |
|------------------------|-------------|
| Organic volume         | +0.1%       |
| Price                  | <u>+1.7</u> |
| Organic local currency | +1.8%       |
| Acquisitions           | +1.5        |
| FX                     | <u>-0.9</u> |
| Total growth           | +2.4%       |

- Latin America/Canada +8.4%, U.S. +6.3%
- Europe flat; Western Europe down 1.5%, CEE/MEA +5.9%
- Asia Pacific down 1.9%, with softness in consumer electronics; continued slow growth in China
- Selling price strength continued
- Acquisitions added 1.5%, largely in Industrial & Transportation and Consumer & Office
- FX reduced sales growth by 0.9%

# Q1 2012 P&L Highlights

| (\$M)              | Q1 11   | Q1 12   | Change   |
|--------------------|---------|---------|----------|
| Sales              | \$7,311 | \$7,486 | +2.4%    |
| Gross profit       | \$3,509 | \$3,597 | +2.5%    |
| % to sales         | 48.0%   | 48.0%   | ----     |
| SG&A               | \$1,533 | \$1,552 | +1.2%    |
| % sales            | 21.0%   | 20.7%   | -0.3 pts |
| R&D & related      | \$398   | \$411   | +3.3%    |
| % to sales         | 5.4%    | 5.5%    | +0.1 pts |
| Operating income   | \$1,578 | \$1,634 | +3.5%    |
| % to sales         | 21.6%   | 21.8%   | +0.2 pts |
| Net income         | \$1,081 | \$1,125 | +4.0%    |
| Earnings per share | \$1.49  | \$1.59  | +6.7%    |

- Operating margin of 21.8%, up 0.2 percentage points:

|                     |                     |
|---------------------|---------------------|
| <i>Price/RMs</i>    | <i>+0.8 pts</i>     |
| <i>Productivity</i> | <i>+0.3</i>         |
| <i>Pension/OPEB</i> | <i>(0.6)</i>        |
| <i>FX</i>           | <i><u>(0.3)</u></i> |
| <i>Net change</i>   | <i>+0.2 pts</i>     |

- Lower share count added \$0.04 to EPS



# Q1 2012 Segment Performance

|                               | Sales   |         |        | Operating Income |         |        | Operating Margin |         |          |
|-------------------------------|---------|---------|--------|------------------|---------|--------|------------------|---------|----------|
| (\$M)                         | Q1 2011 | Q1 2012 | % Chg  | Q1 2011          | Q1 2012 | % Chg  | Q1 2011          | Q1 2012 | Chg      |
| Industrial & Transportation   | \$2,450 | \$2,660 | +8.6%  | \$516            | \$600   | +16.2% | 21.1%            | 22.5%   | +1.4 pts |
| Health Care                   | \$1,255 | \$1,280 | +2.0%  | \$369            | \$402   | +9.0%  | 29.4%            | 31.4%   | +2.0 pts |
| Consumer & Office             | \$1,000 | \$1,043 | +4.3%  | \$215            | \$234   | +8.8%  | 21.5%            | 22.4%   | +0.9 pts |
| Safety, Security & Protection | \$929   | \$981   | +5.5%  | \$199            | \$231   | +16.3% | 21.4%            | 23.6%   | +2.2 pts |
| Display & Graphics            | \$943   | \$832   | -11.8% | \$230            | \$163   | -29.2% | 24.4%            | 19.6%   | -4.8 pts |
| Electro & Communications      | \$836   | \$808   | -3.4%  | \$178            | \$168   | -5.7%  | 21.3%            | 20.8%   | -0.5 pts |
| Total Company                 | \$7,311 | \$7,486 | +2.4%  | \$1,578          | \$1,634 | +3.5%  | 21.6%            | 21.8%   | +0.2 pts |



# Q1 2012 Cash Flow

| (\$M)                     | Q1 2011        | Q1 2012        | Change        |   |
|---------------------------|----------------|----------------|---------------|---|
| Operating cash flow       | \$733          | \$828          | \$95          | <ul style="list-style-type: none"> <li>Pluses: working capital, taxes, net income</li> <li>Minuses: pension/OPEB contributions</li> </ul> |
| Capital expenditures      | <u>(\$231)</u> | <u>(\$261)</u> | <u>(\$30)</u> | <ul style="list-style-type: none"> <li>Targeting \$1.3 to \$1.5B in 2012</li> </ul>   |
| Free cash flow            | \$502          | \$567          | \$65          |   |
| Free cash flow conversion | 46%            | 50%            |               | <ul style="list-style-type: none"> <li>Excluding pension/OPEB contributions:<br/>Q1 2012 = 80%, Q1 2011 = 52%</li> </ul>                  |
|                           |                |                |               |   |
| Dividends                 | (\$392)        | (\$410)        | (\$18)        | <ul style="list-style-type: none"> <li>54<sup>th</sup> consecutive annual increase</li> </ul>   |
| Share repurchase          | (\$680)        | (\$524)        | \$156         | <ul style="list-style-type: none"> <li>Targeting \$2.0 to \$2.5B in 2012</li> </ul>   |

*Expecting 90% conversion for 2012, including pension/OPEB contributions of ~\$1B  
(front-end loaded – estimating \$600M contribution in H1)*



## Our Vision

3M Technology Advancing Every Company  
3M Products Enhancing Every Home  
3M Innovation Improving Every Life





# 2012 Outlook

- Financial expectations
  - GAAP EPS: \$6.35 to \$6.50 (versus \$6.25 to \$6.50 prior)
  - Organic volume: +2% to +5%
  - Operating income margin: 21.0% to 22.5%
  - Tax rate: ~29.5%
- Global end-markets tracking in-line with our expectations
  - Industrial markets remain strong and steady
  - Early signs of improvement in semiconductor market; expecting broader electronics improvement around mid-year
  - U.S. and Latin America/Canada doing well
  - Western Europe has stabilized, albeit at lower levels
  - Asia Pacific growth slow due to China, electronics and Japan; expecting re-acceleration in H2

# Q & A



# Appendix

# Industrial and Transportation

| (\$M)            | Q1 2011 | Q1 2012 | Total % Growth | Org. LC % Growth |
|------------------|---------|---------|----------------|------------------|
| Sales            | \$2,450 | \$2,660 | +8.6%          | +6.7%            |
| Operating Income | \$516   | \$600   | +16.2%         |                  |
| Operating Margin | 21.1%   | 22.5%   | +1.4 pts       |                  |

## Financial Highlights

- Sales of \$2.7 billion, up 8.6%, including 3.1% from acquisitions; FX down 1.2%
- Broad-based sales growth led by double-digit increases in aerospace, abrasives and automotive OEM
- Sales rose in all geographic regions, including a double-digit increase in the U.S.
- Operating income rose 16.2% to \$600 million; operating margin of 22.5%

## Business Wins

- Gaining share in automotive OEM with Thinsulate™ acoustic solutions that improve cabin comfort and decrease road noise
- Received first orders for 3M Aviation Window Restoration System, which solves safety issues of window clarity on military aircraft while reducing aircraft downtime and repair costs
- Announced collaborative agreement with Chesapeake Energy to design, manufacture and market a broad portfolio of compressed natural gas (CNG) tanks for all sectors of the U.S. transportation market
- Won a contract with a South American oil & gas company to provide water filtration on their offshore platforms



# Health Care

| (\$M)            | Q1 2011 | Q1 2012 | Total % Growth | Org. LC % Growth |
|------------------|---------|---------|----------------|------------------|
| Sales            | \$1,255 | \$1,280 | +2.0%          | +3.1%            |
| Operating Income | \$369   | \$402   | +9.0%          |                  |
| Operating Margin | 29.4%   | 31.4%   | +2.0 pts       |                  |

## Financial Highlights

- Sales of \$1.3 billion, up 2.0%; FX decreased sales by 1.1%
- Sales increased in most businesses, led by double-digit increase in health information systems; drug delivery declined YOY
- Positive sales growth in Asia Pacific, Latin America/Canada and the U.S.; European sales declined YOY
- Operating income increased 9.0% to \$402 million; operating margin of 31.4%

## Business Wins

- Double-digit sales growth in developing economies; broad-based strength across health care portfolio in China
- Outstanding growth in patient warming as Arizant acquisition remains ahead of expectations
- Gaining share in global orthodontics market with strong growth of lingual braces
- Strong growth of 3M™ 360 Encompass™ System for coding and clinical documentation of hospital procedures



# Consumer and Office

| (\$M)            | Q1<br>2011 | Q1<br>2012 | Total %<br>Growth | Org. LC %<br>Growth |
|------------------|------------|------------|-------------------|---------------------|
| Sales            | \$1,000    | \$1,043    | +4.3%             | +2.1%               |
| Operating Income | \$215      | \$234      | +8.8%             |                     |
| Operating Margin | 21.5%      | 22.4%      | +0.9 pts          |                     |

## Financial Highlights

- Sales of \$1.0 billion, up 4.3%, including 3.0% from GPI acquisition; FX down 80 bps
- Double-digit sales increase in DIY, driven by a combination of acquired and organic growth; sales also increased in consumer health care and home environment businesses
- European sales grew double-digits (driven by GPI); U.S. declined slightly YOY
- Operating income rose 8.8% to \$234 million; operating margin of 22.4%

## Business Wins

- Launched family of Command™ clear products, including hooks, cord organizers and caddies, utilizing an innovative new clear-strip technology
- Seven 3M products selected for 2012 Red Dot Design Award, spanning multiple categories
- Successfully integrating GPI acquisition; results running ahead of expectations
- ScotchBlue™, the leading painter's tape, celebrates 25<sup>th</sup> year anniversary with all-time record quarterly sales





# Safety, Security and Protection Services

| (\$M)            | Q1<br>2011 | Q1<br>2012 | Total %<br>Growth | Org. LC %<br>Growth |
|------------------|------------|------------|-------------------|---------------------|
| Sales            | \$929      | \$981      | +5.5%             | +6.8%               |
| Operating Income | \$199      | \$231      | +16.3%            |                     |
| Operating Margin | 21.4%      | 23.6%      | +2.2 pts          |                     |

## Financial Highlights

- Sales of \$1.0 billion, up 5.5%; FX reduced sales 1.3%
- Strongest sales growth in the roofing granules and personal safety businesses; sales declined in security systems YOY
- Sales rose double-digits in Latin America/Canada and the U.S.; European sales declined YOY
- Operating income of \$231 million, up 16.3%; operating margin of 23.6%

## Business Wins

- 3M Cogent wins pilot to supply an automated fingerprint identification system (AFIS) for Turkish border
- Gained penetration of new 3M™ Scotchlite™ Reflective Flame Resistant Fabric worn by manufacturing workers
- Provided ear muffs and plugs safety kits to Western Europe military for hearing protection
- Launched new Scotch-Brite™ Quick Clean Heavy Duty Griddle Pad for food service industry





# Display and Graphics

| (\$M)            | Q1<br>2011 | Q1<br>2012 | Total %<br>Growth | Org. LC %<br>Growth |
|------------------|------------|------------|-------------------|---------------------|
| Sales            | \$943      | \$832      | -11.8%            | -11.5%              |
| Operating Income | \$230      | \$163      | -29.2%            |                     |
| Operating Margin | 24.4%      | 19.6%      | -4.8 pts          |                     |

## Financial Highlights

- Sales of \$832 million, down 11.8%
- Optical systems' sales declined 28%, impacted by lower film volumes for LCD TVs; sales increased in architectural markets and commercial graphics, and were down slightly in traffic safety systems
- Sales declined in Europe due to soft economy, and in Asia Pacific, largely electronics related
- Operating income of \$163 million, down 29.2%; operating margin of 19.6%

## Business Wins

- Strong penetration of graphics into "personalization" market, particularly for vehicles
- Traffic safety awarded prime contractor for manufacturing and distributing State of Georgia's license plates and registration fulfillment services
- 3M MP225a Pocket Projector (a 32 lumen mobile projector) granted nationwide distribution in all Target stores; only LED projector in national mass retail
- Optical business continues strong market penetration in battery-powered devices



# Electro and Communications

| (\$M)            | Q1<br>2011 | Q1<br>2012 | Total %<br>Growth | Org. LC %<br>Growth |
|------------------|------------|------------|-------------------|---------------------|
| Sales            | \$836      | \$808      | -3.4%             | -3.1%               |
| Operating Income | \$178      | \$168      | -5.7%             |                     |
| Operating Margin | 21.3%      | 20.8%      | -0.5 pts          |                     |

## Financial Highlights

- Sales of \$808 million, down 3.4%
- Consumer electronics-related sales declined YOY but improved sequentially; electrical business delivered single-digit sales growth; telecom down YOY
- Sales in Asia Pacific and Europe declined YOY, partially offset by increases in the U.S. and Latin America/Canada
- Operating income of \$168 million, down 5.7 percent; operating margin of 20.8%

## Business Wins

- Electrical business gaining market penetration in maintenance and repair segment
- Strong growth of 3M™ Novec™ products that meet the need for safe, sustainable and effective solutions in a wide range of industrial and electronic applications
- Touch systems gaining share in gaming market with new technology solutions
- Rapid deployment of Fiber-to-the-Home (FTTH) in China is driving growth in telecom business



# Business Segment Information

| (\$M)                                  | Net Sales      |                | Operating Income |               |
|--|----------------|----------------|------------------|---------------|
| Business Segment Information           | Q1 2011        | Q1 2012        | Q1 2011          | Q1 2012       |
| Industrial and Transportation          | \$2,450        | \$2,660        | \$516            | \$600         |
| Health Care                            | \$1,255        | \$1,280        | \$369            | \$402         |
| Consumer and Office                    | \$1,000        | \$1,043        | \$215            | \$234         |
| Safety, Security & Protection Services | \$929          | \$981          | \$199            | \$231         |
| Display and Graphics                   | \$943          | \$832          | \$230            | \$163         |
| Electro and Communications             | \$836          | \$808          | \$178            | \$168         |
| Corporate and Unallocated              | \$5            | \$1            | (\$105)          | (\$138)       |
| Elimination of Dual Credit             | <u>(\$107)</u> | <u>(\$119)</u> | <u>(\$24)</u>    | <u>(\$26)</u> |
| Total                                  | \$7,311        | \$7,486        | \$1,578          | \$1,634       |

