

# Strategic Financial Review

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Sr. Vice President & Chief Financial Officer



Investor Meeting – November 8, 2012



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## Our path to building long-term sustainable shareholder value



### **Balance Sheet Strength**

- Capital structure a key strategic asset of the company
- Balanced capital allocation model
- Disciplined capital allocation drives industry-leading returns



### **Strong, Sustainable EPS**

- Double-digit earnings per share growth
- Organic growth a key driver, supplemented by acquisitions
- Pension/OPEB expense becomes tailwind
- Supply chain efforts lead to lower tax rate



### **Returning Cash to Shareholders**

- Returned 90% of reported net income over past decade via dividends and share repurchases
- 54 years of consecutive dividend increases
- Share repurchases an important component

*Building strength on strength*

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## Capital structure is a strategic asset of 3M

- Strong foundation for innovation-driven operating model
- Dynamic and evolving global portfolio generates strong and consistent cash flow
- Capital structure provides capital flexibility to respond quickly to strategic opportunities
- Strength and stability through economic cycles



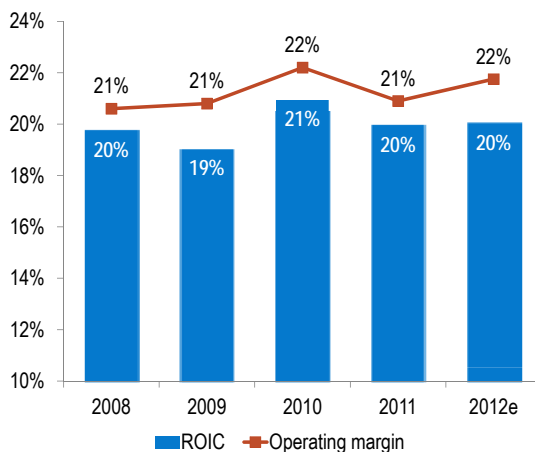
*Long-term track record of strong balance sheet stewardship*

## Consistent and disciplined capital allocation

- Key enabler to 3M's value creation model
- Operational capital allocation
  - R&D and commercialization investments
  - Capital expenditures
  - Acquisitions and divestitures
  - Operational excellence – global ERP system, LSS, supply chain, working capital management
- Cash to shareholders
  - Dividends
  - Share repurchases
- Managing long-term capital structure
  - Global pension/OPEB plans
  - Funding and cash strategies



## Business model drives premium operating margins and ROIC

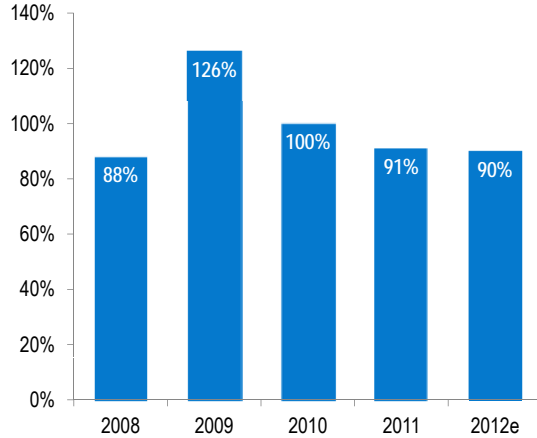


\*Refer to 3M's Form 8-K dated January 26, 2012 for a discussion of non-GAAP measures, including ROIC.

- Diverse global portfolio
- Technology leader, with R&D and intellectual property shared across business units
- Deep manufacturing process technology and knowhow
- Vertically integrated supply chains help capture more of the value stream
- Unparalleled global capability
- Category-defining brands
- World-class operational excellence

*Maintaining 20%+ ROIC and consistent premium operating margins going forward*

## Strong free cash flow conversion



\*Refer to 3M's Form 8-K dated January 26, 2012 for a discussion of non-GAAP measures, including free cash flow.

- Highly integrated business model drives consistent free cash flow
- Provides capital flexibility to reinvest in the business to accelerate growth
- Driving improved asset efficiency
- Expecting lower pension/OPEB contributions

*Targeting 100% free cash flow conversion*

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**Strong, Sustainable EPS**

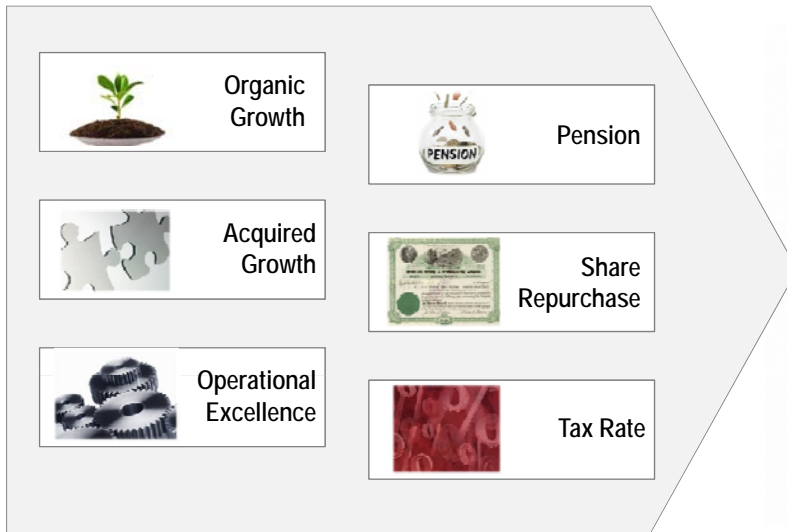
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## Many levers available to drive EPS growth



## Developing markets continue to lead global organic sales growth




Organic sales growth = organic volume + price


## Organic sales growth targets by business



**Industrial**  
+3% to +6%




**Health Care**  
+4% to +7%



**Consumer**  
+3% to +6%



**Safety & Graphics**  
+4% to +6%



**Electronics & Energy**  
+3% to +7%



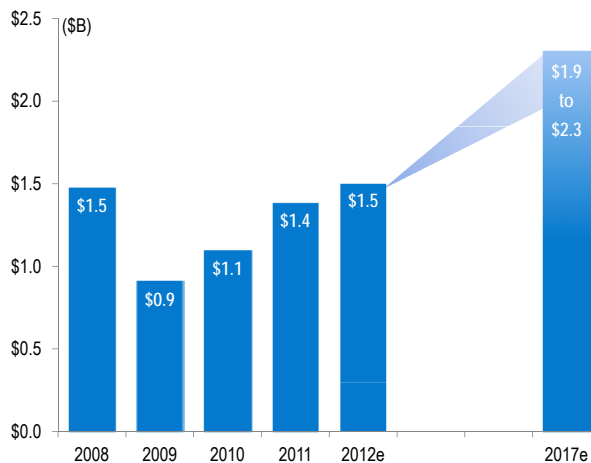
+4% to +6%

*Outstanding market-leading, global businesses*

Organic sales growth = organic volume + price



## Cap-ex investments enable organic growth and profitability



- Shifting cap-ex investment toward faster-growing developing markets
- Flexible manufacturing assets leveraged by multiple businesses
- Vertically integrated supply chain enhances operating margin
- Continued investments in manufacturing process technology, a major strategic asset

*Expecting annual cap-ex investment of approximately 5% to sales*



## Intensifying acquisition performance

Year	Number of deals	Cumulative Performance (2006-12)			
		# Meeting Sales Forecast	Sales Attainment (% of plan)	# Meeting EBITDA Forecast	EBITDA Attainment (% of plan)
2006-08	15	2	70%	1	53%
2009-12	10	8	112%	7	162%

Year	Number of deals	Deal Statistics		
		Net Purchase Price	TTM Sales Multiple	TTM EBITDA Multiple
2006-08	15	\$3.0B	2.0X	10.9X
2009-12	10	\$2.1B	1.6X	8.3X

\*Note: performance data represents >80% of purchase price paid for 2006 to 2012 acquisitions

- Rigorous and disciplined process
- Increasing prioritization and pipeline quality
- Focus on strong end markets and complementary technologies
- Ability to leverage 3M's capability – R&D platforms, manufacturing scale, leading brands, global distribution
- Aggressively driving integration to capture synergies

*Expecting to invest \$1B to \$2B per year, adding approximately 1% to 3% to annual sales growth*

## Augmenting growth with strategic acquisitions – 2009 to 2011

<p><b>ACE</b> Elastic Bandages &amp; Support Solutions</p> <p>Expands consumer health care portfolio; adds iconic brand</p>	<p><b>A-one</b> Labeling Solutions</p> <p>Increases relevance in Japan</p>	<p><b>Arizant</b> Patient &amp; Fluid Warming</p> <p>Aligned to key regulatory trends</p>	<p><b>ATTENTI!</b> Electronic Monitoring Technologies</p> <p>Key growth adjacency, expands market</p>
<p><b>COGENT SYSTEMS</b> Biometric Identification Systems</p> <p>Key growth adjacency, expands market</p>	<p><b>αβ</b> Masking and Box Sealing Tapes</p> <p>Core expansion in Asia Creates Asia source of supply</p>	<p><b>WINTERTHUR</b> Bonded Abrasives</p> <p>Expands served market Fills critical portfolio gap</p>	<p><b>GPI</b> Masking, Packaging and Mounting Solutions</p> <p>Core expansion in Europe Penetration of DIY channel</p>

*Driving an improving acquisition track record*

## Recent acquisitions enhance our core and broaden technological capabilities



Electronic  
Toll  
Collection

Building integrated transportation  
management solutions



Natural  
Language  
Processing  
(NLP) Software

Creates most robust NLP  
medical coding offering



Advanced  
Technical  
Ceramics

Accelerates and broadens  
capabilities in ceramics

*FS Tech and CodeRyte tracking to plan; Ceradyne expected to close in Q4*

## 3M drives world-class operational excellence

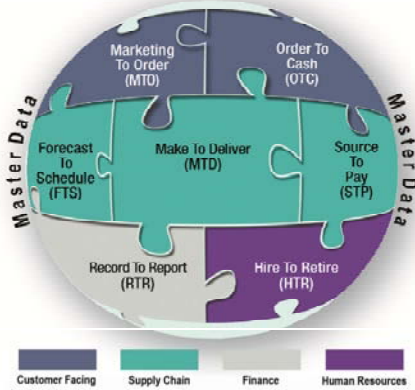
- Lean Six Sigma in every plant worldwide
- Hoshin Kanri increasingly drives business rhythm
- Deploying ERP system to drive common global business practices and improve business performance
- Establishing supply chain centers of excellence
- Evolving our employee comp and benefit programs to align to market-driven portability trends

*Embedded capabilities have helped drive premium margins and ROIC for decades*

# Business Transformation

Moving to One Globally Integrated IT Platform

## Project Polaris: 7 Integrated Processes



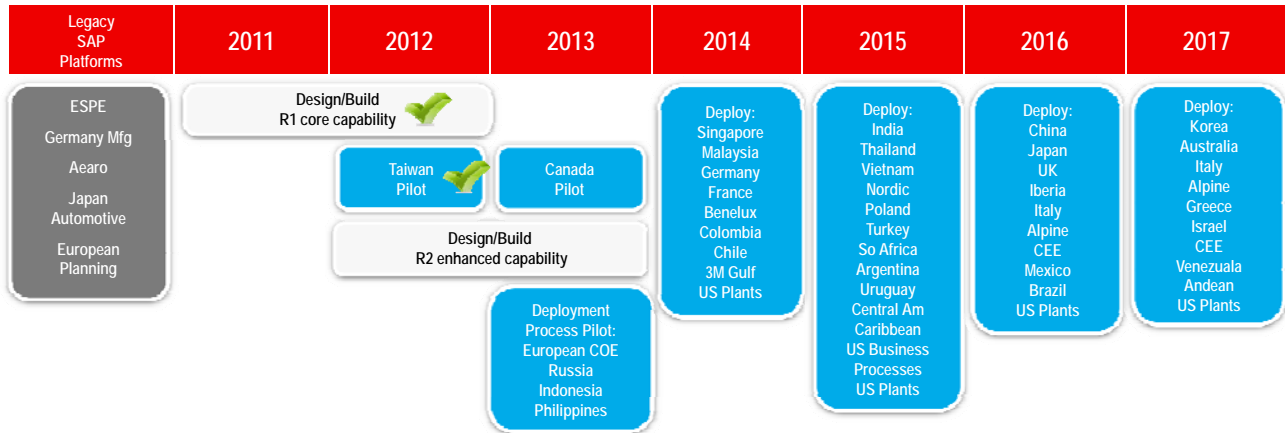
### A More Efficient 3M:

- Common global business practices and expanded IT capabilities
- Key enabler to a fully integrated supply chain
- Improved working capital management
- Increased customer intimacy and responsiveness
- Improved business planning and decision-making speed
- Greater operational efficiencies

*Once fully deployed, targeting \$0.5B profit improvement and \$0.5B reduction in working capital*



# Global ERP Deployment Plan



*Mitigating risks via staged implementations  
 Deployment tracking to plan  
 Estimated total project costs of \$0.6 - \$0.8B*



## Strategic supply chain investments drive efficiency and tax rate reduction

- Establishing regional supply chain centers of excellence (CoE) in Switzerland and Panama
  - Enabled by global ERP system
  - Standardize business processes
  - Enhance regional capability to better serve customers and reduce working capital
  - Centralized sourcing and logistics increases effectiveness and distribution efficiency
  - Optimize manufacturing footprint
  - Increase manufacturing productivity, yield and utilization, including finished goods in-sourcing
- Accelerating cap-ex investments in Singapore for local Asia Pacific source of supply

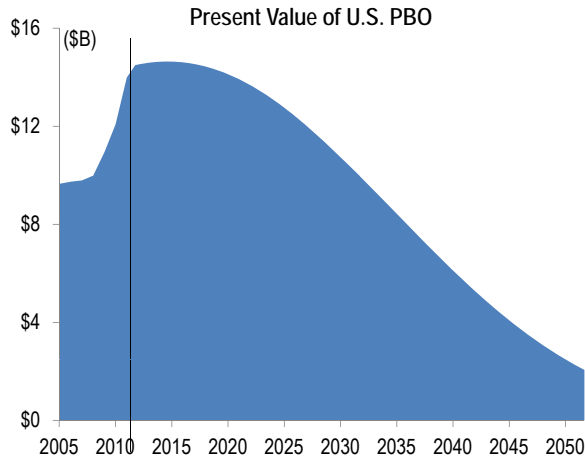
*Driving towards a 27% effective tax rate by 2017, a 2%+ reduction from today;  
Adds ~1% annual EPS growth over planning period*

## Effectively managing retirement obligations

- Updated design to meet market demands for portable retirement plans
- Shifting retirement plans to defined contribution from defined benefit around the world
- Worldwide retirement plans well funded
- Future pension/OPEB funding needs expected to moderate starting in 2013
- Retirement plan expense declines going forward – driver of EPS growth over planning period

*Maintaining competitive comp programs while managing retirement plan risk*

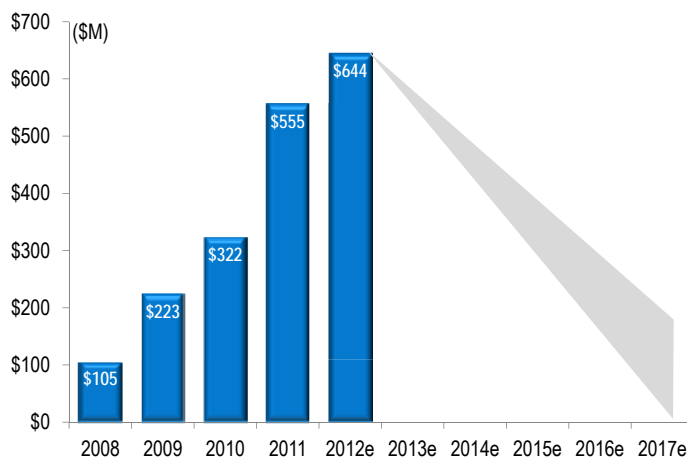
## Retirement plan liability nearing peak



- **Funded status (9/30/12):**
  - Worldwide: 85%; US: 92%
  - Disciplined funding of plans; no mandatory funding requirement
  - Top decile asset return performance over past decade
  - Duration matching of liability since 2007; further de-risking when appropriate
- **WW pension/OPEB PBO of \$23B**
  - US: \$17B; International: \$6B
  - Within 5% of expected PBO peak
  - WW discount rates expected to stabilize
  - Transition to new portable retirement plans accelerating

*Retirement plan cash contributions expected to decline by 50% over planning period*

## Global pension/OPEB expense expected to become a tailwind



- Absorbed \$540M of pension/OPEB expense increase since 2008; operating margin impact of nearly 2%
- Expecting \$400M to \$600M pension/OPEB expense decline through 2017
- Future expense tailwind driven by:
  - Declining impact of prior period loss amortization
  - Based on expected investment return performance
  - Stabilizing discount rates
  - Nearing PBO peak

*Lower pension/OPEB expense will drive >1% of EPS growth*

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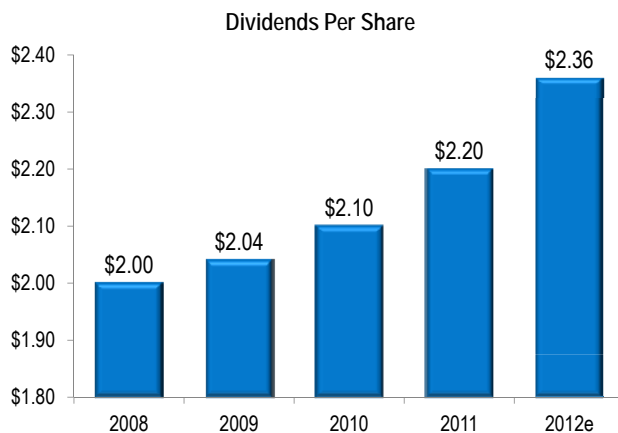


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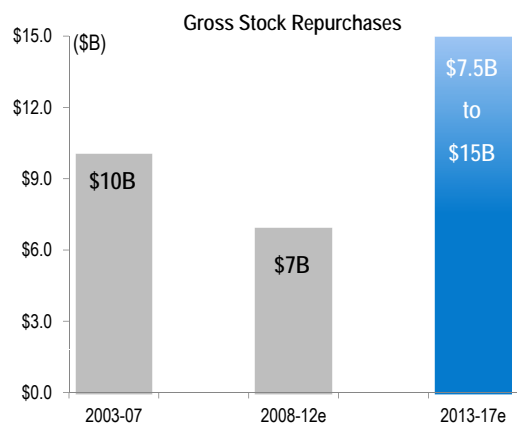
## Maintaining long-term dividend track record



- \$14 billion in cash dividends paid to shareholders over past decade
- Average dividend payout ratio of 40%
- 54 consecutive years of dividend increases
- Paid dividends without interruption for nearly 96 years

*Future dividend increases expected to grow in line with earnings over time*

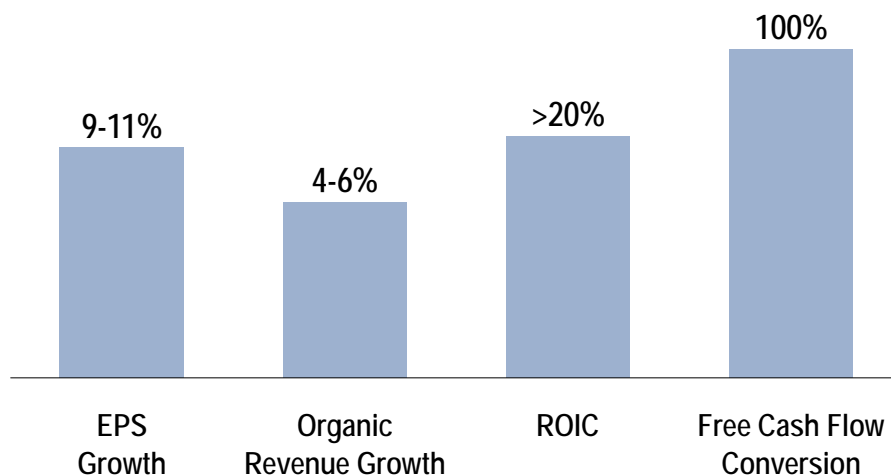
## Stock repurchase program



- \$17 billion of cash returned to shareholders over past decade via share repurchases
- Continued balanced commitment to stock repurchase program
- Compensation plans amended; reduced equity-based share grants by ~50% starting in 2007
- Disciplined approach: maintain minimum repurchase threshold; adjust up or down depending on market attractiveness

*Share repurchase program will add 1% to 2% to earnings growth annually*

## Clear financial objectives (2013-17)



*Aggressive and realistic targets*

## Executing our long-term strategic objectives enhances shareholder value

- Our unique and leverageable business model ensures sustainable premium returns over the long term
- Our capital structure and allocation strategy is the right one for 3M
  - We can grow the business, fund future growth opportunities, manage pension and retirement obligations AND return significant cash to shareholders
- Driving global business process standardization and efficiency through ERP implementation, supply chain localization and operational excellence
- Aggressive and balanced financial objectives

*3M is committed to driving sustainable, long-term value*



### Our Vision

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