

The INVESTMENT LETTER

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Studies in Growth – 3M

At Investment Counsel, our goal is to provide superior service and smart investment choices for our clients. We apply our experience, expertise, discipline and know-how to your portfolio to help you reach your goals. When we invest in a stock, our primary objective is long-term ownership. The focus of this newsletter is 3M, which has been a core holding at Investment Counsel for over 50 years! As we approach our 90th year, we invest as we always have:

- We identify high-quality stocks and bonds;
- We focus on long-term value; and
- We utilize a stringent selection process.

3M – More than Scotch Tape and Post-It Notes

Founded in 1902 as the Minnesota Mining and Manufacturing Company, 3M today employs more than 90,000 people around the globe and produces more than 50,000 products. 3M's diverse products include:

- **Industrial products:** Tapes, seals, gaskets and filters;
- **Safety products:** Reflective highway signs;
- **Health care products:** Medical tape and wound closure;
- **Electronics and energy:** Computer screen filters for light, privacy, and flare control and energy products that increase the transmission capacity of power lines; and
- **Consumer:** Scotch Magic Tape, Scotch Glue Sticks, Post-It Note Pads, sponges, and 3M Thinsulate insulation.

Strong Financials

3M finished 2017 strong, posting robust organic growth across all its business groups and geographies while expanding profitability and setting new corporate sales records.

In 2017, 3M:

- Grew Net Sales 5.1% year-on-year;
- Invested \$1.9 Billion in Research & Development;
- Invested \$1.4 Billion in Capital Expenditures; and
- Paid out \$2.8 Billion in Dividends. 3M has increased its annual dividend for 60 years straight.

Competitive Advantage

3M's culture embraces innovation. For each of the past three years, 3M has invested more than \$1.7 billion annually into research and product development and related expenses. 3M today is a collection of businesses with far-reaching product lines that revolve around one of the world's most prolific R&D labs. That R&D function grants 3M what may be its core competitive advantage - its patents. As the company churns out new, improved inventions and brings these to market, the patents grant 3M exclusivity in these offerings, even as the company continues to develop new technology and products. In addition to its patents, 3M's experience and expertise in both manufacturing technology and know-how provide the firm with competitive advantages.



INVESTMENT COUNSEL INC.

Established 1929

Management

Whether a cause or a product of 3M's innovation-led culture, 3M's core management strategy incorporates delegation, employee empowerment, and smart risk-taking. William McKnight, a 3M chairman of the board and lifelong employee who started with 3M as an assistant bookkeeper, once said: "If you put fences around people, you get sheep. Give people the room they need."

Today, 3M's leadership team is led by Inge Thulin who is also a career-long 3M employee. 3M today is recognized for its leadership, reputation, and brand, and has built a strong reputation since its inception over 100 years ago.

Performance & Valuation

As an investment vehicle, 3M's stock performance has been excellent, logging returns approximating 25% over the past 12 months, and 48% over the past 24. During the same periods, 3M has outperformed the S&P 500 by 54% and 42%, respectively. Over the past 5 years, 3M's share price has grown approximately 150%. Investors should never assume past performance will

always accurately predict future price movements, but 3M's investment, management, and brand fundamentals do suggest that 3M will continue its record of strong performance over time.

Conclusion

3M fits our investment strategy. Its stock is fairly valued, produces income through dividends, and has a strong reputation for quality leadership, innovation, and strong products. We believe 3M will remain a strong competitor in its industries for years to come. We also believe that the company's stock will continue to grow over time, producing excellent returns.

While 3M has been a core holding at Investment Counsel for over 50 years, it is important to remember the importance of proper diversification within your portfolio. We are always happy to discuss specific holdings, the reasoning behind our investment decisions, and how to best complement a specific security's characteristics within an individual client portfolio. Please contact us directly if you would like to know more about 3M or have any other questions. ■

