



3M Company

Rating: T1-

Status: Upgrade

Outlook: Neutral

Based on the materials reviewed, a company with a rating of "T1-" provides transparent, consistent, and direct information with minimal indications of concern within the presentation, description of the financials, and other corporate activity.

The above rating was completed on October 11, 2009, and it primarily covers the quarter-ended June 30, 2009. The below listed analysis is based on the following inputs:

- 10-Q, Q2, 2009
- 10-K, 2008
- Form 8-K, dated July 7, 2009
- Form 8-K, dated July 23, 2009
- Q2, 2009 earnings call transcript ("earnings call"), dated July 23, 2009

<u>Category</u>	Q2, 2009	Q2, 2008	Variance	Growth (%)	% of Rev	
					Q2, 2009	Q2, 2008
Revenue	5,719,000,000	6,739,000,000	(1,020,000,000)	-15.1%		
Gross margin	2,742,000,000	3,229,000,000	(487,000,000)	-15.1%	47.9%	47.9%
Net income (loss)	783,000,000	945,000,000	(162,000,000)	-17.1%	13.7%	14.0%
Cash flow from operations	1,466,000,000	1,243,000,000	223,000,000	17.9%	25.6%	18.4%
Other current assets	867,000,000	1,419,000,000	(552,000,000)	-38.9%	15.2%	21.1%
Cash balance	2,596,000,000	1,547,000,000	1,049,000,000	67.8%		
Accounts receivables	3,456,000,000	3,943,000,000	(487,000,000)	-12.4%		

I. Synopsis

3M is a diversified global manufacturer, technology innovator, and marketer of a wide variety of products and services. 3M manages its operations in six operating business segments: Industrial and Transportation; Health Care; Consumer and Office; Safety, Security and Protection Services; Display and Graphics; and Electro and Communications. The company was founded in 1902, and its headquarters are in St. Paul, Minnesota.

Due to smaller acquisitions and a more clearly presented strategy, 3M (NYSE: MMM) was upgraded from T2 to T1-. Based on its propensity to acquire and divest businesses, 3M's outlook is neutral.

II. Introduction

Companies that convey minimal financial transparency and poor managerial candor generate a greater information disparity between management and the investment community. Assessing financial transparency and candor of management provide significant insight into the underlying issues within a given company. Identifying weak transparency or questionable management statements or actions will enable an investor to make more informed investment decisions, thus lowering risk.

Companies that exhibit strong financial transparency and trust-worthy attributes should sell at a premium to companies who demonstrate less financial transparency and low trust-worthiness, all other things being equal.

III. Financial Transparency

Income statement: The company provided sufficient information with regard to the revenue composition and variances to previous reporting periods. Within the Q2, 2009 10-Q, the company provided detailed charts that displayed revenue by business segment and geographic area. The company adequately addressed costs of revenue and gross margin within its financial reporting documents. As with revenue, the company provided operating income by business segment and geographic area. However, within the Q2, 2009 MD&A section ("MD&A") of the 10-Q, the company did not provide an adequate explanation of the changes to "Selling, General, & Administrative" expenses and "Research & Development." The company should provide greater transparency into the operating expenses.

Cash flow statement: The company provided a comprehensive analysis and presentation of changes to the statement of cash flows.

Balance sheet: IBM conveyed an adequate level of transparency with regard to the balance sheet.

Off-balance sheet: The company's off-balance sheet activities consist mainly of contractual obligations, indemnifications, and guarantees.

Operational and strategic: 3M's operations and strategy were presented in a straight-forward manner.

Legal: The company clearly identified its outstanding legal proceedings within the Q2, 2010 10-Q. However, there are a number of outstanding legal proceedings against 3M, to include: asbestos-related cases, anti-competition inquiries, discrimination cases, and shareholder filed actions. One of the legal proceedings identified, appears to involve the accusation of errors by management and the Board of Directors. Many of the cases have been ongoing for several reporting periods; however, the number of cases and severity may indicate potential systemic concerns within the company.

Mergers, acquisitions, & divestitures ("M&A"): Due to the small size and low impact of the acquisitions, the company released minimal information.

Active measures or events that distort or cloud financials: There were minimal indications of potential earnings management. Net accruals were an insignificant percentage of total assets. Between Q2, 2008 and Q2, 2009, accounts receivables and revenue both decreased, but in a consistent manner.

3M explained non-recurring charges and expenses, but it avoided overly focusing on non-GAAP metrics. One area of concern is 3M's change to segment reporting that occurred during Q1, 2009. Per the 10-Q, the change was part of "...its continuing effort to drive growth by aligning businesses around markets and customers." The segment change will not affect the overall financial reporting of the company; however, the realignment could be utilized to show one or more business segments in a more favorable light.

Between Q2, 2008 and Q2, 2009, cash flow from operations and cash increased significantly, while net income decreased. The company had positive cash flow two of the last three years (2006: \$375 million; 2007: \$449 million; and 2008: -\$47 million). Cash flow was positive for the first six months of 2009.

Based on the current economic environment and 3M's subsequent adverse financial results, the company has conducted numerous rounds of layoffs. The company announced plans to "restructure" in Q4, 2008, Q1, 2009 and Q2, 2009. Regular and ongoing restructuring costs make it more difficult to understand cost trends and the correlations between various expenses and revenue. Furthermore, it is difficult to justify classifying restructuring charges as one-time or unusual expenses when they occur on a regular basis.

The company actively engages in M&A transactions. During the six months ended June 30, 2009, 3M completed three business combinations for a total of \$12 million. Due to the small size and low impact of the acquisitions, the company released minimal information. The risks associated with the M&A activity were adequately addressed in the Q2, 2009 10-Q. The company did not identify synergies as a key reason for any of the recent acquisitions.

The company did not report any divestitures during Q2, 2009, though previously reported divestitures had financial impact on some of the comparable analysis and presentation in the 2008 financial information.

Overall, the company displayed **adequate financial transparency**. 3M exceeded the minimum reporting requirements and provided an appropriate level of financial information and analysis to the investment community.

Actions to be taken: No immediate action necessary at this time. Companies that display an adequate level of financial transparency tend to outperform companies with a low level of financial transparency; however, valuation and pricing should be factored into any investment decision.

Timeline: No anticipated significant positive or negative changes to the company, based on the assessment of its financial transparency.

Likely outcomes: Management will continue to present financial information in a clear format.

IV. Behavioral Assessment

"While we significantly overachieved relative to external expectations, with organic volumes still down about 13 percent year over year, there's no question that it was another very challenging quarter, and particularly so early on."

- George W. Buckley, 3M Chief Executive Officer, Q2, 2009 earnings call, dated July 23, 2009

Management conveyed the financial results in a direct and consistent manner. At times, the management team would appear a little overly optimistic about the current financial outcomes, but it would quickly revert to its cautious tone. The management team did not avoid discussing the negative attributes of the most recent period. As noted in the above quotation,

management ensured the investment community understood the challenges that the company faced during the second quarter. The management team did an excellent job of balancing negatives metrics in the quarter with the positive indicators.

Management provided adequate balance between emphasizing actual results and presenting comparisons to forecasts or guidance. 3M's management did not take undue credit for any positive aspects of the reporting period, nor did they overly blame external factors for the downsides of the period. The management team conveyed its message to the investment community without excessive use of jargon or confusing statements.

The 3M management team did not exhibit any indicators of misleading or deliberately confusing behavior.

Tiarta Rating System

Tier I: Lower Risk

T1: A rating of "T1" is the highest rating a company is able to achieve from Tiarta. Based on the materials reviewed, the rated company provides transparent, consistent, and direct information.

T1-: Based on the materials reviewed, a company with a rating of "T1-" provides transparent, consistent, and direct information with minimal indications of concern within the presentation, description of the financials, and other corporate activity.

Tier II: Medium Risk

T2+: Based on the materials reviewed, a company with a rating of "T2+" provides fairly transparent, consistent, and direct information. The reviewed documents do exhibit some indications of concern within the presentation, description of the financials, and other corporate activity.

T2: Based on the materials reviewed, a company with a rating of "T2" provides fairly transparent, consistent, and direct information. The reviewed documents do exhibit several indications of concern within the presentation, description of the financials, and other corporate activity.

T2-: Based on the materials reviewed, a company with a rating of "T2-" provides limited transparency, consistency, and straight-forwardness. There are considerable indications of concern within the presentation, description of the financials, and other corporate activity.

Tier III: Higher Risk

T3: Based on the materials reviewed, a rating of "T3" denotes a company that provides significantly limited transparency, consistency, and straight-forwardness. There are significant concerns within the presentation, description of the financials, and other corporate activity.

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