3M

Q4 2023 Earnings Call Transcript
Mike Roman and Monish Patolawala
January 23, 2024

Slide 1, Cover page
Bruce Jermeland, Senior Vice President, Investor Relations

Thank you and good morning, everyone, and welcome to our fourth-quarter earnings conference call.

With me today are Mike Roman, 3M's chairman and chief executive officer and Monish Patolawala, our president and chief financial officer. Mike and Monish will make some formal comments then we will take your questions.

Please note that today's earnings release and slide presentation accompanying this call are posted on the home page of our investor relations website at 3M.com.

Please turn to slide 2.

Slide 2, Forward looking statements
Bruce Jermeland

Please take a moment to read the forward-looking statement. During today's conference call, we will be making certain predictive statements that reflect our current views about 3M's future performance and financial results. These statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Item 1A of our most recent Form 10-Q lists some of the most important risk factors that could cause actual results to differ from our predictions.

Please note, throughout today's presentation we will be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in the attachments to today's press release.

Please turn to slide 3.

Slide 3, 2024 outlook approach
Bruce Jermeland

During today's presentation, Mike and Monish will discuss our 2024 outlook. This outlook will be provided on the same adjusted basis used during 2023.

In the coming months there are significant milestones the company expects to complete, including the spin of the Health Care business and the finalization of the Public Water Supplier and Combat Arms legal settlements.

The Health Care spin remains on track for the first half of 2024 subject to customary closing conditions as detailed in our SEC filings. We continue to expect the business to be spun-off with an estimated net leverage of 3 to 3.5 times EBITDA and with the proceeds to be distributed to 3M prior to the completion of the spin.

We are working through the processes with all parties and the courts in both the Public Water Supplier and Combat Arms Earplug legal settlements. Our goal is their finalization and ultimate implementation.

Absent the proceeds from the intended spin-off of the Health Care business, the company has not concluded how it would fund amounts due under the Public Water Supplier and Combat Arms Earplug legal settlements. Therefore, we have not included the potential impacts of changes in net debt that may be needed to fund amounts under these agreements.

For illustrative purposes only, in the absence of the proceeds from the Spin, the adjusted earnings per share impact from financing the legal settlements could be up to approximately a $0.20 per share headwind, based on current market conditions.

Also, please note that we will be treating the dilutive earnings impact of 3M's option to satisfy the $1 billion in payments related to the Combat Arms Earplug settlement with 3M shares as an adjustment in arriving at results, adjusted for special items.

Finally, it is important to note that when considering 3M financials post spin, it is not appropriate to simply remove the Health Care business financial results. There are other items such as transition services agreements, stranded costs, and below the line changes that need to be taken into account.

We are planning on holding an investor meeting later this year following the spin of Health Care where we will provide an update to our full-year 2024 guidance along with our medium-term financial framework.

With that, please turn to slide 4 and I will now hand the call off to Mike.

Mike.

Slide 4, 2023 performance
Mike Roman, Chairman and Chief Executive Officer

Thank you, Bruce. Good morning, everyone, and thank you for joining us.

3M delivered a strong fourth quarter, as we continued to improve our operational performance… with adjusted EPS growth of 11%, operating margin expansion of 180 basis points, and robust cash flow.

Monish will cover more details of the quarter, but first, I would like to comment on our full-year performance.

Throughout 2023, we delivered on our commitments, with results that exceeded our original earnings and cash flow guidance.

While organic sales declined 3% – reflecting softness in certain end markets, including consumer retail and electronics – our disciplined execution supported year-over-year adjusted margin expansion. Excluding restructuring, we delivered increased margins of 60 basis points, helping drive earnings of $9.24 per share… along with a 30% increase in free cash flow and a conversion rate of 123%.

Our strong cash flow enabled us to continue investing in the business, while reducing net debt by $2 billion, or 17%, and returning $3.3 billion to shareholders through our dividend.

Please turn to slide 5.

Slide 5, Advancing our priorities
Mike Roman

As you recall, in January of last year we committed to take a deeper look at everything we do.

Our success in 2023 reflects that commitment, along with our execution of three strategic priorities which are unlocking value for customers and shareholders, both today and into the future.

Let me highlight key achievements in these areas, including how we will build on our progress in 2024, starting with driving performance through the 3M model.

In 2023, we implemented the most significant restructuring in 3M history to streamline the organization, reduce costs at the center and get us closer to our customers, which generated more than $400 million in savings during the year.

These efforts included aggressively cutting management layers, reducing corporate shared services, and modernizing our technology by removing hundreds of legacy systems. We reduced rooftops worldwide and took actions to help us address stranded costs as we progress the health care spin.

We simplified our supply chains and are doing more to leverage data and data analytics to visualize the flow of goods so we can serve customers more efficiently.

We optimized our global go-to-market models for each of our business groups. In Consumer, for example, we simplified our division structure, with each of our global area teams now better aligned around their prioritized product portfolios and brands.

At the same time, we have transitioned to an export-led model in approximately 30 smaller countries around the world, allowing us to reduce costs and complexity, while still bringing 3M innovation to local customers.

The simplification of our organization also frees up resources to prioritize exciting growth opportunities for 3M, such as automotive electrification, climate technology, and industrial automation.

While we have more work to do in 2024, our actions are helping us improve our operational performance and create a more competitive 3M.

Our next priority is the spinoff of Solventum, our health care business.

Last year we appointed experienced healthcare leaders to Solventum, including Bryan Hanson as CEO, Carrie Cox as board chair and Wayde McMillan as CFO.

The spin is on track to be completed in the first half of this year, and we are confident in the value it will create for customers, care providers, patients and shareholders.

As we look to 2024, we will continue to optimize our portfolio as we prioritize geographies, markets and products where we see the greatest opportunity.

Finally, we are focused on addressing risk and uncertainty.

The Combat Arms settlement we announced last August has received strong support from both claimants and the broader military community. We completed the first three milestones of the settlement as planned… including earlier this month when we reached agreement with all plaintiffs who were being prepared for trial. We will continue to work with all parties and the courts to fully implement the settlement.

With respect to PFAS, our settlement with Public Water Suppliers is on track for the final approval hearing, scheduled for February 2nd. We will continue to address other PFAS litigation by defending ourselves in court or through negotiated resolutions, as appropriate. We also remain on schedule to exit all PFAS manufacturing by the end of 2025, with production volumes down 20%.

Looking back, in a year full of change, I am pleased how 3Mers around the world stepped up to lead.

Importantly, we stayed relentlessly focused on doing what 3M does best: using material science to make a difference in the world.

I see exciting examples of innovation across our company.

- Earlier this month we unveiled the world's first solar powered communications headset, building on our decades of leadership in both personal safety and sustainability.

- We are advancing more durable, energy-efficient and connected vehicles with an array of solutions, including new thermal barrier materials that improve the range and safety of electric car batteries - just one element of our automotive electrification program, which grew 30% in 2023, on top of 30% growth in 2022.

- Our medical solutions business – a world leader in advanced wound care – just announced a partnership with the U.S. Army, where we will collaborate with the military and leading universities to develop traumatic wound solutions.

- And in Consumer, last year we launched more than a dozen new products, including new solutions for heavy-weight hanging, part of our $0.5 billion Command franchise, which leverages our world-class adhesives technology.

3M's innovation engine is strong – it will remain the heart of our business, and our ability to deliver differentiated value for our customers.

In summary, the 3M team delivered a successful 2023, and I am confident we will accelerate our progress in the coming year.

I will come back to talk about our 2024 priorities and guidance, after Monish takes you through the details of the fourth quarter.

Monish.

Slide 6, Driving margin and cash flow through operational execution
Monish Patolawala, President and Chief Financial Officer.

Thank you, Mike, and I wish you all a very good morning.

Please turn to slide 6.

The fourth quarter culminated a year where we took significant steps to improve our operational execution resulting in better financial performance. We aggressively controlled spending and initiated restructuring actions to simplify our supply chains, reduce structure, and streamline our go-to-market models to better serve customers.

At the same time, we continued preparing for the successful spin of our Health Care business and worked to reduce risks and uncertainties related to legal matters. While there is more to do, our teams made tremendous progress in 2023 that we will build upon in 2024 and beyond.

Looking at fourth quarter performance, adjusted sales were $7.7 billion, at the high-end of our guidance.

End markets continued to play out as anticipated. Notably, the auto OEM market remained strong in the fourth quarter, and we saw signs of end-market stabilization in consumer electronics.

As expected, China and consumer retail end markets continued to be soft.

Organic sales, on an adjusted basis, declined 1.4% versus last year. The expected decline in demand for disposable respirator negatively impacted organic growth by 60 basis points, or $50 million. Excluding this impact, Q4 adjusted organic sales were down eighty basis points.

Adjusted operating margins were 20.9%, up 180 basis points year-on-year, or up 320 basis points excluding the impact of restructuring charges.

Adjusted earnings were $2.42, up 11% year-on-year. Versus our guidance, fourth quarter earnings were benefited by $0.06 due to a lower-than-expected tax rate which was partly offset by the acceleration of restructuring actions which impacted earnings by approximately $0.03.

And finally, fourth quarter adjusted free cash flow was $2 billion, up 18% year-on-year. For the full year, we delivered $6.3 billion in adjusted free cash flow versus an originally expected range $4.2 to $5 billion at the start of the year.

Slide 7, Q4 2023 operating margin and EPS
Monish Patolawala

Please turn to slide 7 for a recap of the components that drove our year-on-year operating margin and earnings performance.

Benefits from manufacturing productivity, sourcing actions, restructuring, strong spending discipline, and selling prices, more than offset headwinds from lower sales volumes, investments in the business, and last year's disposable respirator sales comparison. This net benefit drove a year-on-year expansion in Q4 operating margins of 400 basis points and earnings per share of $0.43 per share.

Pre-tax restructuring and related charges in the quarter were $109 million, or a negative impact to margins of 140 basis points and $0.17 to earnings.

Raw material, logistics, and energy cost inflation was a slight year-on-year headwind of 10 basis points to operating margins, or minus $0.01 to adjusted earnings per share.

Foreign currency translation was a negative 70 basis points impact to adjusted operating margins or negative $0.07 per share. This result was primarily due the net impact of hedging and the devaluation of the Argentinian peso.

As previously mentioned, our adjusted tax rate was lower than expected coming in at 14.9%. This compared to 16.6% in last year's fourth quarter, resulting in a $0.05 benefit to earnings.

And finally, other financial items and shares outstanding netted to a positive $0.01 per share year-on-year impact.

Slide 8, Q4 2023 cash flow and balance sheet
Monish Patolawala

Please turn to slide 8.

Fourth quarter adjusted free cash flow was $2 billion, up 18% year-on-year, with conversion of 145%, up 800 basis points versus last year's Q4.

Our ongoing focus on working capital management, especially inventory, continues to yield results. Inventory was down $550 million year-on-year and is now at 14.8% of sales, a 90-basis point improvement year-on-year. I am pleased with the progress to date and see significant opportunity to further improve performance in all aspects of working capital.

Adjusted capital expenditures were $308 million, down 32% versus last year's abnormally high fourth quarter. For the year, we invested over $1.4 billion versus an expected range of $1.3 to $1.5 billion.

And finally, we returned $828 million to shareholders via dividends during the quarter.

Turning to the balance sheet, net debt at the end of Q4 stood at $10.0 billion, a decline of $2 billion year-on-year, or 17%.

3M continues to be a reliable and robust cash generator. In addition, the upcoming spin of our Health Care business will further strengthen our balance sheet. As Bruce mentioned, we anticipate receiving a one-time dividend from Solventum, at an initial leverage of 3 to 3.5 times EBITDA. We will also retain a 19.9% equity stake which will provide additional liquidity. This, combined with our existing strong capital structure, provides us with the ability to continue to invest in the business, return capital to shareholders and meet the cash flow needs related to ongoing legal matters.

Now, please turn to slide 10 for a discussion on our business group performance.

Slide 10, Business Group performance
Monish Patolawala

Starting with our Safety and Industrial business, which posted sales of $2.7 billion, down 3.9% organically.

The expected decline in demand for disposable respirators was a headwind of approximately $50 million, negatively impacting segment organic growth by 160 basis points.

Organic growth was led by a double-digit increase in roofing granules, while industrial adhesives and tapes was flat while all other business declined.

Geographically, core industrial markets in the United States were relatively strong, while China remained weak. Our businesses were impacted by reductions in channel inventory towards the end of the quarter, particularly in the Greater China and EMEA regions, as channel partners managed cash and are cautious as we enter 2024.

Adjusted operating income was $524 million, down 6% versus last year.

Adjusted operating margins were 19.7%, down 70 basis points year-on-year. This decline was driven by lower sales volumes which was partially offset by benefits from restructuring, pricing, and strong spending discipline.

Moving to Transportation and Electronics, which posted sales of $1.8 billion, or up 2.7% organically.

Our auto OEM business continued to perform well and increased 13% versus a 9% increase in global car and light truck builds.

The electronics business was flat organically year-on-year as demand for consumer electronic devices began to stabilize while semiconductor remained soft. We continue to closely monitor these trends and are well positioned to grow with our customers in these large and important end-markets.

Looking at the rest of Transportation and Electronics, advanced materials grew organically high single digits, commercial solutions grew low-single digits, and transportation safety declined low-single digits.

Transportation and Electronics delivered $370 million in adjusted operating income, up 28% year-on-year.

Adjusted operating margins were 20.9%, up 380 basis points versus Q4 last year. The team achieved this result through restructuring actions, pricing, and strong spending discipline.

Turning to our Health Care business, Q4 sales were $2.0 billion, or down 1% organically versus last year.

Sales in our medical solutions business grew low-single digits organically while separation and purification and oral care were both down low-single digits. Health information systems organic sales decreased high-single digits.

Looking at the year, our businesses within Health Care continued to see lingering COVID-related impacts. Full-year organic growth in Health Care was approximately 1% with both medical solutions and oral care posting positive low-single digit growth, while health information systems and separation and purification were both down low-single digits.

Health Care's fourth quarter operating income was $372 million, down 10% year-on-year.

Operating margins were 18.3%, or down 1.9 percentage points, with adjusted EBITDA margins of 26%. Year-on-year adjusted operating margins were impacted by lower sales volumes along with added costs associated with the pending spin.

Lastly, the Consumer business posted fourth quarter sales of $1.2 billion. Organic sales declined 2.2% year-on-year.

Home improvement increased low-single digits organically, while home health and auto declined low-single digits and stationery and office declined high-single digits.

Geographically, organic growth was down slightly in the U.S. while EMEA was down mid-single digits and Asia Pacific declined low-double digits.

Consumer's fourth quarter operating income was $221 million, up 4% compared to last year, with operating margins of 18%, up 100 basis points year-on-year.

The improvement in operating margins was driven by benefits from restructuring actions, portfolio optimization, strong spending discipline and productivity actions.

Before I turn it back to Mike for him to discuss outlook for 2024, I wanted to take a moment to reflect on our 2023 total company performance. As the year progressed, we made strong improvements in adjusted operating margins. For reference, slide 23 in the appendix provides our quarterly adjusted operating margin recons for the year. As you can see, we delivered significant improvement in performance, particularly when setting aside the impact from restructuring charges.

Please turn to slide 12, and I will now turn the call back over to Mike.

Mike.

Slide 12, Positioning 3M for the future
Mike Roman

Thank you, Monish.

We are entering 2024 with strong momentum from our strategic priorities, as we build on the actions taken in 2023.

We will remain focused on improving operational performance as we progress our restructuring, while driving even greater supply chain productivity and inventory reductions – these represent significant opportunities to deliver sustainable margin and cash flow expansion in 2024.

We will also further accelerate efforts to optimize our portfolio, which has been an ongoing strategy for 3M.

In addition to finalizing the healthcare spin, we will continue implementing our geographic prioritization strategy.

We will also step up our efforts to prioritize our product portfolios, based on market potential, right to win, supply chain complexity, margins and returns. For example, in our Consumer business, we have identified approximately 5% of the portfolio where we have limited market growth and a poor right to win. While exiting these portfolios will impact Consumer's growth rate in the near-term, these actions will better focus our efforts on products that best utilize 3M invention and ultimately drive improved growth and margins in the long-term.

At the same time, 3M succeeds across market cycles because we remain close to customers and invest in innovation.

We will continue to invest in R&D and capital expenditures, enabling us to win in our core, and also in new, attractive markets where 3M can make a difference.

Finally, we will stay focused on reducing risk and uncertainty by proactively and effectively managing litigation, including finalizing legal settlements. We will advance the ramp-down of PFAS manufacturing, while continuing to make progress on our sustainability goals. In 2024, for example, we expect to complete the investments in state-of-the-art water filtration technology across our chemical manufacturing sites.

Please turn to slide 13.

Slide 13, 2024 full-year guidance
Mike Roman

Based on these focus areas, along with the macroeconomic outlook, we are laying out our guidance for 2024.

We expect the execution of our priorities to support the strengthening of our competitive position, continued underlying margin improvement, and strong cash flows as we aggressively manage working capital.

As we start 2024, the macro environment remains muted, similar to what we saw in the fourth quarter. On an adjusted basis, we anticipate organic full-year growth of flat, to plus 2% – excluding the impact from geographic prioritization and portfolio actions, we expect organic growth of 1% to 3%.

With respect to EPS, we anticipate earnings of $9.35 to $9.75 per share.

We expect continued strong margin expansion, along with another year of strong cash flow, with an adjusted conversion rate of 95% to 105%.

As Bruce noted, following the completion of the healthcare spin, we will host an investor meeting and provide strategic updates, along with updated guidance for 3M.

As always, underpinning our success will be the strengths of 3M: our industry-leading material science, advanced manufacturing, global capabilities and iconic brands, along with some of the best and brightest people around the world.

Before I turn it back to Monish, let me repeat a few important points.

As I look across 3M, 2023 was a pivotal year for our enterprise.

We executed our plans and delivered on our commitment to exit the year stronger, leaner and more focused.

We improved our operational performance, advanced the spinoff of Solventum, and addressed risk and uncertainty.

I am proud of everything we accomplished in 2023, and equally excited about the year ahead.

We are in excellent position to build on our progress, continue to improve our operational performance and deliver another successful year.

I thank all 3Mers for their dedication, and for everything they do for our company.

I will now turn it over to Monish, for more details on our guidance.

Monish.

Slide 14, 2024 business group outlook
Monish Patolawala

Thanks Mike.

Please turn to slide 14.

As Mike highlighted, we expect another year of strong execution on our priorities including strengthening our competitive position, continued margin improvement, and robust cash flows as we aggressively manage working capital.

Let's now look at our 2024 expected performance for our business segments.

Starting with Safety and Industrial, where we estimate organic sales growth to be flat to up low-single digits.

As we start the year, we continue to see demand in industrial end markets remaining mixed. Full year 2024 Industrial Production forecast is currently expected to be at approximately 2% worldwide with the U.S. being flat. This business is not only impacted by general industrial manufacturing, but also production activity in automotive and electronics end-markets which I will cover next with my comments on Transportation & Electronics.

Adjusted organic sales growth for Transportation & Electronics is forecasted to be flat to up low-single digits organically. This range excludes the impact of the exit of PFAS manufacturing.

Consumer electronics end-markets are expected to be up slightly year-on-year as the market works to turn the corner. The semiconductor market is forecasted to start the year soft however improve as we progress through the year.

Automotive unit volume production is forecasted to be down slightly year-on-year. Despite this forecast, we continue to see significant opportunities in the automotive sector through our offerings in both electric vehicle and internal combustion engine vehicles.

Health Care's organic sales growth is anticipated to be flat to up low-single digits year-on-year.

Bryan and his team are excited to lead this great business and will be providing more details on 2024 and beyond as we progress towards the spin.

Turning to Consumer, organic sales are expected to be down low-single digits as discretionary spending is expected to remain muted, especially in the U.S. along with our ongoing portfolio optimization initiatives. As Mike mentioned, these actions are estimated to create a year-on-year organic growth headwind of approximately $100 million, or 2-percentage points.

As you create your models for 2024, I want to highlight some important items.

We anticipate pre-tax restructuring charges in the range of $250 to $350 million and incremental savings in the range of $150 to $250 million.

As I have previously mentioned, our savings are net of the necessary costs required to provide sustained benefits from our restructuring. For example, this includes structure necessary to enhance our go-to-market models, automate processes, and continued investment in cyber security. Additionally, the restructuring actions have helped to partially reduce stranded costs associated with the pending spin of Health Care.

Overall, our restructuring program remains on track to deliver pre-tax saving in the range of $700 to $900 million, with a similar level of charges upon completion. We anticipate our actions will be largely done by the end of 2024 with benefits carrying into 2025.

Moving to pension expense. We estimate a non-operating pension headwind of approximately $100 million in 2024, or a negative $0.15 per share. This headwind is primarily due to the updating of assumptions including mortality along with the amortization of prior period losses. While we will have an earnings headwind in 2024, it is important to note that our global plans are well funded ending 2023 at 94%.

Net interest expense is anticipated to be a small year-on-year benefit of approximately $0.03 per share. Again, this excludes the pending impact of the Health Care spin and legal settlements that Bruce mentioned at the start of the call.

Our adjusted tax rate is expected to be between 18.5% and 19.5% for 2024. This compares to our adjusted tax rate of 17.5% in 2023, resulting in a year-on-year headwind of approximately $0.17 per share at the mid-point.

Therefore, the net impact of these below-the-line items is forecasted to result in an earnings headwind of approximately $0.29 per share.

This combined headwind is included in our full-year 2024 adjusted earnings range guidance of $9.35 to $9.75 that Mike mentioned.

Slide 15, Q1 2024 outlook
Monish Patolawala

Please turn to slide 15.

Before we go to Q&A let me briefly cover our thoughts on the first quarter.

As we look at the first quarter, we see our adjusted sales being approximately $7.6 billion, or down slightly versus last year.

This forecast factors in an expectation for similar macroeconomic trends that we saw in Q4. It also includes an approximate $100 million year-on-year sales headwind from geographic prioritization and Consumer portfolio initiatives, along with the impact of last year's disposable respirator comp.

Turning to earnings, we expect first quarter adjusted earnings per share to be in the range of $2.00 to $2.15 per share.

This expectation reflects adjusted operating margins in the range of 19.5% to 20%. This range includes continued standup costs related to the pending spin of Health Care along with over 100 basis point impact from restructuring and related charges. Excluding restructuring charges, adjusted operating margins are forecasted to increase by over 250 basis points year-on-year.

In the first quarter non-op pension will be a $0.04 per share headwind to adjusted earnings.

And finally, we expect our adjusted tax rate in the first quarter to be in the range of 20% to 21%.

In closing, I would like to emphasize a few things:

We remain focused on our priorities and the team continues to drive results through strong operational execution. Our decisive actions in 2023, set the foundation for a strong 2024.

As you know, there are many important milestones in the coming months, including completing the spin of Health Care.

And finally, as a reminder, if you are creating financial models for 3M post spin, please keep in mind that simply removing the Health Care business from total 3M financials will not equal 3M post spin. There are other factors such as transition service agreements, stranded costs, and below the line changes that need to be taken into account.

As mentioned, once the spin is complete, we will hold an investor meeting and provide an update on our outlook for 2024 that incorporates these factors.

In summary, we are building on our momentum and driving sustainable operating improvements that will drive improved financial performance. I want to thank the 3M team for their dedication and focus as they continue to deliver for our customers and shareholders.

That concludes my remarks. We will now take your questions.

Slide 16, Questions & Answers
Andrew Kaplowitz - Citigroup Inc., Research Division - MD & U.S. Industrial Sector Head

Good morning, everyone. Mike or Monish, could you give us a little more color into the consumer and industrial channels that you deal with? I know you said you're seeing signs of consumer electronics improvement, but also mentioned the destock in China, for instance, at the end of Q4.

Maybe you could elaborate on what you're seeing across the consumer and industrial channels. And then you are modeling Q1 sales, I think, to be sequentially flat, excluding the $100 million of sales headwind you called out, which seems conservative if your early cycle business are starting to turn. So what are you seeing?

Mike Roman

Yes, Andy, I'd start with Q1 looks to us a lot like Q4. So some of the dynamics that you're asking about are part of that. We talked about electronics stabilizing in Q4. So starting year-over-year comparison and stabilizing against that. As we look forward, consumer retail, similar as well. We saw still softness in discretionary product categories, discretionary purchases. Consumer spending has been strong, but it's been shifting all through the year, as you know to experiences, services and even food as inflation has impacted that. So we see that dynamic continuing to play out as we look forward.

If you look at the channel, I'd say broadly, the channels are stabilizing. Consumer, there was -- as we went through the first part of last year, there was aggressive reduction in inventory in the channel. That played out and it's more balanced as we come through fourth quarter as we look into Q1.

There was some cautious at the end of '23. At the end of the fourth quarter, we saw some caution in the channel in China and consumer. But I think they're fairly well balanced at this point. The one area where we continue to note some adjustments is in the industrial channels, and that's as supply chains continue to perform better, they're reducing their safety stock. And that's been steady. I think there's a little bit of caution as we go into the new year in areas like Europe, Middle East, Africa, there's a caution about demand. China, as I already said. So -- but I think generally broader, I would characterize it as more stable and in line with what the expectations are.

Monish Patolawala

I just would add, Andy, to Mike's comments that auto builds are expected to be down 10% sequentially. And then historically, if you just look at a couple of our businesses which is consumer and Health Care, they seasonally do come down Q4 to Q1. So we baked all that into the guide that we've given of approximately $7.6 billion.

Andrew Kaplowitz

That's helpful guys. And then, Monish, could you give us a little more color in terms of what's happening with your restructuring program? You pretty much were matching benefits to cost in '23. And as you said, you even pulled forward a few pennies of restructuring versus your expectations in Q4.

For '24, I think you're modeling now $100 million difference in terms of higher restructuring costs versus benefits. So maybe give us more color into why you can't get that sort of one-to-one faster return on your '24 actions?

Monish Patolawala

No, I think -- Andy, let me explain that first. I'll just go all the way to the top again on our benefits and then I explain the math to you. So for everyone's benefit, in 2023, we implemented the most significant restructuring in our history that generated $400 million in savings last year and approximately the same amount in costs.

But when you look at the overall program, it remains on track to achieve the annual run rates of $700 million to $900 million upon completion. And assuming a no spin scenario of Health Care, as Bruce mentioned earlier, we expect nearly 200 to 300 basis points of margin improvement to be realized upon completion of the whole program. And the program, as you said, Andy, remains on track. We've said that it remains on track, and we did pull in or accelerated some of our restructuring into 2023 based on the success that we have had in the program.

What I would tell you to answer your question specifically is what I've said is the $150 million to $250 million is incremental benefit. So on a cumulative basis, if you did $400 million in 2023, and you say midpoint of $150 million to $250 million, that's cumulative $600 million. So on a year-over-year, that's incremental $200 million.

While on a cost basis, we said we incurred $400 million and change in the fourth quarter, I think it's $441 million. And I said we'll have $250 million to $350 million of cost. So on a cumulative basis, the cost will be around $750 million again at the midpoint.

As I've also said in my prepared remarks, we believe this program will be largely completed by the end of 2024 from an expense perspective and the benefits will continue into 2025 and beyond. I just want to make sure one other thing, and we think about restructuring, I just want us to also think through this is -- and I want you all to know, this is how we work. And this is not a series of onetime actions. And I know a lot of investors have asked us, show us the break between benefits and costs. So we are definitely trying to do that the best we can.

In 2023, it made all the sense because these were new actions, it was good to show it as individual. But as it becomes the way we work, my request to all of you is focus on the total margin of the company, which is demonstrated in 2024, where our guide is saying we'll improve margins, another 75 to 100 basis points in total.

So for example, and the reason I bring this up is you have to look at all of this in totality. For example, we announced that we were going to change our distribution model in 27 countries. The savings of the rooftops, the head count is shown as a benefit in our restructuring program. But as you all know, there's a corresponding impact on the revenue, and the action has to be looked at in totality versus stand-alone events. And I just want to make sure we bring that out, too. But we'll continue showing what it helps you all, and that's what we have tried to do with this go-round. So hopefully, I cleared that question, Andy, that you had.

Scott Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research

Guys, can you help us understand the ebb and flow when you go to an export model for 30 countries and maybe help us understand the materiality of that, it could be 30 really small countries, could be a mix, I don't know. But if you think about kind of the revenue headwind versus the cost tailwind, is it -- is there some numbers we can talk around or any perhaps even some color on how that ebbs and flows?

Monish Patolawala

Yes. So Scott, the total impact of geographic prioritization and portfolio actions that Mike mentioned is around 100 basis points for the company. Of that, 60% is product portfolio optimization. The balance is geographic prioritization. And overall, when you look at the margin rate in these smaller countries, they were at lower margins than the average for 3M. So that's when you refocus. What happens is, since you're going through a distributor, you basically have to drop price to some extent because now they're picking up your cost. And so that's why you see the revenue headwind.

But on a margin rate perspective, this is beneficial for us to do. It helps us focus on the bigger countries. It also allows us to reinvest in those bigger countries, while at the same time, making sure that in the smaller countries where we are changing the model, we can continue to serve those customers well with what we would call internally as an export-led model, which is we're going to ship our product out from the United States or wherever our end manufacturing is into those countries. So we are still taking care of the customers. We're just following a more efficient way to transact with those customers. So hopefully, that answers, Scott.

Scott Davis

I think it does. And just separately, working capital has been a real source of benefit for you folks and particularly in '23. But are we -- as an entity, are you learning to run at lower working capital levels?

And more specifically really what I'm talking about is inventory. And I think historically just having covered you guys for a while, inventory levels kind of went up and down based on demand, you're not expecting much demand in '24. So explicitly, I suppose that means you can run at lower inventory levels.

But if demand were to start to snap back at better levels than you're expecting, would you still be able to run at relatively low inventory levels? Have there been enough structural change, I guess, is what I'm asking to 3M where you can run more productively and efficiently from a working capital perspective?

Monish Patolawala

I would say so, Scott, as the team has done, Peter and the supply chain team have done a great job. One is learning through the pandemic on how do you manage the ebbs and flows as you go through supply chain disruptions. Two is we have spent a lot of time and energy investing in digital resources that allow us to more efficiently look at demand plans, look at where our inventory is. And we have continued to keep working on dual sourcing, et cetera, that helps us get alternate sources of supply whenever you could have a disruption in one place.

My view is this inventory still has ways to run using data and data analytics. We can keep reducing inventory. Working capital is going to continue to be a source of 3M's cash generation machine, along with a good EBITDA that we generate. And at the same time, I would tell you that volume -- if you see volume come back up, the factories are ready and we have the capacity and we'll act accordingly. So I would say the team has done a really nice job, but there's always more we can do and we'll keep doing.

Mike Roman

Scott, just to add, the actions that we have been talking about all through '23, the actions to streamline our supply chain operations, simplify our go-to-market model, that streamlining supply chain operations, it was more than a restructuring. This was about aligning our global supply chains to our go-to-market models, really optimizing what we do across plan, source, make, deliver, with a focus on -- and an expectation that we're going to drive improvements, improvements in service, improvements in costs, improvements in working capital and cash.

And I -- so it's -- Monish said earlier, it's the actions we've taken about the way we operate, and it's an expectation we're going to continue to improve our execution. So there's a plan and strategy on data and data analytics gives us a basis for driving better visibility and improvement as well. So it's a -- it is part of that.

So we do expect to continue to drive improvement as we -- our guide for '24 has us, again, driving improvements in how we execute showing up in growth in earnings and expanded margins and another year of strong cash generation. So it's a -- it is an important part of that -- those actions that we took as we went through '23.

Julian Mitchell - Barclays Bank PLC, Research Division - Research Analyst

Maybe first off, I just wanted to clarify some of Monish's comments on operating margins year-on-year. So I think Monish, you were saying that Q1, the margin is up 250 bps, excluding restructuring. And then the full year is up 75 to 100 bps, including restructure. I just want to make sure if those numbers were right.

Monish Patolawala

Correct. You're right. You're right.

Julian Mitchell

Okay. Any color on sort of segments within that or the corporate cost, there was some reallocation you talked about on Slide 7. Any kind of major moving parts that you'd call out year-on-year on a segment basis or what that new sort of corporate run rate is?

Monish Patolawala

Yes. I would say, Julian, as with prior years, there are a number of miscellaneous items in corporate and unallocated that are always subject to a fluctuation on a quarterly annual basis. So if you look at 2023, our input cost was $44 million. And in the fourth quarter, it was a $120 million benefit. The Q4 benefit was largely the result of annual incentive compensation accrual for the first 9 months that we allocated the businesses finally based on performance. This adjustment had no impact to total company margins. So it's just a bucket swap between corporate unallocated and the businesses.

And so for the full year of 2024, again, based on Health Care, being a part of 3M for the whole year. So it's just the assumption, we expect the expense range of paying somewhere in the $100 million to the $200 million on an adjusted basis for corporate unallocated.

Julian Mitchell

Got it. And then just my second question, just trying to understand the free cash flow guidance because I think you did $6.3 billion of free cash in 2023. And this year is guided at about $5.3 billion. So it's a big decline year-on-year even with net income, I think, growing $200 million in the guide and CapEx is up about $100 million in the guide. Anything to sort of call out on that?

Monish Patolawala

I would just say, Julian, 3M has historically always been a good cash generator. And that's what we plan to continue doing. If you look at 2022, we had 86% of free cash flow conversion, which we were not happy with at all. And the teams have done a great job in 2023 to get us back. If you take the 2 years, it's around 100%. And if you look at the history of 3M, we have always been in that range. And I would say we'll continue doing that.

But at the same time, we'll keep investing in growth, productivity and sustainability as and when the volume comes up as and when the opportunities arise because at the end of the day, our first priority is organic growth because that gives us the best return. And the best way to do that is organic investment. So that's our first priority.

Nigel Coe - Wolfe Research, LLC - MD & Senior Research Analyst

So I just want to dig into the corporate line again, Monish. I think you said $100 million to $200 million kind of a run rate for 2024. That's EBIT, not EBITDA. I just want to make sure that's the case. And are you reflecting any corporate dissynergies or stand-alone cost for Health Care within that $100 million to $200 million?

Monish Patolawala

It's EBIT. It's EBIT, Nigel, so that -- can you hear me?

Nigel Coe

Yes, I can hear. Yes.

Monish Patolawala

I'm sorry, what was your follow-up question? I didn't catch the...

Nigel Coe

Yes. The kind of -- the second part of that question was that are you reflecting any stand-alone costs or stand-alone costs or corporate dissynergies from the Health Care spend within that number? Or would that be additive to that range?

Monish Patolawala

No. That number, again, if you just go back to Bruce's comment at the beginning of the call, our current assumption is that Health Care is a part of 3M, even though the spin is on track for first half 2024. And as we go through the spin of Health Care, we plan to have an Investor Day post-spin, where we'll update you on the stranded cost, the impact of transition services agreements as well as what 3M looks post-spin.

Bruce Jermeland

Yes. Nigel, just to highlight, Monish during his prepared remarks, did mention that there is additional cost in Health Care for standing it up as a stand-alone entity. So -- and that is having some margin impact within Health Care.

Nigel Coe

No question. I just want to make sure that was the case. And then my follow-up question is just really trying to dig into the restructuring cadence.

You obviously -- you quantified the Q1 impact, but take the 162 of cost savings in Q4, Monish, and then multiply that by 4, you get to mathematically about $650 million of cost savings. And the midpoint of your guide for 2024 is 617.

So I'm just actually wondering, it doesn't look like we're getting any incremental costs coming through from here on in 2024. So just wondering what is the offset to that? Is there some level of investment here? Just wondering what's going on here?

Monish Patolawala

Yes. So I would say it's the same thing I've said before. If you remember, we have said our total benefits are $700 million to $900 million once the program is done with equal costs. We are saying though, our actions will be largely done at the end of 2024. So you will see benefits continuing into 2025.

And as I've previously mentioned, our savings are net of the necessary investments required to provide sustained benefits from our restructuring programs. So for example, these investments include structure necessary to enhance our go-to-market models. As we talked about, we have exited or changed the distribution model for 27 to 30 countries. So making sure we have a structure that supports that change, continuing to automate our back-end processes as we continue with the spin of Health Care, upgrade rooftops as we consolidate space because you see the savings as we have exited the space, but I got to make sure that the rooftops upgraded so people can come into work there and then continued investment in cybersecurity.

And we have also said this before that the restructuring actions that we have taken, one, it's a way of how we work, but two, it will help us partially reduce the stranded costs associated with the pending spin of Health Care. So all put together, I still see the programs on track at $700 million to $900 million.

But as I mentioned before, too, I would just ask you all to think through, there's a side of cost cadence, which once we are done with those actions, those cost cadence will go away and the benefits will continue into 2025 and beyond at an annualized basis of $700 million, $900 million, assuming Health Care remains as a part of 3M.

Christopher Snyder - UBS Investment Bank, Research Division - Analyst

I also wanted to ask on 2024 margins. And if we look through the restructuring, it seems like the guide is implying flat margins year-on-year from the business. And I guess, why isn't there expected margin expansion? Because the company is expecting to grow volumes or at least grow organically in the year. And it sounds like some of the exits the company is making should be accretive for margins of the underlying business. Just what are some of the headwinds there.

Monish Patolawala

So I would say exactly the same thing I said before. When you look at it in total, our plan for 2024 assumes a margin expansion of 75 to 100 basis points, which includes a piece -- which includes the restructuring benefits and the lower restructuring costs. But at the same time, it also includes many other factors that we take into.

For example, we're going to continue to invest in growth, productivity and sustainability as the macro starts improving. We're going to continue to invest in product areas. We're going to continue to invest in our people. So I would again ask you to look at in total, if you exclude restructuring costs in 2023, we expanded margins 60 basis points. And in 2024, our total margin expansion, including the benefits of restructuring is 75 to 100 basis points.

So Chris, I would say as the year progresses, and I've said this before, volume gives us the best leverage. So as we get more volume, we're going to continue to see leverage increase.

Christopher Snyder

I appreciate that. And then just a follow-up on the margins. I know you guys said $150 million to $250 million year-on-year net restructuring for the full year. But could you tell us what is implied in the Q1 guidance?

And then also, I believe you said that the margin -- the Q1 margin includes some level of standing up cost for Health Care. Could you just tell us what those are expected to come in at?

Monish Patolawala

Yes. So the benefits, I would say, again, it depends on which way you're looking at it, Chris. I would tell you, on a year-over-year basis, as I said, there's approximately 75 to 100 basis points -- sorry, $75 million to $100 million of restructuring cost on a year-over-year basis.

So if you exclude that margin rates are 19.5% to 20% for Q1. No, sorry, 19.5 -- my number is all getting. It's 19.5% to 20% is the guide, which includes $75 million to $100 million of cost. So if you adjust for that cost on a year-over-year basis, margin rates will be up 250 to 300 basis points.

And then on standup costs, again, timing will determine what the final standup cost is. But currently, we see approximately $0.07 to $0.08 of total cost that we are incurring, as Bryan and the team get ready for spin of Health Care.

Joseph Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Just -- so obviously, like the volume environment remains fairly muted. But I'm curious like how are you guys thinking about pricing for '24 and particularly like what's embedded in the guide from a price cost standpoint?

Monish Patolawala

So 2024 outlook assumes we will have selling prices year-on-year. It's helping us offset some of the moderate inflation we are seeing in certain raw materials, and then the labor market continues to remain strong. But I would just tell you, you have seen we've become good at monitoring this. We'll make sure we continue to take actions as needed. And you've seen it, we've done that in '22. We have done that in 2023.

But I would say, more importantly, when you think about margin rate, and the supply chain teams and the business teams, we are not just taking price raw as one item. In total, we are just saying how do we improve margins. So a lot of actions has been taken on, whether it's through selling price increases, driving global sourcing benefits, dual sourcing, driving yield in the factories and of course, prioritizing demand. And all of that put together, including the new way we work with all the restructuring-related items we have announced last year just help us continue to drive margin between 2024, '25 and beyond.

Joseph Ritchie

Got it. That's clear, Monish. I guess there's been a lot of discussion on the restructuring expenses and the benefits coming through in the next couple of years. I guess just for 2025, as we're thinking about the low end versus the high end of the benefits range. Maybe like how would you kind of handicap what are the key drivers that potentially puts you guys at the low end of the $700 million versus the high end of the $900 million benefit range?

Monish Patolawala

So I would first say, number one, again, I keep reiterating this just because there's an assumption that's out there that we have assumed that Health Care remains as a part of 3M. That's just the guide but Health Care is on track for a first half '24 spin. Keeping that in mind, when you think about $700 million to $900 million, it's driven by 2 pieces. One is the pace at which we can execute some of these actions as well as some of the rooftop consolidations that we are working on. In total, I still feel good that the range of $700 million to $900 million is good for the overall program.

But as you have seen, Joe, quarter-to-quarter, there's always going to be a little movement because there are multiple actions that we're working through regulations in countries and we're working through making sure we are doing it in a safe manner that you could have a month or 2 delay. But overall, I still feel good $700 million to $900 million is a good range.

Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

I'm still not 100% clear what the sequential decline is in EPS from 4Q to 1Q. Can you maybe just help bridge that a little more specifically? I know there's tax impact there, maybe a little bit of sequential sales decline. I'm just having a little bit of a hard time reconciling the walks.

I mean I think you had a $0.07 charge in ForEx from Argentine devaluation, maybe that's a factor. I don't know, just maybe a little more color on the sequential EPS bridge from 4Q to 1Q.

Monish Patolawala

Sure. And Steve, as I said, as you start lapping quarters and the benefits of restructuring starts showing up in the results, it's going to get harder and harder to do sequentials. But anyway, I'll do my best, and hopefully, that answers your question. So I would start by first saying you're going to see another strong quarter of execution on a year-over-year basis, and I would ask you to look at that first.

When you look at our guide for January, we're saying it's approximately $7.6 billion. And there are no surprises in January so far. It's very similar to Q4 trends. So volume is a little lower Q4 to Q1. That has an impact.

Secondly, there is usual seasonality that we see in our business when it comes to resetting some of our pay plans and some of the other compensation things that we do. So seasonally, you see that as an impact.

Third is, as I mentioned earlier, we are incurring incremental costs to stand up the Health Care business as we get ready for the spin. The total impact is approximately $0.07 to $0.08 is the total impact of the -- it's the total cost in the quarter.

We have a headwind from our pension accounting that we talked about, which is $0.04 of headwind. And then from a tax rate basis, we expect our 1Q tax rate to be in the range of 20% to 21% versus we ended the fourth quarter at 14.9%. So I hope that kind of gives you all the puts and takes to get you to the range that we have of $2 to $2.15.

Stephen Tusa

Yes, that makes sense. And then just one last thing on restructuring. I mean, I don't -- I usually think of restructuring as building -- once you do a certain number in a quarter, you kind of carry it over annually. You guys are run rating at a pretty high level of benefits in the third and the fourth quarter that ramped pretty hard sequentially from the first half.

Is there any like seasonality to these cost saves? Or I'm just curious as to why they're not maybe carrying over a little more into the first half of '24, like of a compounding of those benefits, if you will. I can understand the expense numbers are very clear, but it seems like you're kind of under punching the benefits based on that carryover in '24, especially in the first half.

Monish Patolawala

I'm not sure I -- one would agree with that. But when you look at 1Q of '23 versus 1Q of '24. There was no restructuring benefits pretty much in 1Q of '23, and we had a little bit of cost in '23. So if you look at 1Q versus 1Q, you actually see margin rates up 250 basis points, excluding the impact of restructuring costs. So you are seeing the benefits, Steve, on a year-over-year basis in 1Q.

For the year, as we have previously mentioned, our savings that we are showing you in the $700 million, $900 million, which it always has been, are net of the necessary investments that we are required to provide, which we are going to spend to provide sustained benefits.

So again, just to repeat, things like we changed our method of delivery in certain geographies, 30 countries. You need a structure that has to get put into place to serve that. You've got rooftops. So we have exited the rooftops, you're starting to see the savings, but we have to spend the money to upgrade the rooftops that we are left because we have to consolidate that space so that people can come and work in that space.

And then we'll continue to invest in things like customer operations and automate customer operations, which was a part of the whole – there was a reason why we did this. Mike said it, I've said it, it's the way we work and some of the savings you're seeing come ahead as you've made those actions. And now we're going to put it -- we're going to put in the necessary costs so that we can continue to see those savings. And that's why I keep saying at the end of 2024, we'll be largely done with these actions and the benefits will carry on into '25 and beyond at $700 million to $900 million.

Bruce Jermeland

Yes. Just so it's clear, Steve, the investments that Monish is highlighting is included...

Monish Patolawala

In the $700 million.

Bruce Jermeland

In the $700 million, $900 million.

Stephen Tusa

Yes. Okay. That all makes sense. So it's kind of a bit of a timing thing.

Bruce Jermeland

Correct.

Jeffrey Sprague - Vertical Research Partners, LLC - Founder & Managing Partner

I just want to come back just to thinking about kind of the separation and just some of the math. Monish, you have taken some pains here to kind of remind us that it's not as simple as just splitting this in 2.

So just a couple of questions. I think you had previously said that just kind of stand-alone corporate costs for the Health Care business was about $100 million. I wonder if that's moving around at all if you could provide any additional color on that?

And is there some color you could provide on what you're expecting on the TSAs. I think that's going to have to be an input to what the EBITDA is for Health Care at the time of the spin and the associated dividend that comes off that. So I know when we get to Form 10 a little bit closer, you're going to be more precise on this, but it does seem like you're directionally warning us to be prepared for some friction here. So I'm wondering if you can give us a little bit more color.

Monish Patolawala

Yes, Jeff, as we said, I think the timing of the spin will definitely determine some of these costs. And I would just say let us work through it. As we get closer to it, Bryan and the team will walk you through as they get closer to getting ready for the spin.

And as committed, we are going to have an Investor Day post-spin while we'll walk you through all the factors that you have to take into account, which is not only post 3M, what does that revenue and margin look like, but also the impact of transition services agreements because they will be transition services agreements for a period of time and then the amount of stranded costs.

The good news, Jeff, is that through all the restructuring actions that we have done, to some extent, we have been able to reduce the amount of stranded cost that would have been there if we hadn't taken these actions to reduce some of the cost at the center.

Jeffrey Sprague

And then unrelated, just on Slide 3. Have you definitively decided to use the $1 billion equity option to fund part of Combat Arms?

Monish Patolawala

Have we decided, I'm sorry?

Jeffrey Sprague

Have you decided to go ahead and use the equity option of $1 billion for the Combat Arms?

Monish Patolawala

No, we have not, Jeff. That's an option we hold, and we will make the appropriate decision once we see the progress in the number of opt-ins for the Combat Arms litigation.

Bruce Jermeland

Yes, Jeff, the purpose of our statement is, so you guys can think about your outstanding share count that if we do exercise that option to pay in equity that, that will be treated as an excludes item in arriving at adjusted results.

So that was only just to highlight, Don't worry about the impact it is at our option. That is yet to be determined, but you don't have to take that into account relative to your share count on an adjusted basis.

Jeffrey Sprague

But it sounds like you then will be planning to use an adjusted share count if you go down this path, right? So we're kind of compounding adjustments on top of adjustments, it sounds like.

Bruce Jermeland

There would be a difference in GAAP shares outstanding versus adjusted shares outstanding if we decide to exercise this option to issue equity. Yes, we'll make it clear in our financial reporting if that were to incur.

Deane Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst

Just had a couple of questions on some of the outliers in the fourth quarter results. And hopefully, I didn't miss this. For transportation, electronics, significant upside on the top line. I saw that you have an adjusted flat organic revenue growth.

So what were those adjustments that were to the good? And then on the corporate line, and it's one, to a significant benefit. Just give us a sense of what those adjustments were that would have caused that? And maybe you answered that question with Julian, but I just wanted to get those clarified, please.

Mike Roman

Yes, Deane, I think what you're looking at is the adjustment for PFAS, the exit of PFAS. If you recall, we're excluding the PFAS-related -- the PFAS manufacturing and related business as we report. And that was part -- the primary business for that was transportation and electronics. So that's where you saw that, maybe that adjustment.

Deane Dray

That's helpful. And how about the corporate line?

Monish Patolawala

Yes. So as with previous years, Deane, there are a number of miscellaneous items at corporate and unallocated that are subject to fluctuation on a quarterly and annual basis. So if you answer specifically your question, if you look at for the year, corporate and unallocated was $44 million and on a -- and in the fourth quarter, it was a benefit of $121 million. The Q4 benefit was largely the result of annual incentive compensation accrual for the first 9 months that has now been allocated back to the business segments based on final performance.

This adjustment had no impact to total company margins because it's a move from corporate and unallocated to the business segments. And then for the full year 2024, we expect the expense range to be in the range of $100 million to $200 million on an adjusted basis.

Deane Dray

Great. I appreciate that. And just one last follow-up for me, Mike. You talked about the goals for '24 related to PFAS to advance the ramp down. Would there -- from what you see today, would there be any circumstances where 3M would continue to produce PFAS after 2025? Or is this just a nonnegotiable? And will you dismantle the equipment? Or can it be repurposed?

Mike Roman

Yes, Deane, we're committed to that what we announced to exit PFAS manufacturing by the end of 2025. And as I said, we're making good progress to that. We're working to help customers transition. We will -- I think we talked about this on one of our earnings calls, we will not sell the equipment, we won't transfer any of the assets. We won't sell the business. We won't license our intellectual property. So we are going to exit and complete by the end of 2025. That's everybody's focused on that goal.

Mike Roman

To wrap up, we are executing our priorities and delivering on our commitments. We will stay focused on continuing to improve our performance, optimize our portfolio and reduce risk while using 3M science to create unique solutions for our customers. Thank you for joining us.