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# EDITED TRANSCRIPT

MMM.N - Q1 2026 3M Co Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Chinmay Trivedi** 3M Co - Senior Vice President, Investor Relations and Financial Planning and Analysis

**William Brown** 3M Co - Chairman of the Board, Chief Executive Officer

**Anurag Maheshwari** 3M Co - Chief Financial Officer, Executive Vice President

## CONFERENCE CALL PARTICIPANTS

**Jeffrey Sprague** Vertical Research Partners LLC - Analyst

**Scott Davis** Melius Research LLC - Analyst

**Julian Mitchell** Barclays Services Corp - Analyst

**Joseph O'Dea** Wells Fargo Securities LLC - Analyst

**Andrew Obin** Bofa Merrill Lynch Asset Holdings Inc - Analyst

**Andrew Kaplowitz** Citibank Cameroon SA (Douala Branch) - Analyst

**Chigusa Katoku** JPMorgan Chase & Co - Analyst

**Nigel Coe** Wolfe Research LLC - Analyst

**Christopher Snyder** Morgan Stanley - Analyst

**Deane Dray** RBC Capital Markets Inc - Analyst

**Nicole DeBlase** Deutsche Bank AG - Analyst

**Laurence Alexander** Jefferies LLC - Analyst

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M first-quarter earnings conference call. (Operator Instructions) As a reminder, this call is being recorded, Tuesday, April 21, 2026. I would now like to turn the call over to Chinmay Trivedi, Senior Vice President of Investor Relations and Financial Planning and Analysis at 3M.

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### Chinmay Trivedi - 3M Co - Senior Vice President, Investor Relations and Financial Planning and Analysis

Thank you. Good morning, everyone, and welcome to our first-quarter earnings conference call. With me today are Bill Brown, 3M's Chairman and Chief Executive Officer; and Anurag Maheshwari, our Chief Financial Officer. Bill and Anurag 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 homepage of our Investor Relations website at 3m.com. Please turn to slide 2 and take a moment to read the forward-looking statements.

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-K lists some of these most important risk factors that could cause actual results to differ from our predictions.

Please note, throughout today's presentation, we'll 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.

With that, please turn to slide 3, and I will hand the call off to Bill. Bill?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Thank you, Chinmay, and good morning, everyone. We delivered solid operating performance in Q1 with earnings per share of \$2.14, up mid-teens versus last year. Operating margin increased 30 basis points to 23.8%, and free cash flow was over \$500 million, up double digits.

During the quarter, we returned \$2.4 billion to shareholders, including \$400 million in dividends and \$2 billion of share repurchases. We had a light start to the year on the top line with organic growth of 1.2%, driven by pockets of macro pressure, but we saw encouraging order trends that support our outlook for acceleration in the balance of the year. Looking forward, we remain confident in achieving our full-year 2026 guidance despite the volatile environment.

Our performance reflects strong execution on productivity, cost discipline, and commercial rigor. We're building a stronger foundation based on commercial, innovation, and operational excellence, underpinned by a relentless focus on strengthening our performance culture.

In commercial excellence, we're seeing benefits from improved sales effectiveness and lower customer attrition, and we continue to make progress on cross-selling opportunities. To date, we've closed on approximately \$80 million of new business against the three-year, \$100 million target we laid out at Investor Day with a pipeline of \$85 million of additional cross-sell opportunities.

We've introduced AI tools to drive growth, reduce churn, and automate manual work, including an agent that analyzes our sales and opportunity pipeline data to develop customized coaching plans for sales managers to help reps meet their targets. And we believe digital tools like Ask 3M, a new AI-powered digital assistant that helps customers find solutions to design challenges using 3M products, will allow us to reach a broader population of customers.

Our pace of new product introductions is accelerating with better on-time performance, reduced cycle times, and clear governance and accountability across R&D. We launched 84 new products in Q1, up 35% versus last year, and we're on pace to launch 350 in 2026. This will put us ahead of our Investor Day target to launch 1,000 new products through 2027. We've maintained OTIF service levels above 90%, while at the same time, reduced inventory by three days and delivery lead time by 25%, improving our competitiveness with customers.

OEE improved over 100 basis points year-on-year as we optimize asset run length, run time, and changeovers, creating a stronger foundation for sustained productivity and fixed cost leverage. And cost of poor quality decreased by approximately 100 basis points versus Q1 last year, driven by more structured root cause analysis, significantly increased Kaizen activity, and tighter process controls.

What matters is that these are not isolated wins. They collectively reflect greater execution discipline and constancy of purpose, and that consistency and momentum gives us confidence that we can meet or exceed the medium-term goals we outlined at our Investor Day last year, even in an uncertain macro environment.

While we continue to strengthen our foundation and shift from a holding company to an operating company model, we're beginning a broad-based transformation of the company, simplifying and standardizing processes, reducing complexity, reshaping our portfolio, and improving resilience and predictability.

We see substantial opportunities to streamline operations and consolidate facilities. The transformation includes both deliberate footprint actions as well as targeted investments in manufacturing and process technology. For example, transitioning from solvent to solvent-free coating, which brings cost, capital, and environmental benefits.

Earlier this month, we closed on the previously announced sale of our Precision Grinding and Finishing business within SIBG, which reduced our footprint by seven factories and we closed one factory and announced three other full or partial closures, bringing our total projected manufacturing site count to below 100.

At the same time, we're investing more than \$250 million over the next three years in standard, easy to replicate automation across our plants and distribution centers. By automating material handling in our warehouses, replacing manual slitters with automated systems, and automating our current manual visual inspection processes, we are improving safety, reducing labor costs, increasing yield, and putting ourselves in a better position to support demand as volumes recover.

To illustrate the opportunity, we have 7,000 material handlers and over 600 operators performing manual visual inspections across our network, and about 500 manual slitters. When we automated the slitting operation at our Nevada facility late last year, we achieved a 30% increase in square yards per hour productivity. Over time, this transformation will allow us to accelerate towards a structurally higher growth, higher margin potential portfolio of priority verticals.

Slide 4 provides a more detailed view of growth and orders by end market. When you look across our portfolio, roughly 60% of our businesses showed relative strength in Q1, including general industrial and safety. Importantly, we also saw strong orders in these markets, which gives us visibility and reinforces that the demand environment in these verticals remains healthy. At the same time, we experienced macro and industry-driven softness in about 40% of the portfolio that we've been highlighting as watch areas.

In electronics, we delivered flat year-over-year growth in Q1 versus mid-single digits last year. Our performance in semiconductor and data centers was very strong, while consumer electronics was soft due to industry-wide memory chip issues, which is impacting demand. Electronics orders were up double digits due to significant activity in semis and data centers, which will convert to revenue in Q2 and the second half.

In automotive, the market was soft as expected in the first quarter. Global IHS build rates were down about 3% overall, and 10% in China, which pressured volumes. And in Consumer, we continue to see soft US consumer discretionary spending with a few pockets of strength in categories with recent new product introductions. POS trends in the US improved over the course of the quarter and were positive in seven of the last eight weeks, providing some encouragement heading into Q2.

Overall, orders were up slightly over 10% in Q1 and backlog grew double digits, both sequentially and year-over-year, giving us momentum into Q2. This strength reflects the combined impact of our new product introductions, continued progress in commercial excellence, and orders for longer lead time products, with some additional benefit from pre-buying ahead of recent price actions. It's encouraging to see order strength continue into the first few weeks of April.

Turning to slide 5. As part of our ongoing focus on portfolio shaping, last month, we announced the acquisition of Madison Fire & Rescue, which will be combined with our Scott Safety business to create a leading global fire and safety business. The combination of Scott Safety's premium, self-contained breathing apparatus with Madison Fire & Rescue's premier portfolio in rescue technology and fire suppression creates an \$800 million revenue business growing at a high single-digit growth rate.

This strategic transaction broadens our Safety portfolio, one of our priority verticals by expanding our market reach and building scale for future growth. It positions us to maintain above-market growth, enhance margins, and drive strong free cash flow generation.

I also want to highlight our growing data center and associated power utility business with current revenue of approximately \$600 million, \$100 million inside the data center and about \$500 million bringing power to the facility. This is a priority vertical space where we are introducing new products like EBO or Expanded Beam Optics, a high-performance optical connector engineered to improve installation speed, reliability, and operational efficiency within data centers. EBO builds on our existing TwinAx copper connector for high-speed data transmission and positions us well for the copper to fiber transition underway.

With hyperscaler validation, a significant order in hand, and a \$1 billion-plus addressable market, we're investing to more than double our capacity to support growing AI demand. We see additional opportunities here as demand expands to ceramics, silicon photonics, and on-chip optical connectors. We have strong IP to support this evolving market and a clear road map to develop new products that further drive growth.

Overall, I'm pleased with our progress this quarter, encouraged by the pace, op tempo, and executional rigor of the 3M team. We're on a multiyear journey and progress won't be linear, but we're building the capability to execute consistently, to innovate with purpose, and to allocate resources toward the parts of the portfolio that deliver the most value. I'm grateful to the 3M team for their commitment, hard work, and focus as we deliver progress every day.

With that, I'll turn it over to Anurag to share the details of the quarter. Anurag?

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Thank you, Bill. Turning to slide 6. We had a good start to the year, performing ahead of expectations on orders, margins, earnings, and cash. Starting with top line, we delivered organic sales growth of 1.2%. SIBG showed continued momentum and grew over 3%, slightly better than expectations.

TEBG was flat, lighter than expectations due to ongoing weakness in certain end markets like consumer electronics and auto as well as late timing of order intake within the quarter. In CBG, we did not see the expected recovery in the US consumer market, resulting in organic sales down 1%.

Notably, we saw significant strength in orders this quarter driven by progress on commercial excellence and NPI. Overall, orders grew slightly more than 10%, with SIBG and TEBG growing mid-teens, driven by industrial, safety, data center, semiconductor, and aerospace. The order momentum accelerated through the quarter, resulting in backlog growth of 20% over last year and 35% sequentially, positioning us well for the second quarter.

First-quarter adjusted operating margins were 23.8%, up 30 basis points year-on-year, driven by strong volume and broad-based productivity, which more than offset approximately \$145 million of tariff impact, stranded costs, and investments. Operating income from the three business groups was up \$85 million with 60 basis points of margin expansion, driven by supply chain productivity, including improvements in cost of quality and procurement and logistics, and continued focus on structural G&A reduction.

Corporate was a 30-basis-point headwind from planned wind down of Solventum transition services agreements. Our sustained operational performance of driving growth and productivity led to EPS improvement of \$0.26 or 14% to \$2.14. In addition, we benefited from lower share count, timing of tax benefit and FX offsetting tariffs, stranded costs, and investments.

Adjusted free cash flow was \$540 million in the quarter or up 10% from strong earnings growth and improvement in inventory, a decrease of three days while maintaining service levels of greater than 90%. In addition, we returned \$2.4 billion to shareholders in the first quarter, including approximately \$400 million in dividends, reflecting a 7% increase per share and \$2 billion through opportunistic share repurchases.

Turning to slide 7. I will provide an overview of our business group performance for the first quarter. First, Safety and Industrial had another quarter of 3%-plus growth as we continue to gain traction on commercial excellence initiatives and realized benefits from new product launches. We delivered mid-single-digit growth across industrial adhesives and tapes, safety, electrical markets, and abrasive systems, driven by continued share gains from new product introductions and targeted commercial initiatives to reduce customer churn, strengthen sales coverage, and increase cross-selling.

Collectively, this growth more than offset continued weakness in roofing granules as the housing market and consumer sentiment remains soft. Even though auto repair claims were down mid-single digits, it was encouraging to see our auto aftermarket business be flat to slightly up after a couple of years of decline from good execution of the key account strategy.

Turning to Transportation and Electronics. While growth was flat, orders were up low teens, accelerating through the quarter, resulting in backlog up about 30%. Approximately half of the business delivered mid-single digits growth, including double-digit growth in semiconductor and data center, driven by continued market demand and ramp-up of EBO that Bill referenced earlier.

In addition, we saw growth in aerospace and commercial branding from better sales effectiveness. This was offset by the other half of the business, which is exposed to consumer electronics and auto where the market was down.

Finally, Consumer first quarter organic sales were down 1%, driven by weakness in USAC as we did not see the expected pickup in retail traffic in the early part of the quarter. We did see pockets of strength. Scotch-Brite grew approximately 10% on the back of new product launches. We also saw good traction in international markets, especially in China and Asia, but it was not enough to offset the impact of USAC, which makes up a majority of the CBG revenue.

By geography, in China, we again grew mid-single digits despite soft auto and consumer electronics end market, as we executed on our key account strategy and launched local NPIs in a relatively strong industrial market. USAC was up slightly with mid-single-digit growth in industrials being offset by softness in Electronics and Consumer. Asia had another quarter of good growth with India in the high teens as we drove higher sales coverage across the country. EMEA was down about 1% due to market weakness in auto.

Moving to slide 8. Though the macro remains uncertain, given our good performance in the first quarter, we are reiterating our guidance for the year. Organic sales growth of approximately 3%, earnings per share ranging from \$8.50 to \$8.70, and free cash flow conversion of greater than 100%. For sales, the strong backlog combined with continued strength in orders in the first three weeks of April gives us confidence that all three business groups will accelerate growth in the second quarter and through the balance of the year.

On margins, we had a solid start with the three business groups growing 60 basis points despite 100 basis points year-on-year tariff impact. As we lapped tariff pressure in the second half, the continued momentum on productivity and volume acceleration gives us confidence in our expectation of approximately 100 basis points margin expansion for business groups this year.

On non-operational, we expect positive trends driven by a \$2 billion share repurchase in the first quarter and lower net interest expense. Overall, we are maintaining our EPS guidance, which includes a contingency, and we will go through the components of the earnings bridge on the next slide.

Given the strong earnings growth and good progress on working capital, particularly inventory and continued CapEx efficiency, we believe our free cash flow will be more than \$4.5 billion for the year and greater than 100% conversion.

Slide 9 shows the trend of key earning elements and the current guidance. We are trending \$0.05 to \$0.15 higher on earnings from momentum on productivity and lower share count and interest expense. We are facing higher input costs due to the recent increase in oil price, but have implemented targeted price increases to mitigate the impact at the current levels.

Given that we are early in the year and we are operating in a volatile macro environment, we think it is prudent to keep a contingency until we have more clarity about the rest of the year. Overall, we are moving with determined pace, and we'll continue to calibrate as the year progresses.

Regarding cadence, we expect sales growth to accelerate in Q2 and the back half of the year. Backlog conversion and continued order strength is expected to support growth momentum in both SIBG and TEBG in the second quarter. We anticipate consumer to improve as point of sale is on an upward trend resulting in normalized inventory levels. On EPS, given the contingencies for the second half, we expect the first half EPS to be higher than the second half.

Our 2026 financial outlook puts us on pace to exceed our medium-term financial commitments that we laid out during Investor Day around growth, margin, and cash. And on capital allocation, we have already returned over \$7 billion of the \$10 billion shareholder returns that we had committed to.

Before we open the call for questions, I want to take a minute to thank the team for a strong start to the year and being proactive in this environment to mitigate risk and control the controllable, and for their commitment to strengthen the foundation and drive profitable growth.

With that, let's open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Jeff Sprague, Vertical Research.

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### Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Bill or Anurag, just trying to dig into the order commentary a little bit more. Maybe you could give us a little more perspective on the pre-buy, the size of it, if you could? And I guess the prebuy would imply getting ahead of price increases and the like. So maybe a little bit of color on how much additional price is now embedded in your organic growth forecast?

And just also on these backlog numbers, obviously, the delta sound great, but it's not really a backlog business. So the question is it law of small numbers on those deltas? Or is there actually significant visibility that you can anchor to as you look into Q2?

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### William Brown - 3M Co - Chairman of the Board, Chief Executive Officer

Jeff, thank you for the question. I'll start and maybe I'll pass on to Anurag on the backlog point. As we said, we had very good orders in the first quarter, up double digits, which was very good. And you're right, we're not really a backlog-driven business, but backlog was very strong coming out of Q1 and continues to build into Q2.

Over the course of the quarter, we saw good order growth in January and February, up mid-single digits, but it accelerated quite a bit in the month of March. So it would be well over the double-digit number that we ascribed for the whole quarter. And it continues into April, which I think is very encouraging.

Now how much is price, I mean the reality is we do a price increase every year on April 1. So it's hard to discern how much was a prebuy. We think there's some of it. We've signaled to investors -- to customers rather, that we're going ahead with a price increase on top of what we went out with April 1, associated with the price of oil coming up. So that could cause a little bit of pre-buy, if you will. But again, it's hard to discern exactly how much would that be.

You asked about price for the year. For the year, we had guided before at about 80 basis points. We came in a little bit below that in Q1. We still see -- outside of oil-based increases around 80 basis points, but when you add in oil and the expected price increase from oil, it could be around an extra 50 basis points is what we're thinking at the moment. So price for the year around 1.3 points.

I don't know, Anurag, maybe share a little bit about the backlog.

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### Anurag Maheshwari - 3M Co - Chief Financial Officer, Executive Vice President

Yeah. Thanks there, Bill. You are right that we are largely a book and ship business. We have about 75% of our revenue in a quarter comes from book and ship, but we do get backlog coverage as we enter the quarter.

With the numbers that we mentioned, which was about 35% up sequentially to 20% year-over-year, provides us about 400, 500 basis points of additional coverage as we enter into the quarter, which is not insignificant given the growth acceleration that we expect from Q1 and Q2. So I think it's really good to see that we are starting with a very good backlog coverage for the quarter.

Combined with the order momentum that Bill spoke about in the first three weeks of April, it gives us really confidence for acceleration of growth through the through second quarter. And typically, we do not talk about orders and sales because of the book and ship because they converge together.

But this time, you could see the big spike. And as Bill mentioned, part of it could be the pre-buy, but a lot of it is commercial excellence, NPI, and other initiatives that we are driving, which resulted in order acceleration.

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**Jeffrey Sprague** - *Vertical Research Partners LLC - Analyst*

Great. And then maybe just a quick follow-up then. Just a comment about then accelerating into the remainder of the year. By that, do you mean each quarter will be a faster growth quarter than the one that preceded it, even though the comps are getting tougher in the back half of the year?

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

Yeah, we see Q2 being better than Q1. And we see the second half being better than the first half is the way we're currently looking at it, Jeff.

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**Operator**

Scott Davis, Melius Research.

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**Scott Davis** - *Melius Research LLC - Analyst*

Just to follow up on Jeff's question. Are customer inventories low and there's a little bit of a restock occurring? Or are they balanced? How do you guys see that element right now?

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

So we track it pretty carefully. On the Safety and Industrial business group, the distribution inventory is relatively normal, I'd say, maybe a tick below what we typically would see. We would typically see 65, 70 days, and it's a bit below that.

On the Consumer side, it's about normalized from where we were last year, around 13 weeks of supply. Coming into the year was a bit higher, maybe 13.5, but right now, we're around 13. So on the Consumer side, fairly normal. On the Safety and Industrial side, I'd say normal to maybe a bit light in the channel.

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**Scott Davis** - *Melius Research LLC - Analyst*

Okay. Helpful. Hey, I think you mentioned your factory footprint is down like 10%. Is there another 10%? I mean how do you guys think of where the endpoint on that journey is?

**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

So it's -- we're going to keep talking about this with investors as we go forward. I mean, at the end of last year, with 108, we sold and closed on PG&F, the Precision Grinding business, which was seven factories scattered across Europe, one in Asia, a couple in the US. So it was not a large business, but a big factory footprint.

So that brought down by seven. We closed one in the first quarter. We announced a couple of others. So that will close over the course of this year into next year. So that puts us below 100. The number will be below where we happen to be today. We'll continue to look at that and size it for investors as we go. But clearly, the footprint just under 100 is bigger than we really need today.

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**Operator**

Julian Mitchell, Barclays.

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**Julian Mitchell** - Barclays Services Corp - Analyst

Just wanted to start maybe if you could give any color around the second quarter dynamics in a bit more detail? Understand the organic sales growth accelerates year-on-year from the 1% in Q1. Also, I think Anurag, you said first half EPS more than second half because of the contingency. So I just want to gauge how much sequentially or year-on-year EPS should grow in Q2? And what's the margin embedded in that guide would be?

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Sure, Julian. Let me answer those questions. So first, just on the revenue growth. As we mentioned, because of the good backlog and the order momentum, we expect organic growth in the second quarter to be higher than 3%, with all the three BGs accelerating.

SIBG, which was at 3.2%, obviously going higher than that. TEBG, low single digit. And CBG flat to positive. So that's the expectation of the revenue growth acceleration.

Obviously, that's going to come with high flow-throughs. We're going to continue with the productivity that we did in the first quarter will continue to the second quarter. And between volume and productivity, we'll offset all the last quarter of the tariff year-over-year impact for us, a pickup in stranded costs and investments. So you will see operationally for us, it's going to be a solid margin, about 24.5%, and good EPS flow-through coming from that.

On below the line, we will see a couple of pennies of headwinds relative to last year. Last year, in the second quarter, we had a divestment of an investment that we had in India, which was about \$0.08 to \$0.10. Then you see a little bit of tax, which was favorable in Q1 coming back in Q2. So those are two headwinds.

Of course, they will be offset by the share buyback, which we did in the first quarter, which is going to help us in the second quarter, plus a little bit on the non-op pension side. So you put all of that together, we should grow more than \$0.05 in the second quarter, which for the first half, would put us at about \$0.30-plus of EPS growth, which is more than half if you include the contingency for the full year.

Now the contingency, as I mentioned, we kept it for the second half of the year depending on how things evolve. If we continue performing the way we do, revenue grows over 3% in the second quarter, which is a good exit rate as we enter into the second half. And if it continues at that a little bit better with good volume flow through, no tariff headwind, the margins in the second half could be much higher than the first half. Yeah.

**Julian Mitchell** - *Barclays Services Corp - Analyst*

I appreciate all the color. Just one very quick follow-up. That was very thorough. Maybe on the pre-buy dynamics, credit for calling that out, but trying to understand what you're assuming for how much that reverses because you've got organic sales growth accelerating in Q2. We have maybe some -- I don't know if a prebuy is helping that or the unwind hurts that. Maybe flesh out that prebuy dynamic over the balance of the year.

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

So Julian, I mean, we -- it's hard to discern exactly how much is pre-buy. I mean we get orders coming in, it's quite strong. But we are seeing much better traction on new product introductions, a lot of momentum building on commercial excellence. And keep in mind, part of what was driving Q1 growth, including into early April are some longer lead products that will go into semis, more importantly, in data centers, delivering in Q2 in the back end of the year.

So you have all these factors in there. I think when I step back and look at the full year, as we said, we'll see acceleration into Q2 and then in the back half. And all these pieces come together. And any pre-buy that's happened will wash out in Q2, but we do see acceleration in the back half on the back of really core operating fundamentals around NPI and commercial excellence.

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**Operator**

Joe O'Dea, Wells Fargo.

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**Joseph O'Dea** - *Wells Fargo Securities LLC - Analyst*

On the \$0.05 to \$0.15 of contingency tied to oil macro uncertainty, can you just outline roughly how you think about the split on the demand side versus the cost side of that and your planning assumptions? And then really looking for any color on the oil exposure across the business and where you're thinking about that contingency could flow through if you need to use it?

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**Anurag Maheshwari** - *3M Co - Chief Financial Officer, Executive Vice President*

Okay. Let me start with the contingency, and then I'll -- and then Bill, you can add from there on. On the \$0.05 to \$0.15 of contingency that we kept, it's actually across the two buckets that you mentioned around here. As I mentioned, in the second quarter, we'll be above 3%. We expect -- which is a good exit rate as we go into the second half.

So if there is a little bit of an impact on the volume piece because of macro, which we are not currently seeing right now or a little bit of the input cost that goes up. So I guess it gets spread between the two, Joe, to be honest. Our objective right now is to continue driving what we control on the NPI, commercial excellence, continue to outperform the macro and drive more productivity so that we don't have to use the contingency in the second half.

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

And Joe, on the oil price, the way we look at it is really two pieces. One is on the supply side. The other is demand. And on the supply side, we have about 45% of our cost of goods is raw materials and about a third of that -- so it's about \$6 billion of raw material spend, and about a third of that is its basis in poly chem. So it's ethylenes, it's propylenes, esters, acrylates, all those various things.

And we are seeing some upward cost pressure on that. What we've seen so far and expect is about \$125 million of cost increase there, which are offsetting into pricing. As I mentioned earlier on that we expect about a 50-basis-point uplift on price coming from that oil-based exposure.

How that affects the overall macro economy, what's going to happen with consumer spending, auto? I mean that's still all unfolding as we speak and depending upon what happens in the Middle East, but that's our current assumption as we speak today.

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**Joseph O'Dea** - Wells Fargo Securities LLC - Analyst

Got it. And then just on the transportation electronics commercial excellence program, can you talk about where you are on that trajectory? I think you started to see traction in SIBG last year, and that continues, but just the efforts that are underway. And as we think about the growth acceleration, just any quantification of how you're thinking about commercial excellence contributing to better T&E growth as you move through the year?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Yeah. So it's a good question. I mean, they're doing a great job on this. They're following right behind what we've done in SIBG, which has been very, very successful. I'm very pleased with the traction on the sales force, on pricing discipline, on cross-selling, on churn reduction, and looking very hard at attrition with the predictive AI models that we have in place.

And the team at TEBG is doing the same sorts of things. I think the cross-sell opportunity is not going to be as robust, but they move very aggressively on improving on the sales force and better incentives, better targeting, more close won targets. They're tracking attrition rates, which I think is very good. They have the same predictive models tailored for TEBG into that business.

So they're making good progress. It's going to roll out over the balance of the year. One of the key things we're focused on is making sure we have the right mix and focus of our sales reps versus application engineers. Are they -- do we have the right mix between the two? And are they calling at the right level in the customer?

For example, in automotive at the OE versus the tiers, so it's a little bit different than what we see in SIBG, but they're working it pretty hard. And I think you're going to see in the back end of the year, certainly, improvements in TEBG coming from a lot of that commercial excellence work.

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**Operator**

Andrew Obin, Bank of America.

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**Andrew Obin** - Bofa Merrill Lynch Asset Holdings Inc - Analyst

So on the Transportation and Electronics, to just to dig in a little bit further, also double-digit orders. So it seems like we -- a lot of questions into the quarter about weakness in consumer electronics. So does that mean that we are offsetting consumer electronics into the second half?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Yes, Andrew, it's exactly what's happened and will happen. In fact, when you -- again, when you discern with TEBG, just in Q1, I mean they were flattish, but half of the business was up mid-single digits and half of the business was down mid-single digits. And you can really isolate that in the two areas, which is auto, auto OE and commercial vehicles, and consumer electronics.

So we show in our slides that electronics as a whole is flattish. What you see there is you see very strong semiconductor data center business offsetting a weaker consumer electronics business. As we look at the balance of the year, we see electronics start to get modestly positive. Again, I think CE or consumer electronics may soften a little bit, but we are seeing better trajectory and growth in the data center and the semiconductor business.

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**Andrew Obin** - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And Bill, just to follow up on that. At CES, you showcased some pivot in strategy on consumer electronics. You've also talked to your analyst -- your first Analyst Day about the need to rebuild the R&D pipeline, particularly on the electronics side. Can you just talk about how these two internal initiatives impacting your growth and the growth trajectory over the next 12 months, let's say?

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

Yeah, that's a great question. I mean, we're putting a lot of time and effort into making sure we have good new product introductions in consumer electronics, both for the premium segment as well as for the mainstream segment. Wendy has been talking about this quite a bit. We are seeing good traction here.

Unfortunately, the market isn't cooperating with us. We do see a greater downturn in LCD, which is where our strength happens to be. But we do see a lot of innovation in this space. We are gaining some share modestly in the mainstream side.

When you look at content per device, three or four China OEMs have increased their content per device in the first quarter and the fourth one, we saw a pretty good order for us. So I think we're making some progress here. And this comes on the back of a lot of the NPI work that's happened in TEBG, and there's more to come.

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**Operator**

Andy Kaplowitz, Citigroup.

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**Andrew Kaplowitz** - *Citibank Cameroon SA (Douala Branch) - Analyst*

So can you give us some more color into what you're seeing in Consumer? I know you talked about share gain actions in Consumer. So maybe you can elaborate on what you're doing there? And how much discounting do you have to do to get there? And should Consumer contribute to your margin performance this year? Or could Consumer margin continue to be pressured a bit over the year?

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

So look, I'm pleased with what's happening in Consumer. The market for us, we're 70% US, so it's really focused on the US consumer. We sell a discretionary product. As Anurag mentioned, we had a couple of pockets of strength in the year from new product introductions. I think the team has really gotten back to basics, focusing on priority brands and started to innovate again.

The reality is we went for a lot of years without a lot of new product introductions, a lot of Class 3, so they're incremental, some are Class 4, but really starting to be more aggressive on new product introductions. And I think we're holding our own and in fact, starting to gain back shelf space because we have new product coming into the marketplace.

Yeah, it's not a segment that we see upward movement on pricing. We're trying to contain the discounting that happens to be here. Again, the market is a little bit soft. For the year, we expect to see some growth. It will be positive. It won't be a meaningful driver of the overall 3M growth in the year.

But again, we're down 1.3 in Q1, down a little bit more than that in Q4. We were up modestly for the first nine months of last year at 0.3 points. So I mean, they're hanging right around flat to up a little bit. And when the consumer starts to spend more, we'll have the right products with good innovation, great commercial excellence efforts there, and we'll see that business to return to growth.

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**Andrew Kaplowitz** - Citibank Cameroon SA (Douala Branch) - Analyst

Helpful. Then Bill, maybe just a little more thoughts about portfolio management. You obviously opted for a JV structure with the purchase of Madison, despite seemingly leaning into safety as one of your priorities. So maybe a little more color on why you chose the JV structure there?

And then stepping back, can you give us an update on how you're thinking about overall 3M portfolio? I think you've said in the past 2% or 3% of your portfolio is actionable in terms of divestitures, 10% is commodity, like is that still the right numbers of the company?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Yeah. So look, I'm really pleased with the structure and the conclusion of this Madison, Scott SCBA joint venture. We're a 51% owner. It's going to be consolidated. It's a strategic bolt-on acquisition and what you just referred to as a priority vertical, it is. It does strengthen our SCBA business. It's a great brand.

We have been innovating in this space. We talked last year about some new innovations coming on to the marketplace. This also creates some scale by putting this business together for future organic and inorganic opportunities.

Madison and all of its fire and rescue products have been performing very well. They bring a terrific management team. They're growing double digits. The margins are coming up. So it's -- I think it's a great combination in a space that we like quite a bit.

Bain Capital is our partner on this. They're 49%. We know them well. They are very good at post-merger integration. They bring a lot of operating rigor and good expertise on driving incremental M&A while we focus on other areas around the company.

So when you put all that together, I think it's a strategic opportunity for us. It gives some optionality for, do we pull it back or do we suit something else over time? But the reality is it's a terrific deal. It is going to be accretive to our growth, margins, earnings over time. So I feel pretty good about that particular deal.

We closed on PG&F, the Precision Grinding business on April 1. It wasn't very big, but businesses that don't perform sometimes can be difficult to transact on. But I'm very, very pleased that that one got over the line. We continue to look at the rest of the portfolio. Yeah, around 10% of our business is more commodity like.

We don't have a clear right to win, not a lot of technology differentiation. We said 2% to 3% was in flight, PG&F was part of that. We continue to evaluate this, and we'll talk to investors as we go on what that shaping happens to be. But the reality the investors should see the transaction on Madison with Scott is an important strategic signal for investors around the things that we want to do to reshape our portfolio to be higher -- structurally higher growth and higher margin potential.

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**Operator**

Chigusa Katoku, JPMorgan.

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**Chigusa Katoku** - *JPMorgan Chase & Co - Analyst*

First, can you maybe recalibrate us on the outlook for US IP and electronics you're embedding and your assumptions for the full year? I think it was US IP flat, and electronics up mid-single digit last quarter.

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

Sorry, Chigusa. You're talking about IPI, the macro?

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**Chigusa Katoku** - *JPMorgan Chase & Co - Analyst*

Yeah, the US IPI.

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**William Brown** - *3M Co - Chairman of the Board, Chief Executive Officer*

Okay. So well, thanks for the question. And I guess, congratulations on the role. Welcome to the call. So just in terms of the macro, as we came into Q1, we saw some of the similar trends we saw in '25 continue. So maybe a couple of comments relative to where we were in January.

The global IPI is still around 2%. It's not moved around very much. USAC or US is up a little bit better. EMEA is down a little bit. China is still mid-single digits. And interestingly, those trends are exactly what we saw in our business through Q1. So US up a little bit, Europe down a little bit, China mid-single digits. So it's pretty much aligned with that.

GDP is still in that same 2.5% range. Auto builds are still floating around between flat to down 1%. It's really early in the year. I think that tends to be more of a backward-looking indicator. But right now, it's flat to down a little bit. US retail is flattish.

The place that we're watching a little bit is consumer electronics where the outlook is for a little bit more softness as we get into the back end of the year. But overall, the macro is trending about where we saw it in January and through last year.

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**Chigusa Katoku** - *JPMorgan Chase & Co - Analyst*

Okay. Great. And then on this contingency, I was just wondering what it would take for you to remove this? I think it's prudent that you're including in guidance, but you've been seeing good order trends, you're operationally raising guidance by about \$0.025. And without this contingency, it would have been a \$0.10 raise. So what would it take for this to be removed?

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**Anurag Maheshwari** - *3M Co - Chief Financial Officer, Executive Vice President*

Yeah. Thank you for the question, Chigusa. Listen, we'll probably give you an update in our next earnings call on that. As we go through the next couple of months, we're pretty confident with the backlog and order momentum on the Q2 revenue. We'll see how that plays out.

As well as we have executed -- we have a very good playbook on -- which we adopted from the tariffs last year in terms of working with the customers and pushing out the price increases over there. So that's an area we will monitor on the yield over there over the next couple of months plus and see where oils are at which levels they are after a few months. And if we continue performing the way we did in Q1, both on the productivity as well as in operational excellence, then come July, we will give you an update on where we stand for the full year.

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**Operator**

Nigel Coe, Wolfe Research.

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**Nigel Coe - Wolfe Research LLC - Analyst**

We covered most of the topics. So I just wanted to -- a couple of quick follow-ons. Just going back to the pre-buy comments, just trying to understand why you think there may have been a pre-buy? Is it because you're trying to rationalize the strong orders? Or is there something else that you're hearing from customers? So just maybe cover that.

And then on the 50 basis points of additional price, is that in the form of a surcharge? It certainly seems like it's in the surcharge, so that rolls back if oil comes down. And would that hit in 2Q? Or is that more in the back half of the year?

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**William Brown - 3M Co - Chairman of the Board, Chief Executive Officer**

So really, Nigel, thanks for the questions. Look, it's hard to avoid the fact that we're pushing pricing a little bit more aggressively. We know there's an inflationary environment. We know price oil is going to go up. We know the impact on our company. We know perhaps what we did four, five years ago, maybe not moved as quickly on pricing when oil came up, which we're correcting for that. I think we're being a lot more attuned to what's going on in the macro.

And we're enforcing it better. If a shipment goes out beyond a date, that shipment will have a price increase associated with it. I think the customers have seen that and heard that. And then when you put all that together, it gives us a sense that perhaps there's some advanced buying from these price increases that are going out.

So again, we'll know more in the next month, six weeks, how much of that might be prebuy, simply because we'll watch the orders through the balance of the year into the balance of the quarter and into May. So that's basically how we're thinking about the prebuy here at the moment.

On pricing, we do see right now about \$125 million worth of cost impact, which we've been relating to pricing, and that would translate to about 50 basis points. So that's factored into the guidance of about 3% organic for the year, but that's what we're thinking at the moment on pricing.

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**Operator**

Chris Snyder, Morgan Stanley.

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**Christopher Snyder - Morgan Stanley - Analyst**

I wanted to also follow up on pricing and I guess a little bit on price cost. When do these surcharges take effect? I would imagine some point in Q2, but any color on when they take effect would be helpful.

And it just seems like with the \$120 million of cost inflation that you referenced, Bill, on the 50 bps of price, the plan here is to be, I guess, be neutral on price cost. And I asked because if I remember a year ago, you guys were actually EPS negative on the tariff inflation. Just want to make sure I have that neutral view right?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

So Chris, I think we've learned a little bit. Yeah, we we're moving a lot faster than we did last year on tariffs. Tariffs came on. And I think maybe we're a little tentative at front, but I think we ended up offsetting a good part of the tariffs on cost and price. We're trying to be careful on that.

So yeah, exactly, we will offset cost increases associated with oil through price increases, and that's the assumption that we're making here. I mean you're right. Historically, we have covered material cost inflation with pricing. So historically, with a 2% material inflation, that would translate into roughly 50 basis points of price.

For the year, we are guiding to about 80 basis points, again, a little bit lighter in Q1, but inflation in Q1 came in a little bit lighter as well. So for the year, 80 basis points. With oil coming in, that's driving an incremental 50 basis points of price, so a total of about 1.3 points roughly for the year on pricing. And that's our current expectation.

It's not a surcharge. The price is going out embedded into the pricing of our products. And that's -- and it's depending on the product and the geography, but generally speaking, it was less of a surcharge more being built into the underlying price.

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Yeah. And in terms of the rollout in the timeline, we've already started in April in a couple of countries in Asia. And then in the United States, it starts in May 1 and Europe as well. So it is imminent right now with all the letters going out to the customers knowing when the surcharge is going to impact them, oil price increase is going to impact them. Yeah.

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**Christopher Snyder** - Morgan Stanley - Analyst

I appreciate that. And then maybe if I could follow up, just any color you could provide on how firm or how much flexibility is there on these delivery dates for these orders or what's in the backlog? And then I guess asked because I remember a year ago, there was elongation on those orders, I think, tied to some of the preordering ahead of tariffs. And it seems like there could be some of that again now. So just wondering, trying to gauge that as a potential risk into Q2.

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Chris, the delivery is limited to the lead times that we have. So it's not like an order can be placed for 6 or 12 months of delivery. So it's definitely within the time frame that is we always describe. Yeah.

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**Operator**

Amit Mehrotra, UBS.

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**Unidentified Participant**

This is Neil on for Amit. So I know we just got first-quarter results, but if I could ask about the growth algorithm into 2027 because the outlook suggests some meaningful improvement in trends exiting this year. If I just look at new product introductions, for example, I mean, these are accelerating. And if we add maybe 2 points of macro growth to new product introduction, would that math imply that 3M is growing around 4.5% organically next year?

**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Yeah. Thanks for the question, Amit. I'll start and Bill can add from there.

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Neil. Neil on for Amit.

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Yeah, I'm sorry. Neil for Amit. Yeah. So I -- we said this year that we will grow about \$330 million, \$300 million above macro. And as we get into the second half of the year, from the exit rates, you are right, we will be north of 3.5%, which would imply that we would be above where we are in the first half and above where the full year would be.

So we do feel very good as we enter into next year with what we are doing on the NPI as well as what we are doing on commercial excellence and how that is translating. So first is, obviously, we've got to grow in the second quarter about 3%. And if we do grow above the 3.5% in the second half of the year, I think it will give us good momentum to accelerate the growth into 2027. But it's a little bit too early to talk about that, and we'll provide more color as we go through the course of the year.

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**Operator**

Deane Dray, RBC Capital Markets.

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**Deane Dray** - RBC Capital Markets Inc - Analyst

I was hoping we can address the point-of-sale momentum. I mean that's a surprising number, up seven on the last eight weeks, given the pockets of macro pressure. So just your impression here. Is this consumer driven? Is it more on the commercial side at all? Just some context and the momentum into April?

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Deane, so it is consumer driven because it's in the consumer business group. I think it's very encouraging for us to see POS up. That's a sell-out seven of eight weeks, which I think is really good. It does make us feel a little bit better going into Q2. And that business, Consumer business stabilizing, perhaps growing a little bit in Q2 and the balance of the year.

So those are good trends. I think it reflects the team's very aggressive efforts on driving promotions, getting shelf space, driving NPI, being really aggressive at hustling at the customer interface, good on-time performance still in at 95%, 94.5% range. So just really good work.

Anurag talked a little bit about a couple of pockets that are growing a bit better, but it's pretty broad-based. We see really good trajectory here through the first quarter now going into Q2 on the clubs, which is not surprising, given where consumers happen to be today. But we feel good about the trends and good about the outlook for Q2 so far.

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**Deane Dray** - RBC Capital Markets Inc - Analyst

Good to hear. And I'd love to hear a bit more about the Expanded Beam Optics opportunity. There's a lot of focus on this. It's addressing the data transfer bottlenecks in AI processing. So just where do you stand competitively? How quickly can you ramp on this? Is there any question of manufacturing capacity because the take rate on this is one of the fastest growing right now in data centers.

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

Well, Deane, exactly. That's why we're so optimistic about it and why we're talking more about it. And the fact that we've had some really good robust IP protection around the technology, it is expanded beams. So it's not a point-to-point fiber connection to the data center. It's like an easy click between two pieces of multi-fiber device ferrules that come together, and we can put that together at 80% less time with a less trained technician, better reliability, can operate in a dusty environment, which is why it's gotten some good take rate.

We've had at least a validation by at least one hyperscaler or a second one is in testing. I expect that will be positive as well. We had a fairly large order coming in, in Q1 relating to the hyperscaler that has certified it. We are in a ramp-up mode.

We will double capacity towards the back end of the year. We're investing quite significantly to expand capacity, relying on other partners in the space. Hyperscalers won't go with a single source of supply. So we've got to make sure we have some dual source, either a couple of factories or us with a contract manufacturer.

So all of this is working. We're working the ecosystem. The pace at which this has happened is very encouraging, and the team is pushing hard. I'm really optimistic about where it's going to go from here. This is a polymer EBO as it moves to ceramics, which is more EBO or fiber to the chip. I think it opens up a lot more opportunities with a lot of other players in the space. So look, it's encouraging, which is why we want to share today with investors.

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**Operator**

Nicole DeBlase, Deutsche Bank.

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**Nicole DeBlase** - Deutsche Bank AG - Analyst

I'm just going to ask one since we're near the top of the hour, and we've gotten through a lot of the questions on my list. Just on some of the margin puts and takes. So have you guys seen any changes to your full-year productivity assumption or stranded costs or growth investments? And I guess was any of that front-loaded into the first quarter? How are we thinking about phasing throughout the year of those three items?

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**Anurag Maheshwari** - 3M Co - Chief Financial Officer, Executive Vice President

Right. Thanks for the question, Nicole. So we said that we have a contingency of \$0.05 to \$0.15. So let's say, at the midpoint, it's \$0.10. About half of that is because of productivity, and most of that was in the first quarter.

So the -- I would say the only two changes that we made from our previous guidance, about \$0.05 of that was very good productivity both on the supply chain side as well as the G&A and a lot of it we saw in the first quarter. And obviously, we try to continue with the momentum that we have.

The second \$0.05 at the midpoint, I would say, is because of our active capital deployment where we bought back \$2 billion of shares in the first quarter of \$2.5 billion, which obviously gives us accretion through the course of the year and active cash management with the cash balance that we have. Those are the big changes.

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**William Brown** - 3M Co - Chairman of the Board, Chief Executive Officer

But we're not changing our productivity guidance, stranded cost guidance at \$150 million tariffs. I mean that all stays the same as it was back in January.

**Operator**

Laurence Alexander, Jefferies.

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**Laurence Alexander - Jefferies LLC - Analyst**

Just very quickly, can you just address what your customers are saying about potential supply chain bottlenecks, I guess, particularly in the sulfur, helium, methanol derivative chains? And does that -- are those factored into your contingency that you see ways to work around those shortages if they develop in the back half of the year?

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**William Brown - 3M Co - Chairman of the Board, Chief Executive Officer**

So Laurence, it's a good question. I mean that's probably affecting some of the pre-buy activity perhaps. Look, I think we're all working through this. We're in direct contact with all of our suppliers trying to manage all of our sources of supply, making sure we've got a variety of players that we can go to. So it's on our minds.

So I know it's on theirs, and it's going to affect behavior as we go through the next several months, and we watch what's happening in the Middle East and through the Strait of Hormuz. So we'll keep you updated on that, but it's certainly a factor that's on everyone's mind today for sure. So thank you.

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**Operator**

This concludes the question-and-answer portion of our conference call. I will now turn the call back over to Bill Brown for some closing comments.

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**William Brown - 3M Co - Chairman of the Board, Chief Executive Officer**

So I know we're a couple of minutes late, but thank you all for joining today. And I want to thank again all of the 3Mers for their efforts, for their dedication, and executing against our priorities, strengthening the foundation, as Anurag say, controlling the controllables. You're delivering value to our customers and shareholders. So thank you. Thank you all for joining today. Have a good day.

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**Operator**

Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation and ask that you please disconnect your lines.

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