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MMM.N - Q3 2026 3M Company Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M third-quarter earnings conference call. (Operator Instructions) As a reminder, this call is being recorded Tuesday, October 20, 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.

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

Thank you. Good morning, everyone, and welcome to our quarterly earnings conference call.

With me today are Bill Brown, 3M's Chairman and Chief Executive Officer; and Anurag Maheshwari, 3M's 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'll 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'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?

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

Thank you, Chinmay, and good morning, everyone.

We delivered strong performance in Q3, including organic growth of 3.3%, operating margin at 26.2%, up 110 basis points, earnings per share of \$2.50, up 12%, and free cash flow of \$1.2 billion. We returned \$600 million to shareholders in the quarter, including \$400 million in dividends and \$200 million of share repurchases. These results include Madison Fire & Rescue, which is now fully consolidated into our financial reporting and reflect a change in acquisition amortization reporting. Our updated guidance for the year incorporates both items, and Anurag will provide additional details later in the call.

Based on our Q3 performance and continued strong order trends, we remain confident in achieving organic growth of greater than 3.5% this year. The progress we're delivering reflects the disciplined execution of the strategy we've been implementing over the last two years. As we've discussed, our value creation framework is centered around three phases: building the foundation, driving transformation, and accelerating performance. Our results today are clear evidence that we're making progress across all three.

We're strengthening the foundation of the company and rebuilding critical capabilities to position 3M for long-term success. We've invested in sales force effectiveness and AI-enabled tools. We've sharpened our focus on priority verticals where we can win and improved how we allocate R&D resources.

Operationally, we're delivering on our goals to improve productivity, quality, and supply chain performance. In the quarter, we launched 87 new products, up 24%, and we're on track to exceed our target of 350 this year. Year to date, five-year new product sales are up 34% versus last year to nearly \$3 billion, resulting in new product vitality in the mid-teens from a low of 11% in 2024.

Cross-selling is also gaining traction, with \$140 million in wins booked to date and another \$120 million in the pipeline, well ahead of our original \$100 million three-year goal. And in today's higher inflation environment, our price execution has been particularly strong and fully offsets material and oil cost pressures.

Across our manufacturing supply chain network, productivity improvements, including procurement savings, higher asset utilization from increased throughput and lower downtime, and improved quality, drove gross margins up 230 basis points year over year. Cost of poor quality improved by 40 basis points and overall equipment effectiveness improved by 20 basis points.

We continue to see meaningful opportunities to further simplify and standardize, reshape the portfolio, reduce risk, and improve enterprise resilience and predictability. We've closed 16 manufacturing sites and distribution centers year to date and are taking action on 10 more over the next 12 months, supporting further gross margin improvement beyond 2027.

And the Madison Fire & Rescue acquisition, which is now combined with our SCBA business and reported as a separate division within SIBG, is off to a good start. The JV delivered high-single-digit pro forma growth and operating margins ahead of our deal model and 3M overall. An integration is well underway to capture synergies across distribution, international expansion, and operational performance. And we continue our efforts to address litigation risk and are actively working with a court-appointed mediator for the AFFF personal injury MDL, and more information is available in our quarterly filing.

Moving to slide 4, I'll provide a bit more color on our end market performance. We continue to see strong momentum in general industrial and safety, with second-half growth accelerating to high-single digits, above our prior expectations.

In electronics, we're seeing increasing strength in semiconductors and data centers, which is partially offsetting a weaker consumer electronics market, especially in LCD displays. Auto OE and aftermarket is trending in line with the prior expectations with a modest improvement from down low-single digits in the first half to about flat in the second and with OE a bit softer and aftermarket a bit better.

The Consumer business, which contributes about 20% of sales, improved sequentially to about flat in the second half, as modest improvement in Consumer POS spending is partially offset by channel inventory adjustments at a few specific retailers. Net-net, we still see sales accelerating in the second half in our full year above 3.5% organic.

Turning to slide 5. Over the medium to long term, accelerating innovation across our frontier verticals, including aerospace, data centers, and others, will be an important driver of growth. Space materials is a great example how we can take differentiated 3M technologies and extend them into entirely new markets.

As shown on the left side of the slide, we're combining our capabilities in films, adhesives, and others to solve light, thermal, energy, and weight challenges across multiple parts of a spacecraft, from the satellite chassis to solar arrays. Our current pipeline supports opportunities from low Earth to geosynchronous orbits and across a range of commercial and government customers.

In Q3, we launched a lightweight reflective film for a commercial constellation to reduce light scattering toward Earth and address light pollution concerns. And we plan to launch another product in Q4 to provide a moisture-resistant barrier for solar panels. We have more than 10 other projects in development or in pre-pipeline stage that will follow in the next few years.

And on the right side of the slide, there's been a lot of interest in expanded beam optics and the opportunity ahead of us. And in light of an 8-K filing and press release last evening, I wanted to take a minute to highlight the progress we're making. As a reminder, EBO's patented Ferrule technology enables faster installation, greater durability, and higher-density optical connections for AI infrastructure. The technology is particularly valuable in scale-out and scale-across applications, including optical backplanes, where connectors at the back of a server rack can be difficult to access, install, and maintain.

We previously announced a partnership and deployment with Microsoft and said we were also engaged in proof of concept work with five additional global hyperscalers, one of whom was Amazon Web Services. Last evening, we filed an 8-K stating we issued a warrant to Amazon to purchase up to 3.2 million shares or approximately 0.6% of 3M common stock based upon the achievement of \$6 billion in cumulative sales of optical connectivity and other data center-related products over the next seven years and other event-based milestones.

We also announced that we signed a contract manufacturing agreement with Genius Electronic Optical Co., or GSEO, and acquired a 4.7% stake in the company in a private placement to cement our strategic partnership. GSEO is a credible and proven supplier of premium consumer device components, and they will help us rapidly advance technology development and scale EBO manufacturing on top of our internal capacity expansion plans.

But as we previously said, success in the space requires building a robust ecosystem of partners. We're actively supporting industry standardization through the EBO multi-source agreement, which started with 17 members and is now up to 63. This MSA brings together hyperscalers, connectivity providers, and chip designers under a common framework to establish industry standards and certify practitioners.

EBO was highlighted by many of these ecosystem partners at last week's Open Compute Project Global Summit, including by one other hyperscaler, demonstrating EBO in a next-gen rack design running live traffic. And it was headlined in a recent article by SemiAnalysis, a well-respected trade journal. We believe the combination of industry collaboration through the MSA, growing ecosystem adoption, and differentiated 3M know-how positions us well to benefit as EBO becomes a larger part of next-generation AI infrastructure.

Overall, we've made meaningful progress in reinvigorating our innovation engine over the last two years. Success requires speed and precise execution, and we're building a stronger, faster, more innovative, and more resilient 3M. As this company-wide effort evolves, I'm confident it will translate into faster growth, higher margins, and stronger free cash flow over time.

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

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

Thank you, Bill.

Turning to slide 6. We delivered another strong quarter across all financial metrics -- solid organic growth, 110 basis points of margin expansion, double-digit earnings growth, and robust free cash flow -- all reflecting execution against our strategic priorities.

Starting with the top line, we delivered organic sales growth of 3.3%, driven by general industrial and safety, both of which performed better than expected on successful execution of our commercial excellence initiatives, including pricing. We also saw continued strong double-digit growth in semiconductors and data centers as we gained traction from new product launches and good customer positioning. Together, these more than offset a weaker consumer electronics market.

Notably, the orders strength that we have seen through the year continues and grew high-single digits in the quarter, led by industrials, safety, data centers, semiconductors, and aerospace. This resulted in backlog growth of high-teens over last year, positioning us well for the fourth quarter.

By geography, US and Canada grew approximately 7%, the highest we have seen since the pandemic. Industrials grew double digits as we executed well on pricing, cross-selling, and sales effectiveness in a constructive market, which more than offset a soft consumer market. Latin America grew high-single digits, with broad-based growth across all three businesses.

It was encouraging to see Europe grow for a second consecutive quarter despite a soft auto market. In Asia, we had positive growth and saw another double-digit quarter in India as we increased penetration in automotive, industrial, and a growing consumer market. Overall, we grew in all regions except China, which was down high-single digits on weak consumer electronics demand.

As Bill mentioned, following the Madison acquisition, starting this quarter, we now exclude the amortization of intangibles from adjusted results to better reflect the underlying performance of the business. Historical recast of financials for '25 and first half '26 are shown on slide 13 and, as you can see, have an impact of about 40 basis points to margin rate and \$0.04 to EPS per quarter.

For Q3, adjusted operating margin was 26.2%, up 110 basis points, with the three business groups up 140 basis points, partially offset by 30 basis points from corporate as expected. Operating profit increased \$140 million, with \$260 million from sales growth and productivity, particularly in supply chain, partially offset by about \$120 million of stranded costs and investments.

The \$0.27 of EPS growth was driven by \$0.22 of operating profit growth and \$0.05 of below-the-line items, including a lower share count net of a higher tax rate, resulting in adjusted EPS of \$2.50, up 12% year on year. Q3 GAAP EPS was \$2.63, up 70% year over year. This included the impact of cost from ongoing transformation actions, exit of certain PFAS manufacturing assets, and gain from change in value of our Solventum ownership.

Free cash flow was \$1.2 billion in the quarter, as higher earnings were offset by working capital timing, which we expect to reverse in the fourth quarter.

Turning to the next slide, I will provide a quick overview of our growth performance for each business group. Safety & Industrial delivered another standout quarter with 7% organic sales growth, driven by the continued expansion of commercial excellence initiatives and the ramp-up of new products.

Electrical markets division continued to grow double digits as they deepened penetration with key customers in the data center market. Safety, industrial adhesives, abrasives, and industrial specialties collectively grew high-single digits, driven by targeted commercial initiatives to reduce customer churn, expand sales coverage, increase sales effectiveness, and drive cross-selling.

Though repair claims market remains soft, auto aftermarket grew mid-single digits, driven by the new products and wins with large multi-shop operators. Year to date, SIBG sales are up 6.1%, and importantly, orders in backlog are up double digits, giving us good visibility into the fourth quarter.

Turning to Transportation & Electronics. Third-quarter sales grew 0.5% due to weaker-than-expected consumer electronics, which was down mid-teens. Outside of consumer electronics, the business grew about 5% across semiconductors, aerospace, commercial branding, and auto.

In addition to data center and semiconductor, aerospace grew double digits, driven by continued strength in defense, sustained civil aviation bill rates, and growing demand for space films. Commercial branding continued its first-half momentum, growing mid-single digits, driven by graphics and personal auto demand, while auto was down mid-single digits on softer builds.

Despite the weak consumer electronics and auto market for the first nine months, TEBG sales grew 2.1%, with orders up high-single digits and backlog up double digits, supporting acceleration in the fourth quarter. SIBG and TEBG, which together represent 80% of our business, delivered about 4% growth in the quarter and 4.5% year to date.

Finally, Consumer was flat in the quarter, improving sequentially as the rate of decline in the US moderated, while international continued to grow mid-single digits. US point of sale grew over 2% through the quarter, but continued inventory adjustments at a few large retailers resulted in US sell-in being down low-single digit. As retailer inventory stabilize and POS continues to show positive momentum on the back of NPI and retailer-specific programs, we expect the growth trend to improve in the fourth quarter.

Overall, we are delivering on our commitment with strong year-to-date results, including organic sales growth of 3.3%, operating margin expansion of 60 basis points to 25.2%, earnings growth of 12%, and free cash flow of \$3.1 billion. Year to date, we returned \$4.4 billion to shareholders, including \$1.2 billion in dividends and \$3.2 billion in share repurchases.

Please turn to slide 8 for an update on our '26 guidance. Order momentum, a healthy backlog, and easier comparisons give us confidence in organic growth of just over 4% in the fourth quarter, keeping us on track for more than 3.5% for the full year. On the back of strong year-to-date performance, continued momentum, and focus on productivity, we are raising our earnings guidance from a range of \$8.95 to \$9.10 on the new basis to a range of \$9.10 to \$9.15, or \$0.10 above the midpoint, resulting in growth between 11% and 12% for the year.

On oil, we now estimate the inflation impact at \$185 million, up from the \$150 million to \$175 million range we communicated in July. We expect to fully offset the increase through disciplined execution of the pricing actions we implemented in the second quarter. While this pass-through is dollar-neutral, it dilutes margin rate by about 20 basis points, which we will mitigate through better productivity.

For the year, we expect margin of about 24.6% on the new basis, in line with our prior expectations. Free cash flow remains at approximately \$4.8 billion and adjusted tax rate at about 20%.

Turning to slide 9. We will provide formal 2027 guidance in January, but our framework to drive profitable growth remains consistent and are confident that we will exceed all of our Investor Day targets. We expect good growth in line with our second-half exit rate, with more contribution coming from new product launches as we sustain commercial excellence, including pricing discipline. Alongside growth, we will continue to drive productivity largely from supply chain and transformation actions as we more than offset investments and stranded costs, resulting in margin rates exceeding our Investor Day target of 25.4% on the new basis.

For EPS, we expect operational performance to be the primary driver of earnings growth like this year. Non-operational performance will be influenced by changes in interest rates and FX, while the tax rate should remain stable and share buybacks will continue to be accretive.

Finally, we expect robust free cash flow, driven by earnings growth and working capital improvements, and will continue disciplined capital deployment. Having returned \$9.3 billion since the start of 2025, we are well on our way to exceeding the \$10 billion target.

Before we open the call for questions, I would like to thank the 3M team for their commitment, resilience, and responsiveness to drive value to all our stakeholders. Our performance to date and opportunities ahead provide us with increased confidence in delivering on our updated 2026 guidance and exceeding the commitments we laid out at Investor Day.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Davis, Melius Research.

Scott Davis - Melius Research LLC - Analyst

Hey. Good morning, guys. I want to ask about Amazon in a second. But before I do that, you mentioned price several times. Is it easier to get because inflation is so well telegraphed that the customer is extraordinarily well aware of what's going on out there? Or is it the new product introduction side of it that is kind of driving that? And you still seem to be a little bit, I mean, behind PPI, so do you see an acceleration there?

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

So Scott, good question. I mean, first of all, it is pretty well publicized in the marketplace around what's happening in oil, gas prices, and general inflation, I think that's well covered. But I think our ability to drive price right now is partly from the new products. I think importantly, it's from just significantly better responsiveness, service delivery rates, product availability that we're delivering to our customers.

And I think that's a very important part of it, and I wouldn't discount that we're being, I'd say, a bit more aggressive here on price, holding our ground on this one. So I think all of those things come together in what's driving price. So we'll see ourselves for the year to be slightly above a 1.5 points.

We were saying last time about 1.5%. It'll be a little bit better than that because oil price continues to come up. Back half of the year, we'll be slightly above 2%, front half was 1%. So we're doing better. We're executing well on price, recovering material and oil cost inflation, and we feel pretty good about the direct trajectory we're on right now on pricing.

Scott Davis - Melius Research LLC - Analyst

Okay. That's helpful, Bill. It wasn't clear to me in the 8-K what Amazon is -- I mean, we know the investment they're making. But are they helping to pay for capacity or take-or-pay contracts, anything that kind of locks them in to derisking a bit of your capacity ads?

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

So it was a very, very important step we've taken here with Amazon. There's no disclosure right now on other parts of the commercial agreement, but it's been in the works for some time. It's a very important strategic commercial relationship. I do believe it's a validation of the technology. It's an important milestone in this broader relationship that we've had with Amazon.

It's very clear in the agreement that it's for optical connectivity, EBO, and other data center-related products. They do have faith in our broad material science capabilities for acoustics, vibration, thermal kind of things inside of data centers. And so we're very excited about where we happen to be.

As you note, there's at least something in the 8-K, it's cumulative \$6 billion is where the warrant vests over seven years. It's in increments. It's not ratable. It'll start to ramp towards the back end of next year is what our expectation happens to be and become more meaningful as we get into '28. But as we sit here today, that's as far as I think we'll be able to disclose as this continues to ramp.

What's important right now is we execute well, we scale well here with Amazon, we build out the ecosystem, which they and other hyperscalers believe is very important. So a very important step is combining that with the GSEO announcement where we have solidified the supply side, the ramp-up we expect to get to support Amazon and other hyperscalers. So collectively, we think it's a very important milestone that we're at today on EBO.

Scott Davis - *Melius Research LLC - Analyst*

Makes sense. Thank you. Best of luck, guys. I'll pass it on.

Operator

Amit Mehrotra, UBS.

Amit Mehrotra - *UBS AG - Equity Analyst*

Thanks, operator. Good morning, everybody. Bill, the trajectory of organic growth has been good, plus 1% in '24, plus 2% in '25, plus 3.5% at least this year. You're making a lot of progress on pricing and NPI. Now, you're maybe leaning into some growth verticals through these sort of creative solutions, which is fantastic.

But I guess the question that everybody is asking is, where do you think this ultimately goes to from a through-cycle growth perspective because you've got a consumer business that's a little bit more difficult? T&E is obviously a little bit difficult. Maybe just talk about not just '27, but if you want to talk about '27, great, but sort of where you think structurally you're taking the growth algorithm for this business over the next one, two, three years.

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

So you went through some of the numbers. I appreciate you're doing that and recalling the trajectory we're on. It's a pretty broad portfolio. Not everything kind of flows positively every quarter, but you've laid out appropriately the steps that we're taking to drive organic growth in the company, something I think we struggle to do over time. It comes back with -- back to what we were focused on very originally. It was around reinventing innovation and driving new products to the marketplace that we continue to progress that very, very well and is becoming more impactful

We're clearly driving a lot of commercial excellence activities, improving our capability at the frontline, building a better relationship with our channel partners, more cross-selling, better performance, so we have less churn, pricing. I mean, all these things come together to kind of make this machine run better.

And you went through the numbers. So we'll end the -- back half of the year, we'll be close to 4%. Q4 will be touching just over 4%. As we look into '27, we continue to see growth momentum here. There are some economic tailwinds here on the industrial side. We feel pretty good about that.

But more importantly, this is a self-help story. We're showing that we can grow organically, even in the choppy macro environment, and drive margin expansion quite substantially. So the combination of what we're trying to do, I think, is what's really turning this 3M Company around. And I'm very, very excited about where the future holds here.

Amit Mehrotra - UBS AG - Equity Analyst

Okay. Thank you, Bill. And then, Anurag, if I could just have a follow-up, because if we go back to Investor Day, there might be sort of \$400 million to \$500 million of extra cost that you guys have incurred since Investor Day, whether it's tariffs or oil inputs. And here we are, not only are you offsetting that with price, but there's obviously clearly productivity there, because the margin, you're raising the margin guidance for longer term next year.

Can you just talk about productivity? Because the '27 framing is helpful, but it's a little bit vague relative to what you did last year. Are we going to get \$500 million, \$600 million more of net productivity next year? Do you still expect 35% incremental margins on the growth you expect to achieve? Maybe fill in some of that color for us, please.

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

Okay, great. Thanks, Amit. And you're absolutely correct. At the Investor Day, what we laid out was that we had about \$300 million of stranded costs at that point in time. But since then, we've had tariffs of about \$280 million. We have oil now, which is \$185 million. We obviously were able to offset all of that, plus more, which is why we are ahead in terms of our margin expansion so far and will be next year as well.

So as Bill mentioned, we're going to exit the year close to about 4% in terms of organic growth. And as we go into next year, that will accelerate because of new products, commercial excellence, and pricing, which we've done a very good job this year and continue to kind of sustain that next year and drive for more pricing to offset oil.

So with the volume growth on the margin side, we have good incrementals. Historically, we said it's between 30% to 40%. I think we are more closer to the 40% right now in incrementals, given the progress that we made over the past couple of years. I'll combine that with productivity on both supply chain as well as some of the transformation actions we are taking, and it should continue at the same rate as it has over the past couple of years.

And while we drive volume with high incrementals, productivity will much more than offset the step-up in investments and stranded costs. So expect good margin expansion as we go into next year and be very confident to be ahead of the 25.4%, the new Investor Day target, despite all the other headwinds we had. So feeling pretty confident.

Amit Mehrotra - UBS AG - Equity Analyst

Got it. Great. Thank you very much. Appreciate it, guys.

Operator

Joe O'Dea, Vertical Research Partners.

Joseph O'Dea - Vertical Research Partners LLC - Analyst

Hi. Good morning. I wanted to start on just sizing of EBO. Can you talk a little bit about where you expect the revenue to be this year, how much revenue your current capacity can support? And then with the manufacturing collaboration that you've announced, how much revenue altogether you think that will be able to support?

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

So Joe, for this year, EBO is in the \$40 million range, plus or minus. We've got another quarter to go here. We do expect that to ramp. Considerably next year, likely we'll double, could be maybe a little bit better than that, depending upon progress through the year.

Internally, we have doubled our manufacturing capacity. So we'll be north of, say, 10 million Ferrules a year. It'll be a little bit better than that. And we expect to increase that over time. The contract manufacturing agreement with GSEO, given their size and what they currently do for consumer devices in similar spaces, they could do potentially multiples of that per month. So I believe if we scale them as we know we will over the course of the fourth quarter into early next year, that we will see our ability to actually satisfy the market demand.

So hopefully, it's not a capacity issue. It becomes more in comfort of hyperscalers. It's developing the ecosystem. And I just want to reiterate one of the key factors here is making sure we have diversity of supply, not just from 3M, but other partners here, because that's going to be quite important for hyperscalers to sell on to sign on. So I believe the GSEO will be in pretty good shape to scale to the market requirements as we see them now.

Joseph O'Dea - Vertical Research Partners LLC - Analyst

And then on current demand tracking, can you talk a little bit about what you saw over the course of the quarter into this month with respect to acceleration, any caution? There's a tremendous amount of focus out there just given kind of all the headlines and any risks that that poses for POS. And so just kind of overall macro, how you've seen demand trends over the course of the last several months?

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

Okay. So for us, I mean, our order rates have been pretty good. For the quarter, they were up about 7%. We see good backlog going into the fourth quarter year to date, a little bit better than 8%. It's better on the industrial side, but generally good order trends, good momentum here as we head into the back end of the year. So just from a macro perspective, we continue to see the broader industrial markets improving, especially in the US.

And I know this part is driven by data centers, but it's quite a lot of other factors that go behind that. Auto build rates are likely to be down. They're down modestly in the quarter and likely for the year as well. We see the consumer electronics space worsening a little bit in the back end of the year, more like down mid-teens from the consumer electronics market. Those are the broader pieces.

IPI is about where we were before, slightly better globally. US IPI, US GDP is slightly better from where we thought in July. So that's getting, I'd say, a little bit better. And those are the key pieces.

The US consumer was sort of still a little bit soft. Although what I would say is we continue to see good POS growth, which is sell out for us. It's north of 2% growth on POS, which is pretty good. So I feel it's getting at least more stability in the US consumer behavior, if not maybe a little bit of improvement. So overall, I'd say the industrial is pretty good kind of mixed outside of that.

Joseph O'Dea - Vertical Research Partners LLC - Analyst

Thank you.

Operator

Julian Mitchell, JPMorgan.

Julian Mitchell - JPMorgan Chase & Co. - Analyst

Hi. Good morning. Maybe just wanted to follow up on the TEBG revenue outlook because that's where you've seen, I suppose, the most volatility in recent quarters, strong growth Q2, evaporated in Q3. You're talking about a reacceleration in the fourth quarter despite a worsening consumer electronics market backdrop. I think you said down mid-teens.

So can you please sort of flesh out a little bit the confidence in that TEBG acceleration? And is it something where it's just month to month that the numbers are kind of swinging around in that business?

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

Sure. So as we exited the third quarter, Julian, the backlog in TEBG was up quite double digit, so that gives us good visibility as we go into the fourth quarter. You are correct about the consumer electronics being pretty consistent between third and fourth quarter.

But where we do see is the good backlog getting converted plus continued strength in the aerospace, defense, the semiconductor and data center, which continues to accelerate in the fourth quarter plus all the commercial excellence that we are driving in the commercial branding business. This, along with auto, we've had some couple of good wins in auto as well, that kind of coming through, I think gives us confidence that we will accelerate the growth in the fourth quarter from third quarter in TEBG.

Julian Mitchell - JPMorgan Chase & Co. - Analyst

Thanks very much. And then just my follow-up, I think Anurag and Bill, your tone on the margin expansion is very confident, I think, looking at slide 9. And you're talking about very likely exceeding that 80 basis points of sort of margin expansion next year that's guided on that slide 9, and that's even with what's going on with cost inflation and everything else.

So I suppose, is the sense that -- I think right now in the second half, operating margins are growing about 100 basis points year on year in the guide. Is your sense that that's a fairly sensible sort of run rate for the time being, given inflation and productivity and stranded cost and so forth, there's nothing sort of one-time benefiting the degree of margin expansion you're seeing today?

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

Correct. There is no one-time benefit in terms of the margin expansion. It's all about controlling our cost base, driving productivity across both supply chain and G&A.

Bill did mention his prepared comments about gross margin being up 230 basis points, really good work around all the buckets being the cost of poor quality, which was better by 40 basis points, driving more productivity and automation in the factories that we have today, and, even in this environment, driving procurement savings. So I think it's all fundamental drivers in terms of expanding our margins.

As we go into next year, you are right, we said we had \$300 million of stranded costs. We had \$100 million last year, \$150 million this year, incremental \$50 million next year. But just on where we are in the momentum in terms of supply chain and making some structural cost changes, I think we are confident on continuing the productivity into next year as well.

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

Yeah. Julian, I think the thing to keep an eye on is as we keep talking more about transformation and the changes that we're making, a lot of this year has been around G&A. There's been investment to transform the G&A functions. It's starting to occur within our supply chain network and data center and distribution center network as well. I talked a little bit about some of the changes there. That's going to be impacting us into '27.

And certainly, with the factory consolidation, given it typically would be three-, four-, five-year payback, that will start to become more meaningful in 2028. So when you take a step back and think about all of the work that we've done, we've seen gross margins come up from the low-40s to now touching close to the mid-40s, again, up to potentially the high-40s over the next four or five years through some of the transformation that's happening.

Julian Mitchell - JPMorgan Chase & Co. - Analyst

Great. Thank you.

Operator

Andrew Obin, Bank of America.

Andrew Obin - BofA Merrill Lynch Asset Holdings Inc - Analyst

Hey, guys. Good morning. Just a question on Madison Fire. Are we putting -- now that it's organic, are we putting any accretion into '26 on that? Just from model and perspective, do I need to sort of put something in?

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

Yeah, it's EPS neutral to us. I mean, it does grow higher than company average and margins better, but given the size of the business, it doesn't really move the needle much on the top line. That obviously comes with operating profit, but there's a step-up in interest because of the leverage and NCI. So overall, it's EPS neutral for this year and next year.

Andrew Obin - BofA Merrill Lynch Asset Holdings Inc - Analyst

Thank you. And just going back to sort of optical and data centers, the headline numbers, I think, in the 8-K are pretty robust and you're saying you have multiple other hyperscalers that you're talking to. Just order of magnitude relative to what you have, how big could that be? And could you also remind me, overall, what was your exposure to data centers last year and what is it this year? Thank you.

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

So just on that last part, I mean, data centers this year will be about \$700 million. Last year was around \$550 million in that range. Part outside, the bigger part would be outside, so electrical connections and part is inside around optical connections, copper, other parts with inside the data center, but most of it was on the outside.

Yeah, there's been a lot of conversation with really all of their other hyperscalers. Obviously, Amazon is quite substantial in that space. So that's a very important one. You recall last quarter, we talked about a strategic partnership we announced with Microsoft where they'll be using EBO and Azure data centers. These things are continuing to evolve. Again, we've got to continue to work the ecosystem, build the

scale, continue to advance the technology, because each hyperscaler has some uniqueness in their configuration and architecture. So there's some work that has to happen there.

But I think we have very, very good momentum here. I think this was a very important step that we've taken in the last couple of days with Amazon. And I hope, in the coming months, others will follow suit.

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

Thank you.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - *Goldman Sachs International - Analyst*

Hey, guys. Good morning. So Bill, I just wanted to follow up on that thread. The warrants are pretty unique structure. I'm just curious, how did that even come about? And then also, I think you just mentioned that you're hoping that potentially some of the other hyperscalers will follow suit. Just any other clarification around that would be helpful.

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

So at this conference last week, it's the Open Compute Project, which is in San Jose. I was on the West Coast and had a chance to walk around the show for a few hours, and many other hyperscalers and a lot of ecosystem partners that were there. There's a lot of conversation around EBO, how it can be used, how it could be scaled, how do we manufacture it, partners that want to be part of it.

So there's a ton of activity happening there. So it's pretty broad-based, but again, it's evolving. I mean, each quarter, each month, we're taking steps forward here. We have to keep executing and doing all the things that I've been very carefully talking about around scaling and technology development and ecosystem. All of these things are critically important.

For Amazon, I think the warrants conversation is really important because it cements what I believe is a very strong strategic partnership we have with Amazon. And it's an agreement, it's a union, if you will, with Amazon where we both see win-win. We see opportunity to drive shareholder value on both sides.

For us, the warrants are going to be accretive to significantly accretive to the company. So we thought that was prudent and the right thing to do. Again, it's about 0.6% of our shares. So it's not hugely meaningful, but it's very symbolic in terms of the overall relationship we have with Amazon.

Joe Ritchie - *Goldman Sachs International - Analyst*

That's helpful, Bill. And then I guess just my follow-up question, Anurag, you gave some parts of the framework for 2027. Just the expectation for at least 80 basis points of margin expansion, is there a volume assumption that you're embedding? I know that you guys typically will kind of like model to trends. Just any expectations on volumes already for next year.

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

Yeah. Joe, absolutely. As I was mentioning when Amit was asking the question that the volume, which typically has been a 30% to 40% incrementals for us, is now getting closer to the 40% incremental. So there will be uplift from volume plus productivity, and both of them combined will drive the margin expansion for next year.

Joe Ritchie - Goldman Sachs International - Analyst

Okay. Thank you.

Operator

Nigel Coe, Wolfe Research.

Nigel Coe - Wolfe Research LLC - Analyst

Great. Thanks for the question. So just going back to the Amazon agreement. So is this a framework agreement, Bill, that's structured as a minimum? The \$6 billion is very specific. So is that a minimum purchase agreement over that seven-year timeframe? And you seem to indicate that next year is more like \$100 million or so of revenues from EBO. Should we then expect that to step up to close to \$1 billion in 2028? Just trying to frame expectations here.

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

So I think we'll sort of get through the quarter here and then we'll go through next year. Your numbers next year, round about right. I mean, it's sort of \$80 million, \$100 million of EBO. And then again, we've got to continue to execute and scale here. We're not going to size it beyond that.

But when we talked last time, we said the total addressable market here for EBO is around \$2 billion in the '28 time period. That, this year, will do again \$40 million roughly. This is an important initiative for us. We're maturing the technology. I think this step with Amazon, last quarter with Microsoft, others that are in conversation, gives us a greater right to win in that space. So I feel better about our ability to go after that market. We believe it will continue to grow over time as people get comfortable with EBO, with a contactless sort of connection device as opposed to physical contact point-to-point devices today.

So I think it's going to continue to evolve, but won't comment on anything beyond '27. But I do believe it's going to continue to grow and grow meaningfully. Otherwise, we wouldn't have talked about where we happen to be with Amazon and the size of the contract manufacturing agreement with GSEO. All these are very important to us.

Nigel Coe - Wolfe Research LLC - Analyst

Yeah. \$6 billion or divided by seven is close to \$1 billion, that's why. I just thought I'd throw that out there.

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

There's no volume commitments here. It's a -- we got to earn a right to that. It's going to happen over time. But that's what they -- that's the number they put out there is what was expected over the course of the next seven years. So we think that's an important target for us.

Nigel Coe - Wolfe Research LLC - Analyst

Okay. Thanks, Bill. And then just Anurag, maybe for you, the S&I margins were very strong this quarter. Looking at the NCI line, it looks like the contribution from Madison Fire was very strong this quarter. I'm getting to math closer to \$100 million EBITDA contribution, which feels too high, but just wondering what kind of margin Madison Fire is coming in at and what's the good number for 2027?

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

Yeah. So Nigel, I would say the number is not that high as you're citing it out to be. The margins are -- we finished the quarter at 26.2% margins. They are a little bit higher than that, I would say, but that does get offset on the NCI line. So overall, it was EPS neutral to us. So the NCI was just a couple of pennies compared to last year, so it was not close to that.

And as you model into next year, I would say it's again going to be EPS neutral. There will be incremental \$200 million of revenue coming from Madison. You can assume a margin rate higher than the company, and the offset will be high interest in NCI.

Nigel Coe - Wolfe Research LLC - Analyst

Okay. Thank you.

Operator

Steve Tusa, Wells Fargo.

Stephen Tusa - Wells Fargo Securities LLC - Equity Analyst

Hey. Good morning, guys. As far as the fourth quarter is concerned, can you maybe -- I know a couple of these businesses you said are going to accelerate, and that's great color, but maybe just how you're seeing things play out versus normal seasonality? Maybe seasonality really is -- there is no normal seasonality with the last few years, but how you're thinking about those kind of daily sales trends? And then just lastly on that, the backlog, you mentioned the backlog was up. Maybe just a little more color, I think you gave some in the second quarter.

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

Yeah. So Q4 typically is a lighter quarter, but there's nothing unusual about seasonality here in the fourth quarter. We do see it being up with the 4% that would get you to greater than 3.5% for the year, so it's got to be more than 4%. Again, it's off of a bit of an easier compare. The prior year in Q4 was a little bit softer as opposed to Q3. We had a tougher compare here in Q3, but it gets a little bit better in Q4.

We've had just, again, very good order trends. The backlog going into the quarter is up about 18%. So it's high-teens percent year over year going into the quarter. We have about 25% of the revenue that's in backlog, which is pretty good and a little bit better than we typically see. But again, based on where we see it today, we feel pretty good about coming in north of 4% and more than 3.5% for the year.

Stephen Tusa - Wells Fargo Securities LLC - Equity Analyst

And then just one last one on stranded costs, is it still an investment? Is it still \$375 million for the year? And does that step up a little bit? I know it was up \$0.17 in the quarter. Does that step up a bit in the fourth quarter?

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

Yeah. So I believe when you said \$375 million, you meant \$225 million of investments and \$150 million of stranded costs for the year, Steve.

Stephen Tusa - Wells Fargo Securities LLC - Equity Analyst

Correct. Yes, correct.

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

And it is still the same. And in the fourth quarter, you have probably \$125 million of that because of the \$50 million of stranded costs and \$75 million of investment. So no real change from the cadence that we had laid out from the beginning of the year. And that stranded cost next year is \$50 million. It goes from \$150 million to incremental \$50 million.

Stephen Tusa - Wells Fargo Securities LLC - Equity Analyst

Great. Thank you so much. Really appreciate it.

Operator

Andy Kaplowitz, Citigroup.

Andrew Kaplowitz - Citi Infrastructure Investments LLC - Analyst

Hey. Good morning, everyone. Bill, can you give a little more of an update on your overall progress in innovation as we start thinking about '27? I think you previously have mentioned your cycle time of innovation targets at least 20% better. But can you use tools such as AI to push greater innovation much faster and with better margin? I think you'll do greater than 350 new products you just said, but you've also said that 3M used to do 700, 800 per year. Can you get back to those levels faster than you thought and with greater improvement in design to cost?

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

So first of all, yeah, I'm very pleased with what's happening right now on NPI innovation. We're accelerating. I gave some of the numbers here, about 87 in the quarter, up about 24%. For the year, we'll be at 350 or more, so that would be up 23% year over year. Earlier last year, at the Investor Day, we said we would be 1,000 products over three years and we should be above that with what my expectation would be.

I think what's important is we've seen the funnel remain very healthy. So we're bringing more projects into the funnel, into our development pipeline that we're launching. I think that remains very, very encouraging. Cycle time has been pretty good, actually. We will be down 20%. It will move around a little bit, but I think we've already proven that so far.

But as we bring more Class 4s, Class 5s into the funnel, which will drive more incremental growth over time, they're a bit of a longer development cycle, so that could push things a bit in the other direction. But the cycle time continues to come down, our on-time launch attainment remains around 80%, 81%. So that's all very, very good.

As you mentioned about AI, I do believe that this is going to be a meaningful way for us to accelerate innovation. Again, from 20% compression on cycle time, just by bringing AI in, you're ideating faster, you're eliminating some of the steps of developing and making prototypes in

labs, getting it out to a factory. So instead of doing physical prototypes, you can do virtual modeling and simulation. All those opportunities are happening now. So that could further compress cycle time.

And what that means is we should be accelerating the numbers of new product launches without accelerating the cost to go and make that happen. So I'm very encouraged. We're pushing very hard on this. A lot of the effort to date has been codifying this vast treasure trove of information that resides at 3M in terms of all of the patent information, all the technical papers, all the material specs, safety sheets, all of this information, process informatics, all the how you make it all needs to be codified. That's now being done.

And when you have all that and you lay AI on top of that, it can really accelerate our journey in bringing new products to market. So I'm encouraged about the progress we're making here. And to your point, I think there's a great opportunity to accelerate that into '27 and beyond.

Andrew Kaplowitz - Citi Infrastructure Investments LLC - Analyst

Helpful, Bill. And maybe just delving a little bit more into consumer. I know you said point of sale will continue to improve, but consumer, as you know, has been a bit slow to turn. Do you see a more definitive turn coming in that business? Or can increased self-help drive a more definitive turn? And you mentioned still some select retail destocking, so maybe a little more color on what you're seeing there.

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

So yeah, in consumer, we expect it will turn slightly positive in the back end -- in the fourth quarter of the year. Of course, we thought Q3 was going to be positive. It didn't happen, but we're on the right trajectory here. It's not necessarily going to be a big driver of growth for the company given its size and where we expect it to be in the fourth quarter.

But the trends are positive. POS was kind of basically up a little bit in Q1, improved a bit more in Q2 around 2%, 2.2%, a little bit better in Q3. So POS has been pretty good. What happened over the course of this year is the inventory in the channel, especially with a couple of retailers, has been pulled down a little bit, about half a week in Q3. It was about half a week in Q2.

We find that to be stabilizing here a little bit going into the fourth quarter. But again, it's hard to predict what some of these retailers are going to do. But when we take a step back and look at the way the portfolio is evolving, we see it to be slightly better in Q4, but again, not a big meaningful driver for the growth as a company.

One of the things that's interesting is, I mean, the international has been pretty good. So even the business is mostly US, about 70%, but international for us has been up mid-single digits, and the trends there continue to be pretty strong. So I think if we put all together, US can improve and international holds in it mid-single digits, we can actually be positive in the fourth quarter.

Andrew Kaplowitz - Citi Infrastructure Investments LLC - Analyst

Appreciate all the color.

Operator

Varun Govindaraj, Bernstein.

Varun Govindaraj - Sanford C Bernstein & Co LLC - Equity Analyst

Morning, everyone. Thanks for the question. Quick one from my end. You've got a leadership change on the R&D side, with John retiring and Tushar coming in. How are you sort of driving continuity in the R&D strategy with that change? Just because these kinds of changes during transformations are tricky, so curious how you're handling it.

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

So Varun, thanks for the question. I mean, John was here for a number of years, close to 30, and was CTO for quite a long time and was a fantastic partner to me in re-establishing, reinvigorating innovation. Tushar has been with the company for 25 years. He's PhD, he's got a lot of experience both running a business, as well as developing technology, more than 40 patents to his name.

And I like the combination. He's been running the IATD business within SIBG for the last number of years, leaning forward on AI, digital tools. I think that combination is going to be very important to us. And having somebody that knows the players internally, know the technology, and importantly knows our customers, that combination, I think, will drive good continuity in what we're trying to do on innovation at 3M.

Varun Govindaraj - Sanford C Bernstein & Co LLC - Equity Analyst

Super helpful. Thanks for the color. And then just as a quick follow-up, we've talked a lot about EBO sizing, but you've also flagged stuff like the Nextel Ceramic Fibers, space got a lot of real estate in today's presentation. Any rough sense of how accretive that could be either next year? Or do we sort of expect that to come in more 2028 onwards?

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

No. I mean, we think '27 will be a step-up on that. So it's a couple of different things. We continue to see very good growth in our electrical markets division with connectors, medium-voltage connection coming into the data centers. That has been a good grower for us all year, double digit, and we can see that continuing into next year.

But there's a lot of other different technologies. You point out in Nextel, which goes into a couple of different behind-the-meter type solutions outside the data center. And we continue to have momentum there. We're expanding capacity to meet the demand of that space. So I think that could be a step-up into '27 and perhaps even better than that in 2028. So I think very good momentum both inside as well as outside the data center, Varun.

Varun Govindaraj - Sanford C Bernstein & Co LLC - Equity Analyst

Appreciate it. All the best for the rest of the year.

Operator

Brandon Knutson, Morgan Stanley.

Brandon Knutson - Morgan Stanley - Analyst

Hey. Good morning. Thanks for taking the question. You guys have been highlighting new product introductions. Can you quantify for us a little bit how much better pricing or margins are on these new products and how high you think you can get that NPVI over time?

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

So we haven't really talked much about what we do on pricing. I mean, sometimes when you bring new products, it's creating a new space, so you really have a good vantage point.

But I think our ability to drive value-based pricing is becoming a lot better. We see it across a number of different product portfolios. So I would say when we bring in new products to the marketplace, once you start to hit volume ramp, we do see margin -- those products now being margin accretive to the company. So price is an important part of that.

Brandon Knutson - Morgan Stanley - Analyst

Great. Thank you. And then the last one on just data center, EBO has got a lot of focus. I know the production capacity has been important there and the GSEO deal will help with that significantly. What else is key to the ecosystem to drive growth here? And then outside of EBO, how do you see your other DC content scaling?

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

So we provide -- we manufacture a Ferrule, the fibers have to be terminated into the Ferrule, they have to be put into a connector and then installed in the data center. So all of those pieces are quite important. But hyperscalers have an important -- they design their own architecture. The server designer, server manufacturers have views of where they're taking their product line, how they're shifting from copper to optics over time.

So all of those various pieces you've got to work with that broad set of players to establish EBO and then to grow it. So that's what the MSA is really for. It's developing standards and then certifying players in the space to install EBO. So that needs to happen side by side with technology development and scaling.

Operator

Nicole DeBlase, Deutsche Bank.

Nicole DeBlase - Deutsche Bank AG - Analyst

Yeah, good morning. Thanks for squeezing me in, guys. Maybe I'll just ask one since I know we're at time. Just wanted to dig in a little bit more on consumer electronics and understand what's going on there with respect to memory. But I guess, Bill, when you kind of look out into 2027, are there any green shoots that make you feel like maybe this business could turn positive again? Or is that being too optimistic? Thank you.

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

So consumer electronics, yeah, it was -- we've seen some pressure here in the quarter. We'll see some additional pressure going into Q4 as well in consumer electronics. I mean, in consumer electronics, we provide films primarily for LCD displays. We do conductives. We do OCA e-bonding a lot for phones and tablets, notebooks, et cetera. We're primarily a premium player here. So 70% of our business roughly is with premium device manufacturers.

Overall, I'd say we're tracking kind of in line with or maybe slightly better than the market. We've seen pressure in two particular areas: one is in LCD displays, that's one area; and the other is with China OEMs. Not a very big part of our business, but that market is down quite

substantially in the quarter and then for the year. But we're performing very well with premium device manufacturers where performance, where thermal management for AI devices, for foldable devices, for all these new innovations, we're performing very, very well there. And as I look forward, that kind of innovation with those premium manufacturers, I think, will allow us to return to growth going into next year and beyond.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Thank you. I'll pass it on.

Operator

Brett Linzey, Mizuho.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

Hey. Good morning, all. I wanted to come back to slide 5. So on the space portfolio, I was hoping you could put a finer point on the TAM or anything you can share regarding content opportunity per satellite and if there's any constellations or customers you're currently specced in on or working on designs.

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

So we can't talk about the latter part of that, which is who we're getting specced in on. But I was very careful, and I said it's a pretty broad space. It's both -- it's LEO and GEO, it's low-Earth orbit, geosynchronous orbit, commercial customers, some government contracts are working on.

But it's a broad opportunity for us, and you can see some of the challenges here. It's around how do you lightweight the satellites, build more capability, bring more protection, so there's no light reflecting back to the Earth. Removing a glass solar panel as they get bigger with the replacement with films that allows it to work to be a lot lighter. So there's a lot of capability here.

Our content is growing in that space. Our innovation, I think, is quite important, but we expect that that's going to grow over time, which is why we want to keep highlighting it. So we don't want to say too much more than that, but it's a great opportunity for us to grow our business.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

I appreciate the detail. And just a quick follow-up on the \$185 million of oil inflation you said fully offset by price. Is there carryover lag into '27 we should be thinking about or modeling? And then how much of that price is go get versus in the market a little bit more surgical?

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

So we implemented the price increase starting May this year, and we started seeing the increase in our cost probably a month earlier than that. So you should see about some value we're going into next year, definitely on the oil cost piece. And at the same time, you should also see the price carry over. So we will be neutral between price and oil cost for next year.

And the strategy was actually to be a little bit more surgical. It wasn't peanut butter spread across entire businesses. It was looking at areas where there was either higher cost or where some of the peers were going out with price increases, and that's what the team did. And I

think we did a very, very good job by offsetting it. Last year, at tariff, we did not offset the entire price increase, but over here, we did and the discipline has been really, really good.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

Thanks for the detail.

Operator

Jeff Reive, RBC Capital Markets.

Jeffrey Reive - *RBC Capital Markets Inc - Equity Analyst*

Good morning. Thanks for squeezing me in. I'll keep it to one question. On the EBO business, if the four hyperscalers currently in proof of concept convert, is the combined internal plus GSEO manufacturing footprint sufficient? Or should we expect further capacity investments?

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

No, it should be sufficient. But again, it gets back to this diversity of supply. So we are scaling internally, but we'll never be able to, within 3M, be able to accommodate the market demand.

GSEO has incredible capacity, but likely over time, there may be other players here, other manufacturing sources that just give that satisfaction of diversity of supply. So we're confident we can ramp with GSEO, but there may be others that we'll have to bring on board over time.

Jeffrey Reive - *RBC Capital Markets Inc - Equity Analyst*

Great. Thanks.

Operator

Thank you. 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.

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

Okay. So thank you, everybody, and I know we're all over a little bit. Appreciate everybody joining the call today. And I want to thank again all of the 3Mers for delivering another strong quarter of great execution, great value to customers and our shareholders. I'm proud of what we've achieved together, and I'm excited for what the future holds at 3M.

Thank you all and have a good day.

Operator

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

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