



Solventum Investor Day Transcript

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Presentation:

Amy Wakeham – *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Awesome. Welcome, everybody. Thank you for coming. It's great to see so many people here in person. Welcome to all of those who are joining us online via the webcast. We look forward to having a great afternoon with you here today.

I just have a few opening remarks for you and then we'll quickly get us turned over to the main event, which I know everyone is excited about. I wanted to just share, a year ago we held our first Investor Day here in New York. Actually, it was a year ago yesterday.

So it's really exciting to be back here again a year later to share about the progress we've made over the last year. I think most of you probably saw our press release this morning.

We issued the LRP.

This afternoon you're going to hear from a number of leaders about the building blocks and the progress we've made over the last year and how we're going to achieve those targets.

But first, got to go over the standard stuff. Legal reminders, forward-looking statements, non-GAAP information. Make sure you check our SEC filings for any relevant information.

And our agenda. So we've got a packed agenda for you today. Really excited to have not only Bryan and Wayde here to share with you about our progress, but also where we're going, but the business segment leaders and some of their leaders, as well as all the staff we've got here at the product showcase to share a bit more about our growth drivers, our business segments, and really help you get a sense of and a feeling for our business beyond those of us who you speak to on a regular basis.

Just a few logistics items for you. We will have a break at about 2:30.

So you'll have a chance to stretch your legs, grab a bite, get a drink. For those of you online, that's about 15 minutes.

Then at about 3:30, we'll have a Q&A session as well.

We will have questions from the audience as well as questions available for those online.

So get yourselves ready. We'll have a nice session there where you'll be able to talk to the folks on the stage. With that, let's go ahead and roll a quick video before I bring Bryan onto the stage. Thank you, again.

(Video Begins)

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

Thank you, that is so nice, that is so nice. I should have videoed that coming up. That was very, very much appreciated. So that was the end of our presentation. It's pretty much the entire story right there. It's fantastic. I'm just going to hover a minute on this slide because it's the best day of my life from a picture standpoint.

So just everybody take that in. That's a good picture, isn't it?

Now it's the real me, okay? Now it's the real me.

So I'm going to tell you right now that it is hard to believe, hard to believe it's only been a year since the last time we were together as a group.

It's only been a year because the business that you're looking at right now is a completely and vastly different business.

We're going to get into why, but it's not just the fact that we have new capabilities. It's not just the fact that we've learned a lot about this business and grown in that year. It's across every vector of the company we have seen changes - real changes that matter.

I'm talking about mission. I'm talking about talent, culture, portfolio mix, the leverage ratio, outlook of the business, the strategic clarity that we have that we have not had in a long time. Across every major vector of moving the business in the

right direction, we have changed.
We're going to talk about that.

One of the perfect examples of that change is what you're going to see that most of the presentation today because it's LRP, is going to be as an optimized portfolio.

In other words, with the assumption that we will sell purification and filtration to Thermo before the end of the year. That's just one indication of change, not the only indication of change.
So you're going to hear a lot about those.

We set ourselves up for the future, but importantly, we have made progress right now.
We're going to talk about what that change is and how it's impacted the business

There's one thing for sure. This business is ready to perform, and the value creation story that we have for you and for all of our constituents is clearer than ever.
Okay so that's the start.

And I think this slide is the perfect place to begin because it in itself is new.
If you get back before spin, we didn't have a one-page identity.

We did not have an identity inside of 3M, as you would expect. You're a part of another company.

Now we have a why, a what, and a where, and a promise that we bring to the table every single day. This is how we manage the business. This is who we are on one page.

And if you're in healthcare, which I am, and I choose to be, you want this in the middle. You want the why. You want to improve lives.

We can all work very hard, but if we can improve somebody's life, that's pretty amazing.
So now we have that mission that is really med-tech centric.
That's what people are rallying around.

Then we have the "what" on the left side. That's what we expect of each other. That's the value system of this company.
It's what we hold ourselves accountable to.

And on the right side is where we're going to go.
That really is the pathway to deliver the mission and ultimately be successful.

Then it's a promise in the center around the mission.
We're promising that we're going to continue to solve for you as our shareholders, our customers, our patients, and for each other, all of our constituents.
We will solve what matters and we will create momentum through solving.

That is Solventum. That's how we came up with the name. That's us on a page. Now, here's the value creation story. Now, what you recognize in these four variables in this formula is the first one, and that hasn't changed. We have a very attractive setup.

And I thank the 70-year history for this med device business inside of 3M because they gave us a very attractive start. But what's changed dramatically since the last conversation is the next three variables.

We have made significant changes to the foundation of this company.
We have added strategic clarity that we have not had in a long time.
We have clearly set a path for balance sheet flexibility that we did not have a year ago. Those are the things that are different from the last time we had a conversation. The setup is the same.

Let's first talk about the setup because there are some things that I've learned to make the setup more appealing. First and foremost, easy stuff - we're a global business.

We have diversification in our business, whether it be customer, whether it be product, whether it be geography.

But very importantly, we have 70 years of innovation with close to 7,000 patents.

We may have lost our way recently, but we have brands in the marketplace today because of the capabilities that we have in this organization that are second to none, that are clinically preferred. Those brands are not just pretty brands. They're clinically preferred products in the market today many of them that are underpenetrated.

So that's the setup.

If you go further into that, it speaks to this concept of big markets that are nice growth, which is not easy to have in one business.

If you don't have this, I think we all know it takes risk. It takes time to be able to build it. We have it.

And those trusted brands are very real.

You're going to hear about these from the presidents, but these are clinically differentiated technologies that we have that leverage intellectual property that is deep and only 3M and now we know how to make. We're going to leverage those by looking at market development opportunities.

Here's the great thing that we've learned. These are deeper and wider than I expected.

We have more technologies out there that have the differentiation that we can take advantage of today by changing the commercial structure that we have, and you're going to hear about that.

And the second piece is we've got global reach. Now, we've changed dramatically that commercial organization, the structure of that commercial organization.

But if you didn't start with the global reach, we could not have moved as fast as we did.

Okay so that's the setup. That's the attractive setup.

Now, we're going to look at the foundational enhancements because at the end of the day we knew we had to make enhancements because when you look at the performance of the business, when it comes to revenue growth, it wasn't there.

So when you take over a business, what do you do right away?

You do the analysis.

You do the root cause analysis to understand what's actually happening in the business.

And what we found was that the organization was depending on hyper benefits in pricing that we knew were transient.

If you look behind that, all the growth was coming from pricing, and we're not seeing it in what is sustainable, which is volume growth.

And so once you know that, you start to dig in and say what's going on in volume growth?

And what we found is that we had six years of a trend that's declining volume growth.

We ended in seven quarters that were negative before the spin. That tells us then, once we understand it, it's not a pricing problem. It's a volume problem, and that is the sustainable part of revenue growth.

So that drove all of the enhancements that you're going to see. Because as I think we all know, if you can change that trajectory, get revenue growth moving in the right direction, that starts the flywheel of margin enhancement. That starts the flywheel of EPS growth and obviously cash creation.

You're going to see that story unfold.

So what do we do?

I'm going to go to the end of the story because I know nobody here is patient I certainly am not.

I'm going to tell you what we've already achieved as a result of making these changes.

Then I'm going to give you the what and the how because we want to make sure that you understand the journey with us.

But first and foremost, we've already, the first three quarters that we've been public, we've already changed the trajectory of that volume growth and moved it in the right direction and have positive trends. That will continue.

We did it faster than we expected because we acquired talent at a much faster clip than we expected.

That kept us ahead of our financial commitments in '24 the whole year.

We've done a complete talent and culture overhaul. We're going to get into the detail of this, but it's a major about face when it comes to talent, capabilities, and culture.

And in doing so, we did a global restructuring that we've already begun to implement and that will drive \$120 million of savings. It's very important that that global restructure is not just about savings. It creates savings, but it's around the connection to the culture that we want, a decentralized, fast-moving organization that is held accountable for its actions.

All along, we've been managing through and on track with a pretty complex separation. We, during the background time that we had there, we also started working on a very robust process to sell one of our businesses and probably sold it faster than people expected. We've got a nice price at \$4.1 billion, which will give us financial flexibility again that we did not have a year ago.

And during that time, we've begun to assess the pipeline. It's probably the lowest vitality index I've ever seen at 2%. That's not because we don't have money that we're spending. It's not because we don't have some of the best scientists in the world. It's because of a lack of direction, a lack of focus.

We've taken that. We've already changed it.

In the plan that we have today it moves up to 10%. I can tell you that right now, 2% to 10% sounds good. It's not enough. It is not enough. We're going to do a reload of those projects as we kill certain projects.

That's going to drive that vitality index higher in '27 and '28.

We're assuming that in the plan.

And the reason why it's going to happen is because we have that strategic clarity we have not had before. I'll get more into these.

But that's the end of the story right now.

But that foundation sets us up for the future as well.

And that's why the LRP that you saw this morning is as attractive as it is.

In doing that, revenue growth is going to increase off of 2023 by 300%.

But if you look at the very important, if you look at the very important volume growth in that first year, it was actually negative volume growth.

So, it's going to be over 400% increase in volume growth to be able to achieve this.

Once you start that flywheel, you're going to see margin expansion. Because we're not just going to go after growth for growth's sake. We're going to do it in a disciplined way. We're going to make sure that we have positive mix in the areas that we're growing so we can drive margin.

We're going to be efficient in the way that we do it.

Once those two things happen, you're going to see the EPS.

Then, obviously you're going to see cash flow move in the right direction.

So Wayne's going to talk more specifically about this. I promise that's not all you're going to see.

But I know you're not patient.

So, you'd want to see it out of the gate.

Now, the big question is how?
Right?

How are we going to do this?

Because it's a pretty big move in a different direction.

I think it's important for you to have the same level of confidence that we have in our ability to make this LRP come to life.

And to do that, we got to take you through the journey a little bit. You got to understand what we started with, where we are now, the changes that we've made, and why we believe those changes are going to drive this business forward. We followed our business philosophy when we came in. I strongly believe that an organization is the most strengthened and most sustainable when you drive mission, talent, and culture first.

You've got to get that foundation. When you have a strong foundation of mission, talent, culture, then that strategy and the execution is more sustainable and it's more successful as a result of it.

So not surprisingly, when you look at our phases, that's how our phases were set up.

Like first and foremost, it's hearts and minds. It's talent. How do we get people involved in this story?
Because it's going to be a tough slog. It's going to be hard work. You got to get them engaged. The second piece and the third piece is around strategy, organic and inorganic. Right.

And so, first, in phase one, that's where most of the enhancements occurred.
When we dug into this, we looked at really four vectors that we wanted to concentrate on. First and foremost, not surprising, is mission and culture. Second is talent and capabilities. Third is stabilizing the business. You saw that the trend is negative in the business.

We had to stabilize the business.

We had three vectors there and then executing the separation.

So let's go through each one of these. I'm going to tell you what we found and what we've already done, again giving us confidence for the future.

So when we started, not surprisingly, you didn't really have an identity as a healthcare company inside of an industrial conglomerate and you didn't have as many decision rights either. It's not unexpected, but it needed to be changed.

And so, we've created a mission statement and a value statement that you saw that has a whole presentation around it. We didn't send it out in a memo. I've traveled around the world with my leadership team.

We have gone to almost 40 countries, 100 different presentations to firsthand talk to people about the importance of the mission, the values, and how they connect to it, how they bring it to life. I promise you that this team now feels more connected than it ever has. It's that one Solventum that you really want in a medtech company.

Then we also made significant changes in the structure to make sure that we were decentralized, that we could move with speed, that we had decision rights in the business, and ultimately, as a result of that, create more accountability in the organization. This is a major change in mission and culture, a major change.

And I can tell you that the team is leaning in. It is leaning in. The biggest part about change is are people accepting it or not.
We are seeing people accept this around the globe.

The second piece was talent and capabilities. And always, when you do a separation, one of the big things you do it for is talent.

We expected to find capability gaps.

We were not a standalone company. You have to know you're going to find capability gaps. We probably had more than we expected.

And as a result, we did a pretty significant overhaul of the talent in the organization, just looking at the leadership team first. Remember, this is a year ago. Looking at the leadership team first, we have 85% of the team that is new. Everybody on the team has deep sector experience. They have transformation experience. Key functions have spin experience, very recent spin experience.

We look at the VP level, right, so level down. 60%-plus of the VPs that we have in the organization are new to the organization because we wanted to do a rehash of those capabilities that we knew we needed. Then even further down in the organization, when you look at those positions that we defined as critical to transformation, 40% of those are new to the company.

Now, what I think you have here is a perfect balance. You have a perfect balance, an offset of new people, new talent, new culture with the team that was already here with all the capabilities and know-how of 3M that are leaning into the strategy, they're leaning into the culture, and that combination builds the perfect team.

One thing for sure, the bar of excellence in this organization and what it means to be in this organization has changed and it's gone up.

From a stabilizing the business sounds very basic, but the first step in stabilizing a business, moving in the right direction, is clarity, right?
It's focus, it's alignment. We didn't find that we had that.

One of the biggest reasons we saw was rotating leaders, right?

I look at the MedSurg business alone, we have four leaders in five years.

You cannot have a strategic focus and alignment when you rotate leaders that fast.
So what have we done?

We've chosen the right leaders across the board in our leadership positions. They will stay in those positions until they deliver. They got to put a plan together and show they can deliver against it.
That's really important to do.

We also made sure that we added to that beyond that just obvious clarity that you're going to get with one leader is a data centricity around the strategy we just built. That's why we didn't rush to a strategy.
We spent the last year planning using external advisors to determine where we will focus and why. You're going to see that today.

Very importantly, we're going to be hyper-focused in our growth driver and margin driver areas. There's going to be no question about where this organization is going to be focused going forward.

We also again pushed decision-making down through that restructuring that I mentioned. And of course we changed our metrics to be realigned to medtech.

Okay to me, when you're looking to change the trajectory of a business, the most important part is the commercial engine. It's the most important part. You have to get that right because it's the chassis. It's the force multiplier, if you want to call it that, to say I've got to add everything else to that chassis to make sure that we can move in the right direction.

So if that organization isn't functioning well, it doesn't matter how much R&D you have. It doesn't matter what you acquire and drop in the bag. It's not going to work.
So we had to focus first here when we talked about stabilizing the business.

What we've done is add significant talent. We've looked at capability gaps that we had and even functional gaps that we had.

We now have leaders that are walking with a different step, with a level of urgency and accountability we did not have before.

And that is leaking over to everybody in the organization. It's a different feeling in the organization. We've also shifted our compensation in the commercial organization to be biased to growth. You can no longer just be here to get paid. You're going to have to grow. There's a different level of urgency and a different level of accountability.

And we restructured the entire commercial organization. I talked about that large commercial organization globally. It's great to have, but it's got to be focused in the right direction. We didn't have to spend a lot of money.

As a matter of fact, we saved money by specializing the organization.

But what you're going to find is that specialization is now concentrating in the areas where we're going to get growth, our growth drivers.

And of course we restructured the -- for whatever reason, we had export markets or certain countries that were not aligned to the businesses, they were aligned to corporate. So we moved those back into the businesses.

Now, once you create that engine, the other part of that is feeding it. You want to feed that engine once you've got it. So we had to look at the innovation process. Because when you're spending the money that we're spending in R&D and getting a 2% vitality index, something is broken.

And when we dug into it, number one, number one is you had the functions that are most prevalent, most needed innovation, not reporting to the businesses, corporate functions. So R&D, Med Ed, corporate marketing, we had to move those back into the business so that that group of entities can make decisions on where we're going to spend the money and why that we're going to get more productivity out of R&D.

So that was a pretty big structural change that we needed to make. We're now vetting the pipeline that we have, which is a robust pipeline.

We got a lot of products in the pipeline, but we're going to kill a lot of those products. Because what you have is you have interesting technologies that are really, I mean they're fantastic, but there's no business plan around them.

So if you've got these great technologies with no business plan, we're going to kill those. That's going to open up space to reload the R&D funnel.

Then we're going to find those nuggets, which we have, and you're going to hear from the presidents, and we're going to double down. We're going to put a robust commercialization plan together and make sure that we maximize those technologies.

And by doing that, that's how we've changed the vitality index from 2% to 10%. That is not good enough. That reload that I talked about as we kill projects and we reload new ones, that will drive it up beyond 10%, and it'll happen in '27 and '28. That's just the timeline it takes to bring innovation to the market.

So, this is a complete overhaul of the innovation process. If you follow 3M, Bill's going through the same thing with 3M. You could almost take my slides and apply it to his presentation. It's very similar.

So if I just talk about the separation, I'll just start with what we started with, where we are. We've got a long way to go. But what we started with was a more entangled business than I expected.

I can tell you that right out of the gate. It was more entangled than I expected, more complex. We had more debt.

We knew we were going to get debt, maybe a little more debt than I was hoping for, but we got a lot of debt out of the gate.

So where are we today?

Well, you don't complain about a complex situation. You fix it.

And so, what I focused on was a very intentional hiring process.

We brought all the key functions that are absolutely critical to make a spin occur, make sure that those people that are leading those functions have spin experience. Every one of these people that run these functions have gone through a spin.

This may be a different spin, they're not all created equally, but you've gone through it, you've gotten the bumps and bruises, and you know what to expect.

That was number one.

Separation activities are on track as a result of that, no matter how complex. You can see the milestones that we've hit, but there's a lot to do. I could be worried about that.

I always worry, you just can't help it, right?

Because there's a lot, we have to do in '25 and '26.

But with this team and the progress, I have a lot of confidence we're going to get it done.

Then upon closing the transaction towards the end of this year, and the organic paydown that we're going to do, we're talking about reducing the debt by about 50%, 5-0% from the time that we spun. That creates financial flexibility that I'm sure not a lot of people expected this quickly, other than maybe us, okay?

All right, so once you've created that foundation that is ready to receive innovation and strategy and M&A, then you go to the strategic clarity, because it doesn't do you any good to have a great engine if you're not focused as a team.

That was phase two. That's what we've been spending a year on. We've done a lot of work on this to make sure that we pick the right markets, that we focus in the right areas, we reposition this company for profitable growth, margin expansion, and free cash flow.

And we've been talking about this for a while.

To do that, you've got to get the flywheel going.

You have to get the flywheel going.

That means volume growth has got to be there, because that's the durable growth.

That's what we're going to concentrate on, picking the right markets, picking the right growth drivers, and the right margin drivers, and getting this organization maniacally focused in those areas. That's what phase two is all about.

Now, to do that, you better have a process.

This is the basic process. A lot more goes into it.

But this is a basic process that we follow to choose the growth driver areas.

First and foremost, it needs to be mission-centric. We're a mission-driven organization. It's got to fulfill the mission of the organization. That sounds good, sounds a little soft, but there's a reason behind it.

I'm going to talk about the reason why that's also important to our customers.

The second piece is really the financial value of the markets. Are they large markets?

Are they fast growth markets?

Are they profitable markets?

The worst thing you can do is double down in a market, have it be lower margin, and create a negative mix situation for yourself. You want to focus intentionally on higher margin and higher growth markets so you can get the benefit of growth and the benefit of the mix.

Then, of course we want to make sure that there's a path to leadership.

We don't want to play in areas we can't make a difference.

I'm going to talk about why that's important.

Once we've chosen these growth drivers, then we bias our resourcing to these areas. That means that innovation machine is going to focus in these areas. Now, what I would tell you is that these will be here for a while, but we will add more growth drivers.

Some of the presidents are going to talk about this already. They're making their own internal bets on the next growth drivers.

So I would expect to add more growth drivers as we go, and they will get disproportionate investment inside the organization.

But right now, we've picked five, and these are the five, three that are going to be in MedSurg, one each in dental and HIS. They will drive 80% of our growth, 80% or more of our growth.

So suffice to say we are going to be highly focused on these areas.

And in addition to that, given that balance sheet now that we have and that flexibility, we're going to start to use that for tuck-in M&A. What I'm going to call inorganic innovation into that chassis that we've just built. That gives us a chance to enhance what is now an organic plan.

Okay so this is a really important slide. We're going to talk a lot about these components in just a minute.

But first, I want to give you a construct of how we're going to talk about these growth drivers because it's really important. It's not just a pretty construct.

We call it HBBS. It's Heart, Brain, Barrier Solutions.

I like this acronym.

We come up with a few of them because if you take one of the Bs out, it's HBS, which is Harvard Business School.

So it makes us sound really smart. I didn't go to Harvard Business School, but if I did, I would have come up with this there.

But if you look at this HBBS, first at the heart, we want to think about the heart of the organization.

We are mission-centric.

Does what we're doing change lives?

Does it, as a result of that, reduce cost?

And even though that just sounds like it's soft and it feels good, here's why it's important. Because if you've got customers today patients that have poor outcomes, and because of that, they're suffering. And because of those poor outcomes, there's cost burden. I guarantee you, we're not the only ones focused in this area.

Our customers, our providers, they're very focused in this area too.

So if it's mission-centric and it moves the needle in these areas, it's not just us who care about these.

So we know we're in the right markets.

So that's the heart.

Then you move to the brain. The brain's got to click in. Heart feels good. Brain's got to come in. Is it an attractive market? Is it all the growth rates, the margin profile that I talked about?

But very importantly, can we make a difference?

And what you're going to hear in the growth drivers, particularly in MedSurg, we already have clinically relevant technologies that can change the outcome in a positive way for patients.

We already have them, more than I expected.

What you're going to see is what we need to do then is do the market development work to be able to expand these markets.

So, it's not even about competition. It's taking what we already have and driving market development work. But to do that, you've got to understand the barriers.

What's the barrier to making that happen?

And once you understand those barriers, you understand them clearly, the innovation machine focuses on resolving those barriers, whether it's through the commercial organization, the R&D organization, the Med Ed organization, the entire organization focuses on resolving those barriers.

That's what you're going to see from the presidents today.

Now, there's really only three vectors of solving.

It's the three vectors that I talked about to be able to move the organization in the right direction when it comes to volume growth. The first one, most important, fastest one, is commercial productivity. Commercial productivity.

You just got to drive it into people because if you get that engine, everything else works.

Once you get the commercial organization working through talent changes, through compensation changes, through specialization, structure changes, once you have it working, then you can feed it. Right.

And first and foremost, you can take advantage of the products you already have and the NPI that's already in the queue.

The second piece is reloading the NPI. That takes a couple of years. Ideation to launch is a couple of years, just given the space that we're in.

But once you have that engine running, you reload the NPI, which we're going to do, our growth drivers, you continue to feed the organization.

The third way that we talked about is tuck-in M&A, inorganic M&A, right, inorganic innovation that you drive and you put into the bag. Now, when we started the journey, we thought we wouldn't have any material way to do this until 2027, which left a gap in '25 and '26.

Now, through the P&F transaction, we've covered that gap. We've moved up our ability to be financially flexible and do tuck-in M&A and drive that inorganic innovation sooner into the chassis that we just built.

Okay.

This is really important because when we started the journey, I didn't know where the gaps existed.

So we had to say that it was going to be a back-end loaded process because if you don't know where the gaps are, you got to assume that it's the worst-case scenario and it's going to take you a while to get there.

But once we've determined that we actually do have really good products, that we do have some nuggets in the NPI right now that we just haven't, for whatever reason, haven't put the value around, that tells you they've got a chance to make this more of a linear growth path, it's not as back-end loaded as we originally thought.

So that's going to be a clear message that you're going to hear throughout the presentation today.

That's going to move me now to I think the most important part of the presentation because it's the so what, right?

It is the growth drivers.

And each of the businesses are going to come up, they're going to talk about their growth driver area. Again remember 80% of our growth from these areas. And Chris is going to talk about three of them in MedSurg and then one each for Karim and Garri.

But what you're going to hear again is those vectors of growth coming through in these growth drivers.

They're also going to talk about their businesses more broadly since we are a new story.

Okay with that, I'm going to turn it over to Chris Barry.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Music kind of throws me off, kind of trails on a little long, but we'll get through it. Chris Barry, I see some familiar faces out there.

For those that don't know me, I've spent about 30 years in MedTech. Most of that was with Covidien and then Medtronic. And more recently, I was CEO of a company called NuVasive that was acquired back in 2023.

So I joined up with the team here, early part of '24.

So, I've been along this journey with the team and you're going to hear a lot of overlap and what Bryan talked about. MedSurg, obviously I'm excited to talk about MedSurg. I think it reflects that attractive setup that Bryan talked about.

Little bit about MedSurg. Largest business in Solventum, so 4.6 billion. That makes up about 64% of the overall revenue of the company.

Split between two businesses, the largest being Infection Prevention and Surgical Solutions, which is our most diverse portfolio with some real opportunities, followed by Advanced Wound Care, which you'll hear a lot about over the course of the day.

But that's the second largest business and has some specific things that we're working on right now.

And obviously negative pressure wound therapy fits in this business as a critical growth driver. The other two in the Infection Prevention business.

Those two businesses together participate in a market of about 31 billion, so large market with, to Bryan's point earlier, under penetration that we'll talk about in a lot of the product areas that we're focused on.

Geographically split about 50-50. I would say it's 50-50, but it's very different by business. In the Infection Prevention, Surgical Solutions business, that's about a 40-60 split.

So, 40% in the U.S., 60% outside the U.S.

The Advanced Wound Care business is a little more U.S.-centric, so 70-30. If you break it down further in negative pressure wound therapy, that's about a 90-10.

So, globalization will be a vector that we'll drive and a lever we'll pull in the Advanced Wound Care business.

The business combined, they're growing around in a market of about 4% to 5%, supported by lots of people all over the world, almost 6,000 employees for MedSurg in a very global business and we've got good, strong foundational footprint in manufacturing and R&D that came along as we spun out. So that's MedSurg at a glance.

Again back to the attractiveness, the attractive setups. I'm going to spend some time why we think this is attractive and how that's actually our confidence in the attractiveness and our ability to grow this business has increased over the last 12 months.

Strong clinical evidence across the portfolio. That's critical. Bryan talked about the fact that it's not necessarily for us right now about competition. Not that it won't be at some point, but today we have strong clinical evidence that we have a great innovation capability. We're a little muted right now.

We haven't necessarily flexed that capability, but we have it and it's reflected in the portfolio.

First to market with negative pressure wound therapy, first to market with transparent film dressings, that's Tegaderm. Following that, you look at then, Tegaderm's a good example of the brand equity that we inherited in the spin. These are recognizable brands.

Clinicians call these out by the product's name, right?

Give me some Tegaderm. Littmann stethoscopes. These are very recognizable brands.

In many cases, we talk about the fact that we look at our negative pressure wound therapy as an example.

When I first came in, a lot of people were talking about market share. Well the second question was, what's the utilization? What's the penetration of this technology?

And it was extraordinarily low.

So, these are the types of conversations that have really, I guess increased our level of confidence over the last 12 months.

We have these conversations and I walk away with, wow, that's a big opportunity for us.

So, we have an attractive setup.

We also have a very strong reach with our global channel. We've done a lot of work on that. I'll talk more about that.

But we've got a direct sales organization almost all over the world.

Unique to us, I think is we call across the whole, the entirety of the care continuum.

So we call on hospitals, we call on ambulatory surgery centers, we call on nursing facilities, long-term care facilities, even call into the home care setting.

So, we have large direct sales channel and an ability to reach in multiple care settings.

So that, with a diverse portfolio, gives us a lot of opportunities.

I'll speak on competitors, but I'll just say competitors for this business and MedSurg, they're about as diverse as our portfolio.

So, there's a lot of them. It's highly fragmented and it differs by product family on the competition side.

So large markets, attractive markets, underpenetrated, strong clinical evidence, good innovation capability, albeit muted right now, but we'll get back to it, and a strong channel.

So, very attractive setup.

So, what's the big problem?

Well to Bryan's earlier point, we had foundational enhancements that had to take place.

We were underperforming the markets and there's good reason, I think why.

So aligned to Bryan's phasing, I actually put together the phasing for MedSurg and it kind of unpacks from left to right. First and foremost, talent.

We spent a lot of time hiring some really great people over the last 12 months. Again, they're coupled with a lot of very strong people that were already here.

So the blend of both new talent, new perspective with organizational know-how and experience has been uniquely, well, it's been fun to watch, and it's also been very effective. We've seen that reverse the trend that we talked about in a much shorter time than we expected.

We spent a lot of time addressing execution challenges. I'm going to double click on commercial today because that's the fastest way for us to inflect growth, but it's been across the organization.

Improving innovation capability and biasing the P&L towards growth drivers, that's kind of where we are today along the journey. And as Bryan and Wayde, as we look to free up flexibility in the balance sheet, we'll move to a much more aggressive portfolio management.

So, this is the phase of bringing MedSurg back to market growth and then back to market leadership.

To be really clear, Solventum cannot be successful unless MedSurg is successful. Too big, right? Too much of part of the business.

So, we've got to be the foundation to leverage growth across Solventum.

So that's the focus of MedSurg.

So, I apologize upfront, this is a very dense slide, but I'm actually proud that it's a very dense slide because this is my progress report on all the things that we've done over the last 12 months.

So I'm going to start with talent and culture.

Bryan hit on this, but very similar to the leadership team at the Solventum level. My leadership team at MedSurg is 60% new faces, right? Again coupled with some really strong people that we had coming up from 3M spin, but a lot of new faces, new perspectives.

We created a whole new regional structure, folded back in the export markets, put in country governance.

So, we created our entire regional infrastructure and how we governed.

Realign and simplified R&D, MedAffairs, including Med Ed and clinical specialists, which are in the field. Simplified the marketing organizations. The marketing organization was fragmented and siloed, not communicating well, not transparent. So, we overhauled all of those things.

Redeployed national accounts and distribution management. It's big for my business. Everything in the U.S. anyway goes through distribution.

Then we added capabilities that just didn't exist. Sales operations, commercial operations to complement the efforts of our channels.

That's a global, those are global functions that we've put in place.

So moving over to then, what did we fix within the organization?

And what did we fix in the channel?

First and foremost, we specialized the channel, right?

If you think about the nature and the diverse nature of our portfolio, you literally had a single rep trying to carry all of these products and not doing it very well, reflected in the fact that we didn't have good penetration in a lot of the key products that on the surface makes you wonder why.

But specialization was a critical initiative that we drove very early on.

To Bryan's earlier point, it's a force multiplier for what we're doing today but also anything we do going forward will be built on the fact that we have good reach and we have good specialization and good focus.

We aligned the clinical support team.

So we made sure that the surrounding resources around the channel were also aligned.

In the past, you had independent organizations. They weren't necessarily aligned. The footprint was different. You had different people working with different people.

So we aligned the commercial footprint to the clinical teams, very different roles and responsibilities, but we wanted those teams to work together.

We redesigned the incentive plan across the board. That's a global statement to focus on the growth drivers and ensuring that we overachieve those growth drivers.

And generally speaking, we just up-leveled the urgency.

We put QBRs in place at the rep level, just raised the bar on discipline, rigor, and urgency across the board in sales organizations.

Then up-leveled things like key account management, tender management, upscaled accountability.

So complete overhaul of the commercial organization because again quickest way to inflect growth and a force multiplier for everything we do strategically or from an M&A perspective going forward.

And as I move to the right, now I really turn our focus to, we've been focused all along, but we really focus on improving our innovation capability.

We are in the process of reevaluating our entire pipeline.

I'll give you an example of what that looks like. You'll see appeal in place on here and we'll have some of our leaders come up here in just a minute and talk about the growth drivers more specifically.

But one of the things I got to do late last summer was I went to a wound care conference and had a lot of our KOLs talk to me about this product "Peel and Place" that they had helped can do some of the early clinical or early design work. They were overwhelmingly telling me how much of a game changer this product was.

And so, I go back, I see some of our people that probably in the conversation in the back of the room.

I said, I want to see the launch plan. I looked at the launch plan and the value that was communicated to me by the KOLs was not what I saw on the piece of paper. It was completely different.

So we raised the bar.

We said, throw that away. Let's reset everything. Let's reevaluate the opportunity.

This is not a static number. It's up to 9x the value over the three-year launch period than it was six months ago. Now the challenge is we've got to then bend the curve of our supply chain.

So, we'll be chasing demand.

But the fact is we're going through every project in the portfolio.

We will kill those that don't make any sense for us that aren't strategically relevant, but we will double down on the ones that are.

That's a good example of one that we're taking full advantage of.

There are others, we're in the process of just methodically working through them.

But you'll hear more about our new product pipeline as we clarify it. And as we reload it, we'll talk a lot more about it in future engagements.

So that's one part.

The second part is just completely overhauling our end-to-end innovation process. I want to be really clear. We have great R&D capability.

We have some of the best material scientists in the world.

That's no joke.

We literally have an individual that's on the FDA Patent Hall of Fame with names like Thomas Edison. I mean seriously we have some really strong people.

But that team has not been directed. Right.

It's an organizational challenge that we have to overcome to really overhaul our innovation process.

So, we're in the process of doing that as we speak.

Through that, we'll rebuild a culture and a mindset around innovation.

That'll be a key driver for us going forward.

So inherited a great setup, foundational changes. We'll be prepared once the flexibility and the balance sheet comes.

But to further talk about that next phase, strategic clarity, I'm going to bring up two individuals. First and foremost, I'm going to bring up Elise Tordella who runs our advanced wound care. She's our newest leader. Then she'll be followed by Doug Bartlett, runs our infection prevention and surgical solutions business.

So, Elise-

Elise Tordella - *Solventum Corp; Senior Vice President, Advanced Wound Care*

That music is something. I'm going to hide the picture because I'm better in person. Welcome and thank you very much for the time today. I'm really excited to talk to you about our Advanced Wound Care division and what we're doing as we're positioned for growth, as Chris just said.

A little bit about me and then we'll get right back to the we. What I'd like to tell you is I've been in MedDevice, MedTech for over 30 years.

With that, I've worked for some fabulous companies. Covidien, where I led a number of the commercial organizations. NxStage, which sold to Fresenius with critical care dialysis. Also, AngioDynamics with really revolutionary cancer care and most recently, PROCEPT BioRobotics. Really great places to work and you get to innovate.

But what I'm excited about here is what we're talking about with the mission statement that Bryan spoke to you about. We're here to really solve problems for patients and ensure growth as well for the company that's profitable. I think it's going to happen and it's happening now.

So let me take you through Advanced Wound Care.

We have three segments within Advanced Wound Care. We've got Negative Pressure Wound Therapy, where we are the inventor, we are the creator and we are the market leader in Negative Pressure Wound Therapy.

We also have great products within our Advanced Wound Dressings.

In addition, we have terrific products in Advanced Skin Care. Today we're going to focus on Negative Pressure Wound Therapy because it's our largest growth driver.

What you need to know about this as well is that this is the only company with Negative Pressure Wound Therapy that has an end-to-end complete continuum of care for the patient. That means we get the script, we deliver the product, we reclaim the product, we handle the payment as well through the payers.

So we have deep insights on what's going on with these patients that help us to solve problems for our customers.

It's remarkable how much we learn in that process and how that's going to fuel us in the future. In addition, our customers care about this. It takes some of the work off them. It makes their lives easier.

They care about these patients and they're looking for us to help them grow and help them save money as well.

So, what I'm excited to talk to you about is the HBBS framework that Bryan introduced to you. He mentioned that to you because it is about solving real problems for patients and reducing the cost of care. When you look at what's happening in the market, we see an increase in chronic conditions.

We also see an increase in surgeries.

With that a parallel in the increase in wounds that are out there.

Those are acute wounds. Those are closed surgical incisions. Those are complex wounds. Those are untreated wounds and they show up everywhere within the healthcare system.

We care about solving that and also, we care about the cost of those complications.

We're looking at big numbers here. You can see them. It's 9.6 days of extended time in the hospital. And patients who have a wound like this that it gets infected, it leads to amputation, morbidity and even mortality. So it's huge. It's \$10 billion in the U.S. alone.

We care about solving it and we're doing it today.

So, when you look at the brain or the business side of this, we're looking at a \$2 billion technology segment and it's growing at 3% to 4% globally and we think we can grow faster. Why?

Because number one, it's underpenetrated. Less than 10% penetration globally. And number two, we've got a disposable negative pressure wound therapy device that's growing at double digits today. We're already growing. We just need to lift it, and you heard Chris and Bryan talk about how we're doing that with our structure.

But what are the barriers then?

So in traditional negative pressure wound therapy, I think it comes back to thinking about the patient and the wound that they have. I want to kind of put in context what I've learned in the five weeks that I've been here with this great team. The average size of a wound is if I put my fist together, my hands together, this is the size that currently gets treated with Traditional Negative Pressure Wound Therapy.

So, as you can imagine, this needs to be treated by some very specialized nurses with specialized training. That limits the number of wounds that we actually treat and the sites of treatment as well.

But Chris just mentioned to you feel in place and that's going to remove that barrier. I'll tell you more about that in a moment. In disposable Negative Pressure Wound Therapy, it's really about bringing up the level of evidence and awareness.

We have the data. This isn't a white paper. This isn't a case study. These are peer reviewed published studies and they're the types of studies that decisions are made in reimbursement at the FDA and inside facilities and institutions about what product they're going to use.

We have 2,400 studies and we need to bring up our level of awareness.

And finally, in any med device business, there's going to be reimbursement challenges and we are working to overcome them as well.

So, what are the solutions that we'll bring forth?

They really fall into categories that expand our utilization. That's key.

We want to find the patients and offer them access to this wonderful product.

We want to treat those wounds and expand our utilization and grow profitably.

So, it's really about our commercial excellence. It's really about clinical evidence and education and lastly about innovation.

And I think I mentioned to you that I like innovation quite a bit.

So, I want to share with you more about Peel and Place because it really is a dramatically different product and it's really changing the mindset of nurses and clinicians and helping us expand the utilization of product.

So, behind you on the left, you see a picture of Peel and Place. That's actually, you peel it and place it. It's that easy. Even the product name is easy.

What that means for nurses is we no longer need a specialized nurse to be able to place the product. The nurses that are specialized practitioners are excited about this. They themselves are looking for more wounds where they can apply Peel and Place and they're saying, I can let any nurse use this.

Once again, this allows us patient access so we can treat more wounds and that will grow our utilization for profitable growth for Solventum.

So, really exciting.

Now, let me take you back to that wound. If you've ever had a wound that hasn't healed, you know it hurts. Imagine that wound and how much it hurts when you change a dressing.

One of the other things is our great technology that Chris spoke about. He spoke about the person at the patent office that has so many patents. We've got a technology here that when you remove the product or replace it, it doesn't hurt. In the past, patients cried.

I will tell you, I've listened to people talk about this. They cry at the time of placement and now they don't with Peel and Place. This is dramatic and those nurses who care about their patients because that's why they went into this, they care about this immensely.

And lastly, this is now a product that stays in place for seven days. It used to be that it was every three to four days. So, there's an economic advantage here. We're reducing costs, fewer dressing changes, less time on the dressing changes and considering where the patient might be in terms of site of care. In addition, we're reducing those costs.

So, Chris said game changer.

I'm going to say this is, we're going from complexity to simplicity with this game changer.

I will tell you, I kind of believe Dot Weir even more. She's on the bottom left of the screen and she says that this is a revolution. This is going to change the way V.A.C therapy is able to expand.

We're going to be able to save money for the healthcare system and we're also bringing patients comfort and cure. It's significant and it gets better because Prevena, the disposable negative pressure device that I just told you about, it also uses Peel and Place.

And this product came out with an initial indication for closed incisions. Now we have an additional indication. That's relatively new and we really haven't even spoken about that yet in the market.

So, again we get to expand our indication. That's now for open wounds.

So, this gives us even more opportunity for growth.

And not to nerd out, but I will a little bit because we're talking about clinical evidence here and it is important. It's what actually creates that strong brand. It's what actually creates that buy-in from our clinicians.

And in the RCT, which is a randomized clinical trial, that's the highest-level evidence that is needed in clinical literature. The RCT that we did for promises compared Prevena against standard wound dressings and the results were significant. The four-fold decrease in surgical site infections, bad for the patient, bad for the cost of the hospital.

A three-fold decrease in readmissions.

You may know this, but a readmission is not paid at the hospital level. There are also penalties and in addition, their quality scores are impacted negatively. That's serious.

Finally, in a follow-on cost study, it resulted in a 2x less cost for the total wound care.

So as you can see, this is about the patient, this is about the outcomes and it is about going back to our HBBS slide, the total cost of the complications that we're seeing.

Peel and Place is a dramatic improvement.

Our customers are pulling for it. The mindset shift is happening now.

What we're doing to grow is we've invested in additional capital so that we can feed that demand and also launch globally. It's an exciting time for wound care, for Negative Pressure Wound Therapy and for our team.

And what puts a wrap on this is our focused commercial execution. Chris spoke about this and I used this theme of complexity of simplicity and when you really think about it, he did that. Bryan did that. The team did that. They moved from a general bag to a specialized bag that simplifies what we do.

And having sold in the field for many years, I can tell you that focus is fuel and our representatives, 800 people strong, go out into acute settings, transition settings, sub-acute settings and our Advantage Center is taking care of all of that streamlining that I spoke to you about earlier. They know what they're doing. Clinical, sales, marketing are all aligned. The same thing's happening globally in our key regions.

In addition, they're aligned with their financial incentives as well. That creates focus.

There's also execution at the field level that we need to help them with.

So our business elements that we've provided them with, such as the right reports to go to the key centers and even getting the insights down deep on where are customers having problems, where they're having significant costs, allows us to be better partners.

We are solving for them.

So, we're working on that execution to give the tools to the team that they need to be successful. And finally, there's market development. Market development to me is really about voice and it comes from a number of angles. Bryan spoke of the investments that have been made in medical affairs and medical education.

This is happening with negative pressure wound therapy now in a renewed way.

We have the data, as I mentioned to you. Not a lot of people know about that Prevena study and they should, and they're going to now. We're also creating educational programs so we can deliver those to our HCPs, nurses as well as practicing doctors, wound clinics, all areas.

So, we can continue to lift this information to our customers so they can choose and treat these patients that need our help. For example, we're doing an international consensus publication and that will be on the proper use of V.A.C therapy in acute and chronic wounds.

That'll publish this year.

We're also working on reimbursement to extend in various countries.

That'll also be filed this year in dossier form. Those clinical studies are going to help that go through.

And at the field level, we're doing the same thing.

We have very talented team that's out there. They know how this product works and they see how well the outcomes are for our patients.

Now they're going to have the clinical evidence in hand, all the tools they need to focus their time and attention so that they can win for our patients because we are always solving.

I couldn't be happier to be here than I am now.

I think that as we grow, you will see, not only will we grow Negative Pressure Wound Therapy, but we will continue to look at opportunities inorganically and organically to grow this portfolio. Thank you for your time. I'll pass it now to my colleague.

Doug Bartlett - Solventum Corp; Senior Vice President, Infection Prevention & Surgical Solutions

That's kind of cool. You were right. Hi. Good afternoon, everybody. And Elise, thank you very much.

I'm Doug Bartlett. It's an honor to lead the Infection Prevention and Surgical Solutions business. My journey in healthcare began in 1988, right here in New York State, where I was an EMT on an ambulance. I was on an ambulance for a few years, got out of the army and spent the last 25 years in industry in a variety of sales and marketing roles, led businesses at Covidien and Medtronic, as well as Becton, Dickinson, prior to coming here to Solventum in September.

So, I'd like to take a few minutes here to talk about my business, and then in keeping with the theme, get into our growth drivers.

And when we think about Infection Prevention and Surgical Solutions, or IPSS, as we call it, we've got five clinically aligned product segments. And each of these products has a role to play in enabling that world with fewer infections and patient complications.

When I think about the stable of iconic brands that you see up here, Littmann, Bair Hugger, Micropore, yes, clinicians know these brands' names, but what I found interesting in going out on field rides is clinicians refer to our reps by these brand names.

That's my Tegaderm rep, that's my Bair Hugger rep. When nurses are doing that, you've got something, as far as brand perspective. And Chris and Bryan mentioned it. The clinical value and efficacy for many years of these brands is tremendous. We've got great products that go after great solutions, but you can't focus on everything.

And again, that's biasing our actions, biasing our growth drivers, means a lot. It means you can't focus on everything, but you got to double down on the areas that you do.

And with this new structure, the transformations that Bryan and Chris have talked about, what that allows us, Elise and I, to do is really speed our decision path, our commercial execution, and our innovation pipeline by really viewing these two very large and distinctly different businesses and allowing them to govern themselves.

So that takes us to where we need to go next, our bias and our focus and our clarity onto our growth drivers. So, I'm going to start with IV Site Management, which is our longest, our largest growth driver, and then end up with Sterilization Assurance.

Now, with IV Site Management, there's a lot of excitement within the team. This is a space that we own. They should be excited around IV Site Management because the Tegaderm brand is essentially created, we created this category, the first flat film dressing, and we've continued to innovate for over 40 years here. That brand is the gold standard for clinical performance.

That's great, but why are we doing it?

When we start with the heart here at the top, IV site infections are a really serious issue. They're more common than you might think.

Over 10% of patients who are on an IV therapy develop some sort of infection.

That's a lot, and it's serious.

But IV sites are a direct channel into your bloodstream. It's a puncture into your vein or your artery. So, if you get an infection there, it can be really serious. That can increase your mortality risk by one and a half times.

You can see the cost here, staggering \$10 billion just to care for these patients in the U.S. alone.

But when you take the human cost aside, what does that look like as a market? IV placement and IV site management as a market, it's growing, it's a solid \$2 billion market. It's growing due to aging patient demographics, broader access to critical care globally, trends that you'd be familiar with.

But when you really unpack that \$2 billion, what that consists of is 1.2 billion IV lines. They're broken into two categories, advanced and peripheral.

Advanced lines are long-term surgically implanted IVs, venous catheters, PICC lines, ports, things like that. For the last number of years, many hospitals globally have adopted antimicrobial IV site management technology on those advanced IVs on those critical care patients.

But that still leaves the vast majority of IVs. Ninety percent are what we call peripheral IVs. Those are kind of the IVs that I think everyone in this room has probably had at least one of.

But they still carry a risk of infection. They are still a pathway into your bloodstream. The penetration of antimicrobials there is very, very low. You can see only 25% of those patients.

So, we've got a lot of room to grow. But that takes us to our barriers.

What is the biggest barrier?

We look here at the middle, it's that lack of clear guidelines and reporting standards for peripheral IV site infections.

Now we've got plenty of evidence to support the effectiveness of Tegaderm antimicrobial. But to get adoption, you've got to work with customers to make sure that they've got guidelines, standards, and workflow compliance. And also, when we think about barriers in the market, CHG drug device combo products like Tegaderm have often faced longer approval paths in regions outside of the U.S.

As an example, we've had a full Tegaderm CHG offering in the U.S. since 2020. We're just now launching in 2025 our full offering in some of our key markets.

So, what do we do about it?

When we think about the solutions that we're going to use to expand our utilization - Again it's going to tie to some of these themes that you've heard before around commercial and clinical evidence.

But now I'd just like to focus a little bit on the how.

So to expand the growth of Tegaderm Antimicrobial, we've got to have the right bundle of products available in all of our markets. We've got to have good clinical evidence, dedicated resources, and that focused alignment to drive clinical awareness and customer adoption.

So good news. We've got the product. We've got the evidence. You can see there on the right, Tegaderm CHG is the only transparent dressing cleared by the FDA to reduce catheter-associated bloodstream infections.

So, we've got the product. We've got the evidence.

But now we've got to focus on these other growth accelerators in the middle, like product supply and availability. We've made significant capacity expansion and supply chain investments that Paul will talk about a little bit later.

That's to ensure that we don't have gaps in supplying our customers these critical products.

And after a long wait, we're proud to be launching our full line of Tegaderm CHG into key countries in Europe for the first time. And globally, in the U.S. and all our regions, these launches are being driven by those dedicated sales, marketing, and clinical education teams.

Those clinical education resources are key for us globally to drive conversion and adoption from the hospital administrator all the way down to that nurse at the bedside.

And our team's got the library of evidence and real-time tools to help our customers make the best decision for their patients and to prove that our products are having the impact that we say they will. And as we see more and more customers moving to Tegaderm Antimicrobial across all of their IVs, it's going to be key for us to help share their experiences and spread that word to those standards generating organizations.

Now, this topic of IV site management is a key topic in standards bodies like the CMS in 2025.

We really hope to see continued momentum here from this discussion that'll help protect more patients from IV site infections.

So now, I'd just like to finish with our last growth driver, sterilization assurance. Now, I'll be honest with you. I've been in medical devices a long time. I did not know that this category existed before I came to work at Solventum.

But I can tell you, as I look at this HBBS and start with the heart, this one is deeply personal to me.

There are 160,000 patients who develop surgical site infections every year. That's true, and that's a 2023 statistic. In 2023, I was one of those patients. I had surgery on my fingers. I got better. I was home, but I had an infection I left the hospital with. Didn't know about it until I came back, and it came within hours of taking my life. I was readmitted to the hospital for seven days at a cost of \$68,000 to my healthcare system.

I had an advanced IV line placed into my heart and sewed on for 10 weeks. Thankfully, it was covered with a Tegaderm CHG, so that was good. All this stuff comes together, right?

But it's not just about the burden on me as a patient and my healthcare system. It's also about the operation of the hospital. If you look at that stat on the right, \$60 a minute, what that means is when there is a break in sterility in a hospital, they have to recall all of the instruments that have been used or haven't been used yet since their last sterility validation.

There's an enormous cost to that, \$60 a minute, and it takes four hours to fix the average one. So there is an enormous pressure for the sterilization team, the sterilization departments to perform, and that drives this market. It's a large market. If we look at this brain, \$4.2 billion, solid growth.

Now, a big part of this market is capital equipment, sterilizers, instrument washers. That's an area that we don't play. Our sterilization assurance offerings, they consist of the consumables and the supplies that customers use to ensure that their instruments are sterile and that their sterilizers are functioning properly.

Our solutions are recommended by numerous global organizations like the WHO, but globally, we're still far under-penetrated.

And that brings us to the barriers because while our solutions are recognized brands in the market, we invented the main two types that are used, many customers still don't monitor every load of instruments that are used on every patient, as crazy as that may sound.

But this is for a number of reasons, right?

Many of the requirements, many of the tasks and the tests that these customers do are still paper-based, and they got subjective results. They got manually intensive processes, which leads to inconsistencies, which leads to inefficiencies.

If you look at the sterilization department in a hospital, they are on a very tight performance timeline pressures. They've got, often have a lot of new staff turnover, and that makes it difficult to add new processes, especially ones that are manually intensive. And at the end of it too, customers are reluctant, as you might expect, to share their infection data very openly, right?

So, you've got to work with them side by side, individually, to institute new technologies into their workflow and processes to make sure that they're getting the results.

So, what do we do about all of that?

I want to just wrap up here and now tell you our solutions. How we're going to drive this growth within sterilization assurance is that same clinical education you heard before, but also with some exciting new products.

So, again to drive that utilization and grow towards every load, every time for every patient, we've got two key launches going on here to highlight.

Now both of these products are first to market innovations in the space, and they address the barriers to adoption that I just covered in a couple of different ways.

The first one here on the left is the eBowie-Dick test reader. Now this automates an 80-year-old, antiquated, subjective, color-based test. You'll be -- I would invite you to come see the side-by-side at our booth a little bit later, but instead of a big pack of paper, you now have an electronic card that gives you an instant pass-fail reading, eliminates 94% of that paper waste, about 88 pounds per sterilizer per year, and takes the subjectivity out of it. Takes out your guesswork for maintaining your sterilizer, and that gives our customers a digital record as well, instead of using paper logbooks. That helps them maximize their performance and minimize their downtime.

The clear test pack on the right, it replaces the do-it-yourself kit that customers have essentially done for years.

We place all of the indicators that they need into one clear view packaging, speeds their workflow, and provides consistency in that sterilization process.

Now all of these launches and our activities, again, are supported by a dedicated commercial team. Really a lot of passion and experience in this group. It's a very different call point within the hospital, and we've got a lot of deep knowledge here.

I was able to visit with some of our U.S. customers and our Chinese sterilization customers. All of them remarked on the strength and the value of our clinical education and support. Not just about, hey, you've got good products.

So, it's key that we continue learning with our best customers. We've got many top hospitals globally that already are using Every Load every time for every patient.

We have what's called the Every Load Monitoring Program to recognize them, but to also work closely with them to understand their best practices and to generate some retrospective evidence.

And that will help support the expansion and again get us closer to our goal of Every Load Monitoring. So again thank you all for the time. And now I'll turn it back over to you, Chris.

Chris Barry - *Solventum Corp; Executive Vice President & Group President, Medical Surgical*

So, I'll just take, oh, sorry. Just one quick wrap up for MedSurg.

So Bryan talked about attractive setup, large diverse markets, good strong clinical evidence, good solid brand equity, strong global reach.

We also talked about the foundational improvements that needed to happen. A lot of those have been done. Sets us up for accelerating some of our growth and strategies, which have now been clarified. We're focused on the innovation engine.

All of that, we believe, sets MedSurg up to accomplish what I said before, which has become that foundational, consistent, predictable growth foundation for Solventum going forward.

So thanks for listening. Appreciate it.

Karim Mansour - *Solventum Corporation; Chairman, President, Dental Solutions*

I like the accent of Karim Mansour. That was good.

Okay nice to meet you all. My name is Karim Mansour.

So, I lead Dental Solutions for a little more than two years.

So, in other words, I've been going through the spinoff, the before and after.

And just let me tell you how impressed I have been through under Bryan's leadership and my colleagues about how much we truly have done in less than a year. It is truly impressive.

What's equally impressive is the level of response of our team around the world. They every day go and visit customers and build the brand of Solventum. And a lot has happened already in less than a year again.

So, kudos to the team too.

I come myself with 20 plus years of experience in leading healthcare businesses. Started in my home country, France, and obviously had multiple international assignments and now leading Dental Solutions.

So, let's get into it.

Dental Solutions is a \$1.3 billion revenue for Solventum.

Our business is truly global. 60% of what we do is outside the United States.

We contribute for 18% of the total Solventum company revenue.

We have built strength over time.

We have a more presence in more than 60 countries with dedicated manufacturing and supply chain capabilities that it's really good to have as we think about growing this business.

We play in a very attractive field. A \$19 billion addressable market meant to grow 3% to 5% in the next five years.

And so let me share a little bit more about market trends. Similar to any medtech business, the fundamental of the growth - of what supports the growth in the dental markets are there, are very solid. Aging population, access to care, demand for aesthetic, all those are extremely important.

And I shall mention that the growing importance of dental care as an answer to overall health, today's World Oral Health Day around the world, so important. Hopefully this presentation can also serve as a good base for growing the awareness of everybody in the room. Go to your dentist, make sure that you make that happen.

But not only those fundamentals are there and solid, but yes, we've seen over the past couple of years, a growing demand for digital solution in that space.

Solution that brings custom-made solutions for patients. In-office production, think about 3D printing. What matters in each of the discussion we have with dentists and orthodontists around the world, what matters to them is, you have to tell me more about the quality of the material that is going to be used.

And this is where we play and we can maximize our growth potential moving forward. The competitive landscape, you have a few names at the bottom of that chart. Those are companies that you probably know that plays in our field. Some of them are very focused, dedicated to one of their core portfolios.

Some of them are much broad-based.
But the key takeaway also of that is that two-thirds of the market is still extremely fragmented.

The reality for us, as we think about partnership, alliances, even M&A, we have a ton of opportunity as we think about it.

So, I'll now move on to strength that we came with as we became Solventum.
We have category-leading position in a few spaces, but important spaces.

We are known in dental care solution as much as orthodontic solution.

We've built significant brand equity over time.

As much as people in hospitals would know Tegaderm, dentists and orthodontists would know Filtek composites. They would know RelyX cements. They would know Scotchbond adhesive. They would know Clarity solution for orthodontics.

So, we have that level of strong equity.
The way we go to market is direct.

We have close to 2,000 professional cross-functional team around the world calling directly on dentists and orthodontists on a daily basis.

We also have built over time strong relationship with the channel. Those are important partner for us as you think about reaching those many different locations, thousands of many locations.

We've leveraged that relationship over time.

I can say we do have a strong relationship with the channel.

So, we've been equally intentional in following a recipe to reposition dental solution for growth. Talking about talent, organization, capabilities, commercial effectiveness, innovation.
We are now preparing the phase around M&A and thinking through a token acquisition on that space.

But let me focus first on what has changed in less than a year.
We have assembled an extremely talented leadership team.

I shall say an extremely talented extended leadership team.
Some of us are in the room. Good to see you team.

We really have taken the time to have good peak internally as much as externally so that we can build a strong organization as we plan to go to market strongly.

And thinking through the commercial productivity size, it was important for us as we prepare ourselves to bring to market a very differentiated solution. It was extremely important for us to get specialized.
That's what we are doing as we speak. And Chris alluded also to channel, channel management in our space critical.

We had strong capabilities in the U.S.

We needed to beef up our capability in channel management and key accounts outside the U.S.

That has been done.

And last but not least, on the right of that slide. Yes, R&D is a key asset within dental solutions.

But what's more important is the ability to bring impactful, meaningful new product to markets.

What was important that was achieved over the course of the last year was really to make sure that we were bringing back the right level of rigor and discipline in bringing on time in full those new products to markets.

And what I can share with you and you can -- you will see that on our booth is that we successfully brought four new products to market at the end of 2024.

I'll mention some of those in the next couple of slides.

So who are we?

We are a dental company that provides solutions to practitioners so that they can deliver healthy and beautiful smiles to the patients.

We've built strength talking about two specific areas, tooth restoration and teeth alignment.

Our focused portfolio strategy starts with our gross driver number one, gross driver for dental solution being co-restorative.

Think about again tooth restoration, materials like composites, cements, adhesives that are being used to perform those procedures.

We have strong category leading position in that space, but we aim to double down and make sure that we build undisputable leadership in co-restorative.

We have built over time an aligner business, small.

If you remember, for those who were there a year ago, what we said at that time is that we would grow our participation to that market. The day we would come with a differentiated solution.

I'm extremely happy to share with you that we just brought to market a differentiator.

We brought Clarity Grip Attachments.

Again, if you go to your dentist, ask for Clarity Grip Attachment. What are we talking about?

We are talking about a disruptor in the markets.

We are talking about the fact that we just brought to market a 3D printed attachment preloaded in a tray that makes a difference, not only in chair time, patient experience, but treatment outcome.

We are just launching the case we speak and we aim to make a difference.

We made that our internal bet as Bryan alluded to. Not yet a growth driver.

Over the course of 2025, we're going to demonstrate to ourselves that this is a growth driver.

But we are bringing innovation in that space and that's how we make a difference. And for the rest of our portfolio, we're going to be selective. Where we think we can make a difference, we will.

I'm going to give you just one example. Again, you need to go to your dentist. Why?

Because you often do, hopefully for you, you do fewer treatments. Are you?

Hopefully you are.

But what was the problem to date?

The problem was those solutions are extremely sticky in the mouth. The experience is extremely poor. And more than this, you need probably to wear one or two hours before you do anything else.

We brought to markets in Q4 Clinpro Clear. You want to ask for Clinpro Clear. Clinpro Clear is a water-based solution that just stays 15 minutes in your mouth and you have no stickiness and the same outcome, even greater. So this is a new product also we launched. And again, being selective, where we think we can make a difference, we will do it.

But the focus being our growth driver in co-restorative.

And talking about this one, why does it matter?

Tooth decay is still the number one noncommunicable disease in the world. It does impact millions of people, if not billions of people.

Tooth restoration, preserving as much tooth structure as you can matters, especially in the context of aging population.

So, composites, adhesives, cements, those solutions that we have where we can make a difference are extremely important for millions and billions of people around the world.

In other words, if you think about how big of an opportunity we are talking about, significant in size, significant in growth, and there to stay. Very resilient subcategory within the markets.

So, when we looked at the barriers, we understand that we needed to understand even better before we start innovating, making sure that we address those barriers. And barriers are people anxiety to go and follow procedure. Complexity of procedures, multiple-steps required to get a proper tooth restoration.

So what we have adopted as we bring, as we think about the way we're going to solve that matter, that problem, that challenge, we adopted a four-pillar strategy when we look at innovation.

We looked - and we'll pay particular attention to those - those pillars are what key opinion leaders, dentists and orthodontists would require. They are looking for solution that simplify procedure, decrease chair time, improve patient outcome, and reduce treatment costs. This is what they are looking for.

This is the length through which we evaluate any opportunity that we want to bring to markets.

And thanks to that clarity around what needs to be solved and how we've adopted two solution steps.

One is rebuilding innovation leadership and enhancing commercial effectiveness. I'm just digging a little bit into those two, but yes, we do have also in dental solutions, crazy good scientists, extremely good ones.

Material science for us is there.

We've now made the bridge between material science and digital science.

We feel strong about that with significant addition in expertise that we did in 2024.

We have strong brands that I said.

We just brought a new product to market, a new composite, simple shading. Again, I invite you to stop by and you will see that new product, Filtek Easy Match, a product that is already well received.

But more importantly, at the very bottom of that slide without sharing too much, we've started to rebuild our innovation pipeline.

We brought a new composite to market in 2024, but we plan now to bring to market new product on a more regular basis.

That's what also brings our level of confidence higher for co-restorative.

But if innovation is important, enhancing commercial capabilities is another. I already touched on the importance of having specialized sales force, which we have.

I will also touch China and ecommerce - it is obviously investment we are making to make sure that we streamline the relationship that we have with our customers.

But evidence generation is education and QL engagements is a muscle that we are beefing up to. It does matter at the time where we bring significant disruptor and innovation to markets. What's being asked is bring those evidence to us and

make sure that you have proper level of education, components and support so that we can adopt your solution faster. That's what we are building also to support our growth.

So all in all, co-restorative for us, we start from a position of strength, but we are doubling down to make that an even bigger growth driver and contributor to Solventum.

In a nutshell, what I shared with you is dental solution is repositioned for growth through a focused portfolio strategy.

You heard me talking about co-restorative being a key component of our strategy.
We're going to leverage our innovation capabilities as much as commercial capabilities to do that.

We have presence in 60 countries around the world and we have the right team of professional to deliver on that objective.

So that's what I wanted to share with you. Thank you very much.

Garri Garrison - *Solventum Corporation; President, Health Information Systems*

Good afternoon, everyone. I'm Garri Garrison and I lead our Health Information Systems business, which is completely different than what you've just heard about in the last two sessions.

So, I've spent 45 years in the healthcare market. And first as a clinician and then actually an executive leader within the hospital setting.

Then from there, I actually went to a consulting firm and was vice president of a consulting services that we provided to the industry related to medical coding, clinical documentation, reimbursement and quality.

Then I've spent the last part of my career within Health Information Systems, actually leading multiple different business areas and functions and then took the president's role about three years ago.

So let's talk a little bit about this particular business.
We really provide software and services as well as content into our healthcare providers.

We do this in three areas, revenue cycle management, what we call clinician productivity solutions, and then also in performance management.

We actually produce about \$1.3 billion in revenue each year.
We do have a very nice addressable market of about \$10 billion. That's primarily in the U.S.

Then we see expected growth rates between 5% and 6%.

We are primarily a U.S. focused business.
We have about 10% of our business that's global.

But this is really an emerging area for us as we're just now seeing a lot of countries become digitally available. In other words, they've not been able to have a lot of electronic health records outside the U.S., but that market has really started to change.

We actually have 40 years of experience in this space. We've actually supported 32 states and also 34 countries with specific content, whether it's related to reimbursement or whether it's actually measuring quality.
One of the things that's uniquely different about us is we get about 495 million clinical documents a month.

So we're able to really look at events that are happening and be able to use that data internally in our products.

So HIS is a solid business.

We have deep penetration and we have a high volume of recurring revenue. When we talk about leading positions, we actually lead the market in three particular areas. In coding products, in clinical documentation improvement, and in

methodologies.

I'll spend a little bit more time on those as we get further into the presentation.

We have really strong brands in what's called 360 Encompass, which is our computer assisted coding platform. Then also in Fluency Direct, which is our speech platform.

We sell directly to hospital systems, to physician practices, to state regulators, to payers.

Then outside the U.S., it's often to what we call the ministries of health.

Key competitors in each of these pillars are completely different. You'll see some big names here. The interesting thing is, is that most of them only play in one channel or one sub-segment of what we do. A lot of these competitors are also customers because they use our content or we embed workflows into their tools.

So let's talk a little bit about HIS in total.

We operate in three business pillars. Revenue cycle management.

So if those of you are not familiar, this is the process where we actually assist in documentation creation.

We actually code that information and then allow that to be passed to the bill, which is essentially how the healthcare entities get paid.

So it is part of the process they go through in order to get reimbursed for their services.

When we talk about that, we're really focused on eliminating waste in this space. A lot of these processes today continue to be very heavy with human labor and they're a little bit fragmented in the healthcare space. We're a global leader in this space with our coding software, widely used.

So like Karim, he says, you need to go to your dentist. Well, if you're going to your doctor, there's a really good chance that the claim that goes to your payer has been touched by us on the back end. They're using one of our products.

We're focused also on not only coding it, but making sure that we do it in a compliant manner that's in accordance with the regulations that are published that we have to follow.

Then one of the things that we're doing is we're actually helping to move the market to what we call autonomous coding.

So what that means is is that we can take the human out.

So it will become much more efficient with a lot less requirements for personnel to do that.

Then we're also moving how denials are managed today to the inpatient counter. I'll go into this a little bit detailed when we get into some of the product reviews.

Performance management includes things like consulting, methodologies, payer services, and analytics.

So, this is the type of things that we actually focus on to help drive what we call value-based care improvements, really focus on improving outcomes and being able to help our customers reduce their cost.

We're a global leader in methodologies that are used for payment and for quality. We build tools that can help measure and identify both quality issues. So things where we can capture preventable complications, preventable readmissions, things that are actually inefficiencies or outcomes that we are trying to avoid. So these tools are used broadly by payers as well as states to measure quality of care.

We also deliver analytics to payers that can help them along with helping the providers improve the performance in their accountable care arrangements. Then lastly, we build payment tools that can be used for value-based care payments. So things that you've heard in the past, like bundles or episodes of care.

When we talk about clinician productivity solutions, these are really tools that reduce the administrative burden for our clinicians and our physicians. So what we're really trying to do here is give them more time to care for the patients and less time that they have to spend on the computer or typing into the electronic health record.

We are one of the leaders in speech for text and for the past four years we've actually been named best in class for our radiology product in this space. One of the things is if you've been watching the earnings calls is that Bryan has mentioned

of is that we've had challenges in this particular arena and that's because we're late to market with our ambient solution. We are very heavily focused in 2025 on addressing this factor.

Now what I'll do in the next slide is really tell you about the things that we've done in the past 12 months that's really going to transform our business. So, when we talk about Phase 1 we look at talent culture and structure. One of the things that we have is we have a leadership team within HIS that are deep subject matter experts. They are very knowledgeable in the reimbursement and the regulations around this space.

We've added additional data scientists in the last year because we need that in our development teams as we continue to do automation for our customers, and we've raised the bar on excellence throughout the organization. Accountability, we put more of the decision making into the businesses. We've also focused on commercial productivity, how we really go to market, what do we need in the businesses to be very successful.

We've shifted our marketing teams back into the businesses so that they can help drive the commercial execution. We provide capabilities to our customers that really tell them what the return on investment is from the product that they're purchasing and the benefit that they're getting. We really have selected in the international space very key countries that are digitally ready to be able to install our products. So we're very focused on doing that in a methodical way versus trying to spread the peanut butter, frankly.

Then the other thing we've done is we've aligned our sales incentives to growth. So we've incentivized our sales team on new products going to market so that we can get penetration faster.

When we talk about innovation, one of the things we've done there is we've restructured our R&D teams and our implementation teams and shifted them actually into the three businesses. So they are aligned with the business leaders and the marketing teams so that we all are very focused on new products that we're innovating and that we can be very effective when we go to market.

We put together a strategic plan that's really focused on how do we support the vitality index improvements that Bryan laid out for you in his original opening. Then we've embedded generative AI into our new platforms as well as our existing platforms.

So, let's talk about revenue cycle management which is our growth driver. So, one of the things that really makes this a focus for us is the fact that there is a 30% shortage of coders across the globe. So, there is not enough skilled workers to actually do this process. So, a lot of times we hear from our customers is they are behind even being able to drop their bills. 70% of all hospitals today have revenue opportunities that they may not even be aware of because they lack the tools.

Then the thing that we're seeing that's really plaguing our customers right now are denial rates. You guys see that in the press. It ranges from 15% to 30% based on the payer. So these are significant challenges for our customer base. What's really interesting about this is that with all of this revenue leakage, this impacts their cash flow. It impacts their ability to do hospital investments and capital expenditure and ultimately impacts what they can actually provide in services to the communities that they serve.

This is an attractive market growing at 5% to 6%. Again \$1.4 billion addressable market in the U.S. What we're starting to see in the international space is about \$0.8 billion.

What has been the barriers in this space?

Well, the first you guys are very much aware of is that hospital margins have been constrained for the past couple of years. We did see improvement in '24, but there was a publication that just came out within the last two weeks that says 700 U.S. hospitals are at risk of closing. So, there is still a challenge with margins in this space. It's due to labor and supply costs.

We see customers lack the tools and knowledge to really know where their revenue leakage is, so they don't even know where they can help themselves in a lot of these situations. Then outside the U.S. it's that limited digital infrastructure that we are starting to see emerging markets actually come online.

So what are the solutions are that we're building? We're really focused on solutions that really help us address things like automation, being able to help with that revenue leakage, to be able to put it into the workflow so that they know what to do, and then also expand our computer-assisted coding into the countries that are ready to take those digital capabilities.

So now what I want to talk about is in revenue cycle growth driver, we really have our growth drive. We have three components to that. The first to help with that global shortage of coders is we want to move to what we call autonomous coding. 50% to 90% of the claims in specific service lines can be coded autonomously with an accuracy rate of 95%. So that means less coders will be needed in order to do this function with the autonomous tools.

What we use is we actually use generative AI and what we call a rules-based model to enable this coding. A lot of people ask me, why do you do both? Because everybody's very enamored with generative AI. Well generative AI learns from data. The problem in this space is there are new codes and new rules that come out very frequently. No claims have been coded that way.

So, you don't have the capability to train your generative AI products. You need to be able to still be compliant on day one that those new codes and new rules are required. So, we overlay both so that we can meet that compliance need until there is enough data that we can do it through just the generative AI tools.

We do see autonomous coding improves coding accuracy for our customers. We also do a process where we measure the confidence levels of those codes so that the customer can make a sound decision on whether they can take the human out by allowing those confidence levels to drive those decisions.

We also provide them with a workflow. A workflow that allows them to actually either drop that bill directly or to feed it to a human to do the validation that's needed on those complex claims.

Why are we different? First of all, it's the volume of data that we have to train our AI models. It's the coding expertise that we have deep within our organization. It's the workflow to handle the decisions on each individual claim. Then the fact is that we also curate that code, meaning it's not a word to a code.

You need to go through all of the decision rules and all of the regulations that tell you what you're supposed to do with that code. That's why we have competitive opportunities here in this space with our experience.

Now I want to go to the second component of our revenue cycle management growth driver. It is revenue integrity. So, revenue integrity is an important component because it's really built to address the plaguing denials that we see in the industry right now. This is a tool that really changes how this is done in the industry.

Today most denials are handled retrospectively. They cause rework and delays in payment. What we do is as we're moving these to being handled in the encounter, we identify the likelihood of denials going to occur. Then we provide guidance and actions and knowledge to the person who handles them during the encounter, which really will disrupt the way these are managed today.

Our goal is to really avoid the denial, expedite the cash flow, and prevent rework in this particular area. Then after that, we can use the analytics and insights to actually enhance our tools as we identify that the payers are changing those rules.

Then the last component of our revenue cycle growth driver is actually expanding our computer-assisted coding systems into these emerging markets in the international space. Many of these countries are also moving to DRG reimbursement, which is similar to the model we have here in the U.S. This is an under-penetrated market for us with a long runway to help drive growth. The four countries we're really focused on is Canada, Germany, the Gulf region, primarily Saudi Arabia and the UAE, and then Australia and New Zealand.

So key takeaways around the Health Information Systems business is we're a solid business with deep penetration today. We're uniquely positioned to win in this space.

We have a strong base of contracted recurring revenue. Our coding system is the most widely used in the world.

We combine not only our content expertise, but we do that with data science and digital capabilities. Our plan is to expand our footprint across the globe. So in closing, what I would tell you is that we've made significant strides in the past year. We've made foundational changes.

We've clarified our strategic direction and really identified where the growth is going to come from. We're focused on creating value for our customers and our shareholders.

So thank you. And I hope you guys will join us at the showcase to see some of these products.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

So, I think you guys heard some great information earlier today. We're running a little behind schedule, but that's because there was so much to share with you. So, we're going to shorten the break to about 10 minutes.

So, if you can be back in seat about 2.50, we'll continue with the rest of the program. I think bathrooms are just outside down the hall. Grab a drink, check out the showcase, but don't spend too long. Listen for the sound. Be back in 10 minutes.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

All right. We're going to try to pull everybody back together again. I always hate to be the one trying to get everybody back in. I don't want to get mad at my investors, so I'm going to let you take your time.

All right. So, I'm going to transition now to the second half of our presentation and the Q&A. Hi, guys, we can sit down over here. I've got to, number one, talk about just a rehash of what we just discussed. One of the most important things we will do as an organization is get the flywheel moving through revenue growth.

We just talked about the five growth drivers. You've seen a deeper dive on each of those. Hopefully you now understand them, why we feel excited about them. We will begin to enhance those, as we said, given the financial flexibility we have to do M&A.

But very importantly, we want to make sure that we're doing this in a margin-friendly way all right? Expanding margins as well, because that's a great addition to increased revenue growth.

Number one, through our Solventum way of restructuring, that was first and foremost a restructuring to get the structure that matches the culture of the organization, but it also derives savings, which we're going to realize this year.

Then from a gross margin standpoint, we're going to have Paul come up, who runs our manufacturing group, supply chain, and talk about how he's focused on margin enhancement. You might be surprised from manufacturing for him to start with growth.

He's going to support the growth of the company because there's no more durable way to drive margin expansion than getting absorption in your factory because your volume is going up. The second is doing it in an efficient way and he's going to talk about programmatic savings and what he'll be focused on and his team as we go forward.

But first, let me just spend a minute on Solventum way. Again, the primary emphasis here was to get a structure that's decentralized, that supports decision-making, speed, and accountability. That's what we have through this structure. But it also drives savings, \$120 million of savings, and surprisingly for a lot of these, there's a one-year payback, so only \$120 million of costs to get to that savings. You can see the reduction in people because we wanted to shift where we were focused from a team perspective.

And we will continue to focus on optimizing our organizational structure to ensure that we're driving margin, not just revenue growth. The combination of those two things drives our EPS and drives our cash, which is very important from a success story perspective. So with that, I'm going to move quickly to Paul Harrington.

He's going to introduce himself and talk about how he's focused on gross margin expansion.

Paul Harrington - *Solventum Corporation; Chief Supply Chain Officer*

Well, while we're waiting for the slides, my name is Paul Harrington. I'm the Chief Supply Chain Officer for the company. Just a little bit about me. I have over 20 years of MedTech experience, split primarily between Covidien and Medtronic. I joined Solventum in November of '23, and I have to say it's great to be working again with Bryan, Wayde, and Chris, who I've worked with before.

So, let's jump into supply chain, and we'll give you an overview of what supply chain is for Solventum. So if you look at the network, our network is well positioned globally to support our customer base. More importantly, it is regionally focused. So as you think about where revenue is generated, our footprint closely mirrors where our revenue is generated from.

If you break that down a little bit, we have 29 manufacturing locations. 15 of those are in the Americas. We have 10 in EMEA, and then we have 4 in AsiaPAC.

We also have a very detailed distribution network of 57 DCs that we work through, and 140 service centers. Those are all designed to be in place for our final mile delivery to our customers as quickly, and we can service the customers well.

So you might ask yourself, why is supply chain presenting here today and what is supply chain doing on the Solventum journey? Well let's talk about the imperatives that we have as an organization. Firstly, we want to enable growth. We want to service the business so that we can start growing again as a company.

We're then going to be focused on margin enhancement, and then we're going to be focused on the separation work. As you think about Solventum standing up from 3M, we have a lot of work to do around the separation work. If I jump into servicing the business and how we support growth, that's a key objective for us, is to get the business growing.

So, if we think about what we've done to enable that going forward, we've put key service metrics in across the supply chain so that we can measure how we're performing and driving service improvement, fundamentally improving our back order and improving our on-time in full measures to our customers.

From a -- how do we win the business - we've put into place a sales and operations and execution process. That's how we win the week, how we win the month, and how we win the quarter, partnering in close collaboration with the sales team about what and where they can sell it from, and that's working exceptionally well.

We've also looked at how we put inventory around the globe, how we reallocate that inventory, and we've focused on putting -- making inventory available to our customers. In some cases, particularly in EMEA, we've driven a 20% improvement on our on-time in full measure on just reallocating it and putting it in the right place.

We also focused on reducing our back order, and to reduce our back order, we had to look at our key constraints within the supply chain. We put productivity measures in place to boost output and make product available.

Then finally, we've been working with our suppliers, as everyone in the supply chain world knows, through Covid, the recovering of supply chain credibility, we've worked with our suppliers to remove the constraints so that we have credible supply and credible material coming into our manufacturing locations so that we can manufacture on time.

As you think about margin enhancement and what we can do around margin enhancement, we need to drive programmatic savings to give money back, and our goal is to drive more programmatic savings greater than the headwinds we have in inflation.

As we look at how we're doing that, we've launched an integrated business process planning so that we're closely linked with the sales team on exactly where they want to sell product, what product they can sell, and in which region. Once we have that, we can then look at how we bring that back into the supply chain team to look at how we manage capacity.

Managing capacity and having the right capacity in the right location is going to be key about how we drive productivity. Then finally, as we think about how we're driving margin enhancement and how we work together, we're building out an operating system. That operating system is going to enable the network to move together as one team as we can drive continuous improvement.

Then finally, the separation activities. Separation is, Bryan mentioned this earlier, we have a complex disentanglement going on. So, completing the separation activity, we have a three-year timeline for the supply chain work, and we need to do carve-outs from plants, we need to do line moves, we need to set up our own distribution network.

Then as we think about how we do that better, we're working with material redesign as well. So, thinking about the redesign of materials and making materials readily available. And finally, Solventum is making a huge investment in the ERP system.

So, as you think about enterprise resource planning, how we plan, source, make, deliver, that new ERP system is going to totally separate us from the environment we're in with 3M. So, I'm going to unpack that in a little bit more detail as to how we're doing that, and we're going to focus first on how we think about servicing the business. So, as you think about servicing the business and the supply chain around this, we need to get the business growing.

Each one of my peers has come up here and told you about their plans for growth. So, we need to align the supply chain around that and do that. Historically, the healthcare business pre-Covid run about three and a half days worth of back order, of sales to back order.

They've focused on optimization of costs, optimization of inventory, and equipment utilization. In Solventum, you heard about our mission and you heard about how the supply chain is going to become a customer-focused organization and patient-centric. We're going to make sure that we drive back order down to less than half a day's worth of sales.

That's our goal. So far in the last year, we've reduced back order down by 33%. Our plan this year is to reduce by 35%, and we're on target to address those.

But if you think about the levers that we have to address that, firstly is our integrated business planning. We have to have a line to our long-range plan that is aligned to the regions, it aligns our capacity, and we make sure that we're fully aligned with the sales team about what they want to sell, where they want to sell it from. We're going to look at our network.

We're already looking at where product is made. As we think about a globally connected platform of products, how do we regionally manufacture that and make sure that we have local value streams in region, focus on that plan, source, make, and deliver, making sure that we can supply that product quickly and readily and locally. We're also working, as you think about this integrated business planning, how do we cast that back to our suppliers?

We have contract manufacturers, we have raw materials. We need to make sure that as we think about growth, that our supply chain from how we source is aligned with us. We also need to make sure that from a delivery perspective, our network is aligned around that as well.

So, a lot of work being done with our supply base. Then finally, as I talked around the ERP system being rolled out, that's going to give us great advantage in how we can make information readily available.

That connected with a digitalization strategy of how we get information from the shop floor, from our suppliers, from our DCs, means that we will have a more agile network so that we can make better decisions quicker in how to support our customers.

Now, if you think about the second imperative, which is really about how do we drive margin enhancement, and if you think about margin enhancements, we need to have a robust program to drive activity, to drive cost out. There's three areas that we're going to try and do that from. Supplier excellence, continuous improvement, and network simplification.

Supplier excellence is really geared around materials. So how do we address our material spend? Already underway we have supplier negotiations, freight optimizations, indirect spend.

Day one is standing up as Solventum. We engaged our supply base with new contracts, but also working within what our program is to drive -- what our program is as far as growth and long-term success. We know that as we continue to work supplier excellence, we need to introduce new programs.

VAVE, which is value analysis and value engineering, which drives standardization, and then collaborating with R&D to work on how we redesign materials to make them more commercially available. From a continuous improvement

perspective, we're going to continually improve in everything we do in supply chain. We're going to do that on a daily basis.

We've already completed over 400 Kaizen events in the last year, making sure that every location is working in a lean way. We've already started yield and productivity. Last year, we drove a 10% improvement in our yields and on production scrap, but we know that we need to do more.

We're going to expand our automation program. We're going to look at how we optimize production through a zero-loss program, and then we're going to touch on how do we bring our operations team together through a global operations operating system. Then finally, as you think about network simplification, you think about our infrastructure costs, firstly, we have to stand up a network.

I'll talk a little bit more about how we stand up a network, but we have to separate away from 3M. We have opportunities around supply consolidation and how we look at our network. Those actions are already underway but we know we have opportunities around plant optimization and DC optimization as we go forward.

So just unpacking that just a little bit more, we think about supplier excellence, and there are multiple levers that we can do with supplier excellence. As you think about material spend being our largest single contributor to product cost, we know that we need to have robust programs around that. With supplier excellence, we're already engaged with negotiations with our suppliers.

Three weeks ago, we had a supplier forum, our inaugural supplier forum, where we brought in all of our suppliers, strategic suppliers, and told them about our journey as a company. We showed them our supply chain strategy, our business strategy, to get them to buy into the journey of Solventum. So, we're working with them, but we know that that's not enough just to work with our key suppliers.

We know that we need to consolidate our supply base. On our network slide, we have over 3,000 vendors, which is too many for a company our size. So, we need to consolidate that spend.

That gives us an opportunity to take that spend and leverage it with our strategic suppliers, getting a better price. We also know that we need to dual source as well. As you think about local supply chains, supply chain robustness, we need to dual source on key materials so that we can keep that price competitive as we move from supplier to supplier.

New programs that we need to launch is value analysis, value engineering. We know that we need to design for cost, so standardization. Then as we think about material spend, how do we redesign materials so that we can commercially buy that material?

We're working very closely with R&D as we think about how we manage materials that we currently buy from 3M to take out to a globally competitive environment.

Our next slide talks about continuous improvement. So continuous improvement primarily focused on labor and yield. We're building out an operating system. So, as you think about standard work, you think about a network working together. We're building out a program built around how do we do health and safety?

How do we build a quality product? Our operational excellence program. Our technology. Our value delivery and our people. Making sure that we're working together as one enterprise and one enterprise system so you don't have individual projects. You have a team evolving together.

And I think that goes back to some of our mission and how we all advance together. Our operating system will help deliver that but also help manage our direct costs through continuous improvement. With our equipment, we have a great background in automation.

We're going to expand that automation. If you come to any of our plants, you'll see that we use robots to help process on our high flow lines. We're going to advance that and we're going to scale that through the network.

That gives us better productivity. It gives us more consistent output, better quality material, but also helps deliver extra capacity as we go forward. So, working that as we go forward is going to be key to manage our labor costs.

Then finally, network separation. We have a lot of work to do. Bryan said at the very start, this is a complex network, complex separation.

As you think about the network that we had under 3M Healthcare, we were actually in 67 manufacturing locations. Product moved from plant to plant to plant. As we stand up as Solventum, we're in 29 locations.

Some of those new locations we're building, you can see footprint of our plant in Mexico, a new plant that we're building in Mexico. And you see an expansion in our plant in Japan there. We're building those expansions so that we can take our co-mingled lines from the 3M network and bring those into our own network.

So that's a three-year process of which we're one year underway. So, a lot of the supply chain team is very heavily focused on standing up that 29 plant location. Then as you think about it from a DC perspective, we've already done a lot around the network.

We left with 73 DCs. As we roll out the new ERP system, that gives us the opportunity to reconnect, consolidate down. We've already made great inroads.

We're down to 57 DCs. We think we can get down to less as we think about optimizing our inventory, optimizing our distribution costs, and our infrastructure costs. There's a huge opportunity to simplify the network and reduce that infrastructure cost that I talked around.

So just to summarize, supply chain is going to play a key role in the Solventum journey. We're going to enable the growth for the sales team to go out and sell with confidence. We're going to work to improve margin enhancements by having greater tailwinds than we have headwinds from inflation.

Then we're heavily involved in the separation to make sure that we separate and stand up the Solventum supply chain as its future design. So with that, I'm going to hand over to Wayne.

Wayne McMillan - Solventum Corporation; Chief Financial Officer

Good afternoon. It's great to be back one year past our first Investor Day. And it's great to hear from all of our leaders here. It's great to have our team coming together and presenting the strategies that have been worked on and all the progress that we've made on our separation and transformation.

So, I'm going to focus on two areas today. Part of the value creation formula highlighted at the bottom here, strategic clarity and balance sheet flexibility, and put a financial lens on it as we think about how that fits into our three-phase transformation.

So, we're going to start with Phase 2 and the key financial metrics, accelerating sales growth, expanding margins, and improving free cash flow. That'll be the theme throughout the presentation today. Then I'll talk about some of the important initiatives supporting Phase 3 as well.

But before I do that, let's look at 2025. We just provided our 2025 guidance a couple weeks ago at our Q4 call. And it's important because it's our foundational year.

It'll be our first year of four quarters as a public company, and it will serve as the basis for our three-year long-range plan. You can see it here, the same as we presented in Q4, organic sales growth of 1% to 2%. That's including a 50 basis point headwind from our SKU rationalization program, our wave two of our SKU rationalization program.

Without that, 1.5% to 2.5% sales growth. Keep in mind, this is being built off of our 1.2% sales growth rate in 2024. That 2024 sales growth had a good amount of price tailwinds in the first half.

And so now, as you've heard from the business leaders, we're really focused on volume and sustainable volume improvements in the business. And that's what gives us the confidence to get higher in 2025.

You can see adjusted EPS, \$5.45 to \$5.65, and free cash flow, \$450 million to \$550 million. Both of those are going to be impacted by the annualization of the separation. Because we separated April 1st last year, we need to bring in one

additional quarter into our P&L. So, we will have additional one-time separation costs, an extra quarter of that, that will impact cash flows.

And keep in mind that 2025 will be the year of largest separation costs for us. As we get into '26, it will step down and it will step down again in '27. So what that means is our free cash flows will be improving in '26 and improving again in '27 as we roll off the TSAs and complete the one-time separation costs.

Free cash flow is also impacted by interest expense. We have to annualize that and pick up another quarter of interest expense as we begin to pay down debt. And certainly, after the Purification and Filtration deal closes and we pay down more debt, that will be a significant reduction to our interest expense. This guidance is before the P&F divestiture. So, this is before P&F. Okay.

So, with that in mind, let's move to our important financial metrics. The first one, accelerating sales growth, our top metric. And you just heard the majority of the presentations from our business leaders and from Bryan today focused on improvements in commercial, improvements in innovation, and all the work behind our growth drivers to really focus the business, focus our resources, and give us, again confidence to drive our growth rate up to 4% to 5% by 2028.

And that's an important milestone for us because that gets us to our market growth rates. And that's a level of growth this business hasn't seen in a decade other than that anomaly year post-Covid. This business hasn't grown more than 4% since 2014.

And so, we've got a strong group of people here that are coming together to work on getting that growth rate, getting our share back in the marketplace. Then, of course with a strengthening balance sheet after the P&F divestiture, as Bryan presented earlier, we'll be able to move up and accelerate our inorganic activities and tuck-in acquisitions to try to enhance this plan. Okay.

Moving on to operating margin expansion. This is also an important metric for us. We're going to be balancing the efficiencies that Paul just talked about in gross margin as well as our segment leaders are working on productivity in selling and marketing.

Our functional leaders are working on efficiencies in each of the functional areas. And all of that is designed to support the growth investments we need and balancing that with margin expansion as well. You can see here targeting 23% to 25% operating margins by 2028.

Now, let me just spend a moment on this important facet of the separation, which is 3M is increasing our cost of goods sold for product that we source from them by 200 basis points. This is unique to our spin because of the IP that is related to the product that 3M supplies us. This is components that support 3 billion of our revenue.

It's an excellent moat for us because it gives us strong IP around our products, but it also means that we have to move that capacity, that capability either into our own manufacturing facilities or into third parties. And that's what we have a 10 to 12-year timeline to do. So it's important that we understand, although it's really strong IP and we source it from 3M, we have to pay more for it than we did pre-spin.

So in short, if 3M was charging us this before the spin, our operating margins would have been 200 basis points lower. They're now going to charge us that post-spin, and that puts a headwind of 200 basis points on our gross margins and operating margins. But even with that, we're looking to have a pretty sustainable operating margin expansion plan as we move throughout our LRP.

With that, then, focus on improving free cash flows. Oh, sorry, got to hit earnings per share first. If you put all that together, improving sales growth, improving margins, as well as the capacity within our working capital, we will commit to a 10% compounded annual growth rate to earnings per share.

So, we're going to focus on driving 10% earnings per share growth every year. But given that some years will be above and below, and in particular, 2027 has some headwinds for us because that's when we get the second step up in that cost of goods sold increase from 3M. But we're going to focus on driving a 10% CAGR over the three-year long-range plan period, '26, '27, '28.

And we think by doing that, we'll drive significant shareholder value creation for us. And as I mentioned, also improving free cash flow. We've got a target of getting our free cash flow conversion to 80%+ by 2028.

And we're certainly not there today with the additional costs that we have for one-time separation and the high interest costs. But we're going to be working on getting those down over the next few years, in particular, the separation costs, as well as the benefit we get from sales growth acceleration and margin expansion. And so, all that together gives us the confidence to drive to an 80%+ free cash flow conversion over the long-range plan period.

So, pulling it all together then on one page, you can see here, 4% to 5% organic sales growth, getting us to our market growth rates. Operating margins, 23% to 25% in that mid-20s range. Adjusted earnings per share with a 10% CAGR. And free cash flow conversion of 80%+.

We're also focused on attractive ROICs. We have a strong ROIC today that will improve with a P&F divestiture. We want to make sure we keep that in focus, as well as achieving a solid investment-grade credit rating.

That's also important because we got an investment-grade credit rating post-spin. But as Bryan mentioned earlier, we inherit a lot of debt, like many spins. And we're very focused on improving that credit rating, getting that one notch up, getting to that solid investment-grade credit rating.

So, I mentioned I'd talk about Phase 3 as well. Inside of Phase 3 are these two important initiatives around portfolio optimization, and that is the P&F divestiture, as well as our capital plan.

So, starting with the P&F divestiture, you can see the key metrics here. We had a really strong total sales price, \$4.1 billion, creating significant value for us, but also for the purchasing company, Thermo Fisher. This is one of those deals where there's significant value creation on both sides.

We're estimating \$3.4 billion in net proceeds that we're going to use primarily to pay down debt. Then, if you look on the right-hand side, we also have a nice improvement to our financial metrics. It'll be neutral to organic sales growth, but a nice step up, 200 basis points step up at the gross margins, and 100 basis points step up in operating margins.

Regarding earnings per share, we think it'll be neutral to 2025. The deal is planned to be closed by the end of the year. Then, we're looking at \$0.15 to \$0.20 accretion on an annualized basis after that.

Moving on to the capital plan. The capital plan priorities, from left to right, remain the same as they were last year when we presented at our Investor Day. Starting on the left-hand side, debt paydown, our number one priority.

I mentioned we inherited a lot of debt with the spin, and that was our main focus to make sure we get our debt paid down. When we close the P&F transaction, as I mentioned, the cash will be used primarily to pay down debt and, again targeting that solid investment-grade credit rating.

If you move to the right, investing for growth was our second priority, but very close. It's important for us to invest to support the growth of the business, and that comes in areas in R&D, capital expenditures, supporting the plant and quality and capabilities to feed the growth drivers that Paul just presented.

M&A tuck-ins. Bryan talked about that as well as some of the segment leaders, and that becomes now an accelerated important part of our story. That's highlighted because I'm going to spend the next page just talking about the criteria around M&A.

But before I do that, the third criteria here, a third priority for us, returning capital to shareholders. And consistent with our capital plan, we're going to stay focused on paying down debt to achieve that solid investment-grade credit rating. But one of the other things that we had to consider was the tax implications around the tax-free nature of our spin. That's one of the other reasons we're using primarily all the cash to pay down debt.

Having said that, this puts us in a position to consider share repurchases and dividends over time, and we'll continue to talk to our Board about doing that.

So, let's come back to M&A then and capital planning around how we deploy our capital towards M&A, and it's really across two vectors, strategic and financial.

On the strategic side, we're looking at fit with our strategy and fit with our business. We're looking at, is this a market that we can be a leader in and take a leadership position in?

Then third, can we integrate?

Do we have the capabilities and do we have the capacity in the organization?

That's a key consideration for us right now as we're working through the separation, the transformation, and now the divestiture of P&F, we have to really pay close attention to our organizational capacity.

Then moving to the right, financial impact. Is it accretive to sales growth?

Bryan touched on this earlier. It needs to be accretive to sales growth and accretive to our margins. We need to see a clear path to earnings per share growth and to improving our ROICs over time.

So, with that, that's really the criteria of how we're going to think about this programmatic. We want to get -- we want to become serial acquirers. We want to be programmatic with our M&A and our tuck-in strategies here because we've seen it be successful in companies we've been in the past.

We've seen others in MedTech deploy this strategy. We think we've got a real good group of businesses to build around, and we think we've got opportunities to do that.

So, with that, I'll close it out by just bringing us back to the Solventum value creation formula. You can see this is where Bryan started the conversation today. I'll just say one more time, the key financial metrics supporting this formula is accelerating sales growth, expanding margins, and improving our free cash flows.

So, with that, we're very excited about our formula for value creation here and shareholders. We want you to make sure you understand the excitement that we have here.

We talked about it at our last Investor Day how excited we were for both vectors, the separation from 3M, which is value creating, as well as the transformation and turnaround that we're under that's value creating. You put all that together, and we think we've got a very compelling value creation formula.

So, with that, I'll turn it back to Amy for setting us up on Q&A. Thank you.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

Guess what, guys? We're back on track. All right. So, our next session is 45 minutes of Q&A. I do want to encourage you in the room, if you've got questions, please raise your hand and ask them. We've got some mic runners.

Wait, let me give the instructions. Yes, raise your hand, please keep it to one question and one related follow-up. We want to try to get to as many of the questions as we can.

If you're on the webcast, there should be a box at the bottom that you can type your question in, hit submit. We'll be reviewing those, and we'll ask those, and make sure that they get on well.

And certainly, for the folks that are interested in making sure you're dialing in your model and everything, we welcome the questions, but to the extent that we need to do a lot of follow-up, please reach out to Greg and I, and we can set up time after the meeting or sometime tomorrow, next week.

So, with that, I think Bryan has -- you guys should be good. All right. Exit stage right.

Bryan Hanson - Solventum Corp; Chief Executive Officer

I guess I'm choosing.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

You have a mic.

Bryan Hanson - Solventum Corp; Chief Executive Officer

Can we just turn these lights down, whoever's controlling that? I can't see anybody out here. Thank you.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Some sunglasses.

Bryan Hanson - Solventum Corp; Chief Executive Officer

I'll just repeat the question, if not, go ahead.

Steven Valiquette Mizuho - Managing Director and Senior Equity Research Analyst

It's Steven Valiquette. Thanks for all the information today. We definitely appreciate that. So again Steven Valiquette from Mizuho.

Just a financial question. You mentioned the pay down of debt, and kind of thinking about that, tying into the fact that you're targeting that 10% EPS growth within each year of that three-year CAGR, just wanted to confirm whether or not, do you have a line of sight right now?

Will the debt paydown be front-end loaded, such that you're getting a lot of that accretion versus more of like a linear paydown?

I think it's harder to get to that 10% EPS growth in the early part of that three-year CAGR. Hopefully, that makes sense. Just trying to get a line of sight on how quickly you're going to pay down debt once the transaction closes. Thanks.

Bryan Hanson - Solventum Corp; Chief Executive Officer

It makes perfect sense to me, and it's a great one for him to answer.

Steven Valiquette Mizuho - Managing Director and Senior Equity Research Analyst

Okay.

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yes. You're right, Steven. So, we're going to move as fast as possible once we close the P&F divestiture and get the cash in to then go and tender the bonds and start to pay down the debt. That could take a period of time for us, depending on what the markets bear, but the goal will be to try to pay down debt as soon as possible.

And that lowering the interest expense certainly helps our free cash flow, certainly helps our earnings per share as well. But as I mentioned during the presentation, we're looking at trying to drive 10% EPS growth each year. There are different factors from year to year that may put us above that or below that.

Certainly in the first year, we'll get a sizable benefit from the interest reductions. But the other thing to just keep in mind, I think I mentioned it during the presentation as well, is 2027 has some unique headwinds in it. It's the year we'll have the 3 million cost step up.

So 2027, we'll have a little bit more pressure on margins and EPS than the other years. But we've got a couple of years before that, and so we're working on initiatives to try to keep that 10% EPS growth per year in focus.

Bryan Hanson - Solventum Corp; Chief Executive Officer

And just to keep myself safe, Amy, I'm going to have you decide who goes next.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

Yes. Yes. Yes. So we're going to go to Ryan next.

Ryan Zimmerman BTIG - Managing Director and Medical Technology Analyst

Thank you. I'm going to actually dovetail on Steven's question. Ryan Zimmerman, BTIG.

On the top line expectations for 2028, 300 basis points. Talk to us about kind of the pacing of that from 1.5%, the midpoint today to 4.5%. And getting back just to market growth at that point relative to your kind of market growth rates, good, but why can't you get faster, start to get some share gains earlier than just getting back to market growth by 2028?

Bryan Hanson - Solventum Corp; Chief Executive Officer

Yes. I'll probably answer that one. I would say originally, when we looked at the improvement in revenue growth, looking at those three vectors that I referenced, we weren't really sure where our gaps existed, but we certainly knew there were gaps because we were under market. Because we didn't know, we just kind of biased to the fact that it would be backend loaded in case it was more associated with R&D and our M&A needs.

What we found is that there's more opportunity earlier on. So we feel pretty comfortable that we'll have a more linear path to that. I'd say first and foremost, let's get to 4% to 5% because it hasn't happened in a decade in the company.

So, let's do that first, which I think is very value creating. Then we're never going to be happy. You're going to get to 4% to 5%.

We're going to do a lot of the new growth drivers that come in, higher vitality index, and we'll end up doing some programmatic M&A as Wayne referenced. And the goal is to get above that. But first, let's get there and do it sustainably, and then the target will go higher.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

Great. Next question, we're going to go to Vik from Wells Fargo.

Vik Chopra Wells Fargo - MedTech Equity Research Analyst

Oh, hi. Vik Chopra, Wells Fargo. Thanks for taking the questions. Two for me. I guess over the LRP, how do you think about the growth by segment?

Which ones will be above and below?

And any concerns that you can highlight for us of achieving these targets? Then a quick follow-up, please.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

Okay. Well I can tell you that we wouldn't put the target out there if we didn't think we could do it. So just broadly speaking, we feel highly confident that we can deliver against the LRP we just presented.

There'll be puts and takes by every business. I would say that every business needs to improve and every business is improving. That is the new remit. Being where you are today is not good enough for where you need to be tomorrow.

What maybe I'll do is give the presidents just a second to talk about some of their areas of concentration, which you saw on the growth drivers, but some of the drags that they have in the business, too, that they have to address. Maybe start with you.

Karim Mansour - *Solventum Corporation; Chairman, President, Dental Solutions*

Yes. If you think about the Dental business we have at Solventum, we have a few portfolio with where we face challenges. I'm going to take one example.

We have a portfolio called impressioning material. Impressioning material is being used, but it's now being disrupted by scanners. So those are examples of a drag that we have within our portfolio.

Reason why we are shifting our portfolio-focused strategy towards where we can make a difference. And restorative material is where we can make a difference.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

And what I love about the restorative materials that we're focused on now in dental is it's a pretty robust area, even in downturns because at the end of the day you have a chipped tooth, you have a cavity, you got to go do something about it because it hurts. And that is where we play. That is where the focus is. It's a little more resilient than other parts of dental.

Garri Garrison - *Solventum Corporation; President, Health Information Systems*

So, in Health Information Systems, we have strong products in the revenue cycle management space as well as performance management. With the focus across the globe right now on reimbursement and quality, those play well. Those are areas of focus and interest by our customer base.

The one challenge we've been pretty transparent about is in our clinician productivity solutions, which is our ambient product. We've been late to market and that was due to the fact that we just didn't put investment there early enough before the spin.

Chris Barry - *Solventum Corp; Executive Vice President & Group President, Medical Surgical*

Yes, my business is a little bit different because it's so broad. There are obviously going to be products that are trending up, products that are trending down. Generally speaking, both businesses are underperforming.

So, we got to -- we got to fix Advanced Wound Care and Infection Prevention and Surgical Solutions. But within those businesses, as an example, you saw Advanced Wound Care is an example, you had negative pressure wound therapy, advanced skin dressings, and advanced skin care.

In negative pressure wound therapy, we've got double-digit growth with Prevena, the disposable product. We just need to round out the focus across that entire portfolio, overcome those barriers we talked about in the HBBS slides. But we're going to take that approach to every sub-segment of the businesses and that's how those businesses are going to come back.

Clearly along the way we'll also continue to evaluate, do we have further opportunity or do we have opportunity to potentially continue to rationalize the business?

So broad business is on my side, but to be very clear, we plan on improving the performance of both those businesses.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Then you had a follow-up?

Vik Chopra *Wells Fargo - MedTech Equity Research Analyst*

Yes. Thanks for that comprehensive answer. Just a quick follow-up. You highlighted the financial and strategic criteria for M&A. I'm just wondering, are there any obvious portfolio gaps that you would like to highlight for us right now? Thanks.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

What I'd say is we've got a pretty vast portfolio already and I always talk about the low-risk nature of the transformation that we have because we're in attractive markets. We don't really need to acquire major beachheads that we're not already in. We can bolt on the categories we already play in.

We can leverage the call point, we can leverage the commercial channel, and that's why we put so much time into building that commercial productivity. But I would see us be focused more on smaller acquisitions that fit into the categories we're already in. One area in particular, for instance, is in Advanced Wound Care.

We have negative pressure wound therapy, which we created the category. But in wound care dressings, the dressings category, it's relatively nascent for us. That could be an opportunity for us to fill in a gap that we have and complement the sales organization and structure that we currently have in place. Just one example of many. That's the nice thing about where we are. It's a pretty target-rich environment.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Great. Thank you. We're going to go to an online question and then following that will be Travis from B of A.

Unidentified Speaker:

Online question. How should we think about all the changes to the MedSurg commercial organization you covered as it relates to the ability to drive growth and margins?

Chris Barry - *Solventum Corp; Executive Vice President & Group President, Medical Surgical*

You know, Bryan kind of hit this, but I want to be very clear. We cut cost out of the commercial channel, but we simplified it and specialized it. And you're seeing now a lower cost channel, but a more focused channel that's surrounded by the resources that collectively play together.

We were, to go back, I hate to use a sports analogy, we had a lot of people on the field, no one was running a play and everything was somewhat chaotic. We're now running a play. People know their assigned role.

It simplifies everyone's role because they know how they play to the overall organization. And so, it is -- it's hard to -- it's hard to kind of look at that slide I showed that was so dense and say that must be expensive to do that. It's actually less expensive.

So we're actually bringing efficiency to the model and specializing the model and cutting unneeded costs out of the model. So, I feel very, very confident that the organization that you see reflected today is more capable, is more aligned, and is more efficient than the one we had yesterday.

Bryan Hanson - Solventum Corp; Chief Executive Officer

I'll maybe just add onto that, too, because if you think about some of the other functions that were moved, that were centralized before, whether it be R&D, whether it be med affairs, whether it be corporate marketing, you start that process for one goal, it's to enhance margins. It's centralized, enhance margins, you get more benefit out of that centralized function.

What happens over time, as we learn, is it gets bloated in the middle. And unfortunately, it ends up costing more at the center. And most of the time, it's not directed towards the thing you actually need it being directed to.

So, if you think about med affairs, clinical, it's the same thing as a commercial organization. These groups now have leveraged the capability of our med affairs team in the business, aligned to what we're focused on, where it was not doing that previously. So it's not just a commercial organization, as we know it, as a sales team, it's in other functions as well.

Travis Steed Bank of America - Analyst

All right. Travis Steed, Bank of America. Wayde, you know I'm coming for you for question. I wanted to kind of bridge the margin in 2025 versus 2028. And when you think about the 2025 margin, first of all, includes P&F, if I'm incorrect, and the '28 does not.

So there's about 100 basis points of benefit there. So, and then -- so I wanted to understand the bridge better from '25 to '28. Then the 3M cost up, if I do the math, it's higher than the \$100 million that you originally said.

So, I wanted to understand why that's different when I thought it was potentially going to get a little bit lower, not higher. And kind of the third piece, how do you put the 2028 margin kind of in context for where this business operated on margins before, historically, within another company within 3M?

And how are you thinking about this business?

It's kind of a standalone company, what you need to invest in, in growth, and kind of where you think peak margins for this business could ultimately be over time.

Bryan Hanson - Solventum Corp; Chief Executive Officer

Do you have anything else you want to add to that?

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Okay.

Travis Steed Bank of America - Analyst

She was going to take the mic away. So, I had to ask them all.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Can't wait to see this one –

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yes. I was going to say I should have brought my notebook up. Keep track of all that. Yes. I think the first part of your question, Travis, is how are we thinking about our current 2025 operating margins and where we take it over the long-range plan period?

And so, the way we think about it is, historically, this business was running in that 25% operating margin pre-spin.

Then when we spun the business, there's obviously the dyssynergies like with any separation. Then we've made investments in critical functions that we needed to make, not just the dyssynergies in public company costs, but in important areas like cybersecurity and quality and controllership and compliance around the globe. So, we took an opportunity, ran an exercise to make sure that we're investing in the areas that we need to.

And as Chris said, although we made some growth investments, that wasn't the largest area for us because the teams did it in a very efficient way. And so, for us, we finished the year 2024 Q4 at 20.4% operating margins. And that's really our exit rate.

And we know we're going to have headwinds to that in 2025. Because of those investments we made in 2024, they're going to annualize in 2025. And so that was one of the reasons we put the Solventum Way restructuring in place, as Bryan said, to offset some of those annualizing headwinds so that we can stabilize the business in the low 20% operating margins.

And so, that's where we're getting 20% to 21% operating margins for '25. And we're thinking about that as the new base, a stabilized base that we can now expand gross margins on from here. As we look at the 23% to 25% target that we have for 2028, and I'll talk a little bit more about the 3M cost increase, I think was part of your question.

If 3M did not increase cost for us, we'd be guiding to '25 to '27. So there's 200 basis points of additional cost post-separation. Because of the material we source from 3M, we can only source from 3M today until we move it in-house or we move it to another third-party distributor for ourselves.

And so that 200 basis point headwind in our numbers, what you might be referencing is we started getting that headwind mid-2024, and we've called out publicly that that's 100 basis points that we started to get in second half of '24, and we'll get into 2025 here, the second half of that headwind.

Then 3M contractually, these are in our agreements that are public, 3M contractually can step up our cost again in 2027, three years out. That's what we had estimated was \$100 million, and now we're calling that the second 1% increase.

So, you put those two together, it's an estimated 2% increase to cost of goods sold by the time we get to the end of our long-range plan. And so that's the math on how we get to a 23% to 25% operating margins. I think you referenced as well purification and filtration, which we called out in the presentation will be 100 basis points tailwind to operating margins for us.

So, it's a good portfolio move from a metric standpoint. Then just to wrap up, you mentioned where do we think operating margins can go from there?

That's going to be a balance for us as always.

We're going to be driving efficiencies and then balancing that between growth investments and expanding margins. We just got the question of when you're going to get to market growth rates, when can you get beyond that?

I think Bryan said it well.

We're very focused on getting back to market growth rates, a place this business hasn't been in a long time. And that's what we'll be assessing. Do we need to invest more to get growth rates up further, or do we want to focus more on operating margins and expand them further?

That's going to be a few years out for us. We want to get to these long-range plan targets first.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

So we're going to go to Rick in the second row there, and then I think to the first row.

Rick Wise Stifel - Managing Director

Rick Wise at Stifel. A question for Chris, and then a follow-up separate one. Chris, I'm intrigued with your commentary about the entire pipeline re-evaluation process.

And a couple of things around that, just where are you in that process?

When do you expect it to be wrapped up?

And I had this sense, listening to Elise and Doug, that there's more hidden value or intrigue or opportunity in today's portfolio maybe than we understand.

Maybe you can talk a little bit about the potential incremental opportunity. Do those products open up new markets, or are they pulling through the rest of the portfolio?

Just give us some more concrete color, if you could.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Yes, it's the most -- well, there's a lot of things that are important that we're doing now, but this, to me, we've shored up the commercial opportunity. We think we have specialized opportunity now to execute on an improvement in the pipeline. So, we're now retrofitting all the projects.

We're going through and assessing the value of the projects. So that's market assessment, business case justification, understanding how they fit in our strategic intention, coupling that with the growth driver, some of the growth driver assessment that we've done with the other parts of the portfolio. So, I would say we're working through it as we speak.

My goal is to get this thing done and understand our pipeline much better by the end -- within the next 8 to 10 weeks. I want to be refreshed in the pipeline. It doesn't mean I'll overhaul the innovation process. That'll take more time, and migrating the entire pipeline to better reflect our strategic intent will take time.

But I want to make sure that I fully understand the project value or, let's just say the portfolio value of our active pipeline. Sounds like we should have that. We do have a number. I just don't believe the number. I think the number should be higher, but we've got to do the work.

So we're going into the same process we used for Peel and Place, the same process we used for Attest. We'll do that to every project and ultimately have a much better picture of what we have and how we double down on those opportunities.

So we're going at a sprinter's pace on this one, because it's very important we understand, because obviously it starts to really define '26 and beyond as to what we have -- what we should expect in coming in a new product introduction, '27, '28 is within our control to load those projects now, but we've got to bridge the gap between where we are today to new innovation that comes out the pipeline that we load in.

The good news is I feel more optimistic than I did six months ago. I think there's probably more there, but we've just got to go through the work to get it done.

Rick Wise *Stifel - Managing Director*

Got you. And a follow-up question for Paul. I always hate asking macro questions, but you're talking about new plants in Mexico, and I think on the software side we're talking about Canada as one of the major initiatives.

I hate to ask, but, so like to what extent -- how are you factoring in the complex external environment, world environment, trade environment, tariff environment into all these plans?

Have you changed anything?

Should you change something?

I don't even know how to frame the question anymore.

Bryan Hanson *- Solventum Corp; Chief Executive Officer*

I haven't noticed this complexity you're talking about.

Yes, so let's just pick one swim lane of the complex environment, and I think that the tariffs piece is on everybody's mind, and maybe I'll answer it. Paul, if you want to add color, feel free, or Wayde.

I would say first of all, as we said in our earnings call for the last quarter, what we've included in our guide and also now in our LRP is what's coming from China, right? So that seems to be the clearest picture for us, definable.

That's put into our plan. We were able to digest that in our guide and also in our LRP. What we have not put in, because it's too undefinable right now, is anything from Mexico or Canada, and the reason why I say that is, first of all, it keeps shifting back and forth whether it's on or whether it's off, and we have a USMCA certification for most of our products.

As I think probably most everybody knows that is a kind of a hall pass, if you will, for tariffs. That is today. We don't know if that's going to last, but we believe it will, and so we're waiting to see what actually happens there. We also have not considered other countries that get pulled into the tariff net. We haven't considered that. We'll continue to watch it.

I think we have some fundamental things about our business, though, that probably set us up a little better than some other companies. First of all, if you think about what Paul referenced, we have a regional manufacturing plan in place today and we're going to expand on that. I'll take China as the example. Most of our manufacturing in China is for China. We import very little to the U.S., so that's just one example.

The other piece, and you kind of referenced it with Garri's focus in Canada, Garri's business is not subject to this because it's software, so 20% on most of our business is not subject to tariffs, so just the construct of our own business kind of insulates us a bit, but hey, it's not nothing, and we're going to continue to pay attention to it. As we get firmer information, we'll come back and see if there's got to be a change, but right now, we feel pretty good about our position.

Amy Wakeham *- Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

All right. Let's get the next question, I think. Patrick, did you still have a question?

Okay.

Patrick Wood *Morgan Stanley - Research Division, MD of Equity Research*

Thanks. Patrick Wood, Morgan Stanley. Thank you. I'm so curious about the 2% vitality index and how we got there whilst still having a ton of projects spinning in the background.

Was it that too many things were trying to be done at once, and therefore nothing got out the door, or that stuff was getting out the door, but then commercially it wasn't landing?

And for the projects that you decided not to proceed with or that you were thinking not to proceed with, what was it that made you decide not to proceed with those, and can you keep the good people in R&D when you might have forsaken their babies, so to speak?

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

That's a great, insightful question because there are many passion projects that you find in research and development, and you do worry that as you start to kill some of those projects for the various reasons that we've talked about, mainly around, is it strategically relevant to us, and does it have a financial plan that's relevant to the business?

But what I know for sure with R&D professionals is they want to contribute, and so if we can point that incredible expertise that we have, and we've talked a lot about it, we have some of the best scientists in the world in this organization. It's getting them focused on those barriers that we referenced for solutions that will matter in those barrier cases, and as a result, will change the outcome for patients and reduce cost.

When that happens, people get excited in all areas of the businesses, so I'm very confident as we talk about the mission centricity of the company. I'm not worried that the scientists are going to get disenchanted. I think that they're going to get excited, actually.

So, the criteria that we used on what we're going to kill is basically, if it's a project that's interesting, but it doesn't have a robust business plan around it, we're going to kill it. And we're going to create space for something that will drive the growth drivers.

If it does have an opportunity to drive growth, and we're under-appreciating the differentiation of the technology, we're going to double down, and we're going to put a real commercialization plan in place, which drives capacity up and lets us launch at volume.

I think Karim's got a good example he didn't mention in his presentation, but he didn't have one product launch before the spin. You had two years with maybe one, and you launched four in 2024 at the end of the year.

So, it's just a -- and he's a year ahead of the rest of the team because he came in a year before the spin, so he brought in his own R&D lead. We started to focus on R&D, started direct traffic and innovation. Now he's launching products that are making an impact in his business. That is what everybody else is doing now.

I think in Chris's business, the good fortune that we have is that we do have some nuggets in the pipeline, but we have great products right now that have been in the market that are under-penetrated. And that commercial productivity that we put into place will take advantage of those now. So in his business, it's resetting and reloading, for sure, the NPI, but it's taking advantage of what we have in the market right now. Yes.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Let's go to the second row, Jason?

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

It's not because you have a Sell on us, I promise.

Jason Bednar *Piper Sandler - Analyst*

Thanks, Jason Bednar with Piper Sandler. Karim, I'm going to focus this one on you. We talked about growth drivers. You mentioned restoratives as one of your growth drivers. You think that can be a greater than 5% growing business for you, but the market here is a little more mature. So, I'm focused on one, why you selected that or why that's the selected market. How are you going to get there?

Is it volume and mix because price isn't really there as a lever to pull on?

So yes, just how do you get to that as being plus five?

Also, on this -- on the maybe lack of selection of orthodontics, not being in that plus five, because that's historically been a faster-growing market than restoratives, you have new products there.

So maybe walk us through why you selected what you did and why you and didn't, again left out orthodontics.

Karim Mansour - Solventum Corporation; Chairman, President, Dental Solutions

So, we do have category-leading position in restoratives, you're right. What you don't know that well is the fact that we don't have the same penetration level around the world. That is a reality.

And the level of success we have to date is, as Bryan alluded to, it's without any new product launches. We haven't launched any significant disruptor in the restorative material area for a few years. And so we've just kept position.

The good side of it is we kept position with nearly nothing, but we still have significant brand equity there. And so, this is our time where investing back in innovation and bringing differentiated solution is going to enable us just to accelerate growth.

And we have -- we've just launched Easy Match, a new composite, simple shading, and it's making a difference. It is very welcome. And the other thing that I shall say is we used to launch new product in the past, starting in the U.S. first, and then let's see. And we've changed that rule.

Filtek Easy Match, within a window of six months, is being launched globally. And you could see that we've strengthened the pipeline. And what we're going to do is make sure that that pipeline is accessible globally to our network.

And so that's the way we're going to make -- we're going to build a stronger acceleration in core restorative. And back to Aligners, I'm going to repeat what I said. We needed to prove to ourselves that we can bring something different.

I mean you would have not believed me if I would say we have Aligners, we're going to compete. You would have said it's a me too. The reality is we needed to demonstrate something and give us credit for bringing a clarity grip attachment.

It is really different. Now, give us also the credit for going through 2025, demonstrate, and then, as we said, from an internal bet, we'll make it a growth driver.

Jason Bednar Piper Sandler - Analyst

All right. Just as a follow-up for you, Karim. You mentioned more so than other segment leaders today M&A. I mean M&A is part of this. I think we've all focused on this, but you brought it up proactively twice, maybe more. I counted twice.

Karim Mansour - Solventum Corporation; Chairman, President, Dental Solutions

Probably because I want to do it.

Jason Bednar Piper Sandler - Analyst

But -- and look, it makes sense. Valuation in the space probably has never been better. So maybe you can get something on the cheap. But --

Karim Mansour - Solventum Corporation; Chairman, President, Dental Solutions

I'm not going to tell you so much you can expect that. So what I can -- as I said before, a very fragmented market with a ton of opportunity. That's the way I would like to show it.

It's a very fragmented market. We have a lot of opportunity to partner, to build alliances, and even considering talking M&A.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

All right. We're going to take a question from the online audience.

Unidentified Participant:

Can you provide a double-click on your portfolio and share what product categories are doing better or worse across your segments today?

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

Maybe I'll start with that. I feel like we might have hit some of that already. But in the presentation, we spent a lot of time on where we're going to double down.

And I can tell you right now, if you're a growth driver, I expect that growth driver area to be above market. Because we're going to hyper-invest in that area. We're going to have resourcing against it that's both internal and external.

And that area better grow faster than the market. And the areas that are not going to be these growth driver categories we'll invest, but not nearly as aggressively we would expect them at market, maybe even slightly below, because they become feeders for the growth driver areas.

So the growth drivers will be the area that we would see above-market growth. And if any of the businesses want to -- I think you kind of already talked about this. I don't think we need to do that.

There are some areas that, in dental, for instance, when you have a market that's moving away because of scanners, you might have the best device in the world from an impressioning standpoint, best brand out there. But if the market's disappearing, the market's disappearing. And you're going to have a negative gap as a result of it. So just suffice to say that we would expect our growth driver areas to be leading the growth, 80% of our growth. And they should always be, for their category, above market.

Chris Barry - *Solventum Corp; Executive Vice President & Group President, Medical Surgical*

But I would also, I would just sort of add to that that the specialization we talked about actually affects the entire portfolio. Because you group like products together, that's the specialization. So, for instance, we expect negative pressure wound therapy to grow above market.

But I think the pull-through with advanced wound dressings and advanced skin care should also come, because now you've got a more focused effort against that part of the portfolio, where some of those fringe portfolio items might have just been left in the dust in the past. So specialization will actually benefit not only the growth drivers, but should have some benefit across the portfolio.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

I took that in MedSurg. Every category must grow above market. Thank you.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Okay. Yes, no problem.

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Could you, again in the white shirt there? Sec -- third row.

David Roman Goldman Sachs – Managing Director

Thank you, David Roman from Goldman Sachs. Bryan, thank you for taking the question. Maybe we could start with the market growth.

I know you've taken the past year to refine your view of end-market exposure. And there were a few modest changes versus what you had provided to us last year, although roughly landing in a similar spot call it 4% to 5%. Can you maybe give us a little bit more detail and help us understand the underpinnings of that?

Because when I look at the competitive set that you provided today I can't find a company growing at the other side of where market growth would have to be versus you that would average market growth to what you are communicating. So maybe just walk us through whether that volume, price penetration that supports the market growth, and then I'd follow up on the 28 numbers.

Bryan Hanson - Solventum Corp; Chief Executive Officer

Yes. I'll probably say- Well there's a few changes in the market growth that you saw. Big part of that, obviously for the overall company is purification.

Filtration wasn't included in that. That's a \$41 billion market at 4 to 6. That exits, so it kind of changes the whole mix.

A couple of other tweaks by business, but generally, to your point, pretty similar. We have spent an enormous amount of time on this, David, and not just internally. We've used external groups as well to really validate the market.

We have the same problem. It's very hard to find all the competitors listing their revenue growth based on our portfolio because it's so fragmented. And a lot of times, the businesses are not solely in that area.

They're also in multiple categories. So, it's very difficult to consolidate and look at the overall market growth. We have done everything we possibly can internally and externally to come up with the view of where the market is growing.

We feel pretty confident about it. So, I feel good, as good as you can when you're looking at market growth because of that external help as well. That was the reason why we took the year.

We really looked at this. That became a major part of what markets we've chosen to double down in. It's just we wanted to be smarter on those market growth rates.

So that's the primary answer is I feel good as you possibly can, and I understand that it's challenging for you to roll it up from other competitors because it's hard to find. They're hard to find. It's extremely fragmented.

David Roman Goldman Sachs – Managing Director

And maybe just a follow-up. As you think about the bridge from the one to two-ish percent organic growth today up to the four to five in 28, does that include potential M&A that would occur along the way?

How should we think about the contribution of M&A and bolt-on acquisitions to the 28 number?

Bryan Hanson - Solventum Corp; Chief Executive Officer

That's purely an organic plan. What we didn't want to do was make any assumptions around that cash that we have available to us now with these kind of smaller tuck-in acquisitions. I do believe that if we're going to look at the opportunity to beat that plan, that's how we could do it.

You start to add in that, I'm going to call it inorganic innovation into the pipeline, that begins to build over time if you're programmatic in those acquisitions. And I do feel like we're in a target-rich environment. So, as we acquire these smaller businesses, tuck them into our commercial organization, that could give us an opportunity to be above the plan. I don't think you would like us if we put unplanned stuff in the LRP.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

All right. Let's go back to Ryan in the first row.

Ryan Zimmerman BTIG - Managing Director and Medical Technology Analyst

Thank you for the follow-up. I want to ask Chris and maybe Elise a question on wound care. I've covered this wound care market longer than I probably should, but when you think about the changes in the advanced wound care market from an LCD standpoint, and how this impacts Solventum at all, if at all, and why do you not see advanced wound dressings as a growth driver, just given the vast abundance of skin sub opportunities from an M&A standpoint that are out there and not in your portfolio, even with that Acelity acquisition years ago?

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

Yes. The general answer is probably timing. I would say on the LCD for the skin sub, that's a wait and see.

We're going to let the dust settle a bit there to see kind of how that plays out. But clearly, as we kind of move left to right on the negative pressure to advance wound dressings to advance skin care, we see the same thing. We see an opportunity, but to the point, it's probably not an organic opportunity.

It's likely potentially an inorganic opportunity. And as we get to that opportunity within the balance sheet, that'll be an area that we likely will take a hard look at. But there are also some noise in that area today.

We won't let that play out. I'm not running after skin subs by any stretch at this point, but it has an impact on what we do in our advanced wound care business over time. And as we do execute on the negative pressure wound therapy growth driver strategy, we will be looking at what's next.

And so, it's just, to me, it's a question of timing and how that opportunity will rank against other opportunities that we find along the way.

Bryan Hanson - Solventum Corp; Chief Executive Officer

I think it's a perfect example, too, of what I referenced earlier, that we have categories that can become growth drivers. And I'm going to give Karim a hall pass because if it was up to him, the orthodontic piece would already be a growth driver. But I'm pushing it to say prove a little bit more here before it becomes a growth driver.

But we have a lot of subcategories with great technologies that can become a growth driver. They're just not today because the pathway to all those things that we said that are requirements to be a growth driver aren't clear enough yet. It doesn't mean that they won't be in the future, but they're not today.

Chris Barry - Solventum Corp; Executive Vice President & Group President, Medical Surgical

And it's also, just to be pragmatic, it's also a balance of where we can employ cash. We're getting the growth rate up, deliver more cash down to the bottom line, allow us to reinvest at a higher velocity, get our R&D engine up, have that contributing. Then I think we have the bandwidth to take on more growth driver because we have more invested opportunities.

We're being cautious and disciplined on how we move into growth driver because once we do, we want the entire organization to rally behind it. And you can only do so much, right?

And so it's a timing issue and also just prioritization and where we are in our journey to get back to market growth and back to market leadership.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

Yes.

Rick Wise Stifel - Managing Director

Rick Wise, Stifel. Garri, on the fourth quarter call, I made the mistake of wasting one of my questions on Bryan and asking him. I didn't think that was funny.

I'm serious. And I asked him a question about your business and the outlook and he said, I should ask you. And I'm suddenly remembering I haven't asked.

But I don't know much either, frankly. But I'm trying to understand if you could help us have some more perspective on some of the product innovation and some of the potential impact. It's easy for me to understand if Chris launches a new product, I think oh, this market, you launch.

Help us understand looking this year or the next 6, 12, 18 months, what product launches are there going to be?

What impact would you expect?

How would you have us not so educated people understand the potential implications?

Garri Garrison - Solventum Corporation; President, Health Information Systems

Thank you.

Rick Wise Stifel - Managing Director

Thank you.

Garri Garrison - Solventum Corporation; President, Health Information Systems

So, a couple of things. Obviously we talked about two of the products today in our revenue cycle growth initiative. You'll see autonomous coding really take sort of a leap this year because the industry is ready for it.

You know, we've had some failed startups in that space. So, customers were skeptical for a while. But I think with the numbers that we're seeing now, the market's going to be ready.

The second one, obviously is revenue integrity. It's a big deal for our customer base because of the denials. We read about that all the time.

We hear about it in the public arena today. And it's really challenging because some of our clients have over 5% of their revenue tied up in that type of a denial. We have many other products in play.

If you looked at Karim's pipeline of what he showed you with his NPI and his dots, HIS looks very similar to that. We have not indicated to our competitors or to the public yet what those are and what those dates are. But we continually have products in development because in software, it takes two to three years, just like it does in your medtech companies, to be able to get those products to market.

With today's movement around generative AI and the fact that we're seeing a lot of things that are done manually moved to automation, that gives us significant opportunity. I think Karim threw the gauntlet down saying he wants to do the first acquisition. But let's be clear, I'm looking for anything that's disruptive in the technology space to help our business as well.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Great. Greg, do we have any more online questions?

Unidentified Speaker:

Yes. We've got one more here. What inning are you in as it relates to programmatic savings?

How should we think about gross margin expansion in the context of the 200 basis point supply agreement markups from 3M?

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yes, go ahead, Paul.

Paul Harrington - *Solventum Corporation; Chief Supply Chain Officer*

Okay. So if you think about programmatic savings, the first -- the best way that we can improve gross margins by volume. So if you think about my presentation and how I presented that, how we need to enable the business to grow, if we can get growth, we can leverage our assets and our infrastructure and enable that to come straight through to the bottom line.

The second area of programmatic savings is that we are trying to get more tailwinds with the programs that we're driving than we do see for headwinds. So as the headwinds come in from either 3 million or from some of our suppliers, we are deliberately doubling down through those programs, materials probably being the biggest one that we can drive because that's our biggest single expenditure.

So as we think about the VAVE work, we think about the materials that we're going to be working with R&D, those will drive the biggest amount of programmatic savings and how they impact the business.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

Maybe just to hover on that because I know that it's a fluid story that there's a lot of new people to the story and we certainly talk about this a lot, but it doesn't mean that it's being absorbed. If you just go back, Wayde referenced this to before the spin, our margin profile, the two years before was about 25%. We had an anomaly year right after the recovery of Covid that was higher, but really if you look at the non-anomalous year, about 25%.

So, if you just take that, those raw materials, just to make it extremely simple, that we need to buy from 3M because there's intellectual property that's unique to 3M. Nobody else on earth can make it. Before the spin, we were not paying a premium.

After the spin at the end of the LRP, it'll be 200 basis points. So if you just go back to the 25, our margin profile before spin was 23. Now because of the purification filtration transaction, that would take us up to 24 because purification filtration would have been in pre-spin.

So, you're really talking about a baseline of about 24% operating margin. That's what we want to make sure that we get back to or overachieve, even while digesting the dissynergies associated with the spin. And in particular, not so much investment - investing for innovation or growth, but just getting our control functions to where they need to be.

Quality needed to be increased in spin. We needed to have compliance increase in spin. We needed to have cybersecurity, particularly with Garri's business in our portfolio.

These are must-haves for a medtech company, a standalone company. I was in one before when I took over that didn't spend in those areas, and I dealt with the DOJ, the SEC, and everybody else who joined the party. And it's very expensive.

You can save money now, and you're going to pay later. So we invested in those areas to make sure that we have a quality system that's second to none. We have a compliance system that's second to none, and we have cybersecurity to protect us and our customers.

So, I just want to set that baseline so people's expectations are there. Our goal is to get back to that or better while digesting those incremental spins.

Amy Wakeham - Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications

Awesome. I think we have time for one more question. Travis, I'll send it to you.

Travis Steed Bank of America - Analyst

I had two unrelated follow-ups. On healthcare IT, I'll keep it shorter this time. On healthcare IT, how much of that business is recurring versus new outlays?

Are you seeing anything from the hospital spending side? There's been a lot of pressure on hospitals lately and a lot of headlines. Are you seeing anything when you talk to hospital customers there?

Then a follow-up for you, Wayde. On the 3M supply sourced agreements, basically where you're relying on 3M to manufacture the product, the \$100 million we were talking about earlier, what percent of revenue is coming from 3M raw materials?

And are you making any progress on that at this point?

Garri Garrison - Solventum Corporation; President, Health Information Systems

Okay. From a healthcare IT perspective, what we're seeing in the hospitals is they are still continually restrained in what they're spending. We do some very unique things to help our customers in that base, just because of the fact that there's tools that they need for the efficiency.

We do have a very high contracted recurring revenue stream. We do have a market that we continually sell into. To get into new customers is typically going outside of the U.S. because we have deep penetration in the U.S. And so when we're looking at what they're doing, we're really working with the C-Suite objectives, or the C-Suite to identify the objectives of where we know they have pain. Then we're actually working with them around what they need to do in order to purchase those products and on their timelines.

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yes. It's one of the things we like about Garri's business, our HIS business, is the recurring revenue nature of the business and the extended contractual agreements that we have in place there. And I think you had a second part of the question, right?

Yes. So I mentioned it during the presentation, but we have about three billion of our revenue has some component that is sourced from 3M, and that stayed consistent since the spin. But what we're doing to address that is, number one, we have a 10 to 12-year arrangement with 3M.

Bryan Hanson - Solventum Corp; Chief Executive Officer

Real quick, I think you're talking separate from the raw materials, right?

So the three billion connected to the raw materials, you're talking about just manufacturing overlap?

Is that what you're...

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yes.

Bryan Hanson - Solventum Corp; Chief Executive Officer

Oh, okay.

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yes. So it is the three billion that we separated with. And again it's not all of the cost of goods sold. In a lot of cases, it's a very small piece, maybe an adhesive that's part of the overall cost of producing those products.

And that's what we talked about earlier. Bryan just referenced it again. These are products that we only source from 3M today but we have created a team.

We call it our supply continuity team. We've taken people from R&D, quality, regulatory, marketing, finance, manufacturing, supply chain, and we've walled that team off. And their whole objective is to work with the 3M team to move over that production.

And we're either going to move it into our manufacturing facilities or in a lot of cases, if it's chemical manufacturing, we'll be outsourcing it to third-party manufacturers. And again when you referenced the \$100 million, that's the second step up that comes in 2027. We got our first step up at separation on April 1st.

So, we have 100 basis points that deferred into 2024 for the second six months. We'll get the second half of that this year. Then in 2027, 3M has the option to step up again.

We're estimating that at another 1% headwind for us. So 200 basis point headwind for the total LRP by 2028. And that's what we're looking to address.

That supply continuity team is going to be working on moving that over from 3M primarily to get that IP in-house because as part of the separation, we agreed with 3M that we would move that IP over and we would take ownership of our own supply chain. At the same time, we're going to work on are there efficiencies in that process. We know there's going to be headwinds because we'll have lower volume than 3M has with a lot of these.

So our goal is to be neutral or better as we move that production over.

Unidentified Participant: (inaudible).

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

That's still inclusive. Yes. We haven't calculated that number yet. I don't have that number yet. Yes.

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

It would still be a large majority of it though because the purification filtration business, although it had some overlap with intellectual property, not as much. Yes. Pretty sizable still.

Amy Wakeham - *Solventum Corp; Senior Vice President, Investor Relations & External Finance Communications*

Fantastic. Well that concludes our Q&A session. Thank you for the great questions. I think Bryan, we're going to turn it back over to you to close us out. Then –

Bryan Hanson - *Solventum Corp; Chief Executive Officer*

Well, it's going to be highly repetitive. So, I don't even know that if you just maybe flash the slide. I think this one tells the whole story.

We started this journey a year ago with a very clear perception, or we wouldn't be here, that we had an attractive setup. What you've hopefully heard through this presentation is those other three variables that drive this value formula have been greatly enhanced in the last year. And our confidence level in this business is extremely high.

We've got a great team, a lot of folks new to the organization, some that have been with the organization that are digesting the new culture, the new urgency, the new accountability. And I think we've got a great blend of people to make this happen. We feel, again, very confident in the story. And now it's just for us to prove it to you.

