

# Solventum

## 2025 Goldman Sachs Global Health Care Conference Transcript

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## Corporate Speakers:

**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

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

## Participants:

**David Roman** - *Goldman Sachs; Analyst*

**David Roman** - *Goldman Sachs; Analyst*

All right. Good afternoon, everybody. I think this is the last -- this session sits between everyone -- between now and cocktail hour. So hopefully this is a very engaging for folks to keep everyone attentive. But just remind everyone that this these presentations are not open to -- open to the press.

And with that, I welcome a management team of Solventum very happy to have Wayde McMillan, Chief Financial Officer; and Karim Mansour, President of the Dental Solutions Business. I think this is one of the first times you've been out at an investor conference, so a great opportunity to dive into one of the more significant businesses here at the company. Looking forward to that and appreciate you're making the time. Hi, this is -- is being -- this presentation is being webcast happy to take questions from the audience the extent to which there are any just raise your hand and either I'll get a mic over to you or I'm happy to repeat questions so those participating virtually can hear as well.

So maybe we just kind of start higher level. You had an analyst meeting in March at about, you know, and a few months since then you've had an earnings call. Maybe just kind of give us your reflections on what are some of the messages that you think are resonating in your investor conversations, and what are some of the things that people, you know, maybe present company included, you know, might be missing from your perspective?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, sure. A great place to start, David, and good to see everybody here and thanks for those joining online. I think the Investor Day went a long ways for us. You know, we've done a lot of work over the last year in hiring the leadership team. You know, at our first Investor Day, many were either new, including myself and Bryan, new to the company or have been hired since the Investor Day. So we've been doing a lot of work on our strategy and it was great to have our second Investor Day here recently to articulate that strategy.

And I think it's becoming clearer and clearer to investors what the value creation story is, and the Investor Day went a long ways for that. And it's really prioritizing growth for us is a big change in the metrics. And we've articulated our growth driver strategy where 80% of our growth is going to come behind five growth drivers, and hopefully we'll get a chance to talk about some of those today. We've got Karim here as well. And then we're going to pair that with an exciting operating margin expansion story, which we think will be something that people are interested in as we look for efficiencies across the business, and we think we've got a lot of levers to do that as well.

And then we're focused on free cash flow and improvements there as well. So we've got a lot of opportunity, you know. Coming out of a separation, we have a great foundation, we've got great brands, got a great business, but we have a lot of work to do, and we've got a three phase transformation which we could probably talk about today as well. And we've made great progress on the first phase, which is really resetting the mission, the talent, the structure for the company. And then getting into the second phase now around commercial productivity and innovation, and I'm sure we probably get into that a little bit today as well.

And then with the P&F divestiture that we announced, we're pretty excited about being able to delever our balance sheet faster than we had originally expected, and just to go on offense for M&A, which might be something else we might want to talk about today.

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**David Roman** - *Goldman Sachs; Analyst*

Yeah, yeah.

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

We certainly have a lot going on.

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**David Roman** - *Goldman Sachs; Analyst*

Yeah. So a lot to dive into here. I wanted to -- I think as we reflect on your period of time as a public company, from even, we start with the analyst meeting in March of last year to 2024, to where we are today, there's been sort of an evolution -- ebb and flow -- about how you and Bryan have sort of talked about the business. We started with this sort of really dire "the sky is falling", we've got this spin, lots of complexity. Things go a lot better in 2024. Come into this year, started the

year similarly, similar sort of like cautious tone. Get to the analyst meeting, positive. Q1, good quarter. But it's all -- but it's transient. So like, how do you, how do you think about this? Is this you focused on just trying to keep expectations in check and execute a beat and raise, like, or is your impression of the business really evolving at a pretty rapid pace?

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**Wayde McMillan** - Solventum Corporation; Chief Financial Officer

You know, there's a lot there.

Yeah, if I think about the first year, maybe I'll start there. 2024, when we started, in our first Investor Day, we guided 0% to - 2% and that certainly contemplated the newness of the business. I would -- I don't think I articulated "the sky is falling", because the business had been declining volumes for a couple of years before that. So we really guided consistent with the volume that we were seeing, but we were happy to then eventually report a 1.2% growth rate. So I guess we beat our original guide by 1%, which I think is pretty reasonable, given that our original guide was set so early in the company's separation and spin.

But even having said that, shortly after we got into the year, when we realized the skew rationalization program really wouldn't have an impact until this year, until 2025, that was one of the reasons, along with some of the strong business performance -- or *stronger* business performance -- we raised our guide to the high end of 1% midway through the year, which would be by 20 basis points. So, you know, 2024, somewhere between 20 basis points and 1%, I think, is a pretty tight to our original guide range, and obviously good to be on the beat side of that.

Here in 2025, you know, we felt we were leaning into the guidance, frankly. As I mentioned, we grew 1.2% in 2024. Some of that was still benefiting in the first half of last year from some price carryover and benefit. So when we set it at 1% to 2%, if you take ex-SKU, it's 1.5% to 2.5%. So at the high end, it was more than double the growth rate we saw last year. And we did have a very strong first quarter this year. We wanted to make sure people understood some of the unique volume benefits tied to some of the skew rationalization in the ERPs and DC moves that we're making. Now, there is no doubt we benefited in the first quarter from volume, but even with that normalized, that 2.5% growth rate was even better than we expected.

So the good news is the read through there is the stronger pickup of the commercial execution. That's all volume-driven improvements and turn around. We're seeing some strong contract wins out of our new team already. We've hired some really experienced people who are, you know, versed in how to manage, especially in the U.S., a turnaround in the business so we're very happy to see it and we raised 50 basis points. So at this point we're 50 basis points up in 2025. So I'd articulate it as "reasonable guide that we beat by just over 1% last year, and so far this year 50 basis points ahead". So I don't know what your other companies will do, but I think that's pretty tight.

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**David Roman** - Goldman Sachs; Analyst

Okay. I want to come back to some of the quarterly phasing in a second, but one of the areas that we've also talked about is just the WAMGR that you would put out at the time of the analyst meeting, the 4% to 5%. Maybe just remind you about how you think the difference between current market growth and WAMGR, and what the respective time horizons are that you're contemplating in that presentation.

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**Wayde McMillan** - Solventum Corporation; Chief Financial Officer

Yeah, it's a great question, Dave, because that's the key to the story here really is when we -- I can say, *can* we --but *when* we get our internal growth rates up to our WAMGR, and that's our goal is to get our growth rate up to our market growth rates, which we call 4% to 5%. And that's right in line with MedSurg, which is a 4% to 5% market, pretty tried-and-true market out there and diversified medtech, and we've got good momentum and we've got a lot of opportunities to improve our growth rate to hit that, particularly around our growth drivers and negative pressure wound therapy, IV site management, and sterilization assurance. We can talk about those -- you're going to get into those-- we've got three really strong growth drivers that are going to drive most of the growth in MedSurg.

I'll just touch on HIS quickly and then hand it to Karim, who's with us here on the dental side. For HIS, we think this is a great business, a software business with a really strong moat in revenue cycle management. We do have one challenged area in clinician productivity solutions that's been declining double-digits, and we can, we think it will continue to do that. The good news becoming a smaller and smaller piece of our business as we grow revenue cycle management. So we're

actually the closest to our market growth rates already in HIS in that revenue cycle management. If you take CPS out, it's already close to market growth rates.

So one of the reasons we have Karim here today, I think is, he is helping investors understand why we think we have the ability for our dental business to grow mid-single digits and why we think the dental market will get back to a 3% to 5% market growth rate. But Karim is probably good to you...

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

So I can speak about that for sure. So again, my name is Karim Mansour, leading Dental Solutions and happy to be here. Thank you for the invitation.

So Dental has obviously been a challenging market over the last few quarters. And the reason for that level of low growth in the market is as you see, economic pressure, it does impact consumer confidence. It's a reality in the dental market. Important caveat to share with everybody is that, it does impact further more elective dentistry -- think about aesthetics -- than it does impact essential care, essential dentistry. So that's something to keep in mind. And I would say also that, as it put pressure on dental clinic revenue, also ability and willingness for dentists and orthodontists to invest in capital in equipment is also under pressure. So that is a -- that is hard to say when the market will recover. But that being said, there are trends and dynamic in this market that are no different from any medtech industry. If you think about the aging population as people get older, I mean, dental services will be a key requirement and they will repeat over time.

Another reason is that the rising demand for dental services is a reality. Why? All of us, as much as health care authorities and government around the world do feel the need to better take care of dentistry, as it does impacts overall health. And so we see even incentives around the world starting popping up more coverage towards dental care.

And last but not least, we see definitely significant technology advancement in this market. And those dentists and orthodontists are looking for those efficient solution. So all in all, even if it's hard to say by when the market will recover, the 3% to 5% over the time, over time it will be there and we are confident that it's going to rebound.

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**David Roman** - Goldman Sachs; Analyst

And I think, it's probably worth going into dental in a little bit more detail.

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

Yeah.

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**David Roman** - Goldman Sachs; Analyst

We have you here, and also, I think as you look at market growth today versus that 4% to 5%, probably one of the biggest variances is dental, and what that market today, probably, is closer to flattish.

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

True.

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**David Roman** - Goldman Sachs; Analyst

And then moving that up to the 3% to 5% represents an important...

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

But I think it's important there to also speak a little bit about who we are. I talked about the difference between essential dentistry and elective dentistry. Those are important factors. A significant portion of what we do is towards tooth

restoration, much more biased to essential care. So as we keep and we core restorative the growth driver number one for dental. We have some leadership position, but there is much more that we can do. And so as we think about this one, this is our level of confidence in being in the lower range of the 3% to 5%. For sure, we are extremely confident about getting to the 3%, and as the market rebounds we'll get the full leverage of that growth.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. That is you think, I think your business is roughly 80:20 essential dentistry and then 20%...

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

One way to say it is, as we shared during Investor Day, if you were to look at the pie chart--

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**David Roman** - *Goldman Sachs; Analyst*

Yeah, no, no, not that...

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

A significant portion of what we do is tooth restoration, core restoratives. You're right.

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**David Roman** - *Goldman Sachs; Analyst*

Okay.

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

And we are more biased to essential care.

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**David Roman** - *Goldman Sachs; Analyst*

Yes. Okay. I want to get into the five key, the key growth drivers, but maybe we can sort of cover off just some of that dynamic that I think are specific to 2025. You started the year, at a little over 4% organic growth rates. You talked about, I think relatively similar expectations for Q2 and then a deceleration in the back half of the year. And if I remember correctly, one of the factors influencing the better performance in Q1 was higher inventory in the channels, in advance of an ERP changeover, which I think is the second time you've done this. You did that right before you did the -- I think the third quarter of 2023. There is a dynamic there as well before you did the cut over. So maybe just update us. First, help us understand why if that was just channel fill in Q1, you wouldn't see the deceleration in Q2?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, I'm glad you brought that one up as well, David. We've got a few questions throughout the day on ERP as well. So maybe just a quick update on ERP and then I can talk about some of the dynamics in the quarter.

So we've given a rule of thumb when doing an ERP implementation that there's a check point at three days, three weeks and three months. And we gave the three day checkup at the last conference we were at a few weeks ago. It's really a week and a half. That things were going well -- not perfect, but well -- and we're making good progress there. And the good news is we have the same update here. The ERP implementation and cut over continues to go well. Our DC cut overs continue to be planned and continue to be on track. So all on track. All good. Of course, not perfect.

I want to say thank you to our teams out there, our hypercare teams who are working through the challenges, sometimes working with our customers through the night and days, and making sure that wherever we do see some challenges, they're helping to work through it. But at this point we do -- we don't see any significant challenges to the ERP impacting our quarter. So that's great news. getting through three days and three weeks, and it will continue to progress through

three months where we start to get a real sense for where things settle in, but couldn't be happier with the performance on ERP right now.

And so with that, what we talked about in the first quarter was what we knew could happen but it ended up being even a little larger than we expected. We saw some volume increases in Q1 that were really timing related, and some of the bigger impacts were that were related to the ERP and DC cut over where we had customers buying volume ahead. And we saw this mostly in the categories where we sell through distribution, where the distributor stocked up, and more of the higher-end, higher-flow, higher-in-demand disposable products. a lot in our IPSS business. And so they did that. We also saw some customers buying ahead of -- when we've talked to them about SKU reductions or SKU rationalization,. somewhere we talked about eliminating SKUs down the road, they went ahead and started stocking up.

And so we've talked about the timing of that, we think will actually, just to put numbers to it, as you mentioned, we grew 4.3% in the quarter, but we normalized for those volume trends and we think the normalized growth rate was closer to 2.5% in Q1, which was still a great growth rate, still more than double what we did in 2024, and an improvement importantly across all four segments so...

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**David Roman** - *Goldman Sachs; Analyst*

And all volume-driven? Unlike previous...

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, almost all volume driven. Yeah, very small pricing in the quarter. And so you're good to say almost all volume-driven across four segments, which for us is a really great sign that all four segments continuing to improve, even on a normalized basis. And then we said, well, when will the timing start to come back? And we said, it's sometime between Q2 and Q4, we think it's this year with the majority or mostly in Q3. Of course, we don't know exactly when that's going to happen. The reason we expect that is talking to our customers and distributors and expectation for them to bleed those inventories back down, and that's really because we're going through the ERP implementation here in Q2 and we get to the other side of it. It would make sense to start bleeding some of those inventories down.

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**David Roman** - *Goldman Sachs; Analyst*

So right now you -- in the ERP cut over, people can still buy through the - or you still transact on the old ERP system?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

No, we're cutting over, in Europe.

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**David Roman** - *Goldman Sachs; Analyst*

In Europe?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

This is where we're cutting over the regional ERPs, and through distribution centers we have -- we're progressing through the ERP implementation now and we're flowing orders through the new ERP system.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. So where would the outside inventory buys come from this quarter?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

So for the ERPs and distribution centers, it'd be in Europe, and for the SKU rationalization, in the U.S.

**David Roman** - *Goldman Sachs; Analyst*

SKU re--, but if you've cut over...

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

And some of the outside the U.S. regions.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. Like, I get the Q1 piece, like pre the cut over, but once you've cut over, why would you see continued pre-buying?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Oh, I don't think we will -- I mean, we'll give back the inventory in Q3, meaning customers will order less...

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**David Roman** - *Goldman Sachs; Analyst*

In Q3? Uh, in Q2?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Just depends when they slow down the orders and burn down the inventory that they have.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. So you,-- but you haven't seen, you've not seen a slowdown in orders?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

No. And we're just getting over the Europe piece now, so wouldn't expect it.

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**David Roman** - *Goldman Sachs; Analyst*

You wouldn't expect it. So customers were able to order under the old ERP in April, for example.

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yes, through April.

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yes exactly. And as we cut over in May and now they're ordering through the new system.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. So the question is, though, so the underlying growth rate in some ways will sort of surface in the back half of the year. I mean, you're disclosing it, but yes.

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*



Yeah, our anticipation is that that'll happen. Now, could some customer, you know, ERP goes really well here in May and June and they slow down their orders at the end of June? That's possible, but we're not expecting that at this point.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. And are customers carrying like really disproportionate levels of inventory, or is it possible they just keep buying on this run rate?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, in some cases, it's much easier to read, because they're telling us how much they're buying and we can see it in the distributor order patterns. Some of it is more quantitative where we're assessing it across, you know, we can't talk to everybody so we're assessing across multiple distributors. So it is somewhat of an analysis versus specific.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. I want to go -- one sort of other kind of a very short-term question, and then go back to the growth drivers. Uh, tariffs?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah.

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**David Roman** - *Goldman Sachs; Analyst*

I think within a very short order of your first quarter results, there was a significant update on tariffs, especially as it relates to China. And I know you provided some perspective at the last conference where you gave some incremental updates. So maybe, here we are, it's almost like there are no tariffs relative to what we thought six weeks ago. Like, what framework should people use to recalibrate their expectations around tariffs now?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

I wish there was a framework for calculating tariffs at this point. It's certainly a fluid situation. As you mentioned, you know, it changes almost daily and weekly here. So the approach we're taking is we're going to update on a quarterly basis. You know, just given the ups and downs and the fluidity of it, we're not going to update intra-quarter. Other than, as you said, it was almost, the ink was almost just dry on Q1, and at the time, you know, China was with the U.S., 125% and 145%. Of course, our assumptions for Europe were at the lower end, 10%. And so since then, there's at least been a 90-day pause on the China side of things with significantly lower percentages, but the European percentages are higher. And so when you put that together, what we said at the last conference is there's potential for earnings per share upside for us, but to keep in mind, it's not a one-for-one drop-through on the \$80 million to \$100 million that we put out there, because some of the mitigation strategies go away if additional expenses don't come through the tariffs. But we do feel like we've had a real strong start to the year and good business performance that we think could drive better performance for us if it weren't for tariffs, and so we're going to continue to monitor it. We'll update quantitatively once a quarter to try to just manage through the ever-changing tariff landscape here.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. Great. What, what...

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Good news is, I would just say it does look better than it did in Q1.

**David Roman** - *Goldman Sachs; Analyst*

Okay. Excellent. Let's go back to the growth -- the five growth drivers. Maybe, and we want to make sure we leave a little bit of time for P&L and M&A, so we just, maybe just tick through them and give us kind of latest updates.

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, sounds good. Why don't I hit MedSurg and HIS quickly, and we've got Karim here can talk about Dental for us.

So, as you said, five growth drivers. And it's more than just picking growth drivers to grow the business. This is part of our overarching strategy to really optimize where we're going to put resources, and our capital resource planning, and where we want to grow and invest in the business. So the idea was to come to the, to settle on what are the growth drivers and again, get over 80% of the growth behind this. So it's not that we can't change growth drivers over time. And in the past we have -- we've added growth drivers, we've taken some out -- but these are the areas where want to grow the business. So if you want to understand and if you want to try to decide, if you think we're going to get to 4.5% for 5% growth rate or better over time, it's in these five areas.

And so in MedSurg, I mentioned negative pressure wound therapy, which is a business that we are the rightful owners of. We have the majority of the share in traditional, and then the faster growing double-digit growing part of the market, which is the single use or disposable, we're the largest. We have the most revenue in that area as well. We're growing double-digits there, too, but we also have a competitor in that space. A majority of their business is on the disposable single use side of it. But we think this is a great market, even the traditional side. So single-use disposable, it's growing great. There's a great, a lower acuity setting opportunity for that market.

Traditional negative pressure wound therapy, we also think is a great opportunity. And because we're the majority of the market, it's really on us to develop that market. It's a significantly underpenetrated market. It is unfortunate how many people have problems with wounds today and hard-to-treat wounds, and it's really because the market hasn't evolved with our technology and we think that's part of the just lack of investment in developing that market. And so we're going to double down here behind our growth drivers. We're going to shift a lot of our resources into all five of these, but in particular, negative pressure wound therapy. We think with all the clinical data out there, that we will be able to develop this market and get it growing faster. So it's not a share-take opportunity in traditional, it's more us developing and getting the penetration and getting more of these hard to heal wounds treated with our technology.

If we move then to IPSS, we've got two growth drivers there, one around sterilization assurance, and this is a unique area within MedTech focused on the sterilization department. We've actually had two recent new product launches, call them singles, but it's nice to see innovation coming to this area. We think, again, we're a natural owner in this space and there's so much opportunity. We've been talking to key opinion leaders in this area, and when you think about hospital acquired infections and where they originate, a lot of it is in the sterility of the products, and we are the majority leader and natural owner to win in that space. So we're pretty excited about the growth driver there.

And then IV therapy as well. So we've got an opportunity with the products that we have, with Tegaderm, with the brand name and our new product, CHG, which is a price uplift opportunity, a better performance of the product. So we've got some innovation behind that one. So we're pretty excited what we have in MedSurg.

And then for HIS, we've decided to double down again on revenue cycle management, the area where we have significant moat, significant capability, and there it's really autonomous coding. It's an opportunity to leverage some of the newer technologies. So that team has been building talent and building partnerships with AI machine learning companies to try to augment what we do today and have such a significant moat in. And so we're pretty excited about what we can do with that growth driver as well.

And then Karim, I will turn it to you...

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

In Dental, we've made core restoratives our growth driver. Again, back to the domain knowledge and science we have in tooth restoration. And not only because it's a more resilience portion of the markets, but there is significant opportunity ahead of us. And so as we start from a position of strength with significant brand equity, we have the right commercial reach -- I mean more than 60 countries, we have presence in more than 60 countries -- and we've started the journey on beefing up our commercial engine, bringing more efficiency in that into in the way we commercialize our product. What needed to happen was bringing new product to market. We have what it takes to bring new product to market. We just needed new products to bring to market.

As I said during Investor Day, unfortunately in 2022 and 2023, we had no new product to bring to market. Believe it or not, despite the level of investment and the science we had, we were not efficient at bringing new product to market. In 2024, at the end of 2024, as I said during Investor Day again, we brought four new products to markets and we have now a very significant pipeline that we feel extremely strong that we're going to win in this space.

One last update on what I said during Investor Day. We spoke about ClinPro Clear, a new varnish fluoride treatment. Happy to report that nine months after the launch, we became market, number one market share in the U.S., so kind of a proof point of if we are on point with the right level of innovation, we can win because we have access and we have credibility in the eyes of dentists and odontologists.

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**David Roman** - *Goldman Sachs; Analyst*

That's why it's a good opportunity the business unit president here to ask this question. On R&D spending, it's been pretty flattish. the \$145 million a quarter. It's actually a pretty decent sized number as a percentage of sales. I already get him without you. What would you say about the level of R&D investment?

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

You know what, the way I would answer to this is, I don't think we can complain about the level of R&D investment we have in Dental Solutions. It's the use of it. And so now that we are, we became clear about what is our focused portfolio strategy. And that we also brought rigor and discipline into the R&D processes. There was a some kind of a lot of ways, despite the talent we had and we needed to challenge that talent to the right product. So we stopped some key projects. We maintained some, and we are bringing additional new products. And so making sure that this efficiency in the R&D is back, and PVI will be the way to measure that in the future. It was -- it is, as you can imagine, with no new product launch, it's very low as we speak. But this is the focus. It's more channeling the organization and our investment to what's the growth drivers and making sure we take good decision there.

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**David Roman** - *Goldman Sachs; Analyst*

And then maybe on the SG&A side, we've seen pretty progressive increase in SG&A, which would be fully expected as you transition to being an independent public company. Are all of those investments behind you in terms of stand up costs? And are we at a point now where we can -- when can you start to see kind of normal SG&A leverage?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, that's right, David. We think we've made the critical investments and you know, as you mentioned, we've made investments as part of standing up as a public company. Clearly, you have to have a board and CEO and leadership team and all those types of investments. But beyond that, we made investments in cybersecurity and quality and compliance and control areas that, you know, we just felt were necessary as a business. And so we have annualized those. And so those are now in our P&L and obviously a lot of work going on in the TSA side of things as well, so we've had to ramp up a lot of resources to manage through that. But yeah, having said that, I think we're in a position now where we've leveled off with the investment side of things from a stand up public company. From a growth side of things, that's what we're going to be balancing over time with our margin expansion. So we've got a lot of efficiency projects that we're teeing up. Some we're executing, some we're keeping in queue just because we've got a lot going on across the business right now with the separation and the divestiture. But we do think we've got good opportunities to drive leverage.

Paul Harrington, our leader of supply chain, talked about the cost and COGS side of things where we think we've got significant opportunity. All through the COGS lines, our segment leaders are working on their segment mix strategies and pricing excellence strategies, but then focused on your question down in SG&A, we're working on projects to think about how we can get more efficient over time, and part of that is around the stranded cost work that we're doing as part of the P&F divestiture, which are always a challenge whenever you're divesting a business. So we do think we're queuing up a good amount of levers to start to drive efficiencies here, but we just have to -- we actually have a whole project team. We've hired a new leadership team member actually managing the transition management office for us, given that we've got so many major projects happening at the same time, so we'll be queuing those up.

But I did just want to touch on that balance between investing for growth and operating margin expansion. The first lever of our growth -- revenue growth improvement is around commercial productivity. And we're working off the investment that

we have today. But if we see opportunities to further invest for commercial support of our growth, we'll do that. But we're going to balance that with our operating margin expansion here over time.

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**David Roman** - *Goldman Sachs; Analyst*

And as you think about just growth rates of SG&A, if you assume flat head count, shouldn't SG&A grow at 2% to 3% a year, just merit increase alone and other natural inflation?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

So that might be about, it might be a reasonable estimate, just as you think about merit, you know, it's a different number depending on the countries around the world, but it's a reasonable estimate. If you weren't driving efficiencies, you would expect to see something like that.

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**David Roman** - *Goldman Sachs; Analyst*

Okay. So driving efficiencies is what allows you to get SG&A leverage, even with the top line growth rate in this 2.5% to 3.5%?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Top line growth rate hopefully is the biggest driver for us. You know, it's an opportunity for us to not just drive leverage, but also more volume. And that volume helps the COGS side of things as well.

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**David Roman** - *Goldman Sachs; Analyst*

So is the right way to think about it that the Solventum Way restructuring that you've talked about, as well as the efficiencies that helps drive SG&A leverage, sort of on this in this transitional period, to the top line and then you get the top line back to 4% to 5% top line growth, you get more natural scale leverage? I guess, is that the right way to think about SG&A leverage direction?

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**Wayde McMillan** - *Solventum Corporation; Chief Financial Officer*

Yeah, it certainly helps. What I would say the primary objective of Solventum Way, the origination of the project was to think about what is the new structure that we want, and we've got a new culture that we're deploying. We want to be able to move faster, we want to be able to make decisions quicker, we want to drive authority to make those decisions down further into the business, and have the businesses really be accountable to those decisions so we can move quicker. What we inherited was a more "command and control" type structure where a lot of, most decisions were bubbled up to the top of the organization, and so we're trying to reverse that, to pick up the speed and pick up the accountability in the organization.

So as we do that, we needed a new structure, and so we thought through that structure. As a part of it became some efficiencies and we saw opportunities to drive efficiency. I guess on the surface it looks like a restructuring for efficiency, but it was really to get the structure that we wanted. And think about as a first wave, because we're still learning and we're still going to iterate and improve our structure over time. But that was one to get us both the right structure as well as efficiencies. And in our first Investor Day, we talked about low-20s operating margins and that's where we wanted the business to be, that's kind of the new reset bar. And so the restructuring also helped us stay in that low-20s range and offset some of the investments that we're making.

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**David Roman** - *Goldman Sachs; Analyst*

And based on kind of where we are with tariffs, we'll see what happens, it would seem like within the 23% to 25% that you've communicated, even if tariffs were to stay where they are, there's enough levers in the business to stay in that range.

**Wayde McMillan** - Solventum Corporation; Chief Financial Officer

Yeah. You know, we're not going to commit to numbers at this point, but what I would say is we're very committed to the 23% to 25% operating margin. Tariffs obviously can change a lot over time. But we do have, we think, significant levers. I mentioned in the COGS line, the supply chain team, even though they're very busy with the separation and they're very busy with the P&F divestiture, they're already teeing up a queue of projects, you know, behind supplier management. We have way too many suppliers. It's really interesting, actually, when you get into the business that, you know, as mature as the business was, our teams still feel there's like a lot of opportunity to get after, especially in the supplier consolidation areas.

We've significantly increased the resources behind our lean, or continuous improvement areas and OpEx throughout the business. In fact, we focused in manufacturing supply chain first, we're starting to bring those lean tools and processes to the rest of the organization. And then network optimization too. We think we've got a lot of opportunity there. This is how we move product between manufacturing plants, and how we leverage our distribution center, you know, so we are building up a decent queue of levers, so we'll see where tariffs shake out over time. But to your point, we do see a lot of opportunity to drive leverage. Again, the key for us and one of the platforms for us to push for more efficiencies, is we want to invest more for growth over time. And so again, we want to achieve operating margin expansion as we work through our long range plan, but we want to be able to invest more for growth as well.

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**David Roman** - Goldman Sachs; Analyst

And maybe lastly, I know we only have little over a minute left here. Just to touch on M&A, but it clearly is going to be part of the story: do we have to wait for the sequencing of the P&F divestiture to be complete, do you have to complete a debt tender, then for there to be M&A? Or can what can happen in the interim here?

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**Wayde McMillan** - Solventum Corporation; Chief Financial Officer

Yeah, that's the plan. However, if we see something small that we want to execute on, and the teams are ramping up. Karim could talk about the strategy, the corporate-led strategy team that's really implementing processes at each of our segments to build the funnel of opportunities for us. And we do think this is a really exciting lever for us. You know, the playbook that a lot of us on the leadership team have deployed before, and a lot of others in MedTech deploy, I think what's uniquely exciting about our business is there just has not been a lot of acquisitions in this business over the years. So there's a lot of tuck-in opportunities across our product categories that could -- we could benefit from the faster growing parts of these markets if those right acquisition opportunities are out there. So we're pretty excited about that. It could start as early as the end of 2025. We're really thinking about it starting in earnest in 2026, which would be on the other side of the P&F closure, which we are expecting by the end of this year.

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**David Roman** - Goldman Sachs; Analyst

Excellent. Well, I think with that, we are just about out of time. Karim and Wayde, thank you very much for your participation now.

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

Thank you very much.

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**David Roman** - Goldman Sachs; Analyst

Look forward to getting the next update, I guess, in early August.

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**Wayde McMillan** - Solventum Corporation; Chief Financial Officer

You bet. Thank you for having us. Thanks everybody.

**David Roman** - *Goldman Sachs; Analyst*

Thank you.

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