

Solventum 2025 Wells Fargo Healthcare Conference Transcript

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Corporate Speakers:

Bryan Hanson – *Solventum Corporation; Chief Executive Officer*

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Participants:

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Okay. Good morning, everyone. My name is Vik Chopra, part of the Medical Devices Equity Research Team here at Wells Fargo. Pleased to introduce management from Solventum for this session. Joining us with the company are Bryan Hanson, CEO; and Wayne McMillan, CFO. Thank you both for being here.

Bryan Hanson – Solventum Corporation; Chief Executive Officer

Yeah, thanks.

Wayne McMillan - Solventum Corporation; Chief Financial Officer

Thanks for having us.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Bryan, let's talk – start out with a few big picture questions. Talk about your vision for the company over the next 5 to 10 years.

Bryan Hanson - Solventum Corporation; Chief Executive Officer

I think probably the best way to talk about the vision is the same way we've been referencing it in the past. We've got a significant transformation that we need to put into place. Company's performance wasn't where we wanted to be. And so, we needed to transform it. And we've put that into three transformation phases. Interestingly about the phases, they sound like they run in serial process, but they're actually concurrent, sometimes it's in a planning phase, other times it's in execution phase. But we have three different phases, nonetheless.

The first one, and probably the most important that we'll continue to move on, is all around mission, talent and culture in the organization. So, we're going to be highly focused on continuing to drive the mission that we put into place, which is getting a lot of traction with the organization. We're also going to continue to evaluate the talent, but we've made significant changes already in the capability to be able to stand up the organization as a separate company.

And then the third one is around culture. And we've done a lot here, not just in the way that we talk about the culture of the organization, but in the structure of the organization. And that just continues from here, right? So, we put a structure in place that allows for more autonomy and decision making, speed in that decision making, and then, very importantly, accountability for the decisions that we make and the commitments that we make. So, that's the big changes in Phase 1, and that will continue.

Phase 2 was really more around strategic alignment, and that's going to continue as we go as well. All these phases are perpetual, but we just had to align on what markets do we care about, what are the growth drivers inside of those markets, and then how do we align our resources against those. That took a lot of time, but we're executing against it now, and that included specialization of our sales organization in those areas.

And the third phase is what we're in the middle of today, and we'll continue again perpetually, is transforming for the future. A big element of that is portfolio transformation. That's our SKU rationalization project that we put into place. It is also the P&F transaction that we just closed. Big week for us obviously to get that closed. And then we'll be moving into M&A as well now that we have a better leverage ratio. So, those are the things that we're going to continue to do. It wasn't just a flash in the pan. It wasn't a three-phased approach that ends. That will be what we do perpetually as an organization.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Great. So, I think it's fair to say that Solventum is a very different company compared to a year ago. Talk about how you focused on real changes that matter, especially in terms of the talent and culture overhaul and the shift to increase accountability.

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Yeah, I mean, that's a big one again in Phase 1, you're focusing on the Phase 1, kind of the hearts and the minds, mission, talent, culture piece of the organization. And just to say, one of the most important things I believe, if you're in a MedTech company, is to have a mission that you can kind of look up to and be inspired by. And that's exactly what we were able to create. We created a mission that shows that people's work and they're working very hard right now is improving lives around the world. So, that was a big part of the change that we made right out of the gate.

The other, I mentioned it before, is talent changes. We've got significant changes in the competency and capability of the talent that we put into place. And that's not just at the senior level of the organization, that has cascaded down all the way through the organization. And we're going to continue to focus on that.

And then, as I mentioned before, it's the culture shift. That is a significant shift in the change in the way that we're going to show up as an organization, an organization that's looking for continuous improvement constantly. We always say that we can be happy about the progress we've made, we will never be satisfied with where we are. So, it is a continuous improvement culture with an accountability mindset.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Talk about your innovation engine. What gives you confidence in that engine and what are some of the launches we should be in the lookout for in 2025?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Yeah, I'd tell you, it's actually a pretty good set up for us when you think about innovation. I think the first thing that's sometimes hard to do, but if you have it already it's good, is to be in an attractive market. It's really important to be in an attractive market if you're going to be innovating inside of a market because you get the benefits of that.

And so, we're already in attractive markets pretty much across all of our categories. And if I look outside of that, it really comes down to do you have the capabilities inside the organization to innovate effectively. And coming from 3M, we have some of the best material and data scientists in the world. And this isn't just because I'm reading about it, I know 3M had it, I'm visiting with these folks and it is amazing the amount of power we have from a mindset perspective in the organization.

So, that was already there. And then we have these brands that are in the market that are differentiated, that are respected, and that's a big deal too, because now your company is already respected because of the technology in the marketplace. Those things existed. What we've added to that is now the alignment from a strategy standpoint, focusing on our growth drivers and putting those resources basically directly aligned to those growth driver areas. Before there was innovation for innovation's sake. Now, it's innovation for the areas of concentration that we're in. The combination of those two things gives me a lot of confidence that we will invent new-to-the-world technologies that will make a difference.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Got it. Can you talk about the specific enhancements that you've made within the MedSurg leadership team, regional structure, governance and commercial organization to address the past underperformance of that business?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Sure. Sure. I mean, if you think about it, that was one of the businesses that needed probably the most attention. But before we moved into the position we're in today, we had about four leaders in five years in that business. And that is 50% of the overall healthcare business. And so, that was an area that we really needed to dig into and make sure that we optimized.

And interestingly enough, that became a microcosm of the macro, as you would expect, and it followed the same phases that we have as a broader organization. But on the talent side, I don't think I've ever seen as much of a refresh in talent as quickly as we did ever in my life. It's the group president over MedSurg, it's the presidents running the businesses underneath that individual. It's the regional presidents are different, even the vice president of sales, area vice presidents in the U.S., our commercial operations leadership has changed, our distribution leadership has changed, our corporate sales leadership has changed. So, just a dramatic overhaul and refresh of the talent there.

And then in concert with that, from a Phase 2 perspective, they've really aligned around their three growth driver areas. They've taken now research and development and medical education. We moved that into the organization and now they're aligned also to those growth driver areas. So, you're just seeing a major alignment that you have not seen before in strategy and focusing of resources. And then we've also added M&A capabilities inside of that business because we want to look for scouting opportunities, upstream marketing opportunities and ultimately integration of assets into those businesses.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. So, it seems like it's working well for you in MedSurg. Are you looking at similar opportunities in Dental and HIS as well?

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Absolutely. I mean, it's probably less of a need for the total revamp because you've had more consistency in leadership there. But where you're really seeing the changes as we take in the kind of the corporate infrastructure around medical education, it just MedEd overall, as well as R&D. And we've moved that into the businesses. They have more access now to those resources and they can dictate and drive where those resources are going to be spent. And that just wasn't the case before.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. So, let's move to the Purification & Filtration (P&F) business. Congrats on the deal closed. It was earlier than we were expecting. Wayde, maybe given the intra quarter close and the timing of the debt tender, how would you have us think about the third quarter and fourth quarter split of the \$0.08 of updated EPS guidance?

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yeah, sure. Glad you got to this one early. As Bryan said, this is an exciting week for us, truly transformational. The earnings per share benefit is certainly a big part of it. But I would just start by reminding people this is a game changer for us from a strengthening of our balance sheet and our financial profile, clearly improves our operating margins, and then simplifies our portfolio for us. So, wonderful transformation for us.

As you said, we've put out publicly that, on an annual basis, this will be a 25% to 30% benefit. We're going to get some of that in 2025. We've already had about \$0.10 running through the P&L for the stop of depreciation on that asset for assets held for sale. And then as we just communicated in our press release, we're going to pick up another \$0.08 of EPS benefit this year.

And to your question, most of that, almost all of that is going to come in the fourth quarter. That's due to the debt tender that you just mentioned. Our primary objective in using the cash from the sale of Purification & Filtration will be to pay down debt. And we've already started that tender process. So, as a result, we'll get a small benefit, I think like \$0.01 benefit here in the third quarter. And almost all of that \$0.08 will come to us in the fourth quarter. So, if you add that to the \$0.10 benefit from asset held for sale, we'll get about \$0.18 of the benefit, that annual benefit, this year. And then the balance will come next year, call it \$0.07 to \$0.12 incremental benefit next year, to get us to that total 25% to 30% accretion from the divestiture.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

So, just to clarify, the \$0.25 to \$0.30 deal accretion roll-forward, it sounds like you're getting more than half in 2025 and then the balance in 2026. Is that the right way to think about that?

Wayde McMillan - Solventum Corporation; Chief Financial Officer

You've got it exactly right, Vik. Yeah, so we're going to start. The primary tradeoff is obviously by divesting Purification & Filtration. We have less EBITDA running through the P&L, but we more than offset that with the interest savings from the debt paydown. And so, the timing of when we pay down the debt and start to get the interest savings is what drives that fourth quarter, call it, \$0.07 benefit. And then that's what will then carry over incrementally as we annualize that and call it that next \$0.07 to \$0.12 benefit that we'll pick up in 2026.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Got it. So, you retain the Drinking Water Filtration (DWF) business, are you going to explore a sale for that DWF business further down the road?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Yeah, well, I mean, maybe if I take a step back and say, why did we retain it? It's not necessarily because we see that business as being highly aligned with our strategy going forward, but it was just getting in the way of moving fast on the larger transaction. And as Wayde said, this is a pretty transformational transaction for us and we didn't want anything to slow it down, so we pulled that out so that we could move faster. And as you've seen, we did. We closed earlier than expected, which is the benefit that we're seeing in this year relative to earnings per share benefit.

And we'll eventually look to sell that business. Our goal is to likely wait until we do our ERP cut over so that we can set that business up to be able to be separated without a bunch of additional IP work because we're a little busy with other things right now. But that was the intent. The intent was, let's hold this business back, let's move faster on the larger and more transformational transaction. We'll make sure that we keep enough value in that business so when we sell it, we make money, but we're not in a rush to necessarily do so.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Got it. How should we think about the rest of the portfolio in terms of portfolio management? You divested P&F. Are there plans to look at other assets to divest down the road?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Yeah, that was probably the reason why I said when we look at the phases of transformation for our organization, they're not a point in time. It is perpetual. So, when I think of transforming for the future and a sub element of that is being portfolio optimization and transformation, that never ends. So, we will constantly look at the portfolio that we have, and we'll determine if assets belong with us or somebody else, or if we need to acquire assets to be able to again drive our strategy. But that process of optimization of the portfolio does not end.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Okay. Got it. So, obviously, the proceeds, I think you said the majority is going to be used for debt paydown this year. But just talk about the firepower you will have to do deals post the P&F sale, and how soon can we expect to see something?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

So, maybe I'll start with a few things and if you want to add to it. I would just say that we're not going to speak specifically to the level of firepower, but what I would tell you is, given where we are in the journey and the targets that we have in front of us to acquire, I don't feel pressure from a capital perspective on being able to execute what I want to execute in 2026. So, I feel like we've got plenty of room from a capital perspective to do the types of deals we're looking for, which we have stated are going to be pretty close to the vest in markets that we're in, where we can leverage our commercial infrastructure, we have a right to win and play, and are easily integrated into the organizations. So, those would be smaller tuck-in type of deals, where we're leveraging our know-how and capabilities. So, I feel no pressure on having enough capital to do those types of deals in 2026. I don't know if you wanted to add anything else?

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

I think you covered it well, Bryan, it puts us in a nice leverage position, either in line with our peers or even slightly less leverage than our peers. So, it allows us to go on offense, as Bryan said, and we're looking to be that programmatic serial acquirer of tuck-in acquisitions. So, it's not like we'll be doing anything large and transformational leveraging up in order to do that.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

And what about potential areas of interest?

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

So, again, the primary thing we're going to concentrate on for a myriad of reasons, but first I would say we want to be very close to where we are today. So, it's going to be in markets that are either in markets we're playing in or near adjacencies. And the obvious reason is, out of the gate, you want to test the machine. We've hired a lot of great people. We have a great apparatus right now to be able to do M&A, but you still want to test it. And the best place to test your machine is in areas that you know and you've got infrastructure in today. It's just lower risk and lower complexity as a result.

And the other one is we have a lot going on still with the separation. So, we just want to make sure that inside of that separation and the divestiture we just did, we have the capacity to be able to absorb that M&A. So, just know that in the beginning, it will be smaller tuck-in deals in spaces that we know, with less complexity and lower risk for again, a number of reasons.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Okay. And just remind us of your M&A criteria in terms of accretion, dilution, ROIC targets.

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Sure. Maybe I'll start and then – so I'd say first and foremost, we want to be a very mission-centric organization. As I said before, most people are in MedTech because they like the mission. They like the purpose of the organization. And I want to make sure that we adhere to that when we're acquiring a company. It has to be mission-centric. It's got to feel good to the heart that we're actually solving real problems. That's number one.

The second is it's got to have a market growth rate that is accretive to what we're in today. And of course, as a result of that and ability to be accretive from a revenue growth perspective, not just an attractive market, but also be able to take advantage of that growth rate. And we want to look at those markets that are more profitable so that we know that we can drive mix benefit through those acquisitions, that's a very attractive way to go.

So, those are the obvious things that we want to do. And then you have all, as you would expect, the financial metrics and hurdles that we would focus on. We want to make sure that these are shareholder friendly, right? It doesn't make any sense for us to do deals that aren't shareholder friendly. So, we have specific metrics that we'll look and make sure that we jump those hurdles before we buy. Anything else to that?

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yeah, I think you hit it, Bryan. Specifically, around the financial metrics, we want to be accretive to our overall market growth rates. We're buying into or acquiring into markets that will help increase our market growth rate over time and our WAMGR as well as a gross margin profile. A lot of times early-stage acquisitions will have a lower gross margin until you get into the volume and gross margins, we got to take a little bit of a longer look to gross margins. Internally, we have our return on invested capital hurdle rates. We don't share those for competitive reasons, but you can imagine we're paying very close attention to our return on invested capital, as well as the capital intensity of the businesses that we're looking at.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

And what are your comments around valuations? Like, what are you seeing in the marketplace right now for these tuck-in deals?

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Yeah. I joked when you talked – we talked about this last night, it always seems like, except for P&F, the asset you're trying to sell seems to have a lower multiple than you would like and the asset you're trying to buy has a higher multiple than you would like. And the good news is we got a great multiple for the sale of P&F. I think one of the best in the sectors that you've seen so far. And I would just say that I think all of us know the assets that we're going to be interested in, which are in those attractive markets, they're fast growth, they're profitable, and are not inexpensive. That's why we have to remain disciplined. Does it meet the strategy that we're looking to move forward, and does it meet our financial hurdles, and will it be good for shareholders? So, we're going to have that disciplined approach. But make no mistake, these are not inexpensive assets in MedTech.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. I want to touch on Dental. I'd love to hear about the new launches you have in that business and perhaps more detail around market reception and commercial success of these new products since launch.

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Yeah, I'd say I'm really happy with what I'm seeing there. And it does speak to this concept of getting vitality index up and making sure that you get alignment of research and development with the strategy of the organization. Sounds like basic blocking and tackling, but it wasn't happening before.

Just as example, in Dental, they've really seen a change in fortune here because they had two years before the spin where they launched no products. Even though there's money being spent in research and development, that's crazy. And now, they've launched three really solid products this year and they're seeing strong traction from those products. And that's the reason why in our last earnings call, we said that we expect to see accelerated growth from them in the back half versus the first half, not because we think that the market's going to improve, but because we're seeing traction in those new products.

Clinpro Clear is a fluoride treatment that I truly do believe - I'm not just saying, I'm seeing it - is transforming the way fluoride treatment is going to be done. It dramatically reduces chair time, and it dramatically reduces the inconvenience for the patient. That's a powerful combination when you're talking about dental procedures.

So, you're seeing it not just take share, you're seeing it expand the market because before it was so challenging, people didn't want to do it. Now, it's like an impulse buy. You're in the chair, got an extra 15 minutes, they can get you fluoride treatment. The dentist makes money. You take care of the patient, you protect the patient, and it's just a way of expanding the market. So, I'm pretty excited about that one. It doesn't sound that exciting when you hear "fluoride treatment", but it's a pretty cool technology. And it does take advantage of the material science capabilities that we have in 3M to make it a water-based technology where others don't have that.

The other one is Filtek Matrix, which is a composite that we have that's the most clinically studied composite on planet Earth when it comes to dental composites. And it is a brand name at that level that doctors and dentists understand. And what we're doing there is to make it easier to match.

If you've ever been into the dentist and you've got to get a composite put on your tooth, they'll spend an enormous amount of time eyeballing the color of your tooth against a color palette that's quite wide, and they're trying to match that. We've simplified that process, and somehow through our material science, come up with three colors, just three colors that will match anybody's teeth. And so you only have to pick from those three, you get a better-quality outcome, and at a lot lower cost and time to do it.

And another one is around clear aligners. We're a pretty small player in this area, but one of the challenges associated with clear aligners is you got to go in every month. Some people don't know. You go in every month to get a new aligner and then inside of those aligners, you have these things called attachments which are like boosters to move the teeth in a

more efficient, more effective way. Those have to be put on individually across each tooth and you get flash when you do it. It's a whole process. It's a pain and it takes chair time.

What we've done is because, again, the material science capabilities that we have, we have a certain material in our attachments that now allow it to be 3D printed. So, we can 3D print the whole - I'm just going to call it scaffolding - so that you don't do them one at a time. You just pop the whole piece in, you put all the attachments in at once, you get less flash, and then you put the clear aligner on. That's a game-changing technology inside clear aligners. Now, we're a small player, but our growth rate is pretty good in that area because of it.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Great. You also recently announced a new partnership with Ensemble.

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Yeah.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Talk about the opportunity here and the timeline for the rolling out of Solventum's autonomous coding technology across Ensemble's health system clients.

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Yeah. So, maybe just take a step back because not everybody knows that space that well. Ensemble is a – so when we play in revenue cycle management, we play through software solutions to help people do revenue cycle management. Ensemble basically takes over the service. They're a service provider like contract manufacturing almost. They come into the hospital, and they basically take all FTEs and the entire responsibility for doing that revenue cycle management for that hospital or hospital system. And they're one of the largest service providers out there.

And so, the beauty for us is once they take that over, they make the decisions on the software packages that are going to be used. So, as we have this partnership with a customer, really, then we get access to all their accounts. The way that we help them is we go to market their services to other hospital systems. And so, the goal for them is to be able to provide the commitments they've made to the hospital at a lower cost, and we can do that through autonomous coding. So, that's really the big benefit here is we have this relationship, they are a customer for all intents and purposes, and their goal is to move autonomous coding in to reduce their cost, to serve that customer, and also get more reimbursement. Because you have fewer mistakes with autonomous coding, because you're using AI versus a person who can make mistakes. So, it's a great relationship between the two of us.

The only thing is, is it takes a little bit of time to get the revenue. It's about six to nine months to be able to get the software in place. And then once you put it in place, you don't get the annual revenue right away. You get a prorated basis on it. So, basically 1/12 every month that you're accumulating. So, we'll take all the hospitals they have, we'll do it in waves, we'll begin to move them to autonomous coding, takes six to nine months per wave, and then we'll start to get 1/12 of the revenue each time as we go from there. So, it's a great opportunity. It galvanizes us as the leader in autonomous coding, which is the new wave in revenue cycle management, and it puts us in a position with one of the largest providers of revenue cycle management.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. Should we expect more deals like Ensemble going forward?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Potentially, yeah, if we – so that's a great one because it's a partnership, really no capital outlay at all. The more we can partner, not just in HIS, but any business is fantastic. Distribution arrangements are great because you can test before you potentially buy, but you would see all of those levers being pulled: partnerships, distribution arrangements, acquisitions, all those will be flexed by the organization. And we're putting competency in each of the businesses so they have the capability of doing it.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Got it. So, Wayde, you had your Q2 call about a month ago. You gave us the updated guidance for the year. How should we think about Q3 and Q4 in terms of cadence, and what are the key variables we should consider as we look at the back half of the year?

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yeah, happy to share some information there. And you have to just remember, we're still in the middle of a separation, so there's a lot of moving pieces within our numbers. So, maybe to set the context, in the first half of the year, we grew 3.5% and we called out several things that drove additional order volume in that first half of the year, some related to our ERP and distribution center cut overs, and some related to the SKU exits where we're planning to exit some SKUs and we've got customers buying some volume ahead of that. So, what we said in the aggregate is that there's about 1% of additional volume in the first half related to those – related to that order timing. So, that normalizes our first half to about 2.5% growth.

In the second half, if you do the squeeze math on the guidance that you're referencing, Vik, it says that the second half should grow at 1.5%. And that's because we're giving up that volume to the first half. So, if we normalize the second half, we think it's going to come out at about 2.5% as well, which puts us right at the midpoint of our 2% to 3% guide for the year.

So, inside of that, if you think about our MedSurg business, our biggest business, it's kind of a tale of two cities. We had a headwind in Q2 related to the Advanced Wound Care (AWC) business, and then we think the Advanced Wound Care is going to accelerate in the second half. We'll have faster growth in the second half.

And then the Infection Prevention & Surgical Solutions (IP&SS) side of the business, which was the primary beneficiary of that volume in the first half. And that's mainly because it's a high volume, a lot of SKUs, a lot sold through distribution. That's where we think we're going to see most of the give-back of that volume in the second half.

And then other than that, Bryan touched on Dental already. Just given the new product momentum we have there, we're expecting the second half of the year to see some stronger revenue growth in Dental as well. So, you put all that together, that's how we get to our guidance for the full year.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Okay. You also said that you've had a slow start on free cash flows in the first half of the year due to the timing of some payments. So, can you talk about your confidence in achieving your free cash flow guidance for the year? I think it's \$450 million to \$550 million.

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yeah, we're confident. We've got action plans in place. As you said, we had a slow start to the year, which really means we had some timing things impact the first half of the year that we're looking to see improvement on in the second half of the year. So, we haven't changed the guidance and that's what we're planning to deliver for the year.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Okay. We're in September. I'm sure you're planning for 2026 at this point. Maybe just sort of throw out some of the potential headwinds, tailwinds, puts and takes we should keep in mind as we look at our models for next year.

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Okay, and definitely, we're thinking about 2026, for sure. And I would say maybe I'll start with revenue and then pass it over to you for margin views. And of course, we don't want to give too much color, but I think some will help. So, first and foremost, one of the biggest things that we're seeing in the acceleration of our growth rate is around the commercial improvements that we put into place, and some of the new product launches that we have. That will continue, maybe not at the same pace because we saw a jump faster than I would have expected for those two things, but that will continue into next year, so that's going to be a tailwind for us. So, commercial enhancements and the new products that we've already launched and will launch in 2026, so that will help us there.

I would also say from a tailwind perspective, now that our cash position is in a different place, you could see some inorganic innovation being peppered in, and that could also help us with growth rates, certainly in 2026, but beyond would be the key focus there. And so, those would be the 2026 I would just define as tailwinds.

From a headwind perspective, it's not really an underlying business headwind, but it is a growth rate headwind, which is going to be the SKU rationalization, that's going to be about 100-basis points of headwind in 2026. So that would be on the negative side.

I don't ever want to diminish the risk of ERP cutovers because we have some pretty substantial ERP cutovers in 2026. I feel like we've got a great team in place, and we've got an excellent mitigation strategy that's a three-pronged approach to mitigation and we've done quite well so far, but you don't ever want to disrespect the ERP cutover. So, I'm just keeping that in my mind too as a potential risk.

So, those would be the ways that I would think about it. And of course, outside of all of that, from an umbrella standpoint, any kind of market movements could either help or hurt the business. But we're just assuming there's a relatively stable market coming into 2026.

Vik Chopra – Wells Fargo; MedTech Equity Research Analyst

Okay. Just to double click on that 100-basis point SKU impact for 2026, can you just talk about the specific categories of SKUs being exited, and why there's an acceleration in 2026 versus 2025?

Bryan Hanson - Solventum Corporation; Chief Executive Officer

Pass it to you?

Wayde McMillan - Solventum Corporation; Chief Financial Officer

Yeah, sure. So maybe just taking a step back on this one as well, this was a program that we initiated right when we spun because we recognized that we had some housecleaning or simplification to do around all the SKUs in the business. And what we quickly realized is there is a group of decisions that can be made quite easily, and we call that "wave one", and those are underway today. And then we had to do a lot more work on the data granularity side of it to get to decision making called "decision grade information" to decide on what products we're focused on are the ones that are lower or negative growth or low growth that have lower margins or negative margins.

And so, in order to clean all that up, we created a "wave two", did a bunch of work to decide what SKUs we're going to take out. The longer tail on it, as Bryan said, it's 50-basis points headwind this year, it's 100-basis points headwind next year is because there are some longer-term contracts that we have to work out as well as inventory that we want to work through as well. So, we don't have a big write-off and work through all the transition plans, in some cases transitioning from those exited SKUs to existing SKUs that we have today.

So, overall, the program is going very well. We're on track. We've identified all the SKUs. The majority of them are in the MedSurg business because that's the biggest business by far, but even beyond that, weighting the other businesses, in particular Dental has taken advantage of the program to simplify its SKUs out there.

And the primary objective is, as I said, is to simplify, we'll get a small benefit in the P&L, very small top line, a little bit of margin benefit, very small benefit over the next couple of years. But the primary benefit is it really simplifies our supply

chain. If you think about demand planning, inventory management across the 90-plus countries that we're in, there's a lot of downstream benefits.

And then another benefit we talked about was with the separation, there's a certain amount of cost to rebrand and to reregister the products from 3M to Solventum and by retiring thousands of products as part of this program will avoid some of that cost. So, overall, we think it's a good simplification program for us to run at the beginning here as we separate from 3M, puts us in a good position to have a much cleaner model moving forward.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Great. Any reason you can't grow above the 2025 revenue growth rate of 2% to 3% in 2026?

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

So, I would say that – so, out of the gate, I'm very impressed with the growth rate that we're getting. It was funny because it was just a couple of quarters ago we were doing the Investor Day and we were talking about our LRP expectations on revenue growth, margin, and also EPS, and a lot of people came up afterwards and said, "hey, it sounds great. I don't believe you. I don't believe you're going to be able to get there just based on the trend of this business."

And I hope what we've shown in a very short period of time that even in 2025, we are well on our way to accomplish that LRP. That said, the LRP requires us to improve the underlying business performance, top and bottom line every year. That's the goal and that's the expectation. Again, remember, in 2026, you're going to have that offset of SKU rationalization. But if you take that out, we expect to see improvement in 2026.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Okay. I just wanted also to touch on interest expense. You've lowered your guidance by \$50 million for 2025. You'll pay down debt. I think you said the majority of the proceeds will be used for debt paydown. That implies a pretty significant step down in interest expense for 2026. I mean, how should we think about interest expense in 2026, and what's reasonable?

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yeah. So, we're not guiding to 2026 yet, so I won't give you a number yet, Vik, but I love that you're picking up on this one because it is a real value driver for us. We've been talking about, since spin, that we were going to work on reducing our debt load because of the interest expense we had. We started the year, as you said, guiding to \$450 million of interest expense. And so, that's cash out the door for interest. We've paid down \$500 million in debt to this point. So, we've been paying down about \$100 million every quarter since we've spun, and that's like a flywheel onto itself. The more debt we pay down, the less interest we pay, the more cash we have, and the more debt we can pay down.

And then with the Purification & Filtration divestiture here, it is just a huge step forward for us to be able to significantly pay down our debt, and as you said, it's going to significantly reduce our interest payments next year. We did call out the \$50 million reduction related to primarily the fourth quarter here as we tender the debt here through September. And so, you can annualize that into next year.

So, we are very excited about the transformation of many areas of our financial statement, but certainly the interest expense reduction gives us a lot more cash for the business and then we can decide what to do with that, as Bryan talked about earlier. Now, we can go on offense, on M&A and starting to programmatically tuck in faster-growing assets.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. So, maybe with the last minute that we have over here, I want to touch on pricing. What are your expectations for price in 2025 and how should we think about that in 2026?

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

You want to just answer that one too, as it's difficult? Yeah.

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Yeah, sure. Absolutely. So, what we've shared is that we're expecting this business in aggregate to be a net +/-1% pricing. We've experienced that over the last few quarters and that's been a change from the strategy. Prior to separation from 3M, there was a significant focus on maximizing price prior to that, and that's just not a healthy strategy in this market. I think there were some volume tradeoffs for that. So, we're very much focused on sustainable volume growth, and all of our strategies are designed around sustainable volume growth.

Having said that, we do have some pricing capability within the businesses. We'll be offsetting that with tradeoffs for volume over time. But again, it's our expectation that we should be in this flat-to+1% is a good year. If we're just below 1%, that's because we're deciding to go there. We're deciding to make tradeoffs for price for volume. But overall, we think it's a healthy business, strong business, and we're going to be focused on driving that volume side of it.

Vik Chopra – *Wells Fargo; MedTech Equity Research Analyst*

Got it. Thank you very much. Thanks for being here.

Bryan Hanson - *Solventum Corporation; Chief Executive Officer*

Yeah. Thank you. Appreciate it.

Wayde McMillan - *Solventum Corporation; Chief Financial Officer*

Thanks, Vik.

