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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M fourth quarter earnings conference call. (Operator Instructions) As a reminder, this call is being recorded Tuesday, January 20, 2026.

I would now like to turn the call over to Chinmay Trivedi, Senior Vice President of Investor Relations and Financial Planning and Analysis at 3M.

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

Thank you. Good morning, everyone, and welcome to our quarterly earnings conference call. With me today are Bill Brown, 3M's Chairman and Chief Executive Officer; and Anurag Maheshwari, our Chief Financial Officer.

Bill and Anurag will make some formal comments, then we will take your questions. Please note that today's earnings release and slide presentation accompanying this call are posted on the homepage of our investor relations website at 3m.com.

Please turn to slide 2 and take a moment to read the forward-looking statements. During today's conference call, we'll be making certain predictive statements that reflect our current views about 3M's future performance and financial results.

These statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Item 1A of our most recent Form 10-Q lists some of the most important risk factors that could cause actual results to differ from our predictions.

Please note throughout today's presentation, we'll be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in the attachments to today's press release.

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

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

Thank you, Chinmay, and good morning, everyone. We delivered solid results in Q4, including organic growth of 2.2%, operating margin of 21.1%, earnings per share of $1.83 and free cash flow conversion of over 130%.

These results capped a strong year with organic sales growth exceeding 2%, outperforming the macro environment and accelerating from 1.2% organic growth in 2024 and negative growth in 2023. This growth was underpinned by the strong commercial excellence foundation we've established and our focus on reinvigorating innovation.

We delivered significant margin expansion with a full year adjusted operating margin of 23.4%, up 200 basis points year-on-year at the high end of our guidance range and on top of over 200 basis points expansion in 2024.

Adjusted EPS grew double digits to $8.06 and free cash flow conversion was slightly above 100% for the year. Our 2025 financial results reflect the progress we're making, and we're tracking ahead of the medium-term commitments we made at the Investor Day last year.

2025 was an important year for 3M where we implemented fundamental changes in the company, building a foundation for our future growth through commercial excellence and innovation. We previously described the three pillars of commercial excellence.

Improved sales effectiveness and pricing governance, stronger collaboration with channel partners, including joint business planning and cross-selling, and increased customer loyalty. And we're making progress across all of them.

We've implemented greater rigor across our sales force and sales management, tightened pricing controls and developed over 600 joint business plans and closed on nearly $50 million of annualized cross-selling wins with a robust pipeline of opportunities.

Innovation is the lifeblood of the company, and we successfully launched 284 new products in 2025, up 68% versus 2024, exceeding our initial target and more than double the launches in 2023. We expect this growth to continue with 350 launches in 2026. These new products are vital for our long-term growth and are already contributing to our top line.

Sales from products launched in the last five years were up 23% in the full year, exceeding our high-teens target and exit Q4 at 44%, giving us momentum into 2026. Our New Product Vitality Index, or NPVI, a measure of the freshness of our portfolio, ended at 13%, about 2 points above where we started the year.

It was also a year where we saw operational excellence become embedded across the enterprise as we drove better service levels for our customers and stronger operating rigor in our factories and across our enterprise functions.

And I've been describing our performance across three important metrics, OTIF, OEE and cost of poor quality. OTIF ended the year above 90%, 300 basis points above the prior year and the best we've achieved in decades, and we sustained that rate for seven months in a row.

This improvement is translating into a better customer experience that's helping us win shelf space and reduce churn. OEE, our asset utilization metric ended the year at about 63%, up over 300 basis points across assets covering 70% of production volume.

Cost of poor quality also improved considerably last year and is now at 6% of cost of goods down 100 basis points year-on-year. We're focused on key areas of inefficiency like frequent or ineffective changeovers and late detection and material defects, leading to raw material yield loss, scrap and quality credits issued to customers.

We're leveraging Kaizen events, visual inspection systems, automation solutions and AI-enabled models to optimize changeovers to improve quality with a target of 5.4% cost of quality in 2026 and less than 4% over time.

Meanwhile, we continue to deploy capital effectively for our shareholders returning $4.8 billion through dividends and buybacks in the year, progressing well in our commitment to return $10 billion to shareholders as part of our multiyear capital allocation strategy.

The key to making this all work in the long run is our relentless focus on building a performance culture and delivering excellence everywhere, every day. This means greater speed and urgency, a deeper sense of accountability, challenging the status quo and finding ways to get better every day in the spirit of continuous improvement.

Our performance is a direct result of the cultural and operational changes we're driving across the enterprise that improve how we develop, produce and deliver products and build a strong foundation for the future.

Slide 4 is a chart we've used for the past few quarters, connecting macro trends to our organic growth. The macro remained soft and largely unchanged from Q3. But due to our strong execution, we've outperformed.

General industrial, safety and electronics, collectively about 65% of our business came in better than expected with exceptional year-on-year strength in the second half in electrical markets. Aerospace and self-contained breathing apparatus, all of which were up low double digits.

Abrasives, industrial adhesives and tapes and electronics were all up mid-single digits. Abrasives accelerating from low single digits in the first half, IATD holding steady through the year, and electronics not softening as previously anticipated.

Auto and auto aftermarket remained soft as expected, while our consumer segment and roofing granules business were weaker than expected. Despite the macro headwind, organic sales growth accelerated to 2.7% in the second half from 1.5% in the first due to the breadth of our portfolio and our strong execution.

Turning to our outlook on slide 5. Our team's constancy of purpose and execution rigor allowed us to finish 2025 strong, and we're carrying that momentum forward into 2026.

This year, we expect organic sales growth of approximately 3%, adjusted operating margin expansion of 70 to 80 basis points and earnings per share of $8.50 to $8.70 and free cash flow conversion greater than 100%.

We're planning for the macro to be similar to 2025, but it's still early to put too much weight on market forecasts.

We expect most of our industrial businesses to continue to perform well in '26 with watch items, including the pace and timing of a US consumer recovery, auto build rates especially in geographies where we have higher content and consumer electronics.

While we will closely monitor macro trends, we're going to continue to execute our game plan and control the controllables. Lastly, I want to turn your attention to slide 6, which is the framework by which will create value for shareholders over time.

The 3 phases aren't net to be sequential, but evolve together with shifting emphasis, they build on what we outlined at Investor Day and reflect how we view these elements as interconnected and essential to building a stronger company operationally and financially.

It started with a back-to-basics focus on fundamentals approach, which is all about building a sustainable foundation. I've been talking to you about these initiatives and how we track them since I joined 3M 21 months ago, and did so again today.

These core elements are focused on commercial and innovation excellence, operational excellence and reinvigorating our culture with accountability and agility creating a solid platform from which to grow.

As we gained confidence in our execution in this foundational stage, we're beginning to shift our emphasis to the next phase of value creation, which is more transformational in nature.

Like we previewed at Investor Day, this phase includes reengineering the structural cost base that underpins our supply chain network and business processes, simplifying and standardizing core activities and embedding an AI-first mentality as we shift from a holding company model to an integrated operating company.

We described this program at a high level last quarter as a thoughtful strategic long-term effort pace at the ability of the team to execute well. Transformation also includes proactive steps on risk reduction and effectively managing the litigation docket.

Any time we can take care of risk at an appropriate price and with suitable protections, we'll be prepared to act like we did last year with the state of New Jersey.

And as our organic machine begins to turn faster, and our risk profile comes down, we'll be prepared to execute on our portfolio management strategy to pivot the company towards higher growth and margin potential priority verticals that help us accelerate value creation for the company.

This is a multiyear journey and progress won't be linear. But with a successful 2025 behind us, we're accelerating the transformation of 3M and building the runway for performance beyond 2027.

The 3M team is energized and motivated, and I want to thank them for the dedication and focus on delivering improvement day after day. And with that, I'll turn it over to Anurag to share the details of the quarter. Anurag?

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

Thank you, Bill. Turning to slide 7. We had a strong finish to the year across all financial metrics. We delivered another quarter of sales growth above macro continued margin expansion, strong earnings growth and robust cash flow generation.

Starting with top line. In a continued muted environment, we delivered organic sales growth of 2.2% driven by our commercial excellence initiatives and new product launches.

The growth was driven by strength in safety, electronics and general industrial, which more than offset the softness in consumer, roofing granules and auto markets. All three of our business segments delivered sustained order momentum, which contributed to a higher ending backlog compared to last year, giving us confidence as we go into 2026.

Fourth quarter adjusted operating margins were 21.1%, up 140 basis points and operating profit increased double digits or $125 million driven by continued disciplined operational performance.

This included a $275 million benefit from volume growth, broad-based productivity and lower restructuring costs partially offset by approximately $50 million of growth investments and headwind of $100 million from gross tariff impact and stranded costs.

Collectively, this contributed $0.17 to earnings, which was partially offset by $0.02 from non-operational below-the-line items. Our strong operating performance resulted in adjusted EPS of $1.83, an increase of 9% and exceeded the top end of our guidance range.

I also want to mention that we took a $55 million charge in the quarter as we continue to make transformation investments to redesign our manufacturing, distribution and business process services and locations.

Similar to last quarter, these charges will be excluded from our adjusted results. Adjusted free cash flow in the quarter was $1.3 billion with a conversion of approximately 130% as we benefited from strong earnings growth and working capital efficiency.

Turning to slide 8. I will provide an overview of our business group performance for both the fourth quarter and full year 2025. First, in Safety and Industrial, we delivered another quarter of strong organic growth as we continue to gain traction on commercial excellence initiatives and realized benefits from new product launches.

Fourth quarter organic sales increased 3.8%, driven by strong performance in safety, which grew high single digits through enhanced channel engagement and new product launches. Industrial adhesives and tapes growth accelerated to high single digits as we continue to win share globally in electronics and general industrial from new product introductions and improved manufacturing throughput.

Abrasives continue to improve, delivering another quarter of mid-single-digit growth, benefiting from sustained focus on sales force effectiveness.

Collectively, this strong growth more than offset known weakness in automotive aftermarket and incremental weakness in roofing granules due to the slow housing market and weak consumer sentiment. For the full year, SIBG grew 3.2% with growth accelerating from 2.5% in the first half to 3.9% in the second half on the back of strong execution.

Turning to Transportation and Electronics. Fourth quarter organic sales increased 2.4%, driven by continued momentum in electronics and aerospace. These gains more than offset weakness in auto, which in our organizational structure includes commercial vehicles, which was down high teens in the quarter.

Electronics continued to gain share, supported by commercial excellence initiatives and strong demand for our film technologies and optically clear adhesives. We also expanded our presence in the mainstream market by partnering with leading consumer electronic brands to deliver solutions aligned with their portfolio needs.

Aerospace delivered another strong quarter given by growing demand for space materials and continued strength in defense related markets. We have seen sustained growth in this portfolio where sales have doubled over the last four years.

For 2025, Transportation and Electronics grew 2%, with second half growth of 3% versus the first half growth of 1%, driven by continued focus on commercial excellence and the ramp-up of new product launches. Finally, consumer fourth quarter organic sales were down 2.2%.

For the first nine months of the year, the business was up 0.3%, and we had expected the fourth quarter to be similar, but weaker consumer sentiment and sluggish retail traffic in the US resulted in lower point-of-sale trends on discretionary categories where we compete.

This market weakness was partially offset by new product introductions, increased advertising and promotional investments in the US and overall business growth in Asia and Latin America. As a result of the fourth quarter weakness, CBG revenue declined by 0.3% for the full year.

On slide 9 is a summary of the full year 2025 performance. Overall, a strong fourth quarter capped a successful 2025 with organic sales growth of 2.1%, margin expansion of 200 basis points and EPS increase of 10% and free cash flow slightly above 100%.

Sales growth strengthened from 1.5% in the first half to 2.7% in the second exceeding the 2.5% we mentioned in our July earnings call. This momentum underscores the impact of our commercial excellence initiatives, enhanced service levels and successful new product launches positioning us well to accelerate our performance going forward.

By geography, all areas delivered growth in the year. China grew mid-single digit from strength in general industrial and electronics bonding solutions supported by a strong focus on key accounts. This momentum more than offset the fourth quarter shift in smartphone manufacturing from China to other parts of Asia.

In the rest of Asia, we grew low single digit led by strong performance in India, which grew mid-teens on account of progress and commercial excellence across all businesses. After a couple of years of decline, Europe grew low single digits due to strength in General Industrial and Safety, which more than offset the weakness in consumer and auto aftermarket.

Despite soft consumer and auto aftermarket, the US grew low single digit for the year on the back of commercial excellence initiatives in the general industrial and safety businesses. Productivity initiatives drove strong margin expansion every quarter in '25 resulting in full year operating margins of 23.4%.

Operating profit growth of approximately $650 million at constant currency was driven by $200 million from volume growth and $550 million of net productivity across supply chain and G&A.

This was partially offset by $100 million in headwinds driven by $185 million in growth and productivity investments in addition to ongoing stranded cost and tariff impacts with year-on-year lower restructuring costs.

The strong operational performance contributed $0.96 of earnings, which was offset by approximately $0.20 of non-operational items for a total EPS of $8.06. This 10% EPS growth was better than our expectations and above the initial guidance at the start of the year.

And we returned $4.8 billion to shareholders in '25, including $1.6 billion in dividends and $3.2 billion through gross share repurchases. Overall, 2025 laid the foundation for a strong operating culture, grounded in excellence, accountability and a faster operating tempo, enabling us to overcome external factors to drive profitable growth.

We have momentum as we enter 2026, and I will walk you through the guidance on slide 10. We expect organic sales growth to be approximately 3% and earnings per share ranging from $8.50 to $8.70 and free cash flow conversion of greater than 100%. We expect sales to accelerate for all business groups.

SIBG and TEBG grew 2.7% combined in 2025, and we expect this growth rate will accelerate in 2026, supported by ongoing commercial excellence initiatives strong service levels and continued new product introductions, and we expect consumer to return to growth in 2026.

The business groups combined will expand margins over $450 million or 100 basis points, including $875 million from volume growth and net productivity across supply chain and G&A. This will be partially offset by headwinds from PFAS stranded costs and tariff impacts as well as an increase in growth and productivity investments to $225 million.

This is on top of the incremental investment over the past two years, bringing the total investment from 2024 to over $0.5 billion. Corporate and other income will be lower by $50 million to $75 million or 20 to 30 basis points, largely from wind-down of transition services agreements related to Solventum.

Overall, we expect total company income to grow by $400 million at the midpoint of our 70 to 80 basis points margin expansion guidance.

Adjusted free cash flow conversion is expected to be greater than 100%, driven by strong operating income growth and a focus on working capital management and we plan to deploy capital effectively, including a gross share repurchase of approximately $2.5 billion in 2026.

Slide 11 provides a look at earnings growth drivers which is primarily driven by strong operations consistent with our 2025 performance. Regarding cadence, we expect the rate of sales growth to increase through the year, with margin and EPS equal between the two halves.

In the first quarter, the sales growth at SIBG and TEBG combined is expected to be higher than 3%. And we will continue to monitor the recovery in our consumer business.

Volume, productivity and slight favorability in FX will more than offset the stranded costs, gross tariff impact and increase in investments, resulting in high single-digit year-on-year earnings growth. Before we open the call for questions, turning to slide 12, I want to take a minute to highlight the progress we have made so far.

We are trending ahead of our Investor Day targets we laid out a year ago. Our organic sales growth is accelerating due to our investment in growth and commitment to commercial excellence and innovation.

Our relentless focus on operational excellence is resulting in strong operating margin expansion and sustained earnings growth despite pressures such as soft macro, tariffs and stranded costs. We continue to be a consistent generator of cash that allows us to effectively return capital to shareholders while maintaining a healthy balance sheet.

Not too long ago, our growth rates were trailing the macro. And now we are progressing ahead of our medium-term commitments of $1 billion growth over macro and a 25% operating margin by 2027.

While we are focused on executing these commitments, we are also broadening our horizons to the out years, ensuring our transformation efforts position the company not only for the short term but for sustained profitable growth well past 2027.

This strong performance is a credit to the expertise and the commitment of the 3M team, and I thank them for their hard work and dedication. With that, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Sprague, Vertical Research.

Jeff Sprague - *Vertical Research Partners - Analyst*

I guess two for me, one longer term and one shorter term. Bill, just back to your slide 6, as you said, all these things are going on to varying degrees simultaneously. But the pivot to priority verticals sort of jumps out to me, obviously, not the first time we've heard that.

But I just wonder if you could put into context, how much of that pivot is sort of addition by subtraction versus sort of investment focus growing and bulking up sort of the areas that you view as the priority? And maybe sort of what percent of your current revenue base or business base would you say is in that priority bucket?

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

So Jeff, great question. So we've been talking about our priority verticals going back a year, actually to February of last year. It's a little bit north of 60%, it's growing, frankly, because of the investments we're making.

And I put it in two pieces. One, we spent the last 1.5 years focusing a lot of our internal investment dollars on the priority verticals. And now probably 80% of what we spend on R&D is aligned to NPI in the priority verticals.

And of course, they are defined as ones that are growing faster where we have good margin potential as well in the business where technology brings differentiation and right to win. And that's been the pivot in the organization.

Over time, as we think about what the portfolio is going to look like for us to get to a much better sustainable organic growth rate for the overall company, we've got to structurally adjust the portfolio, which means some pieces coming out and we've been talking about some of those pieces.

We've said before, about 10% of our company would be in places that are more commodity like, and we'll probably think about what we want to do with those businesses over time.

But as we do that, we'll be pivoting both organically as well as inorganically towards those priority verticals, which is the nature of that chart. It shows that that's an evolution over time. And again, it's not necessarily sequential, but that's kind of the overall flow, how we think about creating value at 3M.

Jeff Sprague - *Vertical Research Partners - Analyst*

Yes. And just on the very near term, the flat view on US IPI, it's kind of a tough slog out there, right? But your industrial businesses do seem to be performing well, right, abrasives and some of the adhesives Electrical businesses. So I guess there's some outgrowth there.

But I guess just the nature of my question is just a little more color on how you see the year kind of starting out, Anurag gave a little bit of color, but did we start soft here in January? And do you see things sort of kind of picking up off a low base year as we exited the year.

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

Yes. So last year, I mean we, the exit rate was pretty solid and we, Anurag in his comments talked about the acceleration from about 2% to 3.6% across TEBG and SIBG as we went first half into the second half. Yes, IPI is softening, both in the US as well as in China, those important markets for us, certainly.

But we do expect our overall industrial businesses to remain pretty solid. I pointed out a couple of watch areas. One is in auto builds. Auto builds were around 3.8% last year, a little weaker in Q4.

A lot of it was China but overall, it will be, says right now, down 0.3% as much as you can believe the numbers and not so good across all of the regions. So that auto was a little bit softer. We have to watch that. Consumer electronics is looking a little bit more flattish in terms of the overall macro forecast.

Of course, we believe in our business, electronics will continue to grow. We still see that to be overall electronics up mid-single digits for the year. Of course, we were watching very carefully, which happened what happens in the US consumer market. Right now, it feels subdued.

We had a very good December, although Q4 came in down 2.2%. So it dropped the year to be negative for consumer, but December, we typically see the third month pretty good, but it was up double digits over the prior year in December.

And early in January, again, it's early this year. We're looking okay. So that's sort of the landscape, but I do see that even though IPI is coming down, our commercial excellence initiatives, our NPI initiatives, it's going to allow us to continue to outperform that macro, and we expect that to accelerate in '26 from what we experienced in '25.

Operator

Scott Davis, Melius Research.

Scott Davis - *Melius Research LLC - Analyst*

I guess, I don't think you mentioned inventory levels, customer inventory levels in the prepared remarks. And just as we exited the 2025, what's your sense of where your customer inventory levels were or are I guess, now kind of point in reference kind of pre-COVID, post kind of the new normal versus kind of pre-COVID? Just a little color around that, I think, would be helpful.

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

Sure. Good question. So on the industrial channel, No, it's pretty normal 60 day range, a little bit more than that. But as we would expect it to be, as we were selling out in Q4, we do watch POS out of our channel partners, and they were selling through.

So even though we had good sales into the channel, we also saw good sales out of the channel. So pretty good actually on the industrial side, that's good.

On the consumer side, on the CBG side, it was a little bit elevated early in the quarter, but we had very strong growth in December and inventory started to come down and normalize, still a little bit elevated as we exited the year, but not as concerning as we were sort of at the beginning of the quarter.

So overall, industrial, pretty good, consumer getting normalized as we speak.

Scott Davis - *Melius Research LLC - Analyst*

Okay. Fair enough. And then, guys, what is the pricing strategy right now? I mean it kind of, when just listening to the prepared remarks, it sounds like new products is where you lean in on price or at least try to get a positive mix shift there.

But is there also a pricing strategy around getting an annual bump up perhaps that maybe you didn't get historically, but going out with price increases on January 1, particularly where you're going through distribution.

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

So yes, good question. So for the year, we had expected to be about 70 basis points last year, stepping up first half, second half as we are covering some of the tariff headwind. We saw that in the third quarter.

And the fourth quarter was a little bit lighter because of the consumer market and the promos and discounts that we provided there to stimulate that business. So overall, we are a little lighter on pricing last year than we had expected, but still very solid.

The place where we get pricing, generally speaking, is in SIBG, and that was solid, that remains strong. We continue to see good pricing movement here going into 2026. We expect it will be about 80 basis points more or less in 2026. A lot of it is SIBG. There's a couple of threads here.

One is we do continue to cover material cost inflation. Two, we continue to tighten down our pricing governance, making sure across all of the industrial businesses that when we give pricing discounts, we get the volume we'd expect in giving those discounts.

And then third, as you pointed out, Scott, is the pricing we should expect to get when we're launching new products. This is an area of opportunity for us over the medium and longer term. I think we're okay on this, but we could be a lot better.

There's pockets where we are very thoughtful in pricing to value, but I would not say that today that that's over all of the NPI we're launching, and I think it's a long-term opportunity for the company.

Operator

Julian Mitchell, Barclays.

Julian Mitchell - *Barclays Services Corp - Analyst*

Maybe first off, I just wanted to understand the degree to which if any, there was a backend loading in the guide. It seems you were expecting about 6% EPS growth year-on-year in the first half, so not that different from the full year.

Just wanted to check that and how you're starting out in the first quarter. Should we expect the consumer business to still be down, for example, and then that picks up steam through the year?

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

Thanks, Julian. Anurag here. So I would say in terms of EPS growth, we expect the first half and second half to be equal. So as I said in my prepared comments, the EPS will be equal between the first and second half, which implies similar growth rate as well.

And if you look at what I said is in the SIBG, TEBG, given the exit rate, we do expect revenue to be over 3% in the first quarter.

the CBG is an area we'll watch out. And you probably see that part of the revenue goal through the course of the year, but materially do not expect the rate of growth to be significantly different between the first half and the second half.

And if I look at productivity as well, it's pretty even loaded across the four quarters. So I think as we sit here today, we feel that it's a fairly even loaded quarterly cadence for both revenue as well as EPS.

Julian Mitchell - *Barclays Services Corp - Analyst*

That's very helpful. And then just my follow-up would be around that sort of interplay and it's been touched on a couple of times, but between the macro and the self-help initiatives.

So when we're thinking about the guidance for a deceleration in IPI in the US this year, but an acceleration somewhat in 3M's own organic growth rate.

It is our impression that that's really all self-help initiatives that you mentioned and the outgrowth for the acceleration in the second half of 2025 is your impression that was all self-help driven as well with nothing from the macro?

Just to understand how much you're sort of putting on your own shoulders versus relying on the external environment for this year?

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

So Julian, thanks for the question. Let me maybe frame it by just talking about a little more granularity, the $1 billion over macro. We talked about over, at the Investor Day, over the next three years and Anurag mentioned. In 2025, our growth came in at 2.1%. We look at the overall macro to be around 1.5 points.

That's IPI, GDP, with some sectors that were a bit weaker was where we see it. So we saw ourselves with about 60 basis points of outperformance versus the macro. If you just run the math, that gives you about $150 million.

So a little bit better than we had expected to be $100 million over macro last year. And the majority of that, probably 75% of it or more was commercial excellence. Less of that was new product introductions, but we did say that, that would start to even out in an NPI or innovation would take over in that third year.

And that's, in fact, what we're seeing in 2026. So we're guiding here at 3%. We expect the macro in 2026 to be a little bit better at 1.5, maybe 1.7 range, something like that. So our outperformance this year versus the macro was more like $300 million or more.

And that's roughly half and half between NPI and commercial excellence. So that's how we see this playing out. And yes, the back half last year did show that. We did outperform the macro.

A lot of it was that your phrase, Julian, was carrying it on our shoulders and we expect to see more of that coming into 2026. We're launching more projects, which is very good.

We're getting a lot more granular tracking the incremental revenue coming from Class 3s, 4s and 5s, and as we look out into next year, we're pretty confident that those are going to start to move the needle for the company, which is why we feel good about outgrowing the macro here in '26.

Operator

Joe O'Dea, Wells Fargo.

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

I wanted to start on footprint optimization. If you can give a little color between factories and distribution centers, how you're thinking about targets for footprint reduction or consolidation in 2026, both in terms of kind of number of facilities and as well as op profit impact?

And then any color around segments and regions where we would see the biggest impact there?

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

So look, it's all part of our broader transformation agenda. We're just starting on that as we speak. We did see some announcements at the back end of last year. We announced one small facility last week in our network. We ended the year around about 108 factories.

We have several, about seven coming out with the sale of precision grinding and finishing so call it about 100 factories that will come down over time. I can't size it for you today. We will be making some investments in '26 to restructure that network.

But keep in mind, these things are three, four, five year payback. So we'll start on it, accelerate into '26, accelerate in '27. But this is really about building that margin runway to grow beyond 25% in '27 in terms of operating margin.

So we will consolidate this network. It will be factories and distribution centers. We're making some progress on DCs as well. But I won't be able to size it for you today in terms of the specific numbers, but that's the trajectory we're on here.

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

And then just wanted to touch a little bit more on consumer. If you could elaborate on kind of what you tracked over the course of the quarter, kind of early into this year, sort of a step down in demand trends versus what maybe it was a little bit more transitory and just kind of how that's pacing?

And then separately, just with the focus on memory chips out there, I think you said consumer electronics or you expect it to be up mid-single digits, but any impact you're seeing in the markets tied to that?

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

So on the consumer market, as I mentioned earlier, as we entered, first of all, for the first nine months of the year, we were about 30 basis points of growth in each quarter, which was pretty consistent, and that was above what we saw the macro. It was a good time to return to growth.

We feel very positive about that. And we had expected that we would see the similar trajectory going into the fourth quarter. That didn't happen. We saw October and November being a little bit light.

You sell through the channel was a bit light, POS was light. So inventory started to come up a little bit. We start to see that reverse a little bit in December. So December, orders were okay, growth was double digit over the prior year December.

The holiday season was a little bit muted, I would say, so overall, for Q4, we came in at down 2.2%. And as I said, as we turn the corner into January, it's very, very early. We're only a couple of weeks in. We're trending as we would expect it to be.

So I can't really comment too much about that. We'll say more over time. But that's a consumer again. I would just characterize it as being relatively soft, bumping around flattish as we entered as we ended the fourth quarter.

So on electronics, overall, so it's consumer electronics business, we provided adhesives, we provide films into that area for foldable devices for de-bondable devices, a lot of NPI going into that space. We are focusing on growing our position in the mainstream market.

3M as a whole in consumer electronics is more like 80-20 or 70-30 premium to mainstream and the market is the opposite of that. We do see an opportunity to grow and penetrate mainstream. Some of that is in China, and we're making good progress.

So a lot of the NPI that we're launching, we are penetrating into a lot of China OEMs and Asia OEMs in that mainstream market. And I think we're starting to gain some share there.

So that's why we see that business for us when we add in semiconductor, data center, all in electronics to be up mid-single digits here coming into 2026 similar to what we saw last year.

Operator

Steve Tusa, JPMorgan.

C. Stephen Tusa - *JPMorgan Chase & Co - Analyst*

Just on that electronics point. So the reported revenues were down sequentially and also year-over-year. Is there adjust that back to get to that mid-single digit for the fourth quarter? I mean you said it was strong, but what was kind of the organic rate of growth. It's tough to tell from the from the subsegment disclosure?

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

Yes. We ’d see in the mid-single digits. What we're looking at in the table is with PFAS, and we exclude the PFAS out of the results. So when you exclude that, it's mid-single digits.

C. Stephen Tusa - *JPMorgan Chase & Co - Analyst*

Okay. And then when you're expanding into this mainstream area, is there any kind of dilutive impact to margins at all? Or you kind of make up for it in the other end by being more efficient with some of the initiatives you're working on?

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

No, we're not seeing it being margin dilutive as we innovate here, develop products, design to cost, it's an important push that the team is making is designing more cost-effective product.

Now we're not seeing any margin degradation. And so far, it's been good. It's early, but it's the push we're making. And again, a lot of NPI in that space.

C. Stephen Tusa - *JPMorgan Chase & Co - Analyst*

Okay. Sorry, one more, just for this year, the $500 million in, I guess, litigation costs in '25. How do you expect that to trend in that adjustment to trend in '26.

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

It's probably going to be in line with that. I can't really tell you if it's going to be up or down. I mean it depends on what happens in the overall docket, but I would expect it to be pretty similar to that.

Operator

Andrew Obin, Bank of America.

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

So on SIBG growth in '26, I think last quarter, you had the slide 5 that showed SIBG growth correlation to improving OTIF, new product introduction. And you sort of can see in the fourth quarter on a two year stack, clearly, there is more momentum.

So given that comps in the first half are going to be easier than in the second half, but at the same time, we have seemingly good momentum with self-help. Should we see first half stronger growth than second half? Or should the growth be fairly steady year-over-year throughout the year?

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

So Andrew, it's a very, very good question. We do see really good momentum in SIBG as it went from the first half of the second half. And I could see where you're going, and I'll pass that message on to Chris, I'm sure he's listening as well.

The reality is there's good momentum, really good progress on commercial excellence. We're launching more projects there. The only caveat is, as I talked about earlier, we do see US IPI a little bit softer. We know the roofing business, experienced a trough really in Q4.

It was weaker than we'd expect, quite a bit weaker than we had expected. And that's a piece of the SIBG business. I'd expect that weakness will drag into the front half of this year. So there's going to be some offsets.

But yes, I mean, largely, I think you're heading in the right direction. I think SIBG is performing really well. We'd expect to continue that trend here in 2026.

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

And just a follow-up on electronics. You sort of talked about extending into mainstream and the sort of echos strategy from the days of George Buckley the pyramid strategy.

Is this just the focus on consumer electronics? Or are you thinking of sort of tweaking it and implementing it beyond consumer electronics, the sort of mainstream strategy.

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

No, I'm speaking today basically on consumer electronics. And I think you've commented before that this strategy was embarked upon in the past. Look, this has to be a very thoughtful way of going at this.

We have to make sure that all of our infrastructure, our designs, our sourcing, how we manufacture, how we ship, how we price, always geared towards going after that segment, which is quite big, but making sure we do it profitably.

So it's a bit of a business model shift as well. So I drive you back to what we're trying to do on our transformation agenda. A lot of this business model shift is shifting our cost structure, both G&A as well as on the factory side.

And if we do that and we bring that cost out, that does allow us to lower the water level of our cost and attack these interesting and growing segments at profit rates that we have today. So that's where we're going.

We're pushing ahead in consumer electronics. Could it be, go beyond that. We'll see. But right now, the comments are specific to consumer electronics.

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

Nothing wrong with that strategy, our stock outperformed under George Buckley.

Operator

Amit Mehrotra, UBS.

Amit Mehrotra - *UBS AG - Equity Analyst*

Anurag, I guess I wanted to just ask about incremental margins for this year. The implied is sort of in the low 40%, which is not that much above the 30% to 40% kind of core organic on the growth. So I'm just kind of curious what the productivity assumption is, what the offsets are from stranded costs?

Maybe I'm double counting, maybe some of that's already included in the 30%, 40%, but if you can unpack that for us, I think that would be helpful. And then on the first quarter, specifically, I know you said high single digits, not to be nitpicky, but are we kind of above $2 per share in 1Q, like any final point would be helpful.

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

Okay, great. Thanks for the question, Amit. Just firstly, if you look at both volume and productivity in 2026, it's going to be higher than what it was in '25. So in '25, between volume and productivity, we had about $750 million of operating income increase.

And that was a 2.1% organic revenue growth with 3% growth, the $200 million of volume will now become closer to $250 million and productivity actually goes up from $550 million to about $600 million. So overall, we're going to see about $125 million to $150 million increase between volume and productivity in '26 and the productivity is going up on three real buckets around there.

First is on supply chain. We expect half of that to come out of supply chain, which is continued cost of poor quality, bringing it down, procurement, managing a four wall spend in the factory in logistics. There's about $150 million of indirect expenses. We did a good job in '25. We'll continue to do that in '26.

And another $150 million in G&A efficiency as we look at our processes of optimization and so on. So overall, I would say that the incrementals between volume, between productivity and the volume growth is going to be higher.

What's offsetting it in '26 or the $0.5 billion, which is being offset in '26. One is a pickup in investments. Last year, we did 185. We're going to do an incremental 225 this year. The stranded cost goes up from $100 million last year to $150 million this year.

So I would say those are probably the two biggest buckets, which we obviously, we have half a year of tariff as well, which is $140 million. So you put these three together, that's $0.5 billion of it. Obviously, as we go into '27, a couple of them will not recur, but the incrementals overall are pretty good for '26.

Now on your first quarter, it is a very specific question that you're asking me. What I would say is that as I spoke about volume and productivity, I said about $875 million to $900 million for the year. The first quarter is almost 25% of that, right?

So if you kind of run the numbers through, and there will be a little bit of FX favorability in the first quarter given where we were last year. We run all of that through, it will be high single-digit EPS growth.

Amit Mehrotra - *UBS AG - Equity Analyst*

Okay. And then just maybe a longer-term question for Bill. You've obviously given us a lot of metrics, whether it's OTIF or OEE. And I'm kind of intrigued by this move to this design to cost approach in the R&D function.

NPI is helpful, but it doesn't really capture kind of how the addressable market is changing based on the incremental NPI side.

I'd be curious, one, how do you hold the R&D function kind of accountable to this cultural shift? And what can you kind of share with us in terms of the NPI coming out, how effective that is in going after the 80% of the market that you're kind of not there at the moment.

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

So Amit, good question. I'll just hit it briefly. I think there's two pieces of it. One is the value engineering efforts that we are stepping up dramatically this year on to take cost out of products that are on the market today, which does require additional engineering work, there's qualification work, there's things that have to happen, generally speaking, to get those initiatives taking hold.

We also define to drive that back into the overall design mindset in thinking of cost as we start developing products, and that's the push we're making is thinking about it early in the design process, which is the best time to be thinking about that.

How we hold people accountable in R&D or anywhere through the company product leaders, general managers, even me, is the quality of the business cases and making sure that the business cases are developed rigorously from the ground up with a good sense of what the costs happen to be and you start with the design to cause mentality and holding people accountable to the results of what we're investing in based on these business cases where we're going to be pushing the company more this year.

Operator

Nicole DeBlase, Deutsche Bank.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Just wanted to circle back on China. I think you guys have embedded 4% IPI growth in '26 and that compares to like 6% in '25. I know '25 was like a pretty good year for you gone. What you're seeing in the region and where that decel is coming from for next year?

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

So thanks for the question. China actually had a very good year for us. I had a good couple of years. In '24, they're up double digits. Last year, they're up mid-single digits.

It was a little bit lighter in Q4, but only because of as Anurag had mentioned in his prepared remarks, the shift out of China smartphone production when you exclude that, the market, the China business for us remains mid-single digits.

And as we turning the corner to this year, yes, the macro is softening a little bit, is what we're expecting. I think 2 points down year-over-year on IPI, at least as we see it today and the forecast yet, this could go in lots of different ways.

But we see that market to be more low to mid-single digits this year, still growing, maybe not as robustly as we saw last year, but still low to mid-single digits. The bottom line is we run China a little bit differently in the company just like we do in India.

It's a hybrid model. So we have global business groups and a really strong, dedicated, driven local team. We're driving a lot of localization of R&D, localization of sourcing.

We're attacking the market. We've got six factories there, 5,000 people. And we've got people lined up to really drive that business. And I think we are performing well. And I would say we're outperforming. And I expect the same thing here in '26.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Bill, that's helpful. And then obviously, you had quite a bit of new noise from a tariff perspective over the weekend. So can you just confirm the tariff headwind that you guys are embedding in 2026 doesn't include any of this potentially new tariffs from Europe? And have you guys tried to quantify what that could mean for your business if they are enacted?

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

So Nicole, great question. So what we're embedding in our guidance is the carryover effect of the $0.20 of gross impact that we saw last year. That's in and Anurag mentioned, that's mostly in the first half of this year. That's what's in the guidance because that's what's in law. That's what's in practice today and we're moving.

Now the pieces that at least the presence now talking about relative to Greenland and new different tariffs on Europe, it's about eight countries, we talk about 10% in February, the 25% midyear or something like that. For us, the trade flows between US and Europe is around $1 billion.

We're a net exporter. So we export $700 million into Europe. We import back about $250 million. If you just run the numbers at 10% and then growing up to 25%, you can get to something in the order of $60 million, $70 million.

But that's as, over the course of the year, we'll see some of that going in inventory. We'll see some of that dragging into 2027. So if that plays out exactly as we expect and the trade flow as I mentioned, it could be a $30 million, $40 million impact this year.

But again, we're a long way from that becoming an executive order. So we'll see. We're watching it as everybody else is. That is not yet in our guidance.

Operator

Chris Snyder, Morgan Stanley.

Chris Snyder - *Morgan Stanley - Analyst*

I wanted to ask about consumer. Bill, I think you said December was up double digits. So with the quarter down 2%, I guess, October, November would be down high single. So really sharp positive rate of change there.

I guess is there anything to call out with the comps to December, just have a really easy comp because it doesn't seem like you guys expect much of that strength to continue into Q1, maybe one month doesn't make a trend, so too early. But any color there would be appreciated.

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

Yes. Chris, we typically see seasonality within the quarter in CBG to be lower in the first couple of months and then higher in the third month. We saw that pattern play out each quarter last year, including in Q4.

This one was a little bit different. It was a little bit weaker in October, November than we would have expected and then a little bit stronger in December than we would have expected.

I think part of it was the team pushing pretty hard, a lot of really good work that the team did in promotional programs with our large retailers who also were striving to drive their growth. And that combination, I think, paid some dividends in December.

So we grew a little bit better than expected in December, a little bit weaker in October, November. I wouldn't read too much into the trend so far in the first couple of weeks.

Let's see how the next number of weeks and maybe a couple of months ago. But at least it seems to be holding okay to what we had expected in the first couple of weeks. So I wouldn't read too much into that at this moment, Chris.

Chris Snyder - *Morgan Stanley - Analyst*

I appreciate that. And then if I could follow up on the US IP assumption. You guys are calling for flat in '26 after 1% growth in '25. When we look at the quarterly US industrial production numbers, they seem to be strengthening as '25 went along.

You guys are obviously calling for things to soften. Do you see anything out there that is softening? Is there just some conservatism in that assumption?

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

So you're right. I mean if you look at IPI through the course of last year, what we're seeing backward looking, it did improve sequentially over the course of the year. It was a little bit stronger in the back half than it was in the front half.

According to forecast, it looks like it's flattish in 2026. So we're reading those numbers. For us, as I mentioned before, we do expect our industrial business to continue to perform very well. The two areas within industrial that we're watching.

One is an auto aftermarket. It looks like it's still remaining relatively soft or expected to be range soft on car repair claims, both in US and Europe as well as in the roofing granules business because of the housing market, consumers not looking to replace the roofs right now.

That business has been a little bit. So fact's very soft in the fourth quarter. We expect some softness in the beginning of this year. But again, I just come back to the, with the execution of the team and commercial excellence and NPI.

I think they're doing a very good job. I expect it will outperform that industrial macro as we get into '26.

Operator

Andy Kaplowitz, Citigroup.

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

So as you said, you originally forecast '25 averaging high-teens growth from that rolling five year new products. But you averaged closer to mid-20%.

It's obviously one of the metrics leading to your market outgrowth. But what could it average in '26? And does it suggest you get higher than that $300 million or higher, as you just said in terms of market outgrowth?

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

So we do see a higher in '26 than '25 in terms of market outgrowth. And it's exactly from the progress made on innovation and five year new product sales coming up.

Again, when we look at the '26 numbers, we assess the macro as it affects 3M to be on the order of around 1.7%, that we're projecting growth of the company, organic growth of 3%, that delta, that outgrowth is over $300 million above the macro.

Half of that is coming from new product introductions, both those that were launched at the back end of '25, we had a very good back half as well as those that we expect will launch in 2026. So I feel really good about the trajectory we're on and the momentum we're building here.

This is really, I think, moving the needle with a little market tailwind, we'll see even greater pickup, but I feel good that we'll outgrow the macro next year. This year, '26 as a result of some of the initiatives we have in place on NPI and commercial excellence.

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

Got it. And then you were able to essentially hold the line, I think all year in '25 in consumer in terms of growing margin nicely despite flat sales. And with the understanding that Q4 organic sales declined, it seemed like you still had a relatively significant degradation in margin performance.

So could you give us more color on that? Was it mostly just the increased advertising promos that you talked about? And can you talk about your confidence level and growing consumer margin or at least holding up in '26?

Yeah. So good question. It was the promos and discounts that were offered. I think for the whole year, we did very well. We're up 130 basis points. We're down 110 in the fourth quarter. But again, for the year, really good.

The team is doing an excellent job of focusing on the priority brands and appropriately investing in ad merch. The NPI launches in CBG, we're really good up double year-over-year, and I expect margin growth as we get into '26 as well as they really level out the business.

So I feel pretty good about the structure that we have in place in CBG and the strategy that's being executed and with a little bit of consumer recovery, you'll see that coming through in the CBG business this year. So I appreciate that question.

Operator

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

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

Well, thank you, everybody, for joining again today. And thanks to all of the 3Mers for their efforts, for their dedication in executing against our priorities and delivering value to both our customers as well as our shareholders. Thank you, and have a good day.

Operator

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