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MMM.N - Q2 2026 3M Co Earnings Call

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Chinmay Trivedi *3M Co - Senior Vice President, Investor Relations*

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

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

CONFERENCE CALL PARTICIPANTS

Jeffrey Sprague *Vertical Research Partners LLC - Analyst*

Scott Davis *Melius Research LLC - Analyst*

Amit Mehrotra *UBS AG - Equity Analyst*

Nigel Coe *Wolfe Research LLC - Analyst*

Chigusa Katoku *JPMorgan Chase & Co - Analyst*

Christopher Snyder *Morgan Stanley - Analyst*

Nicole DeBlase *Deutsche Bank AG - Analyst*

Piyush Awasthi *Citigroup Global Markets Inc. - Analyst*

Deane Dray *RBC Capital Markets Inc - Analyst*

Brett Linzey *Mizuho Securities USA LLC - Analyst*

Laurence Alexander *Jefferies LLC - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M second quarter earnings conference call.

(Operator Instructions)

As a reminder, this call is being recorded Tuesday, July 21, 2026.

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

Chinmay Trivedi *- 3M Co - Senior Vice President, Investor Relations*

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

With me today are Bill Brown, 3M's Chairman and Chief Executive Officer and Anurag Maheshwari, 3M's Chief Financial Officer. Bill and Anurag will make some formal comments, then we will take your questions.

Please note that today's earnings release and slide presentation accompanying this call are posted on the homepage of our Investor Relations website at 3M.com.

Please turn to slide 2 and take a moment to read the forward-looking statements.

During today's conference call, we'll be making certain predictive statements that reflect our current views about 3M's future performance and financial results. These statements are based on certain assumptions and expectations for 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 strong performance in Q2, including organic growth of 5.4%; operating margin of 24.9%, up 40 basis points; earnings per share of $2.40, up 11%; and free cash flow of $1.3 billion with 107% conversion. We returned $1.4 billion to shareholders in the quarter, including $400 million in dividends and $1 billion of share repurchases. Since 2025, we returned $8.6 billion to shareholders against our commitment to return $10 billion-plus through 2027. Given our strong first half performance, we're raising our guidance for the year for sales, EPS, and free cash flow.

Our results today exceeded our expectations, demonstrate the progress we're making to build a higher-performing company and continue to give us confidence we're on the right path forward. The strategy we put in place two years ago is delivering results, and we're building momentum and executing against our strategic priorities. Commercial excellence initiatives continue to drive results through improved salesforce effectiveness and stronger account execution, supported by AI-enabled tools that enhance planning, prioritize opportunities, and accelerate productivity.

Cross-selling continues to outperform expectations with $110 million of opportunities booked and another $120 million in the pipeline, up over 40% quarter over quarter and putting us ahead of the goal we set at our Investor Day. We're rebuilding the innovation engine at 3M and significantly accelerating our pace of new product introductions. In the quarter, we launched 92 new products, up 44% versus last year, bringing our first half total to 176 launches and putting us on track to deliver more than 350 new products this year. The benefits are showing up in our results, and I'll talk more about our innovation journey in a moment.

Our focus on operational discipline and productivity improvement continues to create value across the enterprise. Cost of poor quality improved 60 basis points year-over-year, while overall equipment effectiveness improved 140 basis points. As asset utilization improves, we're able to consolidate production into fewer assets, optimize our manufacturing footprint, and retire older and less efficient equipment.

While overall utilization remains a long-term opportunity, there are pockets in our manufacturing network today where capacity is constrained and short of demand. One example is our New Ulm facility, which produces cable accessories for electrical markets, a product that's facing high and increasing demand. Here, the team ran a multi-week sprint that set a disciplined operating cadence against a locked production schedule, improved material flow, eliminated process bottlenecks, and focused the team on rapidly resolving the underlying constraints holding back output.

As a result, the work center achieved record production levels in June, delivering $13 million of incremental revenue or nearly 50 basis points at the SIBG level. The actions were taken across commercial execution, innovation and operations are part of a broader transition at 3M from a holding company to a more integrated operating company model. The next step in the journey is around transformation, simplifying and standardizing core processes, reducing complexity in our factory and distribution network, and reshaping our portfolio.

Today, many of the activities and support functions like finance, HR, and customer service operate independently across regions and business units, creating unnecessary complexity, inefficiency, and duplication. We're bringing these activities together into a single global service delivery model and partnering with an external provider to run them at scale using automation and AI. This move will increase agility, accelerate technology adoption, and sharpen our focus on the capabilities that are most critical to driving growth and long-term value creation.

We're also continuing to enhance our portfolio. On July 1, we closed on the acquisition of Madison Fire & Rescue, consolidating it with our Scott SCBA business into a new majority-owned joint venture and receiving $700 million in cash as part of the transaction. This JV generates revenue of $800 million, growing at high single-digits and with margins above our company average. This is a clear example of how we're reshaping the portfolio towards higher growth, higher margin businesses, strengthening our priority vertical while keeping our capital allocation disciplined.

Another priority vertical is data centers, and I want to touch on an exciting announcement we made last week. We entered a strategic partnership with Microsoft, who will become the first hyperscaler to deploy our patented Expanded Beam Optics or EBO, technology in Azure data centers. This is a powerful proof point of how we're applying 3M's innovation to one of the fastest-growing markets in the world. Our connectors install faster, hold up far better to dust and handling, and help customers stand up AI capacity more quickly. We're rapidly scaling production capacity, both internally and externally, and engaging the broader ecosystem of suppliers, partners, and customers to support standardization and industry adoption of EBO technology.

On slide 4, we show that the positive momentum in Q1 in several growth areas carried into Q2, driving strong performance in the first half across adhesives, abrasives, aerospace, electrical markets, and safety. We continue to see a couple of places with pressure, including consumer electronics, auto and auto aftermarket, and US consumer spending. We're clearly outgrowing the market in aggregate through better commercial execution, including increased cross-selling and improved customer retention and a faster pace of innovation. Overall, our first half performance positions us well for continued momentum in the second half of the year.

Innovation has always been one of 3M's greatest competitive advantages, and slide 5 highlights a significant inflection in launches and new product sales beginning about two years ago. Our goal is to restore that advantage at an even higher level by combining our unmatched material science capabilities with greater speed and better execution. Over the past couple of years, we've taken deliberate actions to increase rigor, accountability, and focus within our R&D organization, what we've been calling our R&D factory. As a result, we're beginning to see meaningful improvements across the innovation pipeline.

We're increasing the pace of innovation and are on track to nearly triple the number of new products introduced this year versus three years ago and launch more than 1,000 products by 2027, while reducing development cycle time by about 20%. We expect performance to continue accelerating as we leverage AI to move more quickly from idea generation to development and production. These efforts are translating into commercial results with five-year new product sales reaching about $4 billion this year and new product vitality index climbing to the mid-teens this year and 20% next year.

The right side of the slide highlights several next-generation innovations and showcases the breadth of our portfolio and ability to address emerging customer needs. From developing new products for new markets, like EBO for data centers, to adapting existing technologies to new applications, like Nextel high-performance fibers for fuel cells and light-reflective films for space satellites. These products demonstrate how we're applying technology to unlock new growth opportunities.

Slide 6 pulls it all together. Over the last couple of years, we've moved from a decline of 4.4% in 2023 to positive growth of 3% on a trailing 12-month basis through the first half of 2026, while at the same time expanding margins by about 500 basis points. This is 3M's excellence at work and demonstrates that we can both grow the topline and increase margins simultaneously. Our performance is increasingly outpacing underlying end markets with our growth to market multiple improving from roughly in line to 2x, and with the businesses that declined in 2023, turning solidly positive in '26. While we're still in the early innings of our journey to create value, the momentum is building. I'm encouraged by the progress we're making and confident in our ability to continue to deliver above-market growth and sustainable margin expansion over the long-term.

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 exceeded expectations across all financial metrics in the quarter, delivered mid-single-digit organic growth, margin expansion, double-digit earnings growth, and robust free cash flow, all reflecting strong progress against our strategic priorities.

Starting with top-line, in an unchanged macro environment, the organic sales growth of 5.4% was driven by successful execution of our commercial excellence initiatives and increasing contribution from new product launches supported by a strong operating tempo. Coming into the quarter, we had expected sales conversion from the Q1 order strength to accelerate revenue growth to over 3% in the second quarter. With the sustained order momentum in the quarter, combined with good supply chain execution, we were able to grow above expectations. This puts the first half organic growth at 3.3%, comfortably outperforming macro.

By geography, we saw broad-based growth across all the five regions. China grew double digits with strength in industrial adhesives, safety, and auto films as we executed on our key account and local NPI strategies, leading to share gains. US and Canada industrial businesses grew mid-single digits, partially offset by softness in consumer and auto aftermarket. It was encouraging to see Europe return to growth up mid-single digits despite a muted auto market. And in Asia, we saw double-digit growth led by India, a trend that has continued for seven straight quarters as a result of increased sales coverage in a growing economy.

Q2 adjusted operating margins were 24.9%, up 40 basis points, with the business group operating margins up 70 basis points, partially offset by expected corporate headwind of 30 basis points. Operating profit increased $110 million or $0.16, including a $240-million benefit from sales growth and broad-based productivity, partially offset by $30 million of investments and $110 million from tariff impact and stranded cost headwind. We have not received any tariff refunds to date.

The $0.24 of EPS growth in the quarter is driven by $0.16 of operating profit growth and $0.08 primarily from lower share count as we continue to return capital to shareholders. The benefit from tax timing and lower pension costs was offset by a prior year gain on investment. This earnings growth was also reflected in the unadjusted results with Q2 GAAP EPS of $1.78, growing 33% year over year. This included the impact of cost from ongoing transformation actions, exit of certain PFAS manufacturing assets, and gain from change in value of our Solventum ownership.

Free cash flow was robust at $1.3 billion or 107% conversion as we benefited from strong earnings and working capital management, including seven days improvement over last year in inventory. We returned $1.4 billion to shareholders via dividends and gross share buybacks. For the half, we generated cash flow of $1.9 billion and returned $3.8 billion to shareholders, including $0.8 billion in dividends and $3 billion in share repurchases.

Turning to the next slide, I will provide a quick overview of our growth performance for each business group. Safety and Industrial delivered a standout quarter with 8.2% organic sales growth, driven by the continued expansion of commercial excellence initiatives and the ramp-up of new product launches. We delivered double-digit growth across the four industrial businesses, electrical markets, industrial adhesives and tapes, abrasives, and industrial specialties. This growth was driven by targeted commercial initiatives to reduce customer churn, strengthen sales coverage and effectiveness, and increased cross-selling. Safety grew high-single-digits on the back of new product launches and continued international expansion. It was encouraging to see roofing granules return to growth, and we expect that trend to continue in the back half on a recovering market in easy compares.

For the half, SIBG grew 5.7%, demonstrating sustained acceleration over the last two years. Transportation & Electronics sales grew 5.9% in the second quarter from the expected backlog conversion combined with stronger commercial execution and account management. The first half growth of 2.9% reflects strength in approximately half of the business segments, more than offsetting end-market weakness in the other half.

Semiconductor, aerospace, and data center business segments, comprising approximately 20% of sales, grew double-digits as we gained traction from new product introductions. And commercial branding and transportation, which is about a third of the business, grew approximately 5%.

On the other hand, auto was flat in a soft market and consumer electronics was down low single-digit, performing better than the broader consumer device market. SIBG and TEBG, which together represent 80% of our business, delivered 7% growth in the second quarter and approximately 5% growth for the first half.

Finally, consumer, which makes up the remaining 20% of our sales, was down 2.1% for the quarter and 1.7% for the half. Point of sales growth in the US remained healthy and has been positive in 18 of the 26 weeks year to date versus seven positive weeks in all of last year. However, tightening of inventory levels at several key retailers in the second half of June more than offset this positive momentum.

The second quarter performance caps a strong first half, including organic sales growth of 3.3%, operating margin of 24.3%, and earnings growth of 12%, giving us confidence to raise our full year guidance across all the financial metrics on slide 9. We are raising organic growth expectations from 3% to greater than 3.5% for the year. This is a result of strong commercial momentum in our industrial businesses, supported by increased sales contribution from new product launches, which will more than offset the slight weakness in consumer business.

EPS guidance is increasing from a range of $8.50 to $8.70 to a range of $8.80 to $8.95 or a growth of 9% to 11% year over year. This increases both the low and high end of the guidance and reflects about a $0.27 increase at the midpoint. The increase in earnings versus the prior guidance is coming from stronger sales growth, productivity gains, and our capital deployment strategy. We now estimate oil inflation to be $150 million to $175 million, up from $125 million previously. This impact is expected to be fully covered by the price actions we implemented in Q2.

Though oil price cost is dollar neutral, it impacts margin rate by 20 basis points, which we will mitigate through higher volume and better productivity, resulting in operating margin expansion in line with our prior expectations. Given the higher earnings growth and progress in working capital, we have increased our free cash flow guidance by $100 million to a range of $4.7 billion to $4.9 billion, implying conversion greater than 100%.

The updated guidance implies second-off organic sales growth of high 3s or better over 2 times macro and margin expansion of about 100 basis points from the prior year, resulting in EPS growth of approximately $0.30 at the midpoint. Sequentially, we expect operating profit to follow typical seasonality with similar phasing between the halves, while earnings will see an impact from tax timing.

Turning to slide 10, I want to take a minute to highlight the progress we have made since our Investor Day last year. We are at the halfway point, and with the strong 2025 foundation and the updated '26 guidance, we are tracking ahead of Investor Day commitments across all metrics. Our growth trajectory continues to accelerate from commercial excellence and innovation and is on track to exceed the $1 billion above macro commitment. Along with growth, we are seeing good operating margin expansion and are tracking ahead of the approximately 25% margin rate by 2027.

For earnings, we are trending to a double-digit CAGR, reflecting strong operational improvements coupled with below-the-line efficiency. And on cash, we expect to continue the strong trajectory, exceeding our cumulative cash commitment and $10 billion return to shareholders. Overall, we are pleased with the progress we are making and want to thank the team for their relentless focus, determined pace, and strong execution to drive long-term value for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Sprague, Vertical Research Partners.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

Nice to see the topline here.

Bill, I was wondering if you could just even unpack this a little bit more. There's some great detail on these slides. But just kind of looking at the new product launches and the like closely on track to what you thought, I believe, right, but the revenues are coming in better. So do we have a combination of just upside in new product revenue relative to plan that sounds like cross-sell is a little bit better? And then maybe what role kind of reduced churn is playing in all this?

And I guess really what I want to get to at the end of the question is an algorithm of roughly two times macro, do you view that as sort of a sustainable model for 3M going forward?

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

That's a great question. Thank you for that.

We're very confident in where the growth happens to be. We came in stronger than we had expected in the quarter. It really is a combination of both commercial excellence and innovation excellence. The journey that we've been on for two years that is maturing, I think, very rapidly. It's not really macro tailwind. Macro on the industrial side looks pretty good, but there's some headwinds in the marketplace. It's mostly just internal performance.

And when you look at just a quarter, a little bit better than we had expected. Over the last 12 months at 3%, it's clearly trending above the macro, we think is pretty good, mostly driven in the first half from commercial excellence activities. A lot of the things we've laid out in the past around sales force effectiveness, better performance at the front end, pricing governance, we're pushing a lot with our channel partners, joint business plans, cross-selling is much better.

And on loyalty, we are getting better on attrition. We've been tracking this very carefully over the last couple of years. We've seen about 200 basis points of improvement in attrition, primarily coming out of our SIBG business, which would take some time for that to turn, but it's starting to turn. It's still too high. But it's actually making some good improvements here.

As we look to the back end of the year, we do see the innovation engine contributing even more in the back half and, in fact, even greater into 2027 based on just the momentum that we happen to be building here. So we feel pretty good this year. We think we'll be about $450 million above macro in the full year, a little bit better than we thought last quarter, around $340 million, $350 million, and that's largely on the back of good commercial excellence. But the machine churning faster on innovation. So all good signs, and we're very pleased with the performance in the quarter, and we expect our momentum to continue.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

Great. And then maybe just unrelated follow-up for Anurag.

Madison not included in the guide, although it's closed. Is there some peculiarity we need to work through before we dial this in? Just curious on why that wasn't included. We're looking at a lower tax rate for the year. Thanks.

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

Great. Well, thanks for the question, Jeff.

No, we just wanted to provide an apple-to-apple guidance from our last earning call so that we can see how our organic performance has impacted all revenue, EPS, and cash. We have a page at the back of the webcast that has the revenue margin and other information on Madison. It does not have a material impact to the EPS guidance range or the numbers, and we'll incorporate that in our third quarter call. And just for tax, we still plan to be around 20% for the year.

Operator

Scott Davis, Melius Research.

Scott Davis - *Melius Research LLC - Analyst*

This Expanded Beam Optics thing seems interesting. But I'm trying to get a sense, I guess, of a couple of things. And one is really materiality and how that scales out. And it looks like it was launched with Microsoft as kind of the partner, so is there an opportunity for that to scale across more hyperscalers and how do you think about that? I'll just leave that as a little bit of an open-ended to help us understand where the upside is in that market.

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

So, Scott, thanks for the question.

Yes, it's getting quite a bit of excitement, and we're excited internally as well. It's been a technology that's developed several years ago. Just in a nutshell, it's a very durable, dust-resistant, vibration-resistant, fiber-optic connection technology. We've proven with a hyperscaler that it can reduce by about 85% to time to revenue, time to install circuits in a data center. We've got about 100 patents in the space, 50 pending, so it's very well protected and we're very excited about this.

It's been in testing for several years with Microsoft. We're very pleased that they have qualified us as a technology for the Azure data centers. That's very encouraging. The revenue this year, it was in a $40-million, $50-million range. We do think it will scale over time. Could be 4 or 5x that or even more over the next several years, depending upon our progress here as well as the adoption of optical technologies and data centers that transitions.

A couple of things are happening here. One, as we continue to develop the technology, each hyperscaler has some uniqueness in their architecture, so that's got to be developed. We've got to scale it, both internally and externally. And earlier this year, we announced that we would double our capacity on EBO this year and another doubling over the next year to 18 months. But even that isn't anywhere near the volume demand in the marketplace. So we're also working with various contract manufacturers. We're pretty developed on one.

The third item of this is that we will not be successful as a sole provider here. This is about enabling an ecosystem of partners. So we formed a multi-supplier agreement. There's 44 players in this agreement all throughout the ecosystem. There's multiple hyperscalers, chip manufacturers, connector manufacturers, and it's about how do you enable the whole ecosystem?

So all of those things are in place. We're deep into trials with other hyperscalers. I won't say much more about that. But the TAM this year for EBO Technologies is around $1 billion. We think it'll grow to $2 billion by 2028, $2 billion. It could be beyond that over time. But again, we've got to be very successful in how we scale this product and make sure we've got good quality, deliver on time, all those basic pieces. But we're very encouraged about the progress that we're on, the results that we're seeing, the team has done a great job here, and we're optimistic about the growth in the space.

Scott Davis - *Melius Research LLC - Analyst*

Okay, that's helpful. And then just a quick follow-up.

I've kind of given up on China, but it sounds like China could potentially be a growth engine for you guys again. Is that an (laughter) exaggeration? Or how do you view the short-, medium-, long-term kind of China market today versus maybe when you took over the job?

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

Yeah, good question, Scott. Look, we've been pretty consistent that china has been in a very special market for us. It's performing really well. We've got a great team on the ground. We've organized a little bit differently and uniquely there as well as in India, sort of a hybrid organizational model. We have global business groups, but we stood up a team focused on China, based in China, same thing in India, and we're seeing the results.

In the second quarter, we were at double-digit growth, first half about 8%. A lot of the performance there, keep in mind, again, we're 50/50 between domestic production and export. The domestic economy from an industrial perspective remains pretty solid in China and we're performing well. A lot of it is localizing NPI and a lot of it is commercial execution on the ground. The team is doing a fantastic job. We have more than 5,000 people there, six factories.

And again, we're developing more localized technology. The export is -- the other 50% of the business, that part of the economy has done pretty well, and we feel pretty good about the results. And we'll continue to press it every quarter as we are in Q3 and the back end of the year. But long-term, we like our position in China. We like the team that's executing in China, the strategy, and we're pretty optimistic about the future in China.

Scott Davis - *Melius Research LLC - Analyst*

That's good. Best of luck, guys.

Operator

Amit Mehrotra, UBS.

Amit Mehrotra - *UBS AG - Equity Analyst*

I was just hoping you could get a little bit more color on NPI in terms of when you typically expect these new products to sort of really inflect. I'm sure it takes a few quarters or maybe a year or two.

And then anything within the NPI in terms of are these truly new products or increasingly still new products for, I know what you call Class 3 products or refresh products, any stop there?

And then I think there was this expectation that maybe $600 million of outgrowth next year on year three of the plan. Is that still the way to think about the outgrowth from a lot of these actions?

Thank you.

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

So a bunch of good questions. First, on the last piece around the outgrowth of next year. I mean, look, this year, we originally said we would be $1 billion over the macro, $100 in ‘25, $300 in ‘26, and $600 in ‘27. Clearly, last year, we did a bit better than $100. This year, we'll do more than $300, around $450. So that continues to ramp. So we'll come back early next year and talk about next year. But clearly, we're performing better than the macro. And it's both commercial excellence as well as in innovation or NPI.

Look, on NPI, the progress has been fantastic. And the chart that we put into the webcast, a very important one, shows this very deep inflection, and we're clearly on the right track here. We typically would launch a product within about from the beginning of development to launch, just running around 250 days. It's down substantially than where it was two years ago. By '27, it's going to be around 20% reduction in overall cycle time, but there's some like nuances in the data here. We're launching more Class 3s, which are shorter in duration, they're more incremental.

But the company is pivoting more to what we call Class 4s and Class 5s. And Class 4s are those that move into adjacent markets, and Class 5s are completely new products for new markets going into. So the team is focusing more on the 4s and 5s. You'll see more impact in the back half of the year as those products that we started to work on a few years ago start to launch this year, become meaningful in the back half. They'll be even more meaningful into 2027.

But the engine is moving, the momentum is really building. The team is executing, I think, fantastically well across all these various dimensions. We're launching more, but there's more ideas coming into the front end of the funnel. So the health of the pipeline is very good. So I think this will continue to build momentum in the back half into next year. So it's what we're known for, material science and driving using material science to make differences in the world, and I think we're doing a good job with that.

Amit Mehrotra - *UBS AG - Equity Analyst*

Okay, that's very helpful. Thanks, Bill.

And just as a quick follow-up, when we started, I remember at the Analyst Day, I mean, the story originally was really about sort of getting the gross margin from the low 40s% to the high 40s% where you guys used to be. And obviously, with tariffs and all the developments that have happened, you've still been able to move the needle on the operating margin line, much of your credit, despite sort of gross margin being sort of stuck in the very low 40s%.

Is there an opportunity, do you think structurally at least with all that we know now, we can still get back to the high 40% margin on gross margin, if you can just sort of talk about that, just given all the structural dynamics that have occurred over the last couple of years.

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

Look, I mean, on margins, I mean, you see the chart, I mean, up 500 basis points from a couple of years ago. So we are making really strong progress here. And it's both gross margin, but also importantly in SG&A and IT and other kinds of expenses, indirect costs. We've talked about that quite a bit. There was more to squeeze in it. More cost to take out than we'd anticipated, and we've done a good job.

On gross margins, we're tracking to close to mid-40s% right now. I mean, the company has done a good job. Productivity is really solid. We had great productivity in the quarter. We continue to build momentum. I give you sort of the metrics around that. We are reducing our cost of poor quality that came down again. Our operating equipment effectiveness is coming up. We're driving hard on procurement, receiving net savings even after inflation, four-wall spend, we've doubled the number of Kaizen events inside the company.

Look, there's a ton of opportunity here just running the network, the distribution side better than as it exists today. The next step really as we transform is simplifying, standardizing, automating more of our processes, both on our SG&A side. I talked a little bit about that in the prepared remarks, but also on the factory side, the network side.

There is plenty of headroom here in front of us. We see ourselves marching ahead and with an ability to hit the high 40s% over time, but the roadmap is relatively clear, it's along the same lines we've been laying out and talking about over the last couple of years. And as we get into the transformation, we'll see margins continue to expand. So we feel good about the performance and optimistic about the future on margins.

Operator

Nigel Coe, Wolfe Research.

Nigel Coe - *Wolfe Research LLC - Analyst*

So quite a different quarter. I think Bill or Anurag, you mentioned last quarter, you started off quite weak and it got better through 1Q. I'm just wondering how the 5.4% looked from April through June. Did we start off stronger, got weaker, any color there? And then any updates on how orders and maybe backlog exited the quarter?

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

It was quite good throughout the course of the quarter. It was more linear than we've typically seen. As you said, we started the quarter with very good backlog. If I look at April and May, it was probably 600 basis points better relative to other first two months of prior quarters. So it was quite good as we went into the first two months of the quarter.

And June, the order momentum kind of sustained as well because we did have price increases, which came with effect from May 1, but just through the course of the quarter, we saw very good linearity and the team executed very well to post the 5.4% growth.

We did see similar, as I said, order momentum in the second quarter, like the first quarter, which strengthened the industrial side of the business. So our orders were up about 10% for the quarter and backlog about close to 20% up year over year. So as we get into Q3, we feel good visibility for the Q3 and the second-half of the year. Obviously, 75% of our business is booked and ship, so we have to monetize as we go along. But so far, the first two weeks, orders and backlog look good.

Nigel Coe - *Wolfe Research LLC - Analyst*

That's great. That's really encouraging.

And my next question is really, you mentioned the consumer channel destock in the second-half of June. So just wondering how long do you think this destock will happen? Any intel on how inventories look for 3M products? And then any color on how inventories are looking in SIBG and T&E and selling the sell-through color would be helpful as well.

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

So inventory levels in SIBG and TEBG are normal. There's no discernible trend one way or another, not a concern. On CBG, look, I think what was encouraging is to continue to see the point of sale growth or sell-out growth around 2.5% in the quarter, which was very positive, we felt good about that. It was really isolated to a couple of retailers and we saw them step back a little bit in the US channel, step back a little bit in terms of weeks of supply. It was about a one-week delta.

As we come into July and into Q3, we think this will normalize here, especially as retailers stock for back-to-school season, but we'll keep monitoring it and communicate with investors as we need, but we feel it's going to normalize here and help us in the back half of consumer to be flat to up slightly is what our expectation would be in the back half of the year.

Operator

Chigusa Katoku, JPMorgan.

Chigusa Katoku - *JPMorgan Chase & Co - Analyst*

Good morning. Congrats on a great quarter, and thanks for taking my question.

My first question is on organic growth. So you've raised your organic growth guidance nicely, but it still implies some deceleration in the second half from the strong second-quarter levels. I think pricing should come through when you have some EBO delivery scheduled on the back end. So what's driving this? Is this consumer and electronics or the timing of deliveries or is this prudence?

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

I mean, look, it's a good question. The fact is the second-half will be accelerating from the first half. You mentioned specifically Q2, but it does continue to accelerate. There are some positives here. We continue to see good momentum in general industrial safety. We see semis, data center, A&D remains pretty strong. Anurag communicated about the roofing granules business is not very big, but we see some improvements in the back half on easier comps. And we do see some tailwind on pricing. For the year, we'll be about a point and a half, which implies about 2 points in the back half. So all those things give us encouragement in the back half.

Look, the watch items are, number one is going to be consumer electronics. The market data indicates a deteriorating production volume of devices, PCs, tablets in the back half of the year, expected to be down high teens is worse than it was in the first half, so that's a watch area.

Auto is stabilizing in general for us, but it's still expected to be down on the build rate year over year in the back half. The auto aftermarket business we still think was going to be soft repair claims is still expected to be down in the back half for the year.

And look, the US consumer remains cautious. As I just commented, we do expect flat up growth in consumer in the back half, but the consumer remains cautious and value-focused. So those are the things that we're more cautious about, but at the end of the day, we had anticipated being above 3 in Q3, we came in above -- Q2 rather, we came in above 5. We do expect good momentum going into the back half of the year.

Chigusa Katoku - *JPMorgan Chase & Co - Analyst*

Great. Thanks so much for the color.

Then as a follow-up, I just was wondering if you could give some a little bit more color on what drove the strength in margins this quarter. Is it mix, price/cost or productivity? You're pretty much at your 2027 margin target right now in the second quarter. So kind of when should we kind of expect to hear about updated targets?

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

Thanks for the question. So we finished the quarter at 24.9% margin, which is the highest we've ever been. And this was 40 basis points higher than we thought where we would be. A large part of it was the volume performance relative to the 3% that came in over 5%, but it was also a continuation on the productivity side as a combination of both G&A and on the supply chain, which had actually very good productivity for the quarter. So I would say it's broad-based between volume and productivity.

Operator

Chris Snyder, Morgan Stanley.

Christopher Snyder - *Morgan Stanley - Analyst*

I wanted to follow-up on the data center conversation, specifically the EBO opportunity. I think you said that this could be a $2 billion market by 2028. I'm just kind of curious, what is the competitive environment here, just as we try to think about what share of that $2-billion market could accrue to 3M. It feels like a new technology. That I would think the company is well positioned from a share perspective, but just any color on that?

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

Yeah, Chris, look, it's a good question. We do play today inside the data center in a couple of ways. We play on sort of copper networking with our TwinX product sold into data centers. There is a gradual transition from copper to fiber that's happening. It's across the data center, across the racks. It eventually will start to move down to the chip, which today is mostly copper-based solutions. So we've been playing on the copper side. And optics is going to become a bigger share over time of networking in the data centers.

Typically, fiber optic connections are point to point. It's very difficult to do that. The ends have to be polished. It's specialized labor. It takes time, it takes effort. And when you're thinking about billions of individual fiber strands being connected in data centers, the market is looking for better solutions here and EBO connections allows them to do this more quickly and seamlessly and more reliably. And I think that's kind of an important differentiator.

As I mentioned earlier, we've got substantial patent protection around the technology, 100 patents today with another 50 that are pending. But we are -- we have and we will continue to license other ecosystem players to manufacture that technology, that EBO, Expanded Beam Optics technology, because that's required by hyperscalers. There's no one company or supplier that will provide all of the demand for these hyperscales, whether it be servers or chips or racks or whatever it happens to be, including EBO connectors.

So that's the path that we're on. We've got a small share today. Again, it's in the $40 million, $50 million range of $1 billion. But over time, given our technology and the momentum we think we're building here and our ability to scale, we think our share in that segment will grow materially, and that's what we would expect.

Christopher Snyder - *Morgan Stanley - Analyst*

Thank you. I appreciate that.

And then maybe if I could follow-up on price cost. I would imagine there was some lag on Q2 price cost just given how quickly the commodities inflated and then when we think about the timing of your price actions in April and May. Can you maybe just kind of talk about price cost in Q2?

And is it fair to assume that price cost gets better as we look into the back half, just with the incremental price coming through? And while commodity inflation is still certainly persisting, it does seem like a lot of these petrochemical inputs have eased a bit versus what we saw earlier in the spring.

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

Yeah, look, it's a great question, Chris.

Q2, our price was at 1.6%, so it was about in line with what we'd expected. In the first half, it was around 1%. We started the year a little bit lighter. We do see that increasing in the back half of the year to be about 2%. As Anurag mentioned in his commentary, the impact for us this year embedded in our year is $150 million to $175 million from oil-based increases. That is up from where we were earlier in the year at $125 million.

So to your point, there is a bit of a lag in that kind of rolling through the system, and we're being adaptable here. We're adjusting as we go. We are trying to offset that dollar-for-dollar. It will impact margins, but we do expect we'll offset the higher price of oil on a dollar-for-dollar basis through pricing. We're executing this a little bit better. We got on it faster this time, earlier in the quarter. We're being very careful with the watch volume here, but at the end of the day, I think we're capturing it. So price cost on oil is sort of neutral. Overall, with the other price increases, it will be slightly positive from where we stand today.

Operator

Nicole DeBlase, Deutsche Bank.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Maybe just on productivity and stranded costs and growth investments, did anything shift at all in that outlook and anything major to highlight as we consider the cadence in those items between the first half and the second half?

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

Overall, Nicole, I would say nothing has changed significantly in terms of the cadence. What's gotten better is productivity, which I'll come to that in a second.

Just on the stranded cost, it's still $150 million for the year, more in the second-half versus the first half. And on investments, we said it's going to be $225 million, and the investments are spread over growth, productivity, and foundation stuff of about $225 million, $75 million in the first half, $150 million in the second-half. So I wouldn't say anything has changed on those two items. But clearly, on the productivity side, as Bill earlier mentioned, on supply chain, it's definitely better than what we have seen through the course of the year.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Okay, got it. Thanks, Anurag.

And then just I think you guys did like $3 billion of buybacks in the first half and the prior guidance was for $2.5 billion, so you've already exceeded that. How are you thinking about buyback cadence, if there is any, in the second-half of the year?

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

We'll continue to be opportunistic and disciplined in just an overall capital allocation framework. As you correctly said, we started the year at $2.5 billion. We found the opportunity to buy more stock. We've done about $3 billion at an average price of about $153 for the first half, and we'll just continue to be opportunistic going forward.

Operator

Piyush Awasthi, Citi.

Piyush Awasthi - *Citigroup Global Markets Inc. - Analyst*

I wanted to focus on safety and industrial segment. Growth in 2Q was very strong. Maybe if we can dig in a bit deeper on the drivers, like how much is healthy in markets versus your own commercial excellence and innovation initiatives. Not sure if there was any pull forward. Ultimately, like I want to get a sense of second-half dynamics, comps get slightly tough, but do you see a path to sustaining this high single-digit growth?

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

So just in a nutshell, look, IPI is running around 1.8%, 2%. US is a little bit less than that, around 1%, just over 1%. So clearly, we're growing well above the macro. So I believe it's -- the performance of the organization, both in terms of commercial excellence as well as innovation. Anurag went through some of the underlying drivers across the divisions of SIBG.

It was pretty broad-based. It was strong across all of what they're in, except for auto aftermarket was a little bit light, which again, it's a big business, so they've had to overcome that. But I think the momentum there is pretty good. As you go into the back end of the year, there's nothing that indicates the industrial market is getting softer. We feel pretty good, as Anurag said, the orders in Q2 was pretty strong, SIBG was up mid-teens, so the order growth rate there is pretty good, backlog is up year over year.

So I think the momentum continues, and again, it really is just a balance of really good commercial excellence. Keep in mind, they -- that team jumped on commercial excellence very early in the process, early into 2024, and have made great progress. I commented earlier about attrition come down or churn coming down, which has been great. Working hard on the sales force, providing sales AI tools, which makes them more effective and efficient.

A lot of work on cross-selling, that's dropping through the bottom line. So I would characterize this as a lot of really good back-to-basic hustle that's happening in SIBG, but also in other businesses. So we feel good about the momentum, and even with the tough comparisons, we think second-half will be pretty strong growth as well.

Piyush Awasthi - *Citigroup Global Markets Inc. - Analyst*

Helpful, Bill.

And maybe taking a step back, and any additional color on how we should think of 3Q and 4Q in terms of top-line growth and operating margin based on your 2026 guidance? Should we expect like normal seasonality? Not sure if there are like any other dynamics that we need to be aware of.

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

Sure. Let me take that question.

You should see the normal seasonality through the course of the year as well. Our guide says we're going to be over 3.5% for the year. The first half was 3.3%. So clearly, there's going to be acceleration in the second half. You should see a lot more coming from productivity as well, both in the supply chain as well as some of the transformation projects that we have undergoing. We see the benefits of that come through.

And both of them will more than mitigate the pickup and stranded costs and investments that we are going to make to ensure that this is sustainable for the future. So I would say it's normal seasonality with the EPS growing by $0.30 in the back half equal between Q3 and Q4.

Operator

Deane Dray, RBC Capital Markets.

Deane Dray - *RBC Capital Markets Inc - Analyst*

Significant upside in free cash flow, especially compared to your five-year average. Can you talk about any one-timers? There was a reference to benefits of tax timing, but also some nice improvement in days and inventory days. So is that also sustainable and do you have some targets that you can share?

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

It is very strong cash flow just on the back of very strong operational performance. We obviously have good earnings and the cash conversion cycle continues to do better on the back of lesser inventory. Our inventory has improved by seven days year over year. So it's just fundamental good operational performance that's driving the free cash flow.

Deane Dray - *RBC Capital Markets Inc - Analyst*

Great. And you didn't call it out exactly, but can you reference any of the impact on memory, chip pricing, availability, and how is that rippling through your consumer electronics?

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

Well, the consumer electronics was down low single-digits in the quarter, and we do expect the market in the back half of the year to be down -- I think it was like high teens. So -- and I think that's largely related to memory shortages, the high cost of memory. So

I think that's rolling through the marketplace. In the quarter, we're performing better than the macro, again, down low single-digits versus where the market happens to be. We expect to outperform in the back half of the year, but the market is getting weaker because of memory.

Operator

Brett Linzey, Mizuho Securities.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

My question is on utilization and footprint rationalizations. There's a bit of a tug of war here, right, you've got the secular and cyclical accelerating, but some other areas a little bit more cautious. What's your current capacity utilization across the footprint?

And as you look at some of the organic growth potentially accelerating here in the back half. How are you balancing rationalization versus expansion? Are you thinking there's further actions as we look into '26 and '27 or are you revisiting some of the plans currently given the improvements?

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

So look, the way we measure utilizations across about 300 assets across the organization, we continue to increase that we're systematically tracking. There's more than half our volume. It's running around 63.5%, 64%. So there's plenty of upside capacity across the overall network in aggregate.

As I mentioned in my remarks, there are certain assets in our network that are constrained and I mentioned one in particular in New Ulm, there's others. New Ulm, which makes electrical connectors, that volume is spiking. So we've got to find ways to unlock capacity. And a lot of it's kind of basic in how you run the lines and the workflow and material flow.

Over time, there might be some capital there. But overall, utilization is an upside opportunity for us. But fundamentally, understanding utilization, how it's measured across individual assets, across the hundred plants we have in the network, allows us to then start to look at how do you consolidate between individual assets, sales within a factory, and factories themselves.

That is the unlock of what we call transformation that's going to occur over the next three to five years. It's a longer-term journey, but clearly, as we start to wring out capacity, increase capacity utilization here, we have an opportunity to rationalize the network as well.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

Understood. Thanks.

And then just a follow-up on the new product launches. So 92 in the quarter on pace for the 350 plus. What portion is incremental share or TAM expansion versus replacing or cannibalizing existing SKUs? I guess, is there a metric you guys are looking at that looks at net new contribution internally versus gross NPI that might help us bridge some of the opportunity here over the next couple of years.

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

Yes, Brett, let me look, when we talk about growth above the macro, a lot of it is going to be net new growth, and that's sort of what we articulate that. But Class 3 for us is running around 75% of the launches, Class 4s and 5s, which is more new adjacent markets or new if you will, new products for new markets, that's running around 25%. Over time, that will go up to 30%, maybe a little bit better than that. It will be a little bit higher in the industrial side. So we do expect TEBG and SIBG to get to 40% or beyond 40% Class 4s and 5s, but we're still running as a company around 25% today.

Brett Linzey - *Mizuho Securities USA LLC - Analyst*

Congrats on the quarter.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

Can you give a high-level assessment of the margin profile in the new product mix relative to your core businesses? Used to be that was a significant gap. And I'm curious if the gap is stable, that is, as your overall margins are rising, is the margin embedded in the new product pipeline also rising? Or should we think about it more as over time, kind of you're lifting -- you're just having a mix shift where the higher mix is what's driving the margin lift, but eventually, though, too, would converge to some equilibrium.

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

Look, in a nutshell, look, we expect that we do see that margins on new products over time raise the overall margin threshold. As they start, they launch lower volumes, you'll see just absorption or maybe as they may not come in at the higher margin, but they do over time because new features can drive better pricing. Also, new products can come into the marketplace at lower cost. One of the things the team is really focused on is design to cost. So we are looking to both bring new features, which help us drive price, but also drive costs down in the designs themselves. And that combination should allow us to unlock and does allow us to unlock margins through new product introductions.

Operator

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

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

Well, thanks, everybody, for joining us today. And thanks again to all the 3Mers for really, truly delivering another outstanding quarter of great execution and delivering value for our customers and our shareholders. And I want to thank them all for all their efforts. Thank you for joining the call, and have a good day.

Operator

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