

# Solventum

## 2025 Morgan Stanley Healthcare Conference Transcript

September 9, 2025  
10:45 a.m. EDT

## Corporate Speakers:

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

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

## Participants:

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Welcome everybody. It's Patrick Wood from Medtech team. Welcome to day two of the Morgan Stanley Global Healthcare Conference. Thanks for joining. Before we kick off, Morgan Stanley Research Disclosures website: [morganstanley.com/researchdisclosures](https://morganstanley.com/researchdisclosures). Thrilling stuff. But what is good fun it is to have the team from Solventum, Wayde and Garri here. Wayde, Chief Financial Officer; Garri, who runs the HIS (Health Information Systems) business and can do all things exciting. Thanks so much for joining us.

---

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

Thanks for having us.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

I guess, --Wayde, why don't we start with you? You've been in the role a little while now. Time really flies, but still not very long. You know, how -- how have things been relative to what your expectations were prior to joining? I mean, nothing's ever the same as what you imagined. How's it been versus what your expectations were?

---

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

Yeah. Okay. Good to start at a high level here. You know, I would say the thesis is intact. You know, we're really excited about the value creation opportunity we have for Solventum, but also this rare opportunity to create a mission for a health care business and to take the foundation that 3M had built, but under an industrial company, and carve that out under a new health care mission is really exciting. And so, I would say, you know, the momentum we have is what we had expected. In fact, I would say we're on track or even a little bit ahead. Our three-phase transformation is well underway.

Clearly, that third phase around portfolio transformation, it's a pretty exciting couple of weeks for us with the closing of our Purification & Filtration (P&F) divestiture. I'm sure you might want to talk about that a little bit today, as well as paying down the debt and we've had some announcements this week as well around that. So, the P&F divestiture is a game changer for us, as you know. It is not only giving us a better leverage position, stronger balance sheet, but it gives us better operating margins. It's going to simplify the story for us from a portfolio standpoint. So, you know, there's a lot we can talk about there, I think you may want to get into that, but that's exciting for us. And certainly, one of the things we thought about coming into the -- into the company and part of the thesis. And then I'd say the separation also is going very well and on track. We knew that was going to be a challenge, all separations are, especially of this scale, and this one was particularly entangled. I think 3M did a really nice job of integrating and -- and bringing a lot of the functions together. So, we're in the middle of pulling all that apart today, and I think we're on track there, if not ahead. We've got the rest of this year and then most of next year, 2026 is another heavy lift for separation, but then we're through it. And 2027 will have a little bit left, but we'll be almost all through it here in 2026.

And so, you know, overall, I'd say we're just really excited again about that value creation story, the mission, and boy, we get on the other side of the separation, we'll be able to really unleash some of our best and brightest and continue to improve the business.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Yeah, we'll definitely touch on P&F. I mean, we -- we've chatted before. I think people sometimes don't always appreciate how much time it takes to do that, and the time that you'll get back to focus on the core business later. Yeah. Garri, you-- interestingly, you've got a completely different setup because you've been in the business for a good length of time. And so, I'm really interested - how has it changed relative to when it was inside of 3M to then, actually now - is we externally would hear it would have been more dynamic. Is that actually true?

---

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

Things are going very well. So, when I was under 3M, and I was there 30 years so I have a long history working in what we saw as an industrial market. We were a health care entity, but we were buried inside an industrial conglomerate, and the focus was very different. So, 3M was very comfortable with us having margins of 1% to 2%, but we were focused on free cash flow and on margins. And obviously when Bryan and Wayde came on board, the focus has shifted more to what

we would say is a health care market, which is growth. And so, we're investing now very heavily in new products and a lot of the innovations that we weren't able to do under 3M in the past few years are really starting to come to fruition. The other thing that I will tell you is that we've also brought in a leadership team that's got a lot of depth in the health care space. And we have the capabilities internally now to make decisions and be able to transform ourselves pretty quickly with the leadership team that we brought in. And so, it's a completely different operating model than what we were used to.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

How important is that new team coming in? Because it must be quite a difficult mindset switch for people to go from a cash flow margin mindset to a growth mindset. Is that a critical part of that?

---

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

What I would say is my team has been very receptive to that because we were always worried about the fact that we were in health care company, but we weren't being funded for the growth that we thought was achievable. So, they shifted very well. We have a very strong mission, you know, to really improve the lives of patients to be better, smarter health care. And we have a set of values and strategic imperatives that we're focused on. So, the team is very focused on achieving that and being able to make contributions to Solventum overall.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

I've got to hit on the P&F side of things because it's so topical, right? You know, obviously that was essentially very recently announced, like yesterday or the day before, the P&F sale. Can you just – also the debt tender pricing. Can you just walk us through the timeline, the big picture, of what this means for the balance sheet for you guys, and what that means for Solventum overall?

---

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

Sure. Yeah. Love you went there early too. It's so current for us and we talk about transformation broadly and we're working on it a lot, but this pillar around our portfolio transformation is really changing the company here in the last couple of weeks, and so to your question on the timeline, we started the portfolio process early on with the separation and went through a pretty rigorous process to decide, you know, what area of the portfolio we thought maybe we should move on and divest. And through our strategic and financial criteria, we landed on P&F. Went through a process that we announced in February was the deal that we would do with Thermo Fisher. And then we started working on that through their diligence and integration, and just recently we announced that we would keep the Drinking Water portion of that. It's about a quarter of the business, and that was really designed to simplify the process, and what that allowed us to do then is close early.

And working with Thermo Fisher, they're a great partner, real professionals. They do a lot of deals and so they've been wonderful to work with as the two teams have come together.

And we just recently announced to close on September 1st and 2<sup>nd</sup>, here, that we're closing on that transaction, and that allowed us to then quickly move to start to pay down our debt, and that was another primary objective of ours. We paid down about \$100 million a quarter since we spun, so \$500 million, we've been chipping away. But now with the P&F divestiture, we sold for \$4 billion of gross proceeds, \$3.4 billion of net proceeds, and we said most of that is going to go to debt pay down. And so that's what you've seen us executing here over the last couple of weeks. We've had press releases as recent as yesterday saying that we upsized our tender offer to \$2 billion, and then we're also really paying down \$800 million of our term loan. And so that's -- that gets us in a great leverage position that'll put us on average with our peers or even better leverage than our peers. It strengthens the balance sheet.

And then just thinking about the strength of the financial statements, we also improved our operating margins by divesting this business. And then unlike most divestitures that can be EPS dilutive, this deal is EPS accretive. And what we've said is that it's a \$0.25 to \$0.30 accretion on an annualized basis. We're going to get \$0.18 of that this year.

And we've talked about in our most recent press releases that we'll get a good amount of interest savings by using the debt to pay down – pardon me, using the cash from the deal to pay down interest. And so, we'll get about \$0.08 primarily related to the debt pay down and interest savings offsetting the loss of EPS from the divestiture.

And so that \$0.18 this year leaves about \$0.07 to \$0.12 of further accretion in 2026. So accretive to EPS in both years, accretive to operating margins, strengthens our balance sheet, puts us in a great leverage position, and you've heard us talk about wanting to be programmatic acquirers of tuck-in smaller type deals to fill in our portfolio gaps. And this deal allows us to switch from paying off debt incrementally. Huge step forward to go on offense here on M&A. So really, a truly transformational deal for our company.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Yeah. I definitely want to pivot to the M&A side. I mean, \$2 billion on the -- on the debt, and then \$800 million on the term loan \$3.4 billion-- you've obviously got your cash generation. Should we be thinking of that residual balance as kind of earmarked a little bit for M&A at this side? And is that the right way to think about it?

---

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

Yeah, that's what we've talked about, is that our next objective is to start getting active on the acquisition side of it, and again, thinking small tuck-in type acquisitions, nothing of a transformational nature. But we also have flexibility with our capital plan now for the first time since we separated, so we'll be thinking about other changes to our capital plan over time.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

You obviously still operate in three different end markets. Well, three different divisions let's call it. We have seen many end markets within them. How is it going to work from a capital allocation standpoint on M&A in relation to those? Is it good - and it's tough for Garri, and is it -- is it that each of the divisional heads will come to you with that various ideas and you would all sit in one room together? Divisional heads, management team, and bang heads together? How do you envision, like, that allocation?

---

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

Yeah. So, we have started a process of building capability in all three of our segments. But what I would say is MedSurg is the largest business; it's certainly the core, but it's also the area that's had the least amount of activity in the M&A front for a long time. I'll pass it to Garri in a second to talk about her business, but having said that, we've got growth drivers within each of our three different segments, and we've shared in the past that we're expecting 80% of our growth to come behind those growth drivers. And so, you could think about us primarily thinking in that area, but we'll also look at other areas to do tuck-in acquisitions within our footprint in any of the three businesses where we've got capability and scale, and it makes sense strategically for us. We do think it's a target rich environment for us out there. There are opportunities. Our pipeline is building already today, we've historically been disciplined acquirers. We balance both the strategic and the financial metrics as we go about it. And so, yeah, all three segments are working on building their capabilities, building their pipelines. But Garri, do you want to talk about HIS?

---

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

So, in Health Information Systems, obviously, if you look back at our history, we were used to, under 3M, doing an acquisition about every three years, but we haven't done any acquisitions since 2019. And the other thing that I saw in the history is that even when we did acquisitions, we really didn't fund them. So, we were rarely able to achieve a lot of the performance of what we thought we would get from the acquisitions. I think that'll be different completely under Bryan and Wayde, and the structure that we put into place.

One of the things that we're constantly looking at is, how can we disrupt the market? I don't want to acquire something that's a "me too". I don't want to acquire something where there's 200 vendors already in the spot. I want to look at how do we change the industry, and how something can be replaced by technology, take labor out, and be able to automate it or be able to move it upstream. So, something that may be traditionally done after a patient's discharged, how can we do it during the encounter? That changes the industry. So those are the types of things that we're looking at.

We'll also look at how do we enter countries that are now ready for the technology that we bring to the table? We're seeing a lot of changes in the international market right now where a lot of countries are just now becoming digital so that they can take our products. But there are also many countries changing to a health care payment system similar to what we have here in the U.S., which is a DRG based payment system. And so, we write payment methodologies within HIS. We work with a lot of the ministries of health outside the U.S. who want to change payment models. We get a lot of our FPs, and a lot of them do adopt methodologies that are built by health information systems. And so, we'll be looking at countries where we could actually go in and do acquisitions that could help us get footprint in those particular spaces.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

So, maybe more of an OUS focus than we had previously sort of thought about.

---

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

And so, what we're seeing right now is in international markets, a lot of these countries are growing double digits. So, with them becoming digital, and we can localize our product to go into those countries pretty easily, that's giving us significant growth. And today we're about 90% U.S. sales, 10% international. So, there's a tremendous amount of runway in the international space, whereas in the U.S. we're very heavily penetrated today.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

We had three babies in the NHS, in the UK, and getting out of the hospitals, to get them to sign the discharge forms, was a living nightmare. If we could digitize that, it would be amazing. It will help a lot of people.

---

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

So, there's a lot of opportunities in the revenue cycle management space, whether you're in the U.S. or whether it's OUS. There's a lot of paperwork, redundancies, and still a lot of manual labor that we believe can be replaced by a lot of the AI that's actually becoming available and rapidly advancing.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

I mean, maybe to take a step back, thinking about HIS in general, you know, the market is a kind of - at the moment it's a sort of 5% to 6% growth market, potentially more, but something about that. How do you feel about your growth within that for the next 3 to 5 years? Just big picture?

---

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

So, in HIS, we have a plan to be able to reach market growth within the next five years is our target. And we're seeing a lot of that comes from the expansion of what we call 360 Encompass in the international space, as well as the move into what we call autonomous coding, which would be taking the human out of the process. And so, we built models. We've actually sold a significant amount of customers already, today. You guys probably saw the announcement that we had with Ensemble Health. So, we're actually putting in autonomous coding for their full customer base, and this will help hospitals take labor cost out. And so, our goal is to automate at least 80% to 85% of the claims. We, in some service lines we can get much higher, and then have a process to where if the competence levels are not there, it would actually kick out to a human. And so this gives us a lot of runway with us having deep penetration in the coding market today. This is an area of focus that our customers are requesting because we do cover the full service lines, not just one or two like some of the startups are doing.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Maybe the lesson is then... When you're saying autonomous coding, what is -- what is the input that's being used to decide the code that will ultimately be filed?

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

So, when you're a patient in a hospital or a doctor's office, the ED, the physician documents information about you in a patient record. And then what we do is we take that information, the documents. We utilize computer assisted coding to read everything that the physician has stated, look at the diagnostics, and create a code list of all the things that are going to be reported to your payor. Sometimes that information that a physician provides is incomplete or not very specific, or they don't actually make a diagnosis. They talk around it. They talk about your symptoms and the treatment plan. So, our products are really focused on bringing that information to light, circling it back to the physician to get the clarification, making sure you meet the compliance regulations, then to be able to get that information into a format that it drops into the financial billing systems so that they can bill for that claim. And so that's the process that we utilize, and we do this all through information that's been documented about you as a patient.

---

**Patrick Wood** – Morgan Stanley; MedTech Equity Research Analyst

And what, for you – like, when you speaking to the customers, what does success look like? Is this, to your point, a reduction of the labor force on their side of people having to do the coding? Is it a reduction in pushbacks from the payers? Like, how do you -- how do you measure success for the customers?

---

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

It's actually a combination. So, the products that we build are actually revenue producing. So, we're looking for the additional revenue that they've not captured, we're looking to make sure it's a compliant claim, we're looking to take cost out through automation. So how can we remove the amount of labor it takes to do the process, be able to do it right the first time? And then we're also looking for areas to improve quality of care. So, we focus on all of those particular areas. That's why it's very unique around the products that we bring, and our products are connected end-to-end, so we're working from one source of truth through that patient record all the way until we build that client.

---

**Patrick Wood** – Morgan Stanley; MedTech Equity Research Analyst

Is there a way to help the reimbursement confidence when reimbursement rates or codes change? So, like, an NTAP or TPT or whatever comes in, and a lot of the time the docs we speak to, they're not really aware of the codes, this thing and what's, and so that -- sometimes they're not even doing procedures because they're not aware the economics have changed. How can you fit into that environment?

---

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

Same type of issue. So, the codes change a lot, like tax law. So once a year you get a pretty massive change and then there might be tweaks every quarter between, and so we constantly have to update our systems to be able to do that. And we do that using Generative AI. We use a lot of large language models, but we also embed that with rules because there may not be any history to the new directions that you're being given, and we have to be able to produce a compliant claim by the exact date. So, we do a combination of that, that a lot of it is looking at what are you doing? Are you coding the right information as the rules change? And then we communicate to and educate the physicians. And so, it is a process, it is continual, it's never-ending changes, and you do that not only in the U.S., but you have to do it in every country you operate in because it is different in every country. Some countries reimburse for certain things and some don't. Some have policies around what gets sequenced first, some don't. And so, we operate outside the U.S. in 34 countries, so this is a large component of what we have to maintain.

---

**Patrick Wood** – Morgan Stanley; MedTech Equity Research Analyst

Yeah. I don't know which I hate more: filing my U.S. taxes or when CMS drops that mega code.

---

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

Exactly.



---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Pure hell.

---

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

Yeah.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

I mean, and then to your point on the OUS side, Germany's got a fairly advanced DRG.

---

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

They do.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

But a lot of other countries, to your point, aren't really digitized. How are you thinking about approaching those markets? Is it -- is it actually the central regulator or the health providers you have to work with to encourage them to get the codes set up? Who's the point person?

---

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

So, what we see in the international market is most of the payment system changes are driven by what we call the ministries of health. And so, a lot of times they will call us to the table because we have a long history of writing payment systems and helping them implement outside the U.S. So, a lot of times it'll start as an initial RFP around the fact that they want to evaluate different payment models and what can be done. Some choose the path that they want to write their own system, or they want us to write a system for them. Others might adopt the Australian version, or the German version, but they want to make localized changes. So, they want to adapt those models -- those payment models for what they see as far as disease -- diseases that occur in their country, but also treatment plans. So, I'll give you an example. In the U.S., if a patient comes into the hospital and they have dehydration, we rarely admit those patients anymore. They go into observation, we give them fluids for 24 hours, then we send them home. They're not considered inpatient.

You can't do that in a country like the UAE or Saudi Arabia, because you have an environmental issue. With dehydration, one of the risks that you have is going into acute renal failure, which can be deadly. When you get into a country where the temperatures are very high, you have to completely treat those patients differently. So, in their models, that would be a covered inpatient. So, those are the types of things that we do with the country based on the data, the environmental issues, and the treatment patterns that they have to deliver in -- in their local markets. And that's our capability, being able to look at that data, work with them, and then be able to localize a product for their market where it's not just a clone of someone else's.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Whether it's the U.S. or OUS, how does the -- how is the billing situation set up, your perspective, to your customers? Are most paying like a flat fee, or is it associated with a number of claims they are making? How do you structure it?

---

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

What you see outside the U.S. is multiple different models. Some of them are on what I would say are some of the older versions that we had in the U.S. So, it's still charge based, or it can be cost based, or it can be day rates. It's kind of all over the place. And then some of them, it's still free health care. What they're running into is the same challenges that we have, is no one can afford not knowing what the health care budget is. And so many of them are looking to move to what we call prospective payment so that they have a budget based on the population and the historical population that's been



treated. So many of them are moving to a similar model to the U.S. model, which is DRG based, so that it is basically a group of diagnoses or a group of procedures that have a set payment rate, is what you're looking at.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

The claims that are being submitted, going through. Are you guys able to see? How much detail are you able to see from the system as a whole, as to what's being claimed and where?

---

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

We're able to see all of that because we bring in the full patient records, and then we are the ones who drop the bill into the billing system, so, we have access to all of that. And then in some of our products where we talk about rev integrity, we're also bringing back in the information where the claims have either been paid or denied. So, we're able to see the patterns by the payers.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

You can imagine where I'm going with this, but is there a temptation for the rest of the business to use that intel? You can see literally what's happening in the system in quite a detailed way to get a sense of which categories are actually, you know, they're looking at an M&A target. They're claiming that this market is growing at X. You have an ability to validate that in a way that other people might not. Is that something that happens internally?

---

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

That is correct. We also purchase publicly available data so that we can look broader than just our customer base and we can look and see, you know, how often is a device used or is there a diagnosis that would support the indication for a device. That's something that's been available in the market a long time because many vendors purchase that public data.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Maybe we can pivot to the long-range margin side of things. You guys, you've got a 23% to 25% target that's out there that you put in your press release. What do you think is like the core drivers to get perspective?

---

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

Yeah. So, as you said, Patrick, we've got a long-range plan target of 23% to 25% margins. Maybe just give it a little bit of context, as we were going through the first few quarters of the separation, we finished Q4 2024 at 20.4%. So that was what we had in mind when we set the target for about a 300 to 500 basis point expansion. And the major drivers for us are obviously sales growth. Our number one metric driving sales growth higher gives us leverage and volume down the P&L.

Beyond that, we're certainly looking for mix improvements. We brought in a playbook that is also focused on driving favorable mix over time, and then within the cost of goods sold and supply chain, we have a really strong team there that's heavily focused on driving efficiencies there. When we presented our Investor Day, we called it programmatic savings and there's a whole series of levers that we're working on to drive gross margin expansion there.

And we also have efficiency programs running within our SG&A categories as well, looking to drive efficiencies there, and so that's what gives us confidence to drive this 300 to 500 basis point margin expansion over time.

Certainly, there are some headwinds and tailwinds that we're dealing with inside of that, but that's for us to manage. And, you know, we want to get into this mid-20s operating margins because we know that -- that's where a lot of the peers are today. So as a first step, we want to get ourselves into that mid-20s operating margin. And really what it does is as we're driving sales growth rate up and expanding margins at the same time, it gives us this confidence to give what we think is an exciting earnings per share growth or valuation story, which we also put out at our Investor Day for a 10% CAGR on earnings per share, which we think is probably one of the most exciting stories in MedTech today.

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

When you think of it as efficiency savings, is this a case of like initially slow and steady? Because I remember certainly from my... you're always know what dollars are actually helping prop up growth and which are not. And you inherit this car, and you don't know which bits of machinery you can take out safely. Is it just, you start slow and see how things go and then you ramp, or is it just fairly even through the projects?

---

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

You're on the right track when we talk about our growth drivers, but we have a lot of different lenses or programs we're putting on spend across the board, so maybe I'll just start with the growth drivers.

You've heard us talk about 80% of our sales growth is going to come behind the growth drivers that we've laid out, and we've got growth drivers within each of our segments: MedSurg, HIS, and Dental. And so, we are in the process of shifting resources behind those growth drivers, and that's resources primarily in commercial and marketing and upstream marketing, but also in the support functions to make sure that we're aligned to driving those priority markets that we want to generate growth in. And so that that process is underway.

And then we're also driving more traditional programs to look at leverage in our supply chain and our cost of goods sold across our manufacturing plants. There's a lot of good work going on there today, but obviously we're still busy moving our manufacturing facilities from 3M as well as our distribution centers. And so, we'll get through, as I mentioned earlier, the meat of that or most of that in 2026. And that's where we'll really be able to put all of our attention on driving margin expansion.

And then down in the functions, each of our functional leaders has programs that we're running across all functions, but also one specific to those individual functions, whether it be comparing them to benchmarks or where they want to take their function over time. So, we've got quite a bit of activity going on to make sure that we're driving margin expansion as well.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

A lot of projects to manage. In 2027, you've got a cost up at 3M. Is that a certainty, or is that triggered by something?

---

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

What I would say there is it's a certainty that it's in the agreement that we had post-separation with 3M, as they gave themselves the right to increase their costs at the three-year mark, which would be, to your point, second quarter 2027. And that's on the back of them stepping up costs, 1% increase on the raw materials that they provide to us. So, they have that contractual right.

What I would say there is, well, first of all, since then we've created a project we call our Materials Reinvent Project, and this is a team of people that are dedicated to bringing over the IP, the manufacturing know-how. A lot of the IP is within the manufacturing processes itself and then deciding if we want to put that into our own facilities or if we want to outsource that to other third parties. So that's the main work that's going on underway today, and that's what's built into the contract.

Having said that, we've already started discussions with 3M to say maybe there's a different way to do this now that we're separate companies and there could be an economical benefit to both companies if we could find a different strategy than the original strategy at spin, which was just that we would move. And the good news is we have 10 to 12 years to move. So, we've got a good amount of time to bring that incredible, strong IP and know-how over, and we're comfortable there. It's more is there a better economic benefit for both companies as we move along? And we've already started those discussions with 3M.

So inevitably we'll see what that step up might look like in 2027, but currently it's built into the long-range planning assumptions that we put out.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

This is more of a callback to 2024, but how's the cost inflation environment today? I mean, we will talk about the tariff side of things, but the base -- the base market, it's been a while, but is, has it been more normal or no?

---

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

You know, it's certainly more normalized than the hyper inflationary that we saw through the COVID period. You know, you mentioned taking tariffs out, but tariffs are certainly a cost driver, inflationary cost driver within how we're thinking about the cost base today. But I would say, you know, it's certainly not calmed down or going back to normal, whatever that would be. Some product categories are more challenging than others. But I think our team is building a lot of competencies in this area, of building a lot of data, and a lot of expertise from people who have done this at other large companies before. And so, I think we'll do a good job of managing it going forward.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Garri, margins have been pretty strong for you guys. What's driven that?

---

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

Yeah. So, in Health Information Systems, we're really a high margin business. We have been for years. And so, the other thing that I would say that contributes to that is I have a division that has many, many Six Sigma Black belts. And so, we constantly look at any type of process or transformation that we can do, that can continue to provide us with higher margins. And this team has just been built around that because we grew up in that with 3M. And so, it's something that we constantly look at. Our goal is to help with the margins, to help reach our long-range goals. And so, we'll continually do that. We're not impacted by tariffs; I don't really have a supply chain. So, when we're on calls and Wayde and the team are talking about that, I'm knocking on wood because it really doesn't affect us.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

That's a good position to be in.

---

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

It is.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

The other metric that matters to people is the cash conversion side of things. And you know, you've got a target of 80% by 2028, you know, but at the same time, there's a lot of moving pieces. There's potential M&A, there's agreements with 3M. What gets you to the 80%? What's the most critical part there?

---

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

Yeah, I'm glad you picked up on this one, Patrick.

I think free cash flow is one of the major metric improvements that we're going to see here post-separation. It's an important metric for us, we're incented on it, and as you said, we are spending a lot of cash today on the separation, you have to spend, to separate our systems, as I mentioned: our manufacturing facilities, distribution centers, all of our processes. And we're going to get through the bulk of that over the next two years, this year, 2025, and 2026. So, what we've communicated is that we expect a step down. Similar spend, but a step down in 2026, and then a major step down in the amount that we have to spend on separation in 2027. There'll be a little bit of left over there and then we'll be fully out of it in 2028. So that'll be the single largest driver to our improvement in our free cash conversion rate because of the additional separation costs to deal with.

But obviously we're working on margin expansion as well and growing the business, so we'll be generating more cash. And so I think the cash flow story is a really strong one for us.

The other one, I will just add, is this flywheel around what we were doing in paying down debt every quarter. The more debt we pay down, the less interest we pay, the more cash we have, the more debt we can pay down. We're on a nice trajectory, \$100 million a quarter through the first five quarters of the year. And now with the P&F divestiture and a significant leapfrog forward here in that program, we're going to pay down significant amount of debt, which lowers our interest expense a lot, gives us a lot more cash.

And so, we're just in a really much stronger free cash flow position today. And then, as you said, our long-range plan target is to get to 80 plus percent. We think the cash conversion power of this business is very strong.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

If you know, you guys do a fair amount of these meetings and things like that, what are you -- what are you surprised you don't get asked more? Kind of, what have I failed to ask you about that I should have asked you about?

---

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

Well, I think you hit the big ones, Patrick. What we've been getting more of lately is we grew 1.2% last year, and sales growth being that important metric, and we put in an LRP of 4% to 5%. And so, I think some people quickly understood that because that's our market growth rate. That's a logical first step, is let's get to competing where we're getting our market growth rates. But there were a certain number of people who said, "well, that's a quite a leap from 1% to 4% to 5%. You know, how are you going to do that in just about four years?" And so, I think we've taken a big step forward and we've been talking a lot about already this year, guiding to at the midpoint of our guide, double that growth rate from last year. And it's volume driven, which is a major part of our strategy, is to be focused on sustainable volume driven growth, and so I think we get asked a lot about this early improvement that we're seeing.

And what we're saying is of the three major areas of our transformation, commercial, improving the innovation engine, and then the portfolio and M&A work, it's almost all on the commercial end. It's the early benefits of changing out talent, improving talent, upgrading talent, changing out our incentive structures, our organizational structures. We've gone to specialized sales forces in a lot of cases. That's being led by an improved and changed marketing team, with investments upstream there as well. We've changed out the regional sales teams and they're working on the sales teams underneath that.

And there are some people that are just -- within the business -- attracted to that, excited about it. There are others that it's not for them and they're moving on, and then there's a group of people in the middle that are still trying to figure it out.

So, I would say it's still early days in these improvements, but we like what we see. In fact, we'd say we're even a little ahead of our expectations, but there's always a bit of trepidation when you make that many changes. The people, the structure, the process, the incentives, all at the same time. And we knew that there was some risk there, but we wanted to get all those changes in place and really fix that commercial apparatus. And now we're several quarters into it and very happy with what we're seeing and the progress that we're making. So, sales growth, obviously a major focus for us. We get a lot of questions around that.

---

**Patrick Wood** – *Morgan Stanley; MedTech Equity Research Analyst*

Lovely. Great. Garri, thank you so much for the time. Thank you.

---

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

Thank you.

---

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

Thanks, Patrick.

