Thank you and good morning, everyone, and welcome to our third-quarter earnings conference call.

With me today are Mike Roman, 3M’s chairman and chief executive officer and Monish Patolawala, our president and chief financial officer. Mike and Monish 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 home page of our investor relations website at 3M.com.

Please turn to slide 2.

Slide 2, Forward looking statements
Bruce Jermeland

Please take a moment to read the forward-looking statement. During today’s conference call, we will be making certain predictive statements that reflect our current views about 3M’s future performance and financial results. These statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Item 1A of our most recent Form 10-Q lists some of the most important risk factors that could cause actual results to differ from our predictions.

Please note, throughout today’s presentation we will 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 three and I will now hand the call off to Mike.

Mike.

Slide 3, Our priorities
Mike Roman, Chairman and Chief Executive Officer

Thank you, Bruce. Good morning, everyone, and thank you for joining us.

In the third quarter, we built momentum through strong operational execution as we again delivered for our customers, positioning us for a solid close to 2023. On an adjusted basis, we delivered earnings ahead of our expectations, expanded margins sequentially across all four businesses, and achieved our third consecutive quarter of double-digit year-on-year growth in free cash flow.

As we make progress and deliver improved financial results, we are increasing our full year adjusted earnings per share guidance to $8.95 to $9.15, up from a previous range of $8.60 to $9.10, and our adjusted free cash flow conversion range to 100% to 110%, up from 90% to 100%, previously.

We continue to deliver against our priorities:

We are driving performance throughout 3M with strong operational execution, restructuring actions, and spending discipline.
We are progressing the spin of the Health Care business, which we expect to be completed during the first half of 2024.

And we are reducing risk and uncertainty by reaching significant settlements to address Combat Arms and PFAS litigation.

I will now provide some additional context around how we are advancing these priorities.

Next slide please.

**Slide 4, Advancing our priorities in Q3**  
Mike Roman

Our margin expansion clearly demonstrates the performance our team is driving throughout 3M.

We delivered 240 basis points of year-over-year adjusted operating income margin expansion, excluding 80 basis points of restructuring related charges.

We are strengthening our business in several important ways:

We are progressing with our restructuring actions to streamline our organization, reduce structural costs, and get us closer to customers. We have leaned out the center of our company, simplified our global supply chain organization, and optimized our global go-to-market models.

At the same time, we are advancing supply chain performance to improve service, drive productivity and yield, expand gross margins, and increase cash conversion.

These results are being supported by initiatives that use our Continuous Improvement toolkit, and leverage data and data analytics. For example, we have benefitted from more than 60 kaizen events this year to improve existing processes in our largest plants.

We are also progressing the spin of our Health Care business, building the leadership team as we work toward completing the spin in the first half of 2024. During the quarter, we added two experienced leaders: naming Bryan Hanson as the CEO of the standalone Health Care business, and Carrie Cox as the Board Chair.

Finally, we continue to manage risk and uncertainty, by proactively and effectively managing litigation. We announced the Combat Arms settlement, and we are working with all parties and the courts to implement it. The settlement administration process has been established and funded, the bellwether trial verdicts have been settled, and the process for notifying and settling with claimants has begun. With respect to PFAS, the Public Water Supplier settlement we announced last quarter has received preliminary court approval, we successfully resolved objections from state attorneys general, and are working toward approval with the final hearing set for early February next year.

In closing, I want to share a few thoughts about our future:

Our momentum accelerates our ability to define where we go next at 3M, as we prioritize attractive markets where we have the right to win and the opportunity to differentiate ourselves through our unique capabilities and strengths.

A good example is our automotive OEM business where we continue to outperform the market, with double-digit growth this quarter. Auto electrification is on track to be a $600 million business this year and has delivered organic growth of 30% year to date. Our material science expertise has led us to build a new business, and we see similar opportunities in other core platforms such as safety, home improvement, and consumer electronics.
We are also prioritizing emerging global trends that have attractive growth rates and customer needs that match up well with 3M capabilities. We are building new platforms in areas like climate technology, industrial automation, and next-generation electronics.

Before I hand it over to Monish for additional insight into our performance, a few closing thoughts.

I am pleased with the way our teams are executing. They delivered third quarter results that build on the momentum we saw in the second quarter, setting us up for a solid close to 2023.

We are advancing our priorities, driving performance, progressing our Health Care spin, and reducing risk and uncertainty.

3M is delivering today – lower costs, better margins, and greater cash generation – and building for tomorrow – prioritizing growth platforms, innovating with impact, and empowering our teams.

I will now turn it over to Monish for more details on the third quarter and our outlook for the rest of the year.

Monish.

**Slide 5, Building momentum through operational execution**

**Monish Patolawala, President and Chief Financial Officer.**

Thank you, Mike, and I wish you all a very good morning.

Please turn to slide 5.

As Mike mentioned, we are seeing significant traction from the actions we are taking to strengthen the business. Through our focus on customers, effective adjustment of production, benefits from efficiency and productivity initiatives, ongoing proactive spending discipline, and relentless focus on managing inventory, we were able to deliver solid adjusted third quarter results, including:

- **Sales** of $8 billion, at the high end of our guidance range of $7.9 to $8.0 billion;
- **Operating margin** of 23.2%, an increase of 160 basis points year-on-year and 390 basis points sequentially;
- **Earnings per share** of $2.68, a year-on-year increase of 3%; and
- **Free cash flow** of $1.9 billion, up 39% year-on-year, with conversion of 130%.

Organic sales, on an adjusted basis, declined 3.1% versus last year. This included an expected year-on-year headwind of approximately $140 million, or 1.7 percentage points, related to lower disposable respirator demand and last year’s exit of our operations in Russia. Excluding this, Q3 adjusted organic sales were down 1.4%.

Consumer and electronics end markets continued to be soft. Our adjusted organic sales declined year-on-year mid-single digits in our electronics business and high-single digits in Consumer. This softness was partially offset by strength in our automotive OEM business.

Regionally, the U.S. was up slightly despite continued challenges in retail. Europe remains soft, and China was down mid-teens year-on-year organically, due to continued end market softness along with lapping strong sales backlog recovery in the prior year.

Our strong adjusted EPS of $2.68 exceeded our expectations of $2.25 to $2.40. Roughly two-thirds of the beat was driven by operational execution in our supply chain and proactive spending discipline and the balance driven by restructuring timing.
The restructuring actions we announced earlier this year are largely on track and we are seeing favorable margin impact in our results. We continue to expect full-year pre-tax restructuring benefits of $400 million to $450 million with offsetting charges.

**Slide 6, Q3 2023 operating margin and EPS**

Monish Patolawala

Turning to slide 6 for the components that drove our year-on-year operating margin and earnings performance.

Manufacturing productivity and restructuring actions, strong spending discipline, and selling prices, partially offset by lower sales volumes, investments in the business, and the previously mentioned headwind from disposable respirators and last year’s exit of Russia resulted in an improvement to operating margins of 260 basis points and to earnings of $0.22 per share.

Pre-tax restructuring and related charges in the quarter were $68 million, or a negative impact to margins of 80 basis points and $0.10 to earnings. This charge was lower than our anticipated range of $125 million to $175 million in Q3 due to factors that impacted the timing of actions that are being pushed into Q4.

The carryover impact of higher raw material, logistics, and energy cost inflation created a year-on-year headwind of approximately $25 million, or a negative 30 basis point impact to operating margins and $0.03 to earnings.

Foreign currency translation was a positive 0.6% impact to total adjusted sales. This resulted in a $0.01 cent tailwind to earnings per share.

Last year’s Food Safety divestiture and the reconsolidation of Aearo Technologies resulted in a net year-on-year tailwind of 10 basis points to margins and no impact to earnings.

Finally, other financial items decreased earnings by a net $0.02 per share year-on-year.

In summary, our team’s focus on driving productivity, executing restructuring actions, and controlling spending continues to yield results. These actions drove meaningful year-on-year and sequential improvement in adjusted operating margins.

**Slide 7, Q3 2023 cash flow and balance sheet**

Monish Patolawala

Please turn to slide 7.

Third quarter adjusted free cash flow was $1.9 billion, up 39% year-on-year with conversion of 130%, up 360 basis points versus last year’s Q3.

This year-on-year improvement was driven by our ongoing focus on working capital management, especially inventory. Inventory was down over $200 million sequentially, and $550 million year-on-year as we benefit from the power of daily management, and data and data analytics to speed up inventory turns. As always, there is more we can do and will do to continue to realize benefits from our actions as we move forward.

Adjusted capital expenditures were $367 million in the quarter as we continue to invest in growth, productivity, and sustainability.

During the quarter, we returned $828 million to shareholders via dividends.

Net debt at the end of Q3 stood at $10.8 billion, a reduction of 11% year-on-year.

Our business segments continue their long history of robust cash flow generation. In addition, our proven access to capital markets, along with the anticipated one-time dividend from the spin of Health Care at
leverage of 3x to 3.5x EBITDA and 19.9% retained stake, will provide additional financial flexibility. This, combined with our existing strong capital structure, provides us with the ability to continue to invest in the business, return capital to shareholders and meet the cash flow needs related to ongoing legal matters.

Now, please turn to slide 9 for our business group performance.

Slide 9, Safety & Industrial
Monish Patolawala

Starting with our Safety and Industrial business which posted sales of $2.8 billion, or down 5.8% organically. This result included a year-on-year headwind of approximately $130 million, or 4.3 percentage points, due to last year’s COVID-related disposable respirator decline and exit of our operations in Russia. Excluding this, Q3 adjusted organic sales were down 1.5%.

Personal safety was down high-single digits due to last year’s COVID-related disposable respirator comp. Excluding disposable respirators, personal safety was up high-single digits organically.

Closure and masking continued to be impacted by lower packaging and shipping activity and industrial adhesives and tapes by end-market softness in electronics.

Abrasives, electrical markets, and automotive aftermarket declined versus last year’s strong comparisons.

And finally, organic growth in our roofing granules business was up high-single digits.

Adjusted operating income was $708 million, or up 5% versus last year. Adjusted operating margins were 25.7%, up 250 basis points year-on-year and up 350 basis points sequentially.

The year-on-year improvement in margins was mainly driven by ongoing productivity actions, restructuring benefits, strong spending discipline, and price. Partially offsetting these benefits were headwinds from lower sales volume and restructuring costs.

Slide 10, Transportation & Electronics
Monish Patolawala

Moving to Transportation and Electronics on slide 10 which posted Q3 adjusted sales of $1.9 billion.

Adjusted organic growth declined 1.8% year-on-year, largely due to expected weakness in electronics.

Our electronics business experienced a year-on-year mid-single digit decline in adjusted organic sales as semiconductor and data center end-market demand continues to remain soft.

We are starting to see signs of stabilization in the consumer electronics end-market. However, we are closely monitoring demand trends as we head into the upcoming holiday season.

Our auto OEM business had a strong quarter, increasing approximately 16% year-on-year versus a low-single digit global car and light truck build as we continue to gain penetration on automotive platforms.

Turning to the rest of Transportation and Electronics, commercial solutions and transportation safety both declined mid-single digits year-on-year, mainly driven by weakness in China, while advanced materials grew low-single digits.

Transportation and Electronics delivered $494 million in adjusted operating income, up 21% year-on-year. Adjusted operating margins were 26.3%, up 460 basis points year-on-year and up 650 basis points sequentially.
The year-on-year improvement in margins was driven by productivity actions, restructuring benefits, strong spending discipline, and price. Partially offsetting these benefits were headwinds from lower sales volume and restructuring costs.

**Slide 11, Health Care**
**Monish Patolawala**

Looking at our Health Care business on slide 11, Q3 sales were $2.1 billion with organic growth up 2.4% versus last year.

Organic sales in oral care were up high-single digits year-on-year and medical solutions grew low-single digits.

Separation and purification grew low-single digits organically, including continued impact from lower post-COVID-related biopharma demand.

Health information systems declined low-single digits due to tighter hospital budgets.

As procedure volumes continue to improve and hospital budgets stabilize, we are confident in the long-term outlook of this business.

Health Care’s third quarter operating income was $460 million, up 2% year-on-year. Operating margins were 22.2%, up 50 basis points year-on-year, and up sequentially 240 basis points.

The year-on-year improvement in margins was driven by productivity actions, restructuring benefits, strong spending discipline, and price. These benefits were partially offset by restructuring costs.

**Slide 12, Consumer**
**Monish Patolawala**

Finally on slide 12, our Consumer business posted third quarter sales of $1.3 billion.

Organic sales declined 7.2% year-on-year, as discretionary spending trends on hardline categories remain subdued.

The back-to-school season was soft, and rising interest rates continue to impact the housing market and related spending.

Consumer’s third quarter operating income was $269 million, down 10% compared to last year, with operating margins of 20.5%, down 70 basis points year-on-year, however, were up 230 basis points sequentially.

The year-on-year decline in margins was driven by headwinds from lower sales volume and restructuring costs. These headwinds were partially offset by benefits from productivity actions, restructuring, strong spending discipline, and price.

That concludes our remarks on the third quarter, please turn to slide 14 for an update on our full-year expectations.

**Slide 14, Raising full-year 2023 EPS and free cash flow guidance**
**Monish Patolawala**

Our strong third quarter performance shows the results of the significant actions we have put in place this year to generate better productivity, yield and efficiency from our supply chain, drive simplification, manage costs, and deliver for our customers in an uncertain macro environment. As a result, we are raising our full-year 2023 adjusted earnings per share and free cash flow conversion guidance.
We now expect full year adjusted earnings in the range of $8.95 to $9.15 cents versus our prior range of $8.60 to $9.10.

We are also updating our full year adjusted free cash flow conversion to be in a forecasted range of 100% to 110% versus 90% to 100% previously.

Based on our year-to-date performance, we expect full year adjusted organic growth to be down approximately 3% versus our prior guidance to be at the lower end of flat to minus 3%.

This updated expectation includes an incremental headwind of $50 million from continued softness in disposable respirator demand. We now estimate a full-year sales decline for disposable respirators of approximately $600 million versus $550 million previously.

Looking ahead to the implied fourth quarter, we expect end market trends to be consistent with Q3. Hence, we anticipate fourth quarter adjusted sales to be in the range of $7.6 to $7.7 billion, taking into consideration normal seasonality with fewer sales days due to holidays.

Fourth quarter pre-tax restructuring charges are expected to be in the range of $70 million to $120 million, incorporating the timing impact I mentioned earlier, with pre-tax benefits of $145 million to $195 million.

Taken together, we expect fourth quarter adjusted earnings per share will be in the range of $2.13 to $2.33.

To wrap up, we are very focused on our priorities by driving improved performance through strong operational execution, progressing on our restructuring actions and spending discipline, successfully spinning off Health Care, and reducing risk by managing litigation exposures.

At the same time, we are positioning 3M for the future as we prioritize the most attractive markets, invest to support continued innovation, and capitalize on emerging opportunities.

We expect our actions will continue to build momentum and drive long-term improvement in our organic growth, margins, and cash flow performance into the future.

As we exit 2023, we will be a stronger, leaner, and a more focused 3M, and I remain confident in our future.

Our solid third quarter is a direct result of the hard work of 3M employees. I want to thank them for their dedication and focus as they continue to deliver in partnership with our suppliers for customers and shareholders.

That concludes my remarks. We will now take your questions.

**Slide 15, Questions & Answers**

*Scott Davis - Melius Research LLC - Founding Partner, Chairman, CEO & Research Analyst of Multi-Industry Research*

I haven't been able to say this in a while but a pretty solid, complete quarter overall, so some progress there. But guys, I want to back up a little bit. What are the remaining steps to get Health Care spin complete? Any big hurdles still remaining?

**Mike Roman**

Yes, Scott, I would say the team continues to make very good progress. And so we don't see any hurdles ahead of us. There's a lot of work to do to get ready for the spin. And so we've got work to do, getting ready for each step of that process. As we talked about in my remarks, we named the CEO and we're adding to the leadership team and getting that built out. So that's really an important foundation. We have the Board Chair named and continue to work on filling out the Board. So those are important steps.
I don’t see -- the team has given us great confidence that we’re going to continue to progress. And we’re on track for the timing that we talked about in early 2024 and see ourselves getting there successfully. Importantly, for us, it's -- much of it is, as we talked about, is about getting ready for the spin of Health Care. It’s also about getting ready to stand up 3M as a stand-alone company with the Health Care spin being completed.

So we’re putting focus there. And even what we talked about in the quarter, really driving the priorities that we are talking about, the execution in our operational execution is an important part of getting ready for 3M for the spin as well. And we’re making good progress there as you noted.

Monish Patolawala

Just process-wise to add to Mike’s comments, the teams are working through system changes, standing up legal entities and as well as all the regulatory filings, Scott, that we need to do. And that's what everyone is focused on from the Health Care side.

Scott Davis

That's helpful. So Mike, just taking your comments a little further, at the new 3M, do you envision a new 3M where you can kind of run at lower levels of CapEx, lower levels of even potentially R&D as a percent of sales? And the knock on 3M was always that it costs a lot of money to drive a point of growth. And sometimes with incremental, that worked out well. But in down cycles, that certainly did not work out well. But is there a new vision of 3M, I should say, that you can run at kind of more productive, efficient levels of CapEx and R&D?

Mike Roman

Yes, Scott, there's a couple of dimensions to the answer to your question. The first starts with what we've been talking about. We announced a restructuring back in Q1. And that was really coming from what we had learned as we operated our businesses and we looked at where we were going with our supply chains in the face of some of the challenges in supply chains globally. And it was really behind that was an expectation that we could drive greater productivity, improvement in our execution, stronger performance, improved margins. And so that was really the foundation of that restructuring.

And so I think part of the answer to your question is we took those decisions to lean out the center of the company, simplify our supply chain, streamline our go-to-market models. Those are the foundation for the future of 3M. And those are, you can see, starting to demonstrate that we can drive improved financial performance for the company. And that's -- we expect that to be a foundation for the future as well. I even talked about this is -- with that performance starting to build some momentum, we can accelerate how we view the future.

And then you are talking about investing in growth and innovation and productivity and sustainability. And it will continue to be our capital allocation, first priority is going to be investing in organic growth, in R&D and CapEx and really thinking of and targeting high-growth market spaces, places where we can differentiate ourselves with our innovation capabilities, where we can be aligned to emerging market trends. So I think that how we prioritize that investment is going to be aligned with where we see that ability to make a difference. So both are important foundations for the future.
Andrew Obin - BofA Securities, Research Division – MD

Just a question on electronics, been a headwind for a while. What KPIs are you looking at? When do you think -- and I think you said that was broadly in line with expectations. But when do you see the light at the end of the tunnel? When does it bottom -- what does it take for this business to bottom?

Mike Roman

Yes, Andrew, I would say we came through third quarter, we still saw, as we said, soft end markets for electronics. And that's consumer electronics, it's into semiconductor, it's into a big part of our -- what we have as a focus in our customers in electronics. When we look ahead, there's some uncertainty. We're starting to see, as Monish said, electronics stabilize. I think that really reflects that we don't see it continuing to go down, it's starting to stabilize. There's some -- companies are talking about things getting better as they go forward.

I would say we're watching it closely. We expect Q4 to look a lot like Q3 in our end markets, and I would say electronics included. So we're watching what we always watch, our customers, our large electronics customers in consumer electronics and semiconductor associated with data centers. And those are the -- that's where we're going to be taking the lead from where we see demand going, where we see market performance going. When we see the market improve, we'll take the lead from them.

Monish Patolawala

Just another data point for you, Andrew. At the end of second quarter, we had said that the way we predicted electronics was the amount of negative Vs quarter-on-quarter would get better. So if you compare us to the first half and the amount we were down year-on-year versus the third quarter, we are less down. It doesn't mean we are not down, but that's another point that Mike was trying to make is that's where we are starting to see some signs of stabilization. But as I said in my prepared remarks, I think we'll have to just watch how the holiday season plays out.

Andrew Obin

Got you. And just a follow-up question on Health Care. I appreciate that you guys are doing a lot of sort of accounting, et cetera, et cetera. But you have done these separations in the past. And I guess, the question I have, any thoughts as Bryan has joined the company -- I know in the past, there's been headlines about health information system being separated. I know there are other sort of businesses inside Health Care. Any thought about sort of maybe repositioning the portfolio particularly as Bryan came onboard, reposition the portfolio for sort of future as a stand-alone company?

Mike Roman

Yes, Andrew, going back to really how did we think about the strategy to spin out Health Care, and one of the important questions was do we see Health Care as a leading health care technology company attractive to shareholders with a great future? And that portfolio of businesses, the answer for us was yes. And that the -- the best way to create that value was to stand it up as a stand-alone company. And the portfolio work we had done even over time as part of 3M positioned it to be a successful stand-alone company.

And each of the businesses play an important role there. Now it is going to be an independent company. We'll have a new CEO and a Board. And they will develop the strategies for how they think about creating the greatest value, driving growth for that business, thinking about how to really manage that portfolio of
businesses as they go forward. So we see it as being ready to stand forward as a leader and are really confident in the leadership that will take the company as a standalone.

**Joseph Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst**

Can we start just on the restructuring, the benefits and the pushout a little bit of the expenses? Just it seems like you're running ahead of schedule on the benefits. So I'd love to get any color about where this is -- what you see coming in better than expected. And then also just on the pushout on the cost into 4Q, just what were some of the reasons for why the costs are getting pushed out from 3Q to 4Q?

**Monish Patolawala**

Yes. So I'll just start, again as a reminder, Joe, the total benefits for this program over the period of the program is $700 million to $900 million with costs approximately of $700 million to $900 million. And coming into the year, we had said for 2023, we would see benefits in the ranges of $400 million to $450 million of benefits and equal offsetting charges. So when you look year-to-date, we are, I would say, largely on track for the year. We still believe we'll be in the $400 million to $450 million of benefits, which will get offset by cost of $400 million to $450 million.

So the teams have done a really nice job of continuing to execute. There were multiple pieces to this program. One was corporate simplification. The second was streamlining our supply chain. And third was making sure that we are closer to our customers in our business group units. And all three of these programs are running well on track.

As regards to just timing from Q3 to Q4, I would say nothing big. We operate in multiple countries, as you know. And we wanted to make sure we follow all rules and regulations in those countries. And so some items dropped from Q3 to Q4. And we had a couple of other small investments that we had to make in Q3. They're just based on all the work the teams are doing, we just felt better to do it in Q4, so nothing major. So still pretty much largely on track, $400 million to $450 million of benefits for the year and $700 million to $900 million for the program.

**Joseph Ritchie**

Got it. Okay, great. That's helpful, Monish. And then I guess, I know it's probably too early to think about 2024. But if you kind of think through like the price/cost equation from here on out, it seems like raw materials are becoming less and less of a headwind for you guys. Can you maybe just provide any type of framework for 2024 and ultimately, how you think about both price and what you're seeing from a raw mat perspective?

**Monish Patolawala**

So I'll just start first, Joe, by 2024 is a little ways away. So I think our first focus is just getting Q4 done, getting the teams continuing to focus on our priorities. You've seen what our teams have done. So we continue to execute on our priorities. You've seen we have delivered a solid Q3. We have taken guidance up for the whole year. We're gaining momentum. And we want the team to continue to focus on doing that, getting 2023 closed out. So when we get into 2024 and Q4 2023 earnings call, we'll definitely give you an update on 2024.

To answer your question on deflation and price, I'll start with deflation. I'll start by saying, first of all, the headwinds that we have seen or the carryover headwinds are approximately $25 million in the quarter, which we called out, which is very similar to Q2. And when you look at overall market and material, I would
say we are seeing more disinflation than deflation. When you think about places where energy is still a little more -- is still inflationary, downstream materials are still inflationary and then labor is still sticky from an inflation perspective.

Where we have seen some benefits is upstream, chemicals and logistics, and the teams have taken advantage of that. But I would say more importantly, I don't think the teams are just focused on material cost. They are more focused on saying, "How do we drive overall cost down in the factories?" Whether it is driving yield and efficiency, whether it is dual sourcing, whether it is making sure we have alternate materials, that's what Peter Gibbons and the team is working. And the work that they have done through this year is clearly evident in the results that you're seeing. So that team has done a very nice job.

And then when it comes to price, I would tell you, we came into the quarter -- into the year, we said low single digits price increase. That's what we are -- as of right now, we are on track with pretty much the same range. And Joe, as you know, you've followed 3M longer than I have, this is not a formula-based pricing. We are very thoughtful about it. We look at it market-by-market, product-by-product, and we make sure that the price that we are charging our customers is a representation of the value that we -- that our customers get.

And I would say if you leave 2024 aside for a moment, long term, 3M has always had a very good price/cost equation because of the value that we add to our customers. And I don't see that changing. And I believe that with the innovation that we bring, with the customer focus that we have, that, that equation remains.

**Christopher Snyder - UBS Investment Bank, Research Division - Analyst**

One thing that has really stood out to us over the last couple of quarters is the underlying margin improvement of the business. If we ex out restructuring spend and savings, we see an operating margin on the underlying business of roughly 22% this quarter versus less than 21% in Q2 and like a mid-18s in Q1. So a very strong ramp here. Can you just talk about what's driving that? Outside of the restructuring, why is the underlying business seeing so much margin momentum?

**Monish Patolawala**

So I would say, first, Chris, it's a huge thanks to the 3Mers who have been focused on their priorities. The priorities, as Mike mentioned, driving performance across all of 3M, spinning out Health Care, reducing risk by managing litigation, is all starting to show up in the results. To your point, even if you exclude our restructuring costs and benefits, the margin rate is -- has shown a pretty good ramp. And that's driven, I would say, by two or three things.

One is continued execution in the supply chain with some of the restructuring that we have made, and the supply chain is definitely more agile. We are also using a lot of data and data analytics. We have also learned through the pandemic on how to continue to operate our supply chain. So number one, you're starting to see the benefit of the improved yield and efficiency. You're able to take longer runs, too, as material gets better.

Secondly, the team has been very thoughtful in proactive cost management. To the extent where they saw there were places they could invest, they have. To the extent where we had lower volumes, we have managed to control cost. Third is we have had a relentless focus on working capital with inventory. And you're seeing that from a cash conversion basis. So I would just say it's continued, good, strong operating performance that you're starting to see.

And then as you add on the benefits that you get from the restructuring and once the cost goes away, which we have said this program will take approximately 2 years to complete out, you can see the overall, long-
term benefits from the margin rate that you’re going to get from better operating performance as well as better restructuring benefits.

At the same time, you’ve got to keep in mind that we are -- that the teams are going to continue to watch this in the fourth quarter. It’s an uncertain macro. But I’m very confident with what we’re doing that the execution is there. But there’s always more we can do. And we’ll keep trying to drive more and more execution as we go.

Christopher Snyder

I appreciate that. And maybe kind of taking that and bridging to the Q4 guide, it seems to us by our math that you’re kind of guiding underlying operating margins ex restructuring to something like 19%, down from the almost 22% this quarter. I know revenue is down, but it seems to suggest a very sharp decremental. Can you just maybe talk about what's causing that margin step-down? Because it feels like a lot of the improvements, whether it's supply chain or price cost, are sustainable.

Monish Patolawala

Yes. Chris, again depends on the math. I'll just start with margin rates in total. When we started the year or we came into the year, we had said margin rates for the year are going to be around 19%. At the end of Q2, we said margin rates are going between 19.5% to 20% for the year. And now based on where we are with the midpoint of our guide, our margin rate will be approximately 20%.

So when you back into it, the fourth quarter is higher than the 19.5% that you have. It's somewhere in that 20.5% to 21% for the fourth quarter. And just to keep in mind, the reason you see this decremental. One is, of course, the restructuring is higher in Q4 versus Q3 plus it's higher of – the midpoint is $95 million to $100 million of restructuring on a year-over-year basis if you’re doing year-over-year decrementals.

The second piece to keep in mind is, in general, revenue in 3M drops from Q3 to Q4. You have less billing days or less business days in Q4. That's why our revenue guide, which is going from $8 billion, it goes down to between $7.6 billion and $7.7 billion, which is basically saying the underlying macro trends are the same. It's just lower billing days or lower business days, which also puts an impact.

If you look at the history of 3M, Chris, and you look at Q3 to Q4, you will always see a pretty sharp decline from Q3 to Q4 in margin rate. And that's mainly driven by just the lower volume because of the less business days that come into Q4. Hopefully, that answered your question.

Andrew Kaplowitz - Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head

So Monish, I think at a conference a month ago, you had lowered your revenue guidance a bit and then you sort of report $8 billion -- I think you had $7.9 billion to $8 billion. So maybe you can talk about the cadence of revenues for the quarter. Did any of your businesses pick up in September here and October? Are you just being conservative at the time? And then how are you thinking about the impact of higher rates on your businesses?

Monish Patolawala

So I'll start by saying at that moment in time, what we saw is what we told you all, which we felt was in that $7.9 billion to $8 billion. There was uncertainty in electronics, consumer and China. I would say thanks to all the focus the teams have on taking care of customers, we were able to get to the high end of our range of
$8 billion. I would say the same trends, Andy, pretty much stayed through the quarter. Electronics pretty much was where we thought it was going to be. China continued to remain weak and so did consumer retail.

As Mike mentioned and so I have in my prepared remarks, we are seeing electronics stabilizing. We are watching for the fourth quarter what the holiday trends will bring for consumer retail. Back-to-school was softer than we expected. And then China, again I would say is we are -- it's pretty much the trends we expected in China. Overall, for the fourth quarter, you'll see us having revenue of $7.6 billion to $7.7 billion, which is again just driven by the fact you have less business days.

On the other side, if you look at margin and you look at what the teams have done, the teams have continued to be very good on an operating execution perspective. We have continued to drive proactive cost control. We have done that in Q3. We'll continue to do that in Q4. And as a result, we were able to beat the $2.25 to $2.40 I had said in that conference a few months ago. And then we have raised totally our guide from $8.60 to $9.10 to $8.95 to $9.15.

And then the other point, Andy, that's another bright spot is the cash conversion. The teams have done a marvelous job managing inventory, 130% free cash flow conversion in the third quarter, which has allowed us to raise our total year guide of free cash flow -- adjusted free cash flow conversion from -- to 100% to 110% from 90% to 100%. So overall, the team is focused on operating execution.

Andrew Kaplowitz

Monish, if I could follow up on that, the cash conversion target raise, maybe talk about your efforts. I know you came in, you talked about improving digitization at the company. It seems like you're focused on digitization of inventories having an impact. So maybe you can talk about the confidence in generating higher cash conversion going forward, sort of duration of these improvements as you go forward in '24 and beyond.

Monish Patolawala

Yes. From the day of coming here, Andy, I've said working capital is a great opportunity for 3M. And through the pandemic, unfortunately, we had to build inventory levels and most companies did just to make sure we took care of our customers. And our first priority was always to take care of our customers. So we made sure we had enough inventory. As -- two things, as supply chains are stabilizing, number one, but more importantly, the execution that the teams are doing using data and data analytics and not -- and what I mean by that is not just going and using analytics but being able to visualize by looking at data, they are able to see where the inventory is better.

They are able to get a better demand signal, which allows them to get a better manufacturing signal, which allows them to get a better supply signal to their suppliers. And then the third piece is with all the work that we have done through the restructuring, where we have got the supply chain streamlined and restructured so that it's more agile, all of that is playing itself out in the inventory that we are seeing. I would tell you, as I said in my prepared remarks, there's more to go here. There's more that we can keep driving in this space. And we are going to continue driving it because this is a great place where we can continue to generate very strong cash for 3M.

Deane Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst

What are you planning and assuming for the auto strike impact for 4Q?
Mike Roman

Yes, Deane, so it's something we're watching very closely. We're -- as you know, we are -- stayed very close with the automotive OEMs, our key customers there. We are -- we haven't seen a significant impact on our business to date. And we continue to watch it closely. We're staying connected on what happens week-to-week and impacting our demand. But it's something that as part of -- important part of our global automotive business.

Automotive, as we talked about in the quarter, had very good performance. We had 16% growth in the quarter, outgrowing build rates. And that's the broader core of our automotive business. Our auto electrification business is growing even faster. So it's an important part. It's had some impact but relatively small impact to this point. Again, we're watching it closely as we move ahead.

Deane Dray

Got it. And then you mentioned earlier in the prepared remarks that back-to-school sales were weak. Can you quantify that just maybe year-over-year? And then how does this set up for holiday sales? With Consumer being weak, higher rates, what's the assumption there as well?

Mike Roman

Yes, Deane, I probably would point you back at some of the data out there about year-over-year spend, back-to-school being down per student. There's a number of metrics out there. For us, our category broadly in Consumer is exposed to shifting discretionary spend. So that continues to be part of the Consumer story. So it wasn't a back-to-school story only. Back-to-school was muted. We didn't see the strong replenishment cycles that we would have seen in a stronger back-to-school. So I think we confirm the data that's out there.

And as we look ahead, we're -- I would say we're just looking at the uncertainty around what happens for the holiday season as well. And so we'll be monitoring that. And again, there's a broader story around consumer retail for us, the shift of spending from discretionary products into areas like food and, I would say, experienced kinds of spending. That trend has continued. So those are both underlying some of the performance that we saw in Consumer in the quarter and how we're thinking about it into Q4.

Stephen Tusa - JPMorgan Chase & Co, Research Division - MD

Could you just give just an update on the total expected now inflation kind of carryover for the year? I know you mentioned it in the second quarter. Is that unchanged relative to what you had said before? I think it was like $150 million, maybe that changed?

Monish Patolawala

No change, Steve.

Stephen Tusa

Okay. And then I guess, low single digits for the year on pricing. So that's kind of like a mid-single-digit volume decline. That kind of feels already recessionary. Things seem like very stable for you guys revenue-wise. How much of that negative 5% do you think is a function of destocking versus trend line on demand? And then just one last one for the fourth quarter, how much of that sequential sales decline are you expecting from electronics seasonality?
Mike Roman

Yes. So Steve, maybe just thinking about the -- take the channel dynamic first, if you want. I would say when we look across the channel, where we're seeing some destocking is in industrial channels. And that's really -- I think we talked about that last quarter, too. As supply chain performance has improved and stabilized, we're seeing the industrial channels shorten up their replenishment cycles. And so they're managing their inventory maybe back to more normal levels prior to when we got hit with some of the supply chain disruption. So that's the one destocking effect.

There is some destocking in Consumer that played out. The biggest part of that played out over the last year. Retailers focused pretty heavily on taking out inventory. That seems to have played out, although there's some of that with the soft demand that's continuing. So it's, I would say, the rest of it. And when I look across the channel, otherwise, it's pretty stable globally, maybe some adjustments in China in some of those same markets as we continue to see the macro -- looking for where the macro goes as we go forward.

Looking as we move ahead, electronics, we talked about stabilizing. It's really -- Monish pointed out, part of it is the year-over-year comp. Remember last year, third and fourth quarter, we saw a decline in the electronics end markets. And we saw that in our businesses. So that's part of the view that Q4 stabilizes as year-over-year comp gets a little more -- changes a little bit as we lap some of those earlier declines from the first half. So I would say we're staying close to that holiday season and what happens. That's an important season for electronics. And we'll be watching that closely as we go into the quarter.

Monish Patolawala

Steve, I'll just add -- I just wanted to add one more. Disposable respirators is down $600 million on a year-over-year basis. That's approximately 200 basis points of growth.

Stephen Tusa

Right. And so sorry, are you assuming kind of normal sequential seasonal decline in electronics? Yes, you are?

Mike Roman

Yes. Well, in the broader business, we have seasonality. Some of that is normal end market cycles. But it's also billing days as well. We have the holiday season. So we see -- sequentially from Q3 to Q4, we see that normal trend.

Stephen Tusa

Right, which you've always had, of course?

Mike Roman

Yes, right.

Nigel Coe - Wolfe Research, LLC - MD & Senior Research Analyst

So you can't have too many electronics questions. So what's got my attention in electronics is the sequential growth from 1Q through to 3Q has been quite sharp. I think 1Q was about 680, I think 3Q was about 750 or so. I mean, I know some of its seasonality, et cetera. But it must give you a lot of confidence that as we go
into 2024 that at least in the first half of the year, we should be -- that should be a nice tailwind to the business. So any thoughts on that?

Mike Roman

Well, Nigel, I would say it's going to depend on the outlook as we get to 2024 for electronics and those key end markets that you're talking about. And we've seen -- maybe that's part of the stabilization that we're seeing is the quarterly trend in electronics against that year-over-year comparable is stabilizing in the second half. What will decide the performance in first quarter or first half of next year will really depend on the demand that we see. And some of that will come through the holiday season. But we'll be -- we'll come back at our Q4 earnings call and update on how we're looking at the first half of next year.

Nigel Coe

Okay, that's great. And then I don't like to ask ISM macro questions necessarily. But you are, based on your cycle, very channel-centric. The flash PMI for the U.S. was at 50 in October. Are you seeing more stabilization or maybe some sequential improvement in the U.S. relative to Europe and China?

Mike Roman

Yes, I think Monish called out that performance in the U.S. was up slightly and that, I would say, mixed performance in our industrial businesses in the U.S. reflecting some areas of strength but also some, I would say, caution and uncertainty around the broader economy. So I think we're seeing the U.S. performing a little better, up slightly.

And that's -- I would say that's in spite of the challenges that we've been talking about in consumer retail. So Safety and Industrial posted, I think, mid-single-digit growth in the U.S. in the quarter. So that's a good reflection on what we're seeing more broadly. And maybe that PMI is aligned to that. That PMI represents kind of a middle kind of expectation from the purchasing managers.

Monish Patolawala

Just only other thing, Nigel, I will add to Mike's comments is just in certain pockets, we are seeing customers managing inventory channel. And part of it is supply chains are definitely far more stable, so customers have lower lead times, so they're managing that in pockets.

Julian Mitchell - Barclays Bank PLC, Research Division - Research Analyst

One quick question, I just wanted to circle back on your sort of pricing outlook as you see it. Because volumes have been soft for some time. Headline inflation in theory is easing. And traditionally, you do have price pressure in areas like electronics just through the nature of the industry.

So I just wondered sort of what the comfort level was as you look into Q4 and early next year that you can hold price kind of firm-wide at least flat at 3M and whether there's been any change how you sort of go to market to push price, just given the experience of inflation in the last couple of years.

Monish Patolawala

Yes, Julian, I would just say the same thing that I said with another question before. The way -- I would just say long term, 3M has always been able to add value to its customers. And that is reflected in the pricing that it charges. We look at this not based on just a formula, but we look at it market-by-market, look at our
competitive position in market-by-market, look at the value we add. And that's how we come up with our pricing that we go with.

And I would say based on the innovation and the value that we add to our customers, long term, I don't see that changing. In the short run, as you have seen, the company has been able to manage inflation through price. And if needed, we'll continue doing that. But overall, right now, the teams are quite focused on delivering the fourth quarter. And then we'll see where long term goes, this topic. It will be a function of demand, a function of inflation. So that's the way I look at it.

Julian Mitchell

Understood. And then just to focus on a couple of markets within Safety and Industrial that, I guess, had been pretty strong. And most of the sort of rhetoric is fairly strong around them. But organically, you had a little bit of pressure at least or less growth in Q3. And that's the electrical markets and also automotive aftermarket. So just wondered, any color around those in terms of is it just kind of accelerated destocking, distributors just holding off on orders for some reason? Any color at all on auto aftermarket and electrical, please?

Mike Roman

Yes, Julian, I wouldn't -- we saw a little bit of destocking in electrical markets. That was one of the areas in industrial that we saw that impacting. And I would say our automotive aftermarket probably saw a little bit of adjustments, given what we talked about and Monish highlighted that improving supply chains with distribution and the channel are managing their inventories, their safety stocks, so more in line with stable supply chain.

So I think that's part of it. Those have both been seeing good market performance as we've gone through the year. I think again we're watching closely the trends as we go into the end of the year. But really, it's -- I think reflects on the -- a little bit of destocking and also the end market demand.

Mike Roman

To wrap up, we continue to execute our strategies, delivering results in a challenging environment, while positioning 3M for the future, prioritizing high-growth markets and geographies where 3M innovation can deliver the most impact.

Thank you for joining us.