

Solventum 2025 Piper Sandler Healthcare Conference Transcript

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Corporate Speakers:

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

Amy Wakeham - *Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications*

Participants:

Jason Bednar – *Piper Sandler; Equity Research Analyst*

Jason Bednar – Piper Sandler, Equity Research Analyst

So we had some recent news to talk about. I'm really glad you're here, Rachel. So really looking forward to talking about the deal you announced here recently. You're the perfect person to talk about it. But before we get to that, I think it would just be helpful for everyone in the room. They may not be as familiar with you as, say, Bryan or Wayde. Can you talk about the opportunity set that you saw in coming to Solventum? What made the situation at Solventum more interesting, say, than your prior role?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

Yes. I think for me, I'm always attracted to large organizational transformations, which have a big component of active portfolio management, right? That's been my whole career, whether it was investment banking or -- and then shifting into working with companies. So that's what I saw about Solventum, right? It was the opportunity to be at the front end of a large portfolio transformation where I would have an opportunity to really build both an M&A engine, execute divestitures, and really have a seat at the table for strategic decisions and driving our strategy. And I'd never been part -- I've spun companies up, but I've never actually been part of the spin, so it was another new opportunity for me to be on that side.

Jason Bednar – Piper Sandler, Equity Research Analyst

Awesome. So you kind of were alluding to some of those things. I mean you have some very high-profile transactions that folks in the room are probably familiar with and may not realize that you were associated with, some of those -- like St. Jude and Thoratec, Abbott and St. Jude, lesser but still important, the spinning of ZimVie from Zimmer Biomet. So it's no secret that, look, Bryan and Wayde came into Solventum and they had the idea of turning this business around organically, but they were also very intent on supplementing that organic growth with inorganic growth.

So we saw the first move here a couple of weeks ago, the acquisition announcement of Acera. I think the whole leadership team has been very methodical with some of these turnaround moves. I think you only have like one first attempt at making a good impression. So why was this the right first deal for Solventum?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

Yes, absolutely. So when I think about M&A, I always talk about it's the right target at the right time at the right value, and that is a really hard trifecta to get right, and Acera absolutely hit every box. The right target, it's an advanced wound care, which is an attractive space for us, a space we're very focused on. It's a synthetic tissue matrix technology, which we appreciate - it doesn't have some of the issues that biologics have in terms of tissue variability and supply chain.

So love that it was synthetic, differentiated, protected, innovation is something that we also always look at. It serves the \$900 million acute care space, which is growing double digits, and it's a very attractive space. So good categories, good markets, good technology. And then it's a good clinical sale, which is very aligned with our clinical sale in terms of it's a complementary therapy to negative pressure wound therapy. So it checks a lot of boxes for us on the right target.

And then financially, of course, it's attractive. It's accretive to our growth, it's been growing above market, and accretive to our gross margin, and it's profitable. So again, when I think about strategic reasons, financial reasons, definitely the right target.

And right time matters, too. So for us, very publicly talked about, we needed to get our Purification & Filtration (P&F) divestiture closed. We close that September 1, and so a couple of months later, we were able to execute this. But time also matters for the target, right? And the target was also interested in being acquired and was looking for a partner that would really help them accelerate their access to customers and patients, and that's, again, something that we're very well suited to do. So that's my right time.

And then right value, I think we structured a transaction that very clearly delivers attractive returns. Returns -- ROIC is something we focus on a lot. It's well above our weighted average cost of capital here. And then at \$725 million paid at close, and we talked about the \$90 million we expect them to deliver this year, it's right down the middle of the fairway when you think about revenue multiples. So I feel like right target, right time, right value. I think this couldn't be a more appropriate first acquisition for Solventum.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

That's well said. Maybe to pick out a couple of those things to expand further. Return on capital, I mean, anything that you can share on what the internal metrics that, and hurdle rate, that you and Wayde definitely want to get over and by what time period? I don't know if that's something you've shared previously or not. But how do you think about -- even if you don't want to get quantitative, like high level, how do you think about return on capital for deals like these?

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

I think you're generally looking at be accretive to your weighted average cost of capital, right? I mean that's pretty standard. And I don't know what we've said, but I -- Okay, then we haven't said.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

No. I honestly didn't know if it was something that had come up previously. So, no, I appreciate that. And then on the right time, I think you framed it well. I also know that these things sometimes take time to come together. Can you talk about maybe when that, like how that -- those first interactions started? Is this -- was Acera something that the Solventum team had identified as a possible target very early on, or did this all happened pretty quick?

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

Yes. Well, it's probably a little bit of both. I would say we -- it was definitely on our list when I -- even before I joined and certainly when I joined, we spent a lot of time looking at our markets, prioritizing our markets, our areas of focus, and then building out target lists that could be complementary to the areas that we're most interested in, and Acera was absolutely on that list. So I would say some period of time.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

Okay. And then building on -- you alluded to doing more with the asset. They wanted to have more access. Can you talk a little bit more? What was -- what can Solventum help Acera do that Acera wasn't able to do on its own?

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

So we have a specialized wound care sales force, as you know, and they have clearly a strong sales force. And I think their view is that just expanding access. There's only so much they could do as a smaller company, and their goal really is just to get in front of as many customers and patients -- customers, in particular, as they can because they know when they can get there, it's an easier sale. And so I think our clinical synergies here, from a clinical sales perspective, are very strong. I think there's other things, of course, we bring to the table to in terms of just marketing and reimbursement, and some other capabilities, but the strongest, I think, is really on the commercial side.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

Okay. All right. I doubt you're done with Acera, maybe temporarily until the deal closes and whatnot, but how different do you think the portfolio could look -- Solventum portfolio could look -- a few years from now versus where we're at today?

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

Well, I think portfolio transformation, we're very clear and open, but that is the goal. You should expect Acera is not the last. I definitely have come into this thinking that we're going to do a steady cadence of tuck-in acquisitions, so just kind of that machine that you build and you continue to do that. And that's what we've been working for in terms of just getting ready, and we continue to look at the markets we want to be in, and have target associated with that, and build relationships, to your point, over time, is a better way to do it. And so we've got that going.

And then I think portfolio optimization continues to be something that we are very front-footed about as well. Obviously, we've talked about the SKU rationalization progress that we're making, which has been very strong. We obviously have

the Purification & Filtration divestiture, so again, I think people should look at us as a company that's making really good progress against our access portfolio management goals.

Jason Bednar - Piper Sandler, Equity Research Analyst

Okay. I know we've spent a lot of time on M&A, but again, I want to draw on your experience here and how you and the team are thinking about it but I think portfolio transformation and evolution is very important to the story and also matters – should matter for investors in the stock. When we think about how you look at transactions, strategic fit versus financial fit, again, it sounds like Acera was kind of a nice marriage or kind of very symbiotic, but if you had to rank the two - strategic fit versus financial fit - when you look at transacting, how would you and Wayne respond to that?

Rachel Ellingson – Solventum Corporation; Chief Strategy & Corporate Development Officer

I think we're both very aligned; you have to start with strategic fit. I think if you don't have strategy right, you can have the best financials, but you won't really be able to be the acquirer that can drive it forward. So strategic fit, probably hit on some of these already, but we always make sure it's mission-centric. Does it give us a path to leadership? Is it in an attractive high-growth market? Is it differentiated, protected technology? And then what do we bring from a synergy perspective, whether it's commercial, technology, manufacturing. There's got to be some kind of 1 plus 1 equals 3.

And then financially, we -- Wayne and I would both say accretion to growth, very important. Hopefully, accretion to gross margin is also important, and certainly a clear path to operating margin expansion. Sometimes earlier-stage companies, you don't get that right away, but you've got to see that you have a clear path. And then, of course, as we talked about attractive returns. ROIC is a metric we focus on quite a bit.

Jason Bednar – Piper Sandler, Equity Research Analyst

Okay. We talked a lot about the acquiring side. There's also other parts to portfolio management evolution. We saw one with the P&F sale. You have -- as I mentioned earlier, you have experience in spinning off the dental business from your ZB days. But Bryan has been clear that Solventum Dental is different than Zimmer Biomet Dental. Whether it's dental or something else in the portfolio, can you take us through the process on whether -- when it's decided or how an asset is viewed as still making sense within the Solventum portfolio?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

I think there's probably all kinds of decisions, right, or thought processes that go into a divestiture. You have to understand the portfolio health across your business, and you're always evaluating resource allocation. I think a lot of those decisions are based on things like are we able to fund them at a rate that keeps them competitive, because we've got a lot of capital finite everywhere. So you always have to think about resource allocation. You have to think about are we the right best owner? Does someone else have a different view of value than maybe we do internally? And maybe if that's the case, you can redeploy the capital that you would have, and again, allocate those resources to an area that maybe you do have a more clear right to win or path to leadership. So I think it's always assessing and constantly assessing your various businesses, products, at any level, right? It doesn't have to be a whole business. It can be other areas, product lines, et cetera, and SKU rationalization would be part of that as well.

Jason Bednar – Piper Sandler, Equity Research Analyst

Okay. When we think about the strategic review process that goes into these decisions, I know this is not a once-a-year type thing, but knowing Bryan and Wayne these are probably very frequent. How frequent -- if you can talk about the frequency? Is this like a once a month or once a week, even more frequent, as far as strategic reviews? And then how should investors think about the speed of this portfolio management journey?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

Well, hopefully, on speed, we've already shown we move pretty fast.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

You do.

Rachel Ellingson - *Solventum Corporation; Chief Strategy & Corporate Development Officer*

I think on -- there's lots of different operating mechanisms, as you have some for strategic reviews. You have some within the businesses that have monthly portfolio meetings where we talk about whether it's internal innovation or external innovation, M&A, and you make -- have those make versus -- build versus buy kinds of conversations, right? That would be something that happens in the business.

And then there are monthly and quarterly kinds of meetings where you're reviewing different opportunities, making sure that you are socializing different targets, that you're building those relationships, that you have those plans. And then you've got annual things, even our annual strategic planning process, both at the enterprise level, we also have annual processes at the business level that happen actually on a quarterly cadence. So there's always different times to review all of those kinds of decisions.

And I would say from my team, where we spend a lot of time, is focusing on the frameworks we use to assess the markets, and then we partner closely with the business where they're looking at the customer needs. So market attractiveness is something I think I mentioned earlier, we spent a lot of time and review on, just understanding the framework of how we define something that's attractive. Is it a place that we think we can improve care, improve standards of care, what are the barriers or the barriers that we can influence. There's actually a lot of process that goes into end markets and then figuring out submarkets inside of the submarkets, and where are the best places for us to prioritize and spend time. That's all part of that strategic planning and portfolio committee review process.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

Okay. Perfect. Maybe zooming out more on the business level. And Amy, feel free to weigh in too, if you have anything to add. But organic growth improvements at Solventum, I think, have been pretty impressive. It's been pretty consistent. It's part of the reason why I know we came and upgraded the stock earlier this year. The guide path has just been very nice. Is that the right way to think about the path forward here, too, as we think about 2026 where -- things start at a segment level, continuing to get steadily better. Is that the kind of the mantra at Solventum?

Amy Wakeham - *Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications*

Yes, I can take that one. So yes, that's definitely the way that we're looking at it. Now for '26, the one thing I'll call out, as I know you know this, is we do have another 100 basis points of SKU rationalization. But if we take that out, we are expecting to continue to drive organic growth both at the top and the bottom line for the business, and that's really through continued improvements that we've made, operational efficiencies, product innovation, particularly within our dental business in areas, and that's a key focus for us.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

Okay. And everyone always was wondering controllable versus not controllable within that. The confidence level sounds like there's a lot of controllable elements with your glide path higher. Is that a fair characterization?

Amy Wakeham - *Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications*

I think that's fair, absolutely. I think we take a very pragmatic and reasonable approach, and when you think about how we look at the business and where the growth is coming from, it's not built on the -- a lot of the what if's, it's around really the things that we can control or as much as we can, and trying to put in place and understand those controllable item.

Jason Bednar – *Piper Sandler, Equity Research Analyst*

Okay. Also big picture, pricing across the portfolio. We've seen a lot of Medtech players take a little bit of price, not a ton, but a little bit of price, mostly in response to tariffs here recently. It doesn't seem like that was at least a talking point on

this last quarter, especially in dental. The dental growth was very good, but was, I think, described as being largely organic. So is pricing something you've said Solventum sees as a lever for growth? Or is it more upside from what we were just talking about on like this glide path higher?

Amy Wakeham - Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications

So we would view pricing as an option, but it's not what we're relying on. This is really building sustainable growth over the longer term through volume, and there's a lot of expansion opportunity, both whether it's to take share or to expand the overall market and further penetrate, but it really is around volume-driven growth, and then using price where it might make sense in certain opportunities or options, but that's not what our organic -- to use your word "glide path" is dependent on for the business. And we think about pricing from a normalized perspective, if it's plus or minus 1%, that's within the normal balance.

Now if I take a step back within a couple of parts of the business, dental, you mentioned there are some contractual areas where we can take price up, but that's not what we're depending on, and to your point, in the third quarter, that really was driven by just continued adoption of our recent innovations and new product.

Jason Bednar – Piper Sandler, Equity Research Analyst

Yes. And those were well on display yesterday at the Greater New York Dental Meeting too, so I got a good chance to see those.

Let's talk about a little bit on the innovation pipeline. Dental, I think, has been pretty solid. Bryan was, I think, very forward early on in saying Dental is ahead of MedSurg as far as the product development, the pipeline and the innovation. Where do we stand on the MedSurg side? Is that -- are we at a point where we can start talking about a MedSurg pipeline starting to build and having some new product flow in that part of the business?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

Absolutely. I mean, I think -- and I know we've talked about a number of products that Bryan shared on the last earnings call, but the refocus and the reshifting of our R&D process is really starting to bear a lot of fruit. So I think it's very well known that we kind of had to transform our R&D process internally with a much better focus on making sure decisions are made in the business, focused on really what customers are looking for and what patients need.

And in very short order, I think we've reprioritized a lot of that portfolio and you're going to see a lot more innovation coming out of that, I think.

Amy Wakeham – Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications

Yes. And I think what I'd build on that is where dental really has needed to introduce some new product innovation and they haven't had new products, I think, for 24 months before the spin, and then in the last 2 years have introduced, I think, 6 to 8 new products. Within MedSurg, there is a clear pathway to new product innovation, and we're seeing some of that. But also, it's looking at the existing product portfolio we have within MedSurg, using our Peel and Place as an example. That was a product that was introduced and the launch plan was really just so small in terms of the opportunity.

So a lot of when we think about the new product innovation and the pipeline opportunity within MedSurg, it's expanding some of the newer products that we already have introduced and just thinking bigger about the opportunity and making sure that we have the supply and the capacity to support because, I think, Tegaderm is another great example where we had launched some innovations with Tegaderm, but really didn't have the support and the supply behind it, but then once we're able to increase the supply and increase the manufacturing capacity, we've really seen that product take off. And so there are pockets of opportunity like that, that are nearer term than we expected that's going to help support MedSurg as well.

Jason Bednar – Piper Sandler, Equity Research Analyst

Okay. Rachel, we -- we talked before about -- you mentioned tuck-in acquisitions being a preference. Those are usually commercial stage. How do you feel about pre-commercial, pre-revenue, almost a little external R&D to help fund that

innovation pipeline. Is that something that's under consideration? Or you prefer the assets you acquire to already have like derisked that commercial step?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

No, we would definitely look at pre-revenue. It would have to be something that we clearly have a synergy to bring from a commercial perspective, but I think a mix is healthy. I think you should have some that are commercial stage and you're going to see good opportunities, to your point, using it as external R&D is something that would very much be on the table for the right markets and the right areas to focus in, and where we have that commercial strength that we could leverage pretty quickly.

Jason Bednar – Piper Sandler, Equity Research Analyst

Okay. I want to shift over to the restructuring programs. We had a big one announced that was almost a year ago at this time, \$120 million, Solventum Way – you always have these nice little brand names on these restructuring programs. And now very recently, you've had a much larger one, more than 4x the size, \$500 million longer-term program, but that one -- I'm calling it TFPF. So why was -- how are these two -- I guess, how do you arrive at like two very large restructuring programs so close together, is maybe the first question. And then the second question would be why is \$500 million the right number for this most recent program you announced?

Amy Wakeham – Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications

So starting -- it's interesting. I think Solventum Way, which we had introduced, I think, on our second quarter '24 call, but really started to take hold at your conference last year, was really a 1-year program. And there were some immediate things that were identified that we needed to do, whether it was to shift resources, reorganize the business, and in support of the culture that Bryan was working to build and as part of his Phase 1. And so that was pretty easy to identify and to knock off.

And it was always the intent that we would have another larger program follow over time, and really more focused and it's very intentional in the transform for the future. So it's not just a cost out reorganization, restructuring, it's how are we thinking about operating more efficiently? How are we thinking about, particularly as we start to roll off more and more TSAs from 3M, really standing ourselves up as an organization, we can think differently about supplier consolidation, system optimization, where the focus up to now has been moving from 3M ERPs to now Solventum ERPs, but then now taking, okay, our Solventum ERPs, are we optimizing how they're set up? How do we think about systems and automation, and using technology differently and more effectively? How do we think more broadly across the organization, and now that we've identified our growth driver areas to make sure we're investing resources in the right areas.

And Bryan likes to call it a "mix shift" of resources, and that might mean that we're bringing in new talent, but we might be exiting some other talent as we think about restructuring the operating structure of the organization. And the \$500 million really was through -- we had some targets of, okay, here's what we think makes sense, but also through a bottoms-up build-out across the organization to really understand, okay, where are the opportunities? What can you realistically do over this period of time that we can feel comfortable going out and talking about from a street perspective so there is support behind that number that gives us confidence to put that out there.

Jason Bednar – Piper Sandler, Equity Research Analyst

All right. All right. Fair enough. Last couple of minutes, I want to talk a little bit about the LRP that was introduced at the Investor Day earlier this year. I know there was some doubt out from others out there. I'm not sure I would count myself among those. But some of that doubt seems to be easing at this point. Part of that's kind of a function of just like really strong execution that the team has been putting together. But I'd really be curious to get your take, Rachel, which milestones do you think investors should watch to confirm that we are still on the path, that we're progressing towards hitting those LRP targets?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

I'm happy to start, and I'm sure -- but I think clearly, the financial performance that we've been achieving has been strong every quarter, right? So your ability to continue to credibility, ultimately what we're doing is we're building credibility as a team. I think that's one of the most important things that you can think about in terms of delivering the LRPs.

Amy Wakeham – Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications

Yes, I think building on that, Rachel, and to use your words, Jason, I think continuing our strong say-do execution is we're going to continue to tell you what we're going to do and just continue to deliver on that. But I think the 7 quarters track record that we have is helping to support the overall confidence in getting to our LRP. Certainly, each quarter as we continue to drive growth, whether at the top and the bottom line, is going to help continue to drive that as well.

And as we get further along, I think we're going to get more and more comfortable providing more specifics around milestones or deliverables or things that are going to get us comfortable, and I think that's built on just every quarter that we get under our belt, we get more and more confident within the business, within our forecasting, our ability to understand what we're doing and where we're going, that's going to give us more confidence to maybe be more explicit about some of those milestones.

Jason Bednar – Piper Sandler, Equity Research Analyst

Great. Last question in the last few seconds here. What do you -- either of you respond or both, what do you think are the maybe 2 or 3 most underappreciated parts of the Solventum story that maybe everyone in the room should take away?

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

I'll start. Underappreciated to me is the velocity and speed at which we've been able to execute against what we said we were going to do in terms of transformation across the board, not in my role, in other's roles, in other people's functions, just everywhere. And I think that comes down to underappreciating probably the team that we have, the 20,000 solvers who are literally working every day to do this, separating while we're executing divestitures, while we're announcing our acquisition, while we're doing restructuring, we -- it's just it's so much simultaneous work. It takes every single person, really, to be just committed to excellence every single day, and I see it every day we're there. That's probably the most underappreciated.

Amy Wakeham – Solventum Corporation; Senior Vice President, Investor Relations & External Finance Communications

I would agree. Yes, for sure.

Jason Bednar – Piper Sandler, Equity Research Analyst

All right. Excellent. Well, we are out of time, but really, really great session. I love to talk about the recent deal here. Thanks, everyone, for joining us, and thank you, Rachel and Amy. Appreciate it.

Rachel Ellingson - Solventum Corporation; Chief Strategy & Corporate Development Officer

Thank you.

