



3M @ Goldman Sachs Industrials and Materials Conference
Bill Brown and Anurag Maheshwari
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Joe Ritchie, The Goldman Sachs Group, Inc. - Analyst

Really excited to have 3M here. There's been a lot going on. On stage with us we've got Bill Brown, who's Chief Executive Officer; Anurag Maheshwari, EVP and CFO; and then Chinmay Trivedi just joined us, took over -- he's taking over the IR function to start the year. So thank you all for joining us today.

Bill Brown, Chief Executive Officer

Thanks for having us.

Joe Ritchie

Yes. Great to see you guys. So look, lots of changes over the past year. Bill, maybe just kind of talk about your first seven months at 3M. How do you see the company fundamentally changing from here and we'll take the conversation from there.

Bill Brown

Okay. Well, first of all, good morning, everybody. It's great to be here. We had a good start to the year to start meaning it's almost -- it's December. So it's moving very quickly, but now about seven or so months in the job. Earnings per share this year were up about 30% so far through Q3 year-to-date, organic revenue about 1%, but margins were up 380 basis points. So a pretty good start to the year. Free cash flow was \$3.5 billion. 102% of income. So it's a very strong cash generation. We returned \$2.7 billion to shareholders, including \$1.1 billion worth of share buybacks in Q2 as well as in Q3.

We took the opportunity in the last release to raise our guidance at the bottom end by \$0.20. So we're now at \$7.20 to \$7.30 because all my numbers are adjusted EPS. I won't keep saying that, but they are adjusted numbers. It's up 19% to 21% year-over-year. So I think a pretty good year, a pretty good start. I think we'll end strong again, organic revenue for the year will be about 1%. And again, when I talk about our free cash generation, return to shareholders is after spending quite a 1.7 -- year-to-date, \$1.7 billion in R&D as well as the capital spending. So we're investing pretty heavily back in the business. We feel good about those investments. I'll talk more about that.

So we go through discussion today. Making good progress on the priorities I laid out at the Q2 earnings release. I gave a little more color at our Q3 earnings release. Top line organic growth is at the front end of this. It's both reinvigorating innovation inside the company as well as improving our execution at the commercial interface, so making sure we start to drive organic revenue growth is sort of a key priority, driving operational performance across the enterprise.

My comments are oftentimes focused on the supply chain on what we're doing in our factories, with our supply base and our cost of quality, all those other pieces. But the reality is, when I think about operational excellence in the company, it goes way beyond just supply chain, it goes back into R&D, how we market, how we sell. There are a lot of opportunity to drive OpEx in R&D. I look at that as sort of our factory of innovation in many ways. There's a lot of ways of driving improvements there.

And the third is really around capital deployment, making sure we maintain a strong balance sheet, invest in the business, paying attractive dividends, including over time with any excess cash either buying back stock or doing M&A, as I just mentioned a couple of minutes ago.

So again, about seven months in the job, I think it's been a good start. It's been a quick start. I'm learning a lot. The curve is pretty steep. We've made a couple of changes. Joe talked a minute ago about Anurag, who joined us in early September. It's been a couple of months. So you can ask him what he's been doing, of course, you're free to do that. But he's been with us for now about three months or so. I worked with Anurag for a lot of years, probably two decades. So we started working together back in Singapore about 20 years ago, and we've worked off and on together through that period of time. And that helps a lot because we know each other's style, we know each other capabilities. We can talk to our other in almost in shorthand. And it's a way to moving very, very quickly. So he's been a great addition to the team as well as some others in the organization. So we had Wendy Bauer joined us a couple of months ago, back in June. She's now running our Transportation and Electronics Group. She came from AWS and Microsoft. The careers back in automotive, but most of her life was in the automotive industry, is off to a great start.

A couple of other changes kind of one level down, and there will be more, I'm sure, will come the coming months and quarters, nothing really to share with you today, other than Chinmay joining us as Head of IR. Bruce Jermeland has been in the role for six years in IR for more than two decades. He's done a great job. He decided to retire on January 1, and Chinmay is now going to take on the IR responsibility. He's been with us for three years doing FP&A work. He's an outstanding leader, outstanding finance executive, career in GE before he joined 3M. He's going to do a great job in driving IR. So a lot of things, I think, to be excited about in terms of where we're going.

When I talked in Q2 and again in Q3, of course, all of our employees listen quite eagerly to what I'm talking about there. It's the same messages I drive internally in our all-hands meetings. And I'd tell you, one of the things I'm most encouraged about is the way the employees of 3M have embraced the change agenda and what we're trying to do to drive top line growth, drive innovation. A lot of people joined 3M to innovate. They didn't join to focus on liability, joined to innovate. So it's very refreshing to them to get back to what are we doing to drive innovation, new solutions for our customers. They recognize very well as I do, and I think investors do that we're in the early stages of our operational excellence journey.

I think that's good news, bad news. I would have expected coming in, we'd be further along in driving OpEx. It's been what I've been doing for more than two decades from the time I was at UPC many, many years ago, and I did at Harris and L3 I would have thought we were further along, we're not. But the good news is a lot of upside opportunity for us inside the company.

So I think employees realize there's more work to do, but a lot of excitement and enthusiasm about where we're heading and taking the company. So I think a lot to be happy about this year as we turn into '25.

Joe Ritchie

Bill, really great opening remarks before -- and there's a lot of jumping off points there. But before we do that, Anurag, so clearly, you guys worked together for a long period of time. Just curious as what attracted you, obviously, besides this relationship to 3M and the opportunities you see? I know it's only been three months?

Anurag Maheshwari, Executive Vice President and Chief Financial Officer

Great. Thanks for the question. 3M is an iconic company, a very strong brand name, strong history of innovation, great customer presence and geographical presence as well. Over the past three months, I've spent a lot of time with not only the segments, but also the divisions below them, visiting different locations at different sites. I was in China, Europe and meeting other colleagues of ours as well.

And the same observations as Bill around the amount of opportunity that the company has. I think we're focusing on the right priorities, which are the 3M -- in terms of driving the revenue growth, which is making investments in the right area, commercial execution and on the operational excellence on the margin side, a lot of opportunity, not only on the gross margin, but also what we can do with indirect expenses and so on.

And last, the real strength is on the capital structure of the balance sheet that we have and the cash generation. So you put all of this together, in terms of what the opportunity is ahead of us with a strong brand the company has, that's probably the big attraction for me. And so far, it's going quite well.

Joe Ritchie

Bill, you mentioned on the most recent earnings call, potentially thinking about ways to change the incentive plan. You guys talked about better growth, more operational excellence. Maybe provide some thoughts around that.

Bill Brown

So it comes up a lot. In fact, in every investor conversation, and it's certainly important in my mind is thinking through strategically where we want to take the company, what are the -- what's the execution and how do you make sure you have the right team people and the team and the right positions with the right incentives. When I think about incentives for me, what's become clear, it starts off with, number one, very clear, tangible time-based objective-setting process. And I think that's really important. Incentives should fall from that. But out of the gate has got to be making sure the objectives are very clear and then making sure that we pay for performance.

We have a culture at 3M. It's Minnesota, people called Minnesota NICE, but it's -- we have a culture where everyone gets an A. There's not a lot of differentiation in performance inside the company. And I'm not sure if it's been there for a while or it came from COVID or what happened, but the reality is we have to have clear objectives, top down inside the company for every individual, time-based, what are we expecting every individual to do? How is the entity different at the end of the year because you are here over the course of the year. You meet all of those various pieces. So number one, as we turn the corner to '25, it's a much more rigorous back-based detailed objective-setting process and then paying for performance. It sounds simple. It's something that I've done before, and we'll make sure that we do this here as well.

So then as it flows into our incentives really, it starts at the executive population and the same metrics flow into the overall company. On a short-term basis, it's 1/3, 1/3, 1/3 between organic revenue, operating income, and operating cash flow generation, op cash, not free cash flow on the AIPs. It's something that the Board wanted to focus on. So that's really -- and we'll probably continue that into '25. The comp committee has got to formally decide this, but that's likely to happen.

And those metrics flow deep into the organization into all the nonexecutive population. The place where we will see a change going into next year is in the long-term incentive plan. We had a pretty adverse say-on-pay back in May at the shareholders meeting. There's a number of reasons behind that. I think part of it was related to the fact our LTIP program, if you read the proxy it's pretty complicated. I was on -- I was in every committee at L3 Harris. I was on a comp committee at Celanese, and now at the BD Board of Directors -- and I think we've got a very complicated LTIP program. So first of all, we have to simplify it. It's going to go from three one-year plans to a three-year plan. So instead of a plan which is reset every year over a three-year period, which I didn't really like, investors don't really like. It's a three-year plan. It's likely to be 50-50 between EPS or cumulative EPS or something like that, and free cash flow. I believe very strongly in free cash generation and the importance of the company driving that, and you measuring on us on that part. And to me, that's really important because we spend over \$1 billion of capital. So I think that's really important.

So 50-50 between earnings per share and free cash, but there will be an overlay on total return to shareholders, I think is very, very important. There will be a modifier. It will have some definition. It's likely the S&P 500 Industrials. But again, these things, the Board is going to continue to have discussions around.

We've been talking to a lot of owners. We probably talk to 40% of our owner base about this and another one, I think on Monday and Tuesday. So it's likely that's the path that we're going down. But again, it really jump starts with really clear objectives and then paying for performance and differentiating awards based on performance and potential inside the company. So very, very important to us. We're spending a ton of time on this, but I think you'll see a difference as we go into next year.

Joe Ritchie

That's really great to hear. I'm a big believer of free cash flow as well. Yes. That's great. Restructuring, let's turn it there. 3M has done a bunch of restructuring in the last decade. Not a lot of it has been asset-based. So talk to us a lot about the opportunity to consolidate the footprint.

Bill Brown

Yes. I didn't go back in time to see how much was asset base. I think -- I'll take your word for it. The most recent program that we're in right now, the range on spending is \$700 million, \$800 million, savings about one time's cost. So it's a pretty good program. But that in and of itself tells you it's more people than assets. You don't get a return like that on going to big factories. But it's really not all just people. There have been some asset restructurings within that against about 8,000 to 9,000 people that have will lose their jobs through this big restructuring program. But there's a few things within that.

As you remember, we went from an organizational model which was very geographically driven to business groups that are global, and a supply chain group that is now global. So part of that was reducing a lot of the overhead costs within our supply chain organization. There's been some factory closures, about nine factories, so maybe seven full and two partial factories, we have about 20 distribution centers that are closed or closing through that process. A couple more in-flight. We've had about 44% reduction in the number of offices and office square footage. So there have been some facility or asset takeout for sure. And -- but I do think to your point, I think there's probably more people related to that.

The first thing we have to do is execute really well in this program. We're about 85% complete. So we're not done. We've got more in Q4, a little bit more tailing into '25. And we've got to continue to execute well on restructuring and avoid the bleed back into the organization, which sometimes happens when you do your restructuring that are better people related. So this is -- this, to me, is very, very important. But when I step back and look at -- as we go forward, what do I think about the next set of opportunities ahead of us. The fact is we have 110 factories even after the restructuring. We have 95 distribution centers even after some of the restructuring. And we were operating our factories at about 50% to 55% utilization. I call it operating equipment effectiveness utilization metric with a quality overlay to it. But the fact is we've got a lot of unused capacity in our network. And I see that in the distribution centers as well.

We've got a lot of complexity across. I gave the example of the Q2 earnings release about a command strip. Hitting three factories and two distribution centers before hits a shelf. And the whole business runs this way. It runs in a way where we have a lot of things that are made as semi-finished goods go from factory A to B to C and the distribution centers or two before it gets to the customer. So we've got to like figure this out, and we've got to simplify the construct of our manufacturing base.

But when I look at the opportunities ahead of us, the first thing I'm focusing on is making sure we look at what I call four-wall spend. So how do I optimize what's inside the four walls of the factory. There's a ton of opportunity in this. We have 25,000 suppliers, including 4,000 contract manufacturers, a lot of which were grown up locally around the plant because every plant was in a region or a country and the country manager ran it.

So we've the opportunity now we're looking across the company to look at, okay, how do we take cost out. And there's a ton of opportunity by just running the four-wall spend better. And those are things we're driving right now, supply chain efficiency, waste reduction, Kaizen, lean manufacturing, tons of opportunities here. And that to me is step one. Step two is then taking the existing network and how do I optimize modes and flows between these facilities. And again, there's lots of opportunities to do better in terms of just the way the network is constructed today. And then third, over time, is going to be, okay, what's the factory of the future, the network of the future really look like? It should be less than 110 and less than 95 distribution centers. What the number is, we'll figure that out as we go. But a fundamental part of getting to that step is really the first step, which is what's the utilization of the assets you happen to have.

And you recall in the Q3 earning I talked about OEE, operating equipment effectiveness because that's an important metric, knowing what's the utilization or underutilization of your assets is important as you start to step back and think about how do you consolidate facilities. And that's kind of what we're building the ground base on right now.

So when I think about it, it's the steps that we're taking here. From an investor perspective, looking at us, we've got horizons of opportunities that are ahead of us that every year, I can see more and additional opportunities to drive lean, to take out cost, become more efficient across our network. And then extending that same sort of lean principle, if you will, to all of the non-factory assets as well, all of our finance and HR and R&D and those other activities.

So that's how I'm thinking about it. It will be over time, some additional assets, but right now, I think the biggest thing to execute what we have and do a lot of the blocking and tackling in our factories.

Joe Ritchie

I mean, I can't help but not comment on how energized you seem. And -- at the same time.

Bill Brown

It's the coffee -- New York on a Thursday morning

Joe Ritchie

You seem incredibly energized, but this also seems like an incredibly complex long-term process. I've got to ask you, I mean, you signed up for this for a long period of time?

Bill Brown

This is not -- it's a long game, of course. I mean, the company has been around for 123 years. So I'm just -- I'm here for a period of time. The reality is, I mean, the steps that we're taking, the things I'm laying out, it is not rocket science. I mean, it's different 3M. It's not the same company, not same footprint, it's not the same products. But the fundamentals of how you do this is not that hard. Even the fundamentals, how do you drive innovation in the factory is not that hard. You do it by breaking the problem down and attacking the pieces of the problem and doing it very systematically, very methodically.

And hopefully, with people that I partnered with before in the past that can do it through some hand signals and gestures and know exactly what to do because you've been there before, which is why Anurag and the team and other people are going to join us because look, that's how you get at this stuff fast.

But nothing about what I'm talking about is rocket science. And you might be sitting you're saying, well, geez, why 3M, why didn't you do this before? That's a question for a different day. The fact is, as I sit here today, I look at what we're giving. We have a lot of great raw material, a lot of great brands, a lot of energized people, good facility network and lots of opportunities that are right in front of us to do a better job at running these assets than we've done in the past.

Joe Ritchie

And Bill, I think on the most recent call, you talked about like on-time in-full being at 89%, which honestly was really surprising to me. I hadn't heard that stat before. It seems like that's a near-term opportunity. Maybe talk about like what you're doing there to improve.

Bill Brown

So this is -- this, again, it's a fundamental. And I want to emphasize my point at the beginning. This is a focus on the fundamentals, back to basics approach because that's really what it is. On-time in-full is very, very simple. When you have customers and you're shipping lots of product to and they have choices, you have to make sure you're delivering a good product on time and then the number and quantity which they ask for. Sounds really simple, but the fact is we've not been doing that. If you go back to pre-COVID, I think our performance was a little bit better, but not great. But I think we took a big hit during COVID, and we didn't respond as quickly. We didn't adjust with our supply base as quickly. So we are running, year-to-date, we're running at 89% on-time in-full, that's across the franchise, 89%.

We are losing business 100% guaranteed. We're losing business because we're not delivering it in full. We know this. We see it every single day. In the consumer business, you need to be above 95%, sometimes 98%. We're running around 93% on consumer, which means we're getting fined. And it's tens of millions of dollars in fines from the retailers who expect it's going to be there at 97%, 98%. If it's not, they basically fine you. They just deduct it from whatever invoices are going to pay you. So there's fines that happen.

In our transportation business group, we are running about 89%. It's a tick above that now. So it's doing a little bit better, not where we want to be, but getting better. The challenge for us has been the safety and industrial business, the industrial side, SIBG, which has been running in the low to mid-80s, and we're struggling to kind of make a lot of improvement there. That's what we're really focusing.

So we're not where we need to be. We're five points better than the beginning of the year, with 10 points above two years ago. So progress, but not anywhere where we need to be. Interestingly, it's -- when I think about -- we actually look at the reports every single week on this metric, and we talk about this a lot internally. It's sometimes it's shipping delays, sometimes it might be supplier delays. Our supplier performance is not very good. We've got to get better there. But a lot of times, it's that we have insufficient capacity in the business to deliver the volume. And you say, well, how can that be when you've got 50% to 55% utilization of your assets that you don't have capacity. The fact is that we have sometimes our machines are down for maintenance issues.

In this three or four step process where we deliver a product, that goes from Plant A to Plant B, to Plant C. But at Plant A is running at 50% you produce, and it goes to Plant B, it's also running at 50%, and it's down to that point in time, you just lost your opportunity to ship to the customer. So we've got to fix this. So that's why I'm focusing a lot on expanding our capacity by unleashing some of the improving capacity utilization. The other part about this is you got to get better at demand planning, demand forecasting.

The fact is we're running in the low 60%, 65% forecast accuracy. And we don't do it very aggressively. We don't look at this very closely. So we've got to get a lot better at predicting demand, flowing it back to the factory, flowing it back to the supply chain. Again, really basic stuff. You see lots of people doing this. If I focus on those two things, improve capacity in our facilities as well as improve our demand planning process, I think I can actually crack the code on on-time in-full and get well above 90%. That's our goal. Our goal is at 90% this year. Whether we achieve that or not, I'll let you know when we come sometime in January report Q4 earnings. But this, to me, is a fundamental piece. It gets back to the basic building blocks and correcting each of the building blocks.

Joe Ritchie

Super helpful. I'm going to open it up to the audience in a minute. Just wanted to ask this question. With everything that you just described, the gross margins for 3M today are in that 43%, 44% zone. Historically, it has been in the high 40s. You're describing a scenario where we're really talking about maybe 50 plus. Just maybe give us -- talk us through what the long-term ambition is for gross margins of the business.

Bill Brown

Look, you're right. I mean, we've been -- even when you adjust for the health care spend, we've been in the high 40s. I don't know if it touched 50% or not, but it could have been. I really don't know. But you're right, we're in 43%, 44%. The way I step back and Anurag and Chinmay and other parts of the team are looking at this, we have \$13 billion cost of goods sold. The objective that Peter Gibbons and the team are driving in terms of productivity is 2% net of inflation, 2% net. So 2% on \$13 billion is \$260 million on our revenue base it's a point. So you get 2% net, and you don't have any other ankle biters of the quality issues and all the other things that happen day to day in a factory, you put \$250 million, \$260 million on you have a point of growth every year in margin expansion. Ideally, that's what you'd like to see.

But the world is not ideal. So you have things that happen in your business where you can have escape, you're going to have quality issues, you got to different things where you might not be able to drive that every year. We've got high inventories. We're sitting at almost \$4 billion, so about 101 day, 100 days of inventory. That's got to come down. And when it comes down, there's under absorption in the factories. We've got to eat through that. You've got issues. Well, this year, we've had a pretty good year in electronics, higher margins. So you've got to work to mix as our volume comes up, that helps us grow in the other direction.

So when I think about, there's lots of different levers here and we work this out over time. But if I look at the math going out the next several years, we should see gross margin expansion by just getting really good at this operational excellence muscle. And that's why I spend all my time as when talking to you a lot about all the various pieces that I'm seeing here that I've seen before in different shapes and forms, but I kind of know what we need to do. And I know we're actually going to solve the problem, it won't necessarily be linear. I see it every single quarter.

But you can -- I could draw a line and see kind of where we're going on gross margins. So we will get better. I'm not here to say Joe it's going to be 50 or 49 or 51. We will lay this out a little more carefully as we get into next year and having an Investor Day at the end of February, but there's a lot of opportunities untapped here on the gross margin line for sure.

Joe Ritchie

Last question before I go to the audience. So we're on the eve of 2025. I know you're going to have an Investor Day. Maybe like early preview on the Investor Day, any thoughts.

Bill Brown

So the Investor Day is going to be fleshing out clearly what I'm discussing here with a lot more detail, a lot more rigor, more examples, I'm talking with some hand waving what we're doing on driving innovation, but I expect we'll layout like the vertical markets that we'll be focusing on and those that we won't, how we're going to start to redeploy investments to make sure we're investing on the highest ROI projects and how we're transforming how we drive R&D with the new governance process.

Again, we're not talking about a lot of rocket science. A lot of stuff is very basic, but I'm going to lay this out a lot more clearly in how we're using IT tools to drive innovation at a faster pace. Clearly, we've got an opportunity to compress the cycle time and drive out some of the nonvalue-added labor and R&D efforts. So there's a ton of opportunity there, and we'll talk a lot more about that.

But you asked about the macro. Look, this year has been -- macro has been a little bit tough. I think IPI has been running around 1.1%, 1.2% this year, more or less. You read the numbers next year, it's around 2.3, 2.4, so industrial should be accelerating. But I also look at with some caution a year ago looking at '24, the number was also around 2.3, 2.4 and here we are running at 1.2. So I'm not sure how much we put into that.

When you look at the automotive build rate, it's come down quite a bit since the middle of the year. It sort of down 4% in the back half, around 2.5% for the full year. At least the forecast are to be up 1 or 2, 1.3 or something like -- something next year. But then when you peel the onion, it's mostly China. It's not so much Europe. Europe is flat but down, the US is down. It all depends on what automakers are actually selling to. And we don't do as much on a content per vehicle in China as we certainly would like.

So consumer business should be a little bit better. This year, obviously, we've had some issues in our organic business. We'll see that turning positive in Q4. The consumer economy, at least when you look at USAC retail sales should improve a little bit, but maybe be flat next year as opposed to being down a little bit this year. We'll see how that goes. But there's a lot of stuff that's happening, I think, in the macro backdrop, and it's going to be an important element for us.

As we're sitting here in the fourth quarter, I'd say we are seeing a really modest uptick in our order rates in industrial. Somebody asked me the other day about was that an indicator? Well, it may be a green shoot. It's not shoot, maybe is one little thing. So I can't tell you for sure that's going to carry into next year, but we're starting to see just a little bit of recovery. It could be, by the way -- it could be what's happening in China. There's some -- there's definitely some pull-ahead business that's happening because of tariffs, tariff loading, if you will. So we said a little bit. I've got to be very careful about that. Some of that might be pulling into Q4 from Q1. But right now, things are looking, I think, reasonably stable. We'll have a decent quarter. And as we go into next year, the least in theory, the macro is going to be just a little bit better than what we happen to be sitting today.

A lot of things we've got to do is just control what we can control. Because I look at this and they say, okay, the macro where it affects everybody else. But as we drive new product introductions, and we will see an improvement going into next year, the last call, we were up about 10% this year on new product introductions. It's a simple metric. It's just numbers. It's just a number of launches. Next year will be more than 10% growth. So we were at one point in time, 1,300 launches in a year. Last year, we were below 130. So now we're 10% above that. It's going to be more than that going into '25. I know like you all know it's not about the numbers, it's the quality launch, what's the revenue? Are you launching it in that particular quarter, month, week, day that you said you would do. So all that has to happen in our business. But all of those things, I think we can control, including the execution at the customer interface is really important, driving on-time in-full. I think those are the things that we can control to drive growth as we think about next year.

Pricing for us is an important dimension. We didn't talk about it here, but that's going to be important for us. We typically get 30 to 50 basis points of price more or less. We cover material cost inflation we've got opportunity to think a lot more surgically about what we do on pricing. We've not gone at really attacked cross-selling opportunities. So we're doing a very deep dive piece of work in the industrial business, is our biggest business. They have a lot of opportunities to cross-sell products. I gave a couple of examples on that at the Q2 earnings release. The reality is we just haven't really focused on this. And as we're digging into this, there's a lot of opportunities to figure out ways to better price, how do you cross-sell product?

And the third is how do you avoid churn, a share loss, share of wallet loss with your customers? This gets back to how you train and incentivize the sales force to attack when you have the first inkling that you're going to lose some share, what do you do? You attack. You attack, you go do something. So that's why we're trying to pivot our sales force to be more hunters than farmers. With all these different analytical tools that can help the sales force be a lot more productive.

So a long way of saying about the macro next year. A lot of the things are within our control. It's about the execution of the team at the strategies we're laying out to go and attack the market next year regardless of what the macro happens to be.

Joe Ritchie

And just to follow on there. On margins, you've seen a lot of margin expansion this year. Just any comments that you'd make around the expectations for next year?

Bill Brown

There's -- Anurag jump in here. So we have to get our plan. That's something that we're working on right now. And again, we'll give some guidance next year as we get into 2025 and what we see happening in the margin. So we'll see the tailwinds on restructuring. There'll be lower restructuring cost headwind going into next year. We'll see some productivity benefits. Volume is going to be an important volume driver. Mix is going to have some effect. It's probably negative.

Just keep in mind, we're getting out of PFAS manufacturing. We exclude that from our -- non-GAAP results. But as we exit PFAS manufacturing, that the absorption hit in the factories will hit us next year and into 2026. There's a couple of below-the-line items maybe Anurag you can talk a bit about. But when you put it all together, we should see some margin expansion next year. We'll qualify that as we get into next year. But maybe you can jump in.

Anurag Maheshwari

Absolutely. Just to add to that, Bill. Just on the operating margin, we should see it growing at a healthy clip, right? Volumes incremental 35%, 40%. Productivity, which Bill mentioned about the restructuring more than offset the PFAS stranded cost plus the mix issue. So that should be growing at a healthy clip.

On below the line, as I said on the Q3 earnings call as well, our pension expense is going to be higher next year because of the service amortization. We're going to have higher interest expense or lower interest income because of lower cash balance and yields coming down. Of course, part of that will get offset by the share buyback that we did this year, which resulted in a lower share count. But you put all the three together, it will be about a \$0.30 headwind as you move into on the EPS side.

But overall, driving the top line growth, driving operating excellence, I think we have good momentum as we go into next year. We'll give more color, but feeling pretty good about it.

Joe Ritchie

Great. Thank you. And any questions from the audience at this point. Okay. I'll keep going. Any comments you guys want to make on the outstanding or potential litigation next year? Personal injury kicks off, I think the MDL kicks off next year. Just any thoughts around that?

Bill Brown

So not much more to say what's actually in our 10-Q and 10-K as we go into next year. So we are through the biggest settlements around public water supply issues. And I think that was important is behind us. It's gotten funded. That cash is on our balance sheet and now moving out to fund some of those segments.

What's really the next ahead of us is personal injury. There's a -- a lot of the cases within AFFF MDL, the judge very recently -- the court just recently decided to dismiss without prejudice 1/3 of the cases, so about 3,000, now 6,000 cases in the MDL. And they're driving forward with a couple of benchmark cases. I think the first court date is October 5 of next year, of 2025. It's early October of next year.

So there's going to be kind of a lot of back and forth in conversation with the plaintiffs' counsel and plaintiffs' executive committee between now and then on how that's all going to transpire. But a lot of that's within the AFFF MDL, which I think net-net for us is a good thing.

There's also a couple of AG cases that are happening. There's a broader AG issue that's in the MDL. But then New Jersey and Vermont are outside of that. New Jersey, I think, is in June and Vermont is -- I think it's a -- it's in the third quarter. I think I believe it's in August. I think it's in our Q. It's likely to kind of happen mid-to end of summer of next year. Those are the things that we're really watching about.

There's other things going on in Europe, Australia, Canada, but the one -- those are the ones that are on my mind.

A lot of people are asking a lot about insurance recoveries. Year-to-date, we've recovered about \$175 million in insurance from -- for both combat arms as well as PFAS. Most of it is Combat Arms, very little of that was PFAS. And we do have opportunities to recover from our insurers. And we do expect that they're going to honor their commitments with their policies with us. And we're arbitrating. We're going to litigate on that. We're going to push that one very, very hard. There were specific legal reasons why we didn't push that hard until we took about a month ago or so, but there's -- that's an opportunity ahead of us.

But just keep in mind, when you think about other players that have talked about insurance settlements on some of what they've done, their policies were up here and the liabilities were quite a bit below that within the policy. Ours are the other way around. The amount that we actually settled for PWS is well above what our insurance policy happen to be at. So we're looking to not trade \$0.50, \$0.60 on a dollar. We want to get full recovery from insurance companies for what they're obligated to give us. And that may mean some litigation or arbitration.

Joe Ritchie

That's great. Bill, I'm going to turn it to you in case of closing comments.

Bill Brown

No, we look forward to getting together in a more formal session. Again, we're looking at the end of February next year. So about a month after our earnings release. And it will be an opportunity for us, Anurag, and I and Chinmay to expose the whole team. We have some investors coming to see us at Minneapolis. You're welcome to come it's 9 degrees today, so it's really balmy.

We have -- and we're showing more of the team because they're really, really strong leaders in the business. We're really energized and we'll lay out a very comprehensive plan with investors as we get towards the end of February next year. But listen, I enjoyed the time. Thanks so much for -- thank you very much.

Joe Ritchie

Yes. Thanks so much, Bill, Anurag and Chinmay. Great to see you guys. Thank you.