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OVERVIEW:

Company Summary

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PRESENTATION

Chinmay Trivedi *- 3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Good morning, everyone, and welcome to our 2025 Investor Day. With me today are Bill Brown, 3M's Chief Executive Officer, and members of our senior leadership team. Bill and the team will deliver prepared remarks to showcase strategies that drive growth, operational excellence, and return cash to our shareholders. After that, we will take your questions.

Please note that today's event is being webcast. The details are posted on the homepage of our Investor Relations website at 3m.com. Please also take a moment to read the forward-looking statements. During today's conference call, we'll be making certain predictive statements that reflect our current views of our 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-K lists some of the most important risk factors that could cause actual results to be different from our predictions.

With that, let's begin. Let's roll the opening video.

(video playing)

William Brown *- 3M Co - Chief Executive Officer*

Good morning, everybody. Thanks for coming today. I hope you all enjoyed the evening last night and saw some of the technologies that our team is developing. But more importantly, I think what you saw is the enthusiasm of the team that was talking to you. I heard a lot of comments from a lot of people, remarking around how excited and enthusiastic people are about what we're trying to do here at 3M. And as I walked around, I sort of noticed it as well. So I appreciate you noticing it and pointing it out both to the folks that we're talking to you as well as to me.

So it's been a few years since we've had our last Investor Day. I've been here for just over 10 months, or just about 10 months. It's kind of moving very, very quickly. And I thought this would be a good time for us to put a stake in the ground, and to describe to investors how we plan to build on the foundational strengths of 3M to drive value for shareowners.

When I talk to a lot of investors, and I see a lot here in the room and others that are online, the question I'm asked a lot of times is, okay, what's -- Bill, what's different this time? How is this going to be different? And the answer, I think, to me is relatively simple and straightforward. I think you're going to hear about it today, you're going to see it today, you're going to feel it today.

To me, it's really all about applying basic principles across the entire enterprise and then executing them flawlessly with rigor, with discipline, every single hour of every single day. To me, it's really about a mindset shift that affects a culture and changes the culture. And when it finally sinks in, the results follow. And I'm starting to see it here today. I've done this before. I've seen how it can work, and I'm confident this is going to move the needle for 3M as well. And I think you'll see over the next 4 hours, it taking hold at 3M today.

So I'm going to start today with my number one objective, and that's delivering shareowner value for all of you. 2024 we hear a lot of change at 3M. And it starts with the Solventum spin, which was very successfully done on April 1, and has had a good last past year to the execution of the largest restructuring program that we've had at 3M. It's now about 90% complete. We'll wrap that up very shortly this year.

Yet through it all, we met our financial commitments. We delivered earnings per share at the top end of the range that we gave at the beginning of the year despite some of these turbulent things going on around the world.

We improved execution with 169 new product launches and an eight-day improvement in cash conversion cycle. Eight-day improvement, which is really, really good and impressive. That allowed us to generate strong free cash flow and allowed us to return $3.8 billion to shareowners last year while also reducing net leverage and improving our balance sheet. And you can see on the bottom of the chart.

But today is the last time we'll talk about '24. It's not really about '24, it's about the future and where we're going from here. This is a future that builds upon the 123-year history at 3M. It's a rock-solid foundation of material science and manufacturing capability, our global reach, our strong and iconic brands. And it overlays on top of that a new performance mandate, a relentless focus on execution and constancy of purpose. And you're going to hear me talk about relentless and execution and excellence and operating rigor multiple times today, but that's really what the new future is going to look like.

We're finding a way to manage through distractions around obstacles without wavering on what we're trying to do to achieve our own personal goals. That's really what defines this new performance culture at 3M, and it has several elements to it.

First, it starts with being obsessed with delighting our customers, starts with the customer, having the best talent on the team, setting clear performance expectations for people, tying incentives to the priorities and then paying based on differentiation based on performance, moving with speed and urgency, operating rigor, relentless continuous improvement, a word again, relentless, with the absolutes of safety, ethics and integrity right at the core.

This culture was recently anchored in an articulation of our leaders expectations right here in this room with our top 75 leaders and it's shown on the right-hand side, be accountable, be involved and be ambitious. To be change agents to be -- to challenge the status quo.

From day 1, I've been talking about this. I think it's getting old to a lot of people inside the company, but I talk a lot about challenging the status quo. It's great that we have 123 years' worth of history, but every day is different and tomorrow has to be different. We have to be better tomorrow than today and better today than yesterday. And that's a really continuous improvement to me is really all about. But it's one culture for 3M.

Historically, you all know you watched the company for a long time, we've been run more like a decentralized holding company. And what we're now trying to do is pivot to an integrated unified operating company that leverages the power of our scale, shares technology, shares ideas, shares people across the whole enterprise. That's the direction we're moving into. And Mike started with a journey just a couple of years ago.

From day one, I've talked about these three priorities. You've heard about this, reinvigorating top line growth, driving operational performance across the enterprise and effectively deploying capital. It truly is a back to basics, focus on fundamentals, blocking and tackling, you get the visual on the left-hand side, approach to driving sustained performance across the company.

Our first priority is top line growth. And there's two threads to this. On the left-hand side, reinvigorating innovation to inflect what has been a multiyear decline in new product introductions, new product sales, new product vitality index. And you heard me talk earlier just a few minutes ago about the early momentum that we're building. We built it in the back half of last year with 169 product launches. We'll see that continuing this year into '25 and then beyond.

Starts with the customer, having a clear understanding of their needs, developing differentiated products in an efficient and effective factory that we call R&D. A lot of the metrics you'll have John talk about in a couple of minutes around R&D sound like a factory, cycle time, throughput, quality, waste, all those kinds of things. And that's how we think about this factory we call R&D. But it's going to take some time for that innovation flywheel to kick in.

So we need to sell more of what we already have on the market. And that's where you see on the right-hand side, commercial excellence. And I'm really excited about the opportunities that we're seeing to drive better execution at the customer interface. And Chris is going to spend a lot of time talking about this in just a couple of minutes. Starts with the front line, having a best-in-class salesforce that's motivated, that's trained, that's incentivized with standard tools and processes and operating cadence with a tighter governance on pricing structure, extends how we go to market.

The three business groups are a little different in how they go to market. But we're going to see capturing cross-selling opportunities, particularly in SIBG with distribution, a tighter relationship with our innovation partners that you're going to hear Wendy talk about and then focusing on priority brands and pushing our ad merch dollars into those brands that Karina is going to talk about.

And then, of course, delivering reliably to customers, perfect quality, on time, every time. Something we call OTIF or on-time/in-full. We've been talking about this on our calls every once in a while, and Peter is going to talk a little bit about what we're doing to try to improve on-time/in-full because it is fundamental. It's about delivering to customers.

The mandate we have here is to gain share and to grow our addressable market, especially in the verticals where we have a clear right to win. So when we overlay what we see as the key macro trends in the company, digitalization, electrification, automation, others, on top of the periodic table of the 3M differentiators, we align on 11 priority verticals, in all of which we have significant presence and a strong foundation for growth: from aerospace to automotive, electronics, semiconductors, data centers, safety, energy, home improvement, there's others here.

And you heard a lot about this last night in some of the tech demonstrations. Each of these markets are large. They're growing. They have a total addressable market of more than $300 billion, and we can leverage our differentiated technologies and our unique channel access in each of these areas. But for 3M to grow sustainably above the macro, we need to systematically shift our portfolio towards high-growth, high-return markets.

And we're doing that today by surgically assessing the 120 profit centers that we have, identifying those where we have high growth or margin potential, where we can differentiate through technology and through innovation and where we have a clear right to win. The plan there is to invest our dollars there, shift and invest our time in those businesses where we have a right to win in that category.

At the other end of the spectrum are the businesses where we have slower growth or lower margins. They're more commodity like. We have a limited right to win. But if they can be reasonably disentangled from this complex network that we have of factories and they're worth more to others, we'll look to divest those businesses over time. And as I talked about in a few calls, we have a few of those businesses in process today.

But many businesses don't fit clearly or neatly into one bucket or the other. Some have limited growth, some have acceptable margins. They're solid businesses. Perhaps there's some significant entanglements, and we'll run those for cash and continue to reassess those over time for what we actually do. But as you know, portfolio management is not a one-off process. It's a continuous process. And we'll keep looking at this over time to how do you structurally shift our business into higher-growth verticals and pull back from the places where we don't have as much of a right to win.

So the second priority was around driving sustained operational performance. And we recently launched a new 3M operating system. We call it 3M Excellence. It is an enterprise-wide model that's embedded in all of our functions, really everything that we do, and it defines how we do business at 3M. Its foundation is a core set of principles. You see them on the right-hand side, clear and concise KPIs, standard tools and processes, data-driven and using digital-centric solutions with rigorous and methodical tracking of those KPIs, relentless continuous improvement, always challenging ourselves to be better and striving for goodness every single day, everywhere in everything that we do. It really is a fundamental part of the culture we're trying to build, and it's a shift that you see happening today at 3M.

This kind of program here, OpEx programs, I've developed them before. It's typically a multiyear journey. I know they can work, and I think it's going to be a big difference for this company going forward. The third priority is around balanced capital deployment across the organization, both organic and inorganic growth plus a little return to shareholders. And it's underpinned by a strong balance sheet.

The number one priority is to invest in organic growth. And over the next three years, we plan to invest $3.5 billion in R&D. It's going to increase slightly over that three-year period, holding capital at about $1 billion a year, but within the mix of $1 billion, shifting more of that mix towards growth than what has been in the past. We'll return about $10 billion to shareholders, about half through dividends. And you probably saw earlier in February, our Board authorized a dividend increase by about 4%. We'll see that grow with net income over time. And about half through repurchases.

And again, earlier this month, the Board authorized a $7.5 billion share authorization for us to repurchase shares this year and beyond. And we'll upgrade our portfolio over time with a mix of both divestitures and potential bolt-ons, but I underscore over time because the focus right now really is around organically investing in the company, returning cash to shareholders, evaluating what we can do for divestitures, and gradually shift the portfolio through potential bolt-ons over time. The balance sheet has ample liquidity. Anurag is going to talk about this in just a couple of minutes. We have a Solventum stake that's worth more than $2.5 billion. It can be sold any time. It's going to be sold tax-free.

So that's something that we have on our balance sheet today. And we're committed to remaining solidly investment grade. So now putting it all together, our formula for reigniting long-term value creation at 3M. The markers that we're putting down on the left-hand side, 1,000 new product launches in the next three years, $1 billion of sales above the macro, $1 billion in supply chain net productivity over that three-year period, and $10 billion being returned to shareholders I just talked about in the last slide, all over the next three years.

Our commitment in the middle, what's our commitment to outperform the macro with earnings per share up 4% to 8% in 2025, as we talked about a month ago, accelerating to high single digits in '26 and '27 with free cash flow conversion more than 100% of net income. And we're anchoring these commitments into a new long-term incentive program for executives. It's 50% weighted on cumulative EPS, 50% weighted on cumulative free cash flow with a TSR modifier as an overlay of our performance versus the S&P 500 Industrials Index.

Now we've heard from investors over the course of last year, we spoke to more than half of our shares outstanding. We got a lot of feedback on how we link compensation to performance inside the company. And I believe this is responsive to what investors have told us, a more simplified plan. This is a one three-year plan, not three one-year plans that reset every year. So it's more simple. And it's clearly aligned to shareowner value creation.

So this is the team that's going to make all of this happen, and you'll hear from them today. They're all very seasoned and experienced leaders with time at 3M ranging from about 6 months to more than 25 years and all have a very proven track record across lots of large industrial and other companies.

But before I hand it off to John in just a couple of minutes, as you probably know, last Friday, we announced that Peter Gibbons will be retiring at the end of the first quarter for personal reasons. He was truly, truly instrumental in building this combined unified end-to-end supply chain organization and developing the KPIs that I'm talking about today, and he's going to talk about in a lot more detail, and I'm very grateful for all of his contributions to 3M.

Succeeding Peter is going to be Torsten Pilz. Torsten has a similar role at Honeywell. He's been there for about 8 years. Previously worked at SpaceX and Amazon. He worked at Henkel and Clariant, he has a PhD in Chemi and a true ops expert. So we're glad to have Torsten on the team replacing Peter in just a couple of months.

We also announced a new Chief Strategy Officer that's going to be reporting directly to me. Jonathan Van Wyck. John is a senior partner at BCG. He's based in Minneapolis. He'll be here very shortly. And he leads the BCG North American Industrials practice. And again, he's a great strategic thinker. He's going to build strategy and M&A capability and lead those functions within the company. And I'm really pleased to have Torsten and John on our team in the next couple of months.

So with that, I'm going to turn it over to John Banovetz, who's going to share with you what we're trying to do in this factory that we call R&D. John?

John Banovetz *- 3M Co - Executive Vice President, Chief Technology Officer, Environmental Responsibility*

Well, good morning, everyone. Thanks for being here. I'm John Banovetz, I'm the Chief Technology Officer here at 3M. And I'm excited to be here this morning because I get to share about one of the fundamental elements about 3M's value proposition, our integrated R&D model. So I'm going to spend some time today defining that model for you, how we think about that model, where we currently are today, but really most importantly, about how we're changing that model and what's different about that model going forward for us to address our customer needs as well as meet the market needs and ultimately drive growth for 3M.

So 3M is built upon a strong foundation of R&D capabilities. We are the technology leader in our industries, and we are one of, if not the premier material science company in the world. And our products compete based on performance and differentiation, partly driven by R&D and our technical capabilities. And that always starts with engaging with our customer, making sure that we understand their needs, products are solving those problems. We add that through our technology capability and our expertise and then we collaborate with those customers, our businesses, and our manufacturing on a global scale.

The map at the bottom gives you an idea about our R&D presence globally. The larger dots representing our largest technology centers around the world. And so we truly can meet our customers anywhere in the world and meet them where they are at.

Now as we talk about our $1 billion investment in R&D, it's important to think about and remember what it all encompasses. We bring a full range of R&D capabilities to our customers, technology development plus application of that technology to create new products. And our differentiated capability is really in the R part of R&D. So at 3M, our technologies are considered owned by the company, not by specific business or a business group. They're owned corporately.

And as a result of that, our centralized corporate research function not only is responsible for developing the technology, and the stewards of those technologies, but for flowing technology across our businesses. Because it's never one technology to solve a problem. You have to be able to combine multiple technologies together in order to address and differentiate the products that we sell. The deep part of R&D, that's where our application engineer, our product engineer, our product developers reside.

So our application engineers focused on working with our customers, specking in 3M products into those processes, our product engineers who work with our manufacturing teams to reduce costs through things like dual sourcing, improve yield, reduce design, or process waste in those processes. And then our product developers which deliver the high-quality, profitable products to our customers.

Now if you think about the spend and how that's split, it's about one-third spent on the technology in supporting our R&D efforts and about two-thirds on the product development effort. And most people, when you think about new products, you think the product development effort because it's most visible and it's the most emphasized part of it. But I'll tell you, you need balance across all these different elements in order to be effective in creating new products. So it has -- all of it has to work together, and it has to be in balance between all these different elements.

Now not only engaging the customer and having a strong technical depth is important. Our model is built on a very strong R&D culture, and that starts with our scientists, that starts with hiring the best scientists in the world. And then giving them the freedom in order to create. We connect our scientists across 3M in multiple different ways.

One being and it's a good example of that is our tech forum, which is a grassroot self-directed organization and that allows our scientists to share their ideas and transfer knowledge and exchange knowledge across the company globally because you really, in the end, do need a collaborative culture to make sure that you're bringing the best solutions to your customers. It's one where employees are empowered and recognized, and they do have that freedom to create.

And our model has been proven over time. Throughout our history, we've invented and introduced new-to-the-world products. So starting early -- in the early 1900s with our abrasive -- first lines of abrasive products, including our first industrial masking tape invention that launched the Scotch brand family of products, celebrating its 100th year this year. And throughout time, creating -- inventing products that allow us to make the world safer, more productive, and more sustainable. And it's repeatedly transformed our businesses, enabled us to expand our businesses over time, and we'll continue to do that going forward.

Now I said our R&D model, our engine needs to be in balance to work optimally. And I'd say admittedly, over the last several years, we've been out of balance in that model, and we're working to rectify that going forward. And we looked hard at what are some of the factors that kind of knocked us out of balance, so to speak, in our operating model.

Several years -- one, several years ago, we started shifting and cutting back on small local product development efforts. Now some of that's needed, some of that makes complete sense because some of those products weren't necessarily profitable. They weren't driving growth, or they weren't really sustainable because they didn't have 3M technology incorporated into them.

But over time, we kind of lost our focus on making the small bets and innovation that you have to make, introducing a product, learning from it, iterating on it, continually building on it so that you can actually continually grow and iterate around that innovation and that new product. The second part was, I'd say, coming through COVID and the supply chain challenges that, that presented, added on to that our December 2022 announcement around PFAS, we shifted resources from product development to reengineering efforts.

Now going through 2025 and beyond, we'll be shifting those resources back to more product development and more growth-focused efforts. And I'd say the third that we saw was up until our -- the spin of our health care business at Solventum last year, we disproportionately invested in our healthcare business. Now that, that spin has been completed, we're able to focus more on core growth again going forward.

We also took a hard look at our commercialization process and what it would take to kind of reignite that process itself. And we identified four key levers for that. And building on what Bill said, this isn't rocket science. This is about really basic fundamental innovation management and executing that. The levers are as simple as making sure that your R&D investments are aligned to the right markets and the right opportunities.

Governing those products, so you have the right level of enterprise visibility on the top of that and accountability to that. And then driving out non-value-added work, reducing waste in your processes. So whether that's at the researcher level or in the process itself going forward. And by doing that, we end up freeing up team capacity, increasing our velocity to launch new products, and ultimately improving our effectiveness of our new product engine.

So to start, it's really about making sure that our R&D dollars are aligned to the most attractive markets. And Bill mentioned this around the macro trends that we talk about. And there's lots of different ways to think about the macro trends. From a 3M perspective and particularly an R&D perspective, we think about those macro trends through the lens of technology and particularly material science. And when you look through that, you identify these priority verticals, again, that Bill had mentioned. And you'll hear more about the verticals and the businesses in their presentations coming up. But I wanted to spend a couple of minutes just telling you why these verticals are important to us.

So first, they're all large, fast-growing, and relevant to the future. Second, 3M has a presence in these. We have a foothold. We have a connection to the customers, to the verticals, to the markets. And so we're not starting from zero in any of these areas. And from an R&D or an innovation perspective, all of these verticals are driven by technology and particularly about material science. So even a vertical something like aerospace, where we've been for many, many, many years, and we sell adhesives, sealants, tapes, things like that, there's a demand for new films, new bonding solutions for composite materials.

Areas like semiconductor, as people move toward more advanced nodes, that's fundamentally a material science problem that you have to solve. Automation, even people say, oh, that's a process piece. But as you noticed maybe in the tech expo last night, as people automate processes, it requires new materials in order to fit those needs. And so each one of these markets is really where technology and particularly material science plays an outsized role, and you have to do it at a global scale. And those are both strengths of 3M.

The second lever that we're working to improve upon is really around enterprise accountability around NPI. So we're adjusting our governance model to make sure that we have the right level of visibility and accountability on our new product development efforts. So in the past, we're very decentralized. We pushed decisions on our new product portfolio to the lowest levels of the organization.

And that's good in the sense that you're now innovating and inventing close to the customers. But it really did limit an enterprise-level visibility or the ability to move resources around opportunities and make sure that you have the right resources at the right time on the most important opportunities and programs. So we're shifting to a broader portfolio management approach, one in which our highest, most important strategic impactful programs will have a greater degree of enterprise visibility so that we can ensure both the balance of creating at the core for the products as well as an enterprise accountability.

The third component of our innovation model that's changing moving forward is really about rewiring how we work. And that starts with our researchers. We've always had a very good relationship with our customers from a researcher, bench-to-bench, engineer-to-engineer relationship. And again, you'll hear from the businesses, a focus on strategic discussion -- strategic alignment with our customers. That will only continue to strengthen as that becomes an imperative, strengthen our relationship and our technical relationship with our customers going forward.

We also looked at what our researchers do day in, day out. What are the daily activities, what's going on? What are the nuts and bolts that they do. And what we found is that about 35% to 40% of their time was spent on value-added work against the benchmark of about 65% of the time. So we're simplifying processes. We're trying to take tasks off of our researchers' plate. We're automating repetitive tasks, trying to increase the amount of time and effort that they can spend on value-added work and the product development effort.

As part of that, we're accelerating our innovation itself using a variety of different tools and processes, particularly ones driven by artificial intelligence. So for instance, an area of process informatics in our lab and our pilot lines so that we're able to better understand the interdependencies of all the complex variables of both material and process in order for us to enable and predict the optimal process conditions in those labs, in the lab, in our pilot lines. By doing that, we not only free up capacity in our lab in order to do more experiments, but ultimately, it allows us to scale up faster in manufacturing and go from the lab to the pilot line to our manufacturing in a shorter time frame and reducing cost.

Now I step back, and I do want to talk a little bit about AI and its influence on our R&D model going forward because I do think it's a powerful tool to accelerate our innovation. In fact, I think it will -- artificial intelligence and AI will fundamentally change how we do research. And I can say that because I think it will bring different capacity and capabilities within our R&D model. And just to give you a couple of examples of that.

We used a 3M proprietary patented AI technique methodology in the development of our Cubitron 3 -- new Cubitron 3 abrasive product. We used artificial intelligence to model the shape of the grain, the shape of the abrasive, predict its performance, optimize what that should look like in the product development. So we were able to do that and predict what shapes, how to accelerate the development, and understand the relationship between shape and performance.

We automated some of our product performance testing. But probably most importantly, we used artificial intelligence and large models in order to accelerate our scale-up of this product. So as we moved into our manufacturing, we were able to simulate our manufacturing, understand the complex variables, and interdependencies of the material, the processing, and the performance of it. And in doing so, we were able to reduce our scale-up time. We actually reduced our waste, improved our yield, and ended up with a higher performing product than at the start for our customers. So our customers get a greater value and ultimately, 3M as well.

The second example of using artificial intelligence is around how we innovate with our customers. So in October of 2024, last October, we launched a digital materials hub. So this is a platform with over 300 product model combinations, detailed technical information about 3M materials, predictive models to predict performance of those 3M materials.

So our customers, whether they're in aerospace or automotive or electronics or wherever, can now take this information, this detailed material data, and they can use it in their systems to model their product performance. They can predict performance of their product, their system, their processes using a 3M material.

This accelerates their scale-up time. It accelerates ours. It increases our collaboration with our customers. We understand their problems better. And ultimately, it's about reducing time and cost, increasing the speed to our spec in, and our customers can use a 3M material in a greater confidence going forward.

The last lever that we're driving is around improving our commercialization process itself. So you heard Bill talk about the R&D factory. That's a fantastic analogy for our commercialization process. And like any factory, you want to be able to reduce the waste, improve the yield and deliver on-time/in-full every time to your customer. And in a commercialization context, that means trying to get to the decision of go, no-go in the stage-gate process quickly and with the best data you can.

So we're driving greater rigor in our financial cases so we can build confidence as we go forward in what they are. Streamlining this process, eliminating non-value-added work, eliminating repetitive tasks through that process. Reducing waste, as I mentioned, tightening the connection to our manufacturing so that we can go from lab to pilot up to scale -- lab to pilot to manufacturing quicker, reducing the time and the waste in that.

Simple nuts and bolts things, reducing the time it takes us to set up a SKU as well as, as I mentioned before, using artificial intelligence tools in our processes to accelerate the development as well. Our goal in this is to reduce this by 20% going forward. It's an initial target. It's where we're headed.

To give you or dimensionalize that a little bit for you across all of our different businesses, all the different sorts of products that we launch, it's about 13 to 14 months for us to launch a product within 3M. And our target is to reduce that somewhere in the ballpark around 9 to 10 months. So if we're successful, you can think about the capacity that, that would unleash within our R&D model as well.

And then how are we going to measure performance? How are we going to know that we're increasing the velocity that we're being more effective, that we're built to this capacity? So right now, we're focused on three metrics: new product launches, our five-year new product sales, and NPVI or New Product Vitality Index, which is the percent of sales generated from products introduced in the last five years. And over time, we expect to substantially improve these metrics going forward.

But I got to tell you, the 1,000 products over the next three years, that's a big goal. That's a really big goal. But I can tell you there's line of sight to it because what it will do at the end, it will mean that we're launching somewhere in the ballpark of 400 to 450 new products a year. We've done that in the past. We've done that as recent as about right 2016, 2015 timeframe. So there's a line of sight. We can do this. We have the capacity to do that. We need to do that.

And if we're shifting the resources, as I described, and building the capacity, it can happen. I think it's a tremendous rallying point for particularly the R&D organization and our commercialization processes. Our researchers come to 3M to solve tough problems. They want to launch products. They want to have an impact in their customers. They want to have an impact in their world. And so launching 1,000 new products over the next three years, it will be a challenge. It will be something that we have to work at. But I have to tell you, it's a challenge that as an R&D organization, we're willing to accept and take on.

Second comment about the metrics, I would say, is just that we need to evolve our metrics over time. These are really right now driven by an activity base. We need to be able to move those and link those our metrics more to growth and ultimately profitability as we go. So things like new product margin or year-over-year new product growth, for instance, because we have to be able to better link our R&D investment, our time into overall growth of the company as well as profitability and earnings per share expansion as we go.

Now last night and the question I get -- I got to stop because I always get this question, what are you excited about? As CTO at 3M, what excites you? What's next? What's the next cool thing? What's the great thing coming down the pike? And that's a really hard question to answer from a product perspective or a singular innovation. You saw some great innovations last night in the tech expo. You'll see some great innovations through the business group presentations in a few minutes.

But I have to admit, it's not necessarily something -- a single product or something that excites me the most as CTO at 3M. It's actually our ability, it's a capability, our ability that we have to take technology in a new area and expand the use of our technology into new areas, new opportunities. Micro application shown on the slide is a fantastic example of that.

So micro application is the ability to produce micron-sized features on a film, for instance. So you can imagine doing that on something that's several feet wide, running at several hundred feet a minute. And you're doing that with incredible high precision, accuracy to produce a high-quality product. It's really an incredible technology, if you think about it, both in material and process capability.

Now we started that -- you get some very -- we got interested in it because you get some very unique optical properties with it. So we launched it in the electronics and safety markets to start a while back, okay? And over time, we've pushed the technology. We've created different features, different ways to do it. We've extended it into different form factors, different methodologies.

And in doing that, the cool part is we've not only expanded our opportunities in electronics and safety, but we added other markets and other opportunities. We've moved it into our industrial markets. We introduced it into areas that you never would have thought of at the start. We're using it in abrasives, adhesives. We're using it in our new expanded beam optical connector that was recently launched. And so you've taken a technology and moved it forward.

Now going forward, it gets even more exciting because you're talking about -- we're moving this from a micro into a nanoscale structure. So moving from micron-sized into nanosize. And when you do that, the world opens up again. In fact, it's almost another part of our periodic table of technologies. And by doing that, you get an incredible set of optical properties on this.

But the exciting thing is, and we'll see how this all develops, is we're taking the technology and pushing it into new markets, new areas, new opportunities. That's actually really exciting. That's what excites me. That's the exciting part about 3M because it's a unique differentiated capability that we have, to take our technologies into new areas and new markets.

Let me wrap up a little bit. Bill talked about -- so if you summarize what I've been talking about, Bill talked about 3M Excellence. He talked -- and our innovation excellence is part of that. It's part of the overall approach, and it's using the same principles. We are an innovation powerhouse. We have great technology. We work closely with our customers. We're built on an incredibly strong R&D culture, but we're not resting on that past. We're moving forward and advancing as we go.

By adding discipline end-to-end development, performance management, a mindset around continually improving and continuous improvement of our processes and what we do every day as researchers and scientists. That will drive to a new era of innovation excellence.

And ultimately, I think for me, it will create a new standard of innovation, not only for 3M, but I think for the world going forward. And so if I can leave you with just one thought, it's that momentum is building. Momentum is building across 3M and within 3M R&D. I'm incredibly excited about the future and where 3M's science and innovation will lead us.

With that, thank you, and I'll introduce Peter Gibbons, Head of our Enterprise Supply Chain.

Peter Gibbons - *3M Co - Group President, Enterprise Supply Chain*

It's always good hearing from John and then me because you get the long and the short of it. So I think that's a really good thing. So my name is Peter Gibbons. It's my -- it's been my great privilege to head up enterprise supply chain at 3M for the last three years. And enterprise supply chain covers a whole bunch of things, planning, internal manufacturing, external manufacturing, procurement, logistics, engineering and quality.

And what I want to do this morning is share with you our current situation, describe the incredible opportunities that exist across margin, service and inventory, and then explain how we will deliver operational excellence in our operations in 3M.

Now let me just remind us a little bit about this incredible supply chain that we operate. It is incredible. 43,000 people, 110 active plants, 88 distribution centers, and what makes our supply chain so interesting and complex is the connectivity and the interdependence between our factories and our processes and our products. And we have about 1,000, what we call interplant lanes or connections between our factories around the world.

Now back in the middle of about 2022, my first task was really to calibrate our operations and calibrate the performance, calibrate the effectiveness of the organization, and benchmark us against standard metrics and standards. And the whole point of that was to build a valid and a viable strategy to create differentiated results. And the first part of executing that was to create the right global operations organization and model.

In the past, we've been largely fragmented and disaggregated. And I'll give you one example. Our procurement function was actually -- there were five procurement functions around the world. There are about eight planning functions. And what we did was we brought this together into functional organizations, bringing in external and internal specialists and experts to run these global functions.

We created a totally globalized organization, which allowed us for the first time to have complete line of sight end-to-end visibility of the performance, the data and the issues and challenges throughout this large complex supply chain. And the good news is to tell you that with that new model, it allowed our new leadership team, which although they are functionally driven, they are one integrated team. They run it as a supply chain, not as individual functions, that they have common metrics, common objectives, and it's allowing us to make more change more quickly and more effectively than ever before, and it's working.

And these are some numbers from last year. But if you look at the results of the last two years, you would see steady improvement. The last year, we improved in safety, we improved margin, service, inventory, and we improved what we call OEE, which I'll talk about, but more basically our factory and our machine performance. And we're excited about that.

We're excited about the momentum and the progress. But at the same time, there are no victory laps. There are no victory laps because what's more exciting, what's much more exciting is the opportunity ahead and the enormous scope to continue to improve and create differentiated results. It's early days in this journey. It's early days in this journey. And that's encouraging because it means that, as you'll see later in the presentation, the real value that we can add as we move forward.

Now you've heard from Bill multiple times talking about the importance of growth, the importance of innovation and how important operational excellence is across everything that we do. So where does 3M operations fit into all of this?

Well, when it comes to growth, our job is very clear. It is to provide the level of customer service that supports growth, to provide the responsive capacity to allow us to support growth, and to make sure that we partner intimately with the business groups so that we are in lockstep with them as they drive higher sales and more business excellence. And in the case of innovation, our job is to enable innovation through our ability to collaborate with the R&D teams to scale up new products and processes and to create capacity in advance of those sales with those new products.

And when it comes to operational excellence, our job is also very clear is to deliver annual productivity, annual net productivity across our $13 billion of spend, which we'll talk about, and drive us to high 40s margins in the future. So our strategy to do all of this is built on three very clear priorities.

The first is productivity. And you'll hear more about this, but we've got -- it's clear that we will deliver $1 billion of net productivity over the next three years. And what I mean by that, when I say net, that is after wage inflation, material inflation, and stranded costs. So that's $1 billion of net productivity. So our team are focused on delivering typically 2% annual net productivity per year.

We also have to deliver improved service and inventory. We do that by building an improved end-to-end execution machine where we can link supply and demand across the entire supply chain to deliver higher service. So although we've improved, we've still got to get up from the high-80s to the mid-90s and to do all of that with lower inventory.

And how do we do all of this? We do this by building out our capabilities, ensuring that we continue to strengthen our bench, we build the appropriate technical skills, and we make sure that we are also adding the contemporary tools and technologies to our toolkit. It's a multiyear journey. It isn't all done in one go. And what I want to do is show you now the framework that we use to talk about this, and I'll take a couple of minutes on this.

It would be great and listening to some of the questions last night and over breakfast, it would be great if we could just wave a magic wand and jump to a whole new rewired, redesigned supply chain. You would like that. I would like that. It would be faster, simpler, and it would be wonderful, if only that was how the world worked.

And as you look at this chart and think of the five kind of pillars we've laid out, sure enough on the right-hand side, it's clear there are fantastic opportunities to rewire our supply chain, product platforming, delving into Tier-2, Tier-3 suppliers, looking at AI-powered planning and quality systems, all kinds of fabulous things we can do.

And before that, on the right-hand side, you'll see just redesigning the network, how many factories, where should there be, how many distribution centers, how many vendors. All of that is possible and needed and realistic to think about. But that's all we focused on just now, what we wouldn't be doing is building the foundation that exists on the left of this chart. So let me jump to the left-hand side.

On the left-hand side, at the most fundamental level in our supply chain, as we speak just now, there is someday running a machine in a factory on an 8-hour shift, and all they want is for me to make that machine run better for them. There's somebody in our procurement department buying or negotiating a single material with a single vendor, and that is so important that they have the power and the ability to negotiate a better price.

And those foundational, what we call unit operations, we are concentrating on and building and making sure we continue that foundation builds. That then evolves into -- you step back and you broaden out the aperture and you get to the plant level or the supplier level or the DC level and you say how do I run factories better, how do I run suppliers better.

And that could be in the case of our factory, how do I drive the OEE, the plant performance, the line performance, how do I drive that more effectively across a whole site? How do I take a single supplier, partner with them better and get better value out of them? And then how do I take a network? How do I drive this network? How in today's world do I drive a network of 88 factories, thousands of suppliers -- sorry, 88 DCs, 110 factories, thousands of suppliers, how do I work that network better?

And so I want you to know that we are working across all of these, but our focus just now in these early days is on unit operations, running factories, DC suppliers better, improving the network and running it more effectively. While we're thinking about how do we make those bigger, bolder steps in the future. It would be great to just wave the magic wand that won't happen. We're not ignoring the right-hand side. We're very focused on building that foundation today, and that's done by having a series of intentional actions across plan, source, make, deliver, which compound and amplify over time.

As we're doing that, we'll be thinking and we are thinking about how do we rework the network, how do we redesign it, and how do we rewire this, and how do we simplify all these interplant connections into plant dependencies. I get really excited about this chart. I hope you do as well because this literally lays out the road map as to how we think about this and how we create the action plans and how we motivate our teams to go and make this happen.

But it is early days. We're in the early stages of this journey, which again means that there's tremendous opportunity ahead. So let me now talk about the individual priorities that I mentioned. And priority one is productivity. It's driving that net 2% across all aspects of the $13 billion. And we understand $13 billion of COGS in a way that's never been done before. We understand the spend cube, as we call it, or the cost spine. We understand that in intense detail, internal manufacturing, external manufacturing, direct materials that go into our products, the cost of quality, the losses that we incur and, finally, logistics.

And from that, we build the productivity plans. We have about 4,000 active projects as we speak today for this year in that productivity plan, and that is to deliver the $1 billion of net productivity over the next three years after inflation, after stranded costs, and from that $1 billion, we'll invest about $250 million in capability and systems and other things to help us continue to drive that improvement, all with the goal of taking us to high 40% -- high 40s gross margin.

So what I want to do now is I want to give you some real examples, right? If I get a bit excited and geek out on one or two of them, just maybe send me a signal to slow down and calm down because this is very cool stuff. I mentioned OEE a couple of times. What on earth is OEE. OEE is when you take a machine and you say, does it run as fast as I want it to run? Is it available to run when I want it to run? And when it runs, how often does it stop or jam or get clogged due to a stoppage or something, right?

So if you just think of it as a basic metric of if 100% was running perfectly, what percent of that perfect output am I actually getting? And our plan -- our productivity plan is based on three things. It's OEE improvement, automation, and continuous improvement like Kaizen events and building out our continuous improvement platform.

We've improved our OEE, right? Last year, went up 400 basis points. That's good. We're at 52%. 75% across all of our strategic assets would be fantastic. That would be a game changer. Is it possible? So here's an example of one of our most complex lines, our multilayer optical film line, two years ago, running at 61%, now running at 74%. That's a game changer.

Put it more simply, for every 100 yards of material I used to get two years ago, I now get 120 yards, 20% improvement. If you expand that across our strategic assets, it's worth about $125 million through greater efficiency, less labor, more flexibility around capacity, $125 million. Automation, 80 projects this year. We'll reduce our headcount by about 700 people. We need to move to standardizing some of our automation.

These are great projects, these 80, but we need to have standardized automation solutions that we can roll out faster across more plants simultaneously. And here's an example on the right, an autonomous materials handling system we put into one of our European factories that reduced the moves by about 60%, and we replaced 50% of the headcount associated with that operation. If you expanded that across our top 40 factories, that's about 1,000 people. Take a piece of automation, dominate it, expand it across different processes. And then finally, there's another automation example.

There's something as simple as the card that we use for our hearing protection used to be manually knotted. We've now developed the technology. We brought it to the US and it's now completely automated, and that took out 85% of the labor content. Lots of opportunities in automation. And then continuous improvement. We've tended to run individual Kaizen events. We doubled them last year. They're typically worth about $1 million each, $900,000 each.

We now need to expand that, so we have a broader continuous improvement platform, engaging everybody in our factories in a whole range of CI improvement activities that allow us to drive productivity. So great opportunity and progress in internal manufacturing. External manufacturing is something we only really got into about a year or so ago. As we pulled this new organization together, we've got line of sight to the -- I have to tell you, thousands of external manufacturing people that support us and more than $2 billion of spend. We have component suppliers, we have subcontractors, and we have contract manufacturing.

And we've pulled this together with a new team, a new procurement team and a new operations team who are fully -- who are focused on driving value here through improved supplier negotiations and consolidation and value engineering, which again is something new to us. We've not typically done a lot of value engineering.

Some great examples here. If you look to the left there in packaging, packaging people, packaging suppliers, 10% to 15% improvement by consolidating the supply base by 30%. And injection molding, which we do all around the world, another example where we realized 10% savings by reducing our global suppliers by more than 20%, real opportunities.

If you look to the right, there's a great couple of examples as where we've got power tools, where we actually consolidated suppliers by 60% and reduced the cost by 50% across that portfolio, tremendous value opportunities. Value -- and that's worth about $100 million over the next three years.

Another area would be value engineering, 370 products analyzed last year. The first wave of those is in progress. On average, we're finding about 10% to 20% value when we take a product value, engineer it. And a couple of examples there, something as straightforward as our paint preparation system by simplifying and lightweighting the design, a 20% saving.

And then on some of our molded parts for kitchen and bath tools, there's a 10% to 20% saving by reducing plastic content and redesigning the molds and the molding for those components. We've got about 250 projects running today in external manufacturing. Early days, lots of opportunity ahead over the next three years.

Direct materials. These are the materials we buy to put into our products. We consolidated our procurement function back in 2023, one global procurement function, line of sight through all of our spend. And we've had some great success as they have accelerated their progress and their work in this area. In strategic sourcing, they completed 1,000 discrete negotiations last year with an average benefit of 5%. And if you look at global silicon, just in that category, 10% saving by leveraging commodity trends and competitive bids.

If you look at our supply base optimization, introducing low-cost countries, countries that we've typically not bought so much from and also injecting challenger suppliers, suppliers who have not used before, who can challenge the status quo, as Bill referenced earlier and bring different ideas and different insights and who are hungry to get our business.

And if you look at tackifying resins, those go on our tapes, we brought in a new low-cost country supplier and delivered 20%. We're delivering 20% value versus three incumbents who have lost significant business as a result. And then how do we work with these suppliers to the supplier relationships. We need to get better service, shorter lead times, smaller lot sizes, and we need better collaboration with them.

And a great example there is the $5 million of savings we got by looking at our distributors and consolidating those, and we generated $5 million of savings. There are also suppliers who are not performing, and we're looking at those and there'll be exit strategies for those if they can't keep up with us and can't deliver the value that we seek.

We've had our second Global Supplier Summit this year, where we invited over 200 suppliers to that. And we made sure that our expectations in terms of value, in terms of service, in terms of lead times, collaboration, innovation, we made those expectations very, very clear, and we'll carry on that process each year, but we're -- our voice is being heard much more effectively in the supply base that we've had.

Now another newish opportunity for us is the cost of quality. Back in 2023, as we pulled our new organization together, that allowed us to create one global focus on what we call process yield losses. That's just the normal loss of materials as you're running a process and you get normal losses. And in our case, it's quite significant. And so, we put a big focus on that back in '23.

And then this year, we've broadened that focus to not just process losses, but design yield. That's where you're trimming a web or you're punching it apart and there's material then left over and also to quality defects, our quality performance and complaints and feedback from customers. And so we've taken this broader view, opened the aperture. And this is worth in terms of spend or losses, this is $750 million a year.

As we broaden this out, I think we said to you originally $650 million. But as we broaden the aperture, it's about $750 million. That is 6% of our COGS. That's high. Over the next three years, we expect to bring that down to about 4.5%. And beyond that, we should be getting it below 4% and down to the low 3s.

Great opportunities here, $100 million opportunity across process waste, $50 million across design waste. But let me just show you a couple of examples here. And these are fantastic examples, but I can't tell you too much because John would not let me do that. So let me just explain the principle of a couple of these examples. We make catalytic converter mats, three-unit operations. By swapping the order of two of them and some really super, super smart process engineering, the losses in that process went from 12% to almost 0%.

And if you look at our design waste, how we punch out abrasive disks, again, not allowed to say too much, John, am I, but by changing how we apply the abrasive material to the web, 30%, 3-0 percent material improvement on those abrasive discs. These are huge opportunities. And across that $750 million, we need to deliver about $150 million net over the next three years. There's 1,500 projects in this area active as we speak.

Then I'll go to -- go to logistics. Some of the things we're doing in logistics, you'll say, gosh, these seem quite basic. Other people are more advanced, and that's true. We typically did not pay a lot of attention to logistics. We had five logistics functions. There's now one global function. We brought in external expertise and leadership, contemporary expertise and leadership.

But we've got great opportunity because while we're behind other people, that means there's opportunity on bidding out our freight, on consolidating loads on optimizing mode. And you see there an example where recently, we've reduced our air -- we've moved more air to ocean, a 10% improvement, and there's about a $30 million further potential improvement by reducing air freight.

So lots of examples across transportation where we can optimize and improve our transportation costs. We actually have made some real progress in our network in logistics, where we've reduced by about 30% the number of distribution centers we have. But we can also, as we look at it, there's about another 25 of them where we can either resize them or close them. So great opportunity still in our network.

And then finally, our DC productivity, bringing in industrial engineering standards, industrial engineering analysis, looking at the flows and the work path through our distribution centers. Here's an example from our largest distribution center in DeKalb, Illinois. We've reduced the travel distance for our top SKUs there by 12%. And there's a lot more we can do with industrial engineering across our distribution centers, and there's at least $30 million to $40 million more potential opportunity there in the coming years. So lots of opportunity in our COGS.

So let's just pivot quickly to our service and inventory. Our service has improved. That's great. 88% is better. It's not 95%. We know we have to drive that up to the mid-90s. Inventory reduced last year to 94. 75 would be a great ambitious target for us over time in terms of days of inventory. And to do that, we need to analyze and understand all processes within our end-to-end execution model, improving forecast accuracy, improving our planning, making our plants more predictable and reliable, speeding up order management, taking delays and lead time out for our logistics. And if we do all that together, we'll continue to drive service up and inventory down.

And our focus at the moment is around forecasting, end-to-end visibility, real-time decision-making, and our supplier performance. And let me give you some examples there. At the top there, Wendy's TEBG business, Transportation and Electronics, last year, service improved from 84% to 90% while inventory went down from 96 days to 91 days. We really can improve service and lower inventory at the same time.

And forecast accuracy, we've spoken before, Bill has spoken about the pilot we're running in two of our divisions to improve our demand planning. We've charted a path to a 14 percentage point improvement in our forecast accuracy for those two divisions made up of machine learning, forecasting models all the way through to how we segment the portfolio through a playbook to train our demand planners to do this more effectively.

And then if you look at our suppliers, we've had lots of issues with our supply base over the years, particularly coming out of COVID. Their supply performance to us, their service performance to us improved last year 12 percentage points, but we're still asking for more. We want even better service. We want shorter to understand that we need better service and more from them. And that message has gone out and has been taken very seriously.

Now the good news in all of this is that by driving our end-to-end visibility to understand all the issues in our service chain and looking at making flexible production planning a reality so we can pivot more often to optimize value. If you look at the CBG business, you look at the TBG business, we're running at record service levels, but we're not in SIBG. We've made some improvement, but we're quite far behind where we are with those other two business groups.

So we're taking all the learnings here and assessing them against some of the more complex issues in SIBG to make sure that we're driving harder because we have to get SIBG service up so we can go sell more effectively. And that is a big focus that Chris and I have together, and we meet weekly to make sure that we are driving faster progress.

Now to do all of this, we need to keep developing the best talent we can have because that's what this comes down to capability and talent. We have to have that. And in the last two years, we've added 29 external senior hires, and we've made 52 senior internal appointments. That's out of a population of about 300 senior roles. We're also making sure that we are providing training all the way through the organization on what it takes to run a world-class supply chain.

And we've launched what we call the 3M Supply Chain Academy. And currently, there are 3,000 staff positions enrolled in the first two waves of the rollout of our Supply Chain Academy, essential to give people the skills and the training to be contemporary and be effective. We also need to keep building our technical skills. You heard me mention value engineering and automation, right?

We've got to have better, better access to the technical skills our people need to be top of the class in automation and value engineering while we continue to build out our analytics and modeling tools. And then we need to think to the future to what tools and technologies do we need to acquire, whether it's AI planning tools, which is a great opportunity, whether it's process optimization tools that allow us to adjust machine rates, machine settings automatically with AI systems, which we've already trialed and tested and then the real-time decision tools in our planning systems in our factories to optimize inventory.

So capabilities is at the heart of what we do, and we have a very clear plan as to how to continue to strengthen our bench, build the technical skills and acquire the right tools and technology.

So I'll just finish out by saying this is a tremendous journey we're on. And there are three things that you may be remembered about what I spoke about. One, we've made progress. Two, there is great opportunity. And three, we're building the capability to carry on building that momentum to deliver against service inventory and gross margin as we speak. We need to deliver differentiated results.

We're in the early days of this, and that's exciting because if we're making progress and we're still in the early days, that means a lot more opportunity ahead. There will be twists and turns in this journey, right? These journeys are never linear, never all straightforward. There will be twists and turns, but we have a very clear path and framework as to how to manage this and how to make all this happen and deliver differentiated results for 3M. Thank you for your attention.

And with that, we'll be moving over to a break, which will then be followed by Chris. Thank you.

(break)

Christian Goralski - *3M Co - Group President, Safety & Industrial Business Group*

Good morning, everyone. I'm Chris Goralski, I'm the Group President for 3M Safety and Industrial Business Group. I've been in this -- I've been with 3M about 16 years. I've been in this role for just about two years now coming in May of 2023 when we embarked on kind of the final ship phase of our transformation into a more contemporary global operating model.

So I'm very excited to be here today to share with you an overview of the business, where we are in terms of this overall transformation. And importantly, the key strategies that we're driving that's going to define what performance looks like in 2025, and as we move forward in the next couple of years in the business.

So in the Safety and Industrial Business Group, we drive performance, safety, and reliability to transform how work gets done. And ultimately, we do that through our category-leading products, including our best-in-class technologies. And we win when we deliver productivity for our customers in their operations. On a going-forward basis, this will be more enabled by both an internal and external focus on how we can be more productive and drive operational excellence in everything we do, including from a commercial excellence standpoint.

So we're an $11 billion business, closing out 2024. We're organized into seven global businesses. Three of those we talk about as category, or product focused, starting with our Personal Safety division. Our industrial adhesives and tapes and our abrasives. These are products that we sell across the industrial landscape, and they account for about 62% of our overall sales.

The other four divisions are more market focused. We draw from those core category products, selling tapes and abrasives for example, into automotive aftermarket, but augment those portfolios with additional market-focused products that deliver value specifics to some of those markets and channels that we serve. We're a global business. About 60% of our sales comes out of the Americas with a strong footprint in the United States, with about 22% coming from EMEA and then about 10 each coming from APAC and China.

We go to market and that's really how we're defined as a business group, about 90% through channel partners. That is split about 50% what we call general industrial. These are multiline either distributors or wholesalers, who carry a variety of different product categories, often from those three big category-defining divisions that I talked about. Specialized industrial where we have channel partners who are more focused on specific markets.

So if you think flexographic printing, or automotive aftermarket, and then converters. So converters are about 10% of our business. Converters are customers who take our products in bulk form and then convert them into finished parts that are then sold in the market. So commonly die cuts or, in some cases, in abrasives, some specialized form factors. And the remaining 10% of our business, we do go direct in a number of different markets.

So within the Safety and Industrial business, we have exposure to large established markets. At the end of the day, about 65% of what we sell goes into manufacturing in one way, shape or form. And then the rest broken out 10% into automotive, construction, and then vehicle repair utilities and electronics, making up the balance. We look at the industrial production index ultimately as a benchmark against which we measure performance in the business.

But if we look overall across this broad landscape that we serve, we estimate our total available market exceeds $150 billion. And in that, we believe we have a large opportunity for growth just coming from penetration. But it's not just penetration randomly. It's looking at where are the specific growth drivers in these markets and the trends that we can capitalize on, that will lead to accelerated growth. So specifically evolving and advancing workplace standards.

Workplace standards for safety are always evolving. We believe our productivity-enhancing solutions like hopefully, the combined hearing protection and communication systems you saw last night at the technology exposition lead to higher value in terms of productivity for our customers and growth opportunities for us. Bonding solutions for advanced materials and designs, John talked a little bit about this in his section.

But the reality is if you look at products like electronic devices where you have dissimilar materials, bonding aluminum and glass with thinner bezels, these types of design trends require materials that not only mechanical fasteners typically can't achieve, but also advanced performance, things like durability, resistance to things like sweat and sunscreen. Electrical and computing infrastructure investments. I think we all know there's a lot of investments going into data centers driven by AI.

Last night, hopefully, you had a chance to see some of the solutions we have in our Electrical Markets division, where we have medium voltage, splices and terminations, which enable or required for a lot of these new investments.

And finally, new solutions for automated manufacturing. Automation is a big trend across the industrial landscape. And while we don't participate necessarily on the control side or the machine side of things, it opens up an opportunity on the material side that gives us unique opportunities for growth. For example, if you take our new Cubitron 3 abrasives, those abrasives can perform at cut rates and pressures that, in reality, a human being can't reliably deliver over an 8-hour shift.

So it's these combination of factors that we believe can drive us towards accelerated growth. We exited 2024 with momentum in the business. We finished the year about just under 1% organic growth with a strong fourth quarter at about 2.4%. We also improved our operating margins for the year, over 110 basis points, largely enabled by improvements in COGS that allowed us to start some investment in the front end of the business.

Service, which you've heard a lot of conversation about, improved for the year, up 300 basis points, but still significantly where we need to be in terms of driving growth in the business. And from a new product perspective, we increased the number of launches we had last year by over 50%, launching 64 new products in the group and had a commensurate uptick in our sales from those new products.

Our big focus which you'll hear more about today is on commercial excellence and how do we leverage the 2,900 sales professionals we have in the field around the world to drive more or stronger commercial outcomes while we continue to invest in that area, which we started to do as we exited last year.

Going forward, it's really about improving our supply chain service and quality levels to fuel that growth, executing -- or continuing to execute on our R&D playbook, building a stronger commercial execution engine and culture, and then increasing customer loyalty so that we can -- so that we can get stronger repurchase through service improvements and account engagement.

So the Safety and Industrial business is built on a foundation of products. We have category-leading products and technologies. I talked about the three different divisions which lead in this space. But if you look at our safety portfolio, compared to our competition, we have the broadest, most comprehensive safety portfolio with high-end features, which really are around delivering productivity for our customers.

High performance in adhesives and tapes is another category where we've continued to reinvent and reinvest in the business, building on current trends that our customers are demanding like the ability to bond and de-bond on demand.

And then abrasives. John showed on our chart, one of our first commercial products as a company was abrasives in 1914. It's still an important franchise today. We have the broadest portfolio in the industry, ranging from grinding applications all the way down to the finish polishing for paint and other finishes. We'll continue to build on that foundation through our innovation acceleration. We'll talk about how we're investing in resources, how we're going to improve our cycle time and how we're going to get to market faster.

But the big driver of that is going to move things forward in a more near-term basis is commercial excellence. What we're doing on the commercial management front, how we're building more effectiveness in what we do with our channel and how we're driving customer loyalty.

So from a new product perspective, John showed the objective to launch up to 1,000 new products in the next three years. In order for us to achieve that, we've got to pull our weight within the Safety and Industrial business group. And there's really three big drivers that we're looking towards that are going to help us achieve that. The first is increasing our resources by about 15% over the next three years.

This is really coming from two dimensions. One is a shift of resources away from product maintenance and some of the changes that we had to make to ensure we had continuity of supply. But also a net investment in R&D resources, in targeted areas where we think there is the best opportunity for growth and return on those investments. The second is reducing project cycle time.

John had talked about the importance of this. We average about 400 days in the Safety and Industrial business group. But if we look across the different types of products that we launch, there's a pretty big difference between what we consider to be incremental innovation and then longer-term breakthrough innovation.

Our approach here is really to simplify things where we have more incremental innovation, reduce some of the internal administrative tasks that we put on those to get to market more quickly, while on the flip side, where we're investing in longer-term more transformational investments, making sure that we have continuity of resources on those projects as we've seen over time that we've sometimes had a tendency to shift resources to what's urgent versus what's important over the long term.

And finally, doubling our on-time product launch attainment. This is an area where we need to get better. We measure this by launching a product in time in the quarter against when Wendy intended to launch it. And this, again, comes down to a focus on execution, at the project level and how we manage on a program management basis.

So on our most complex projects, this includes putting dedicated project managers on those and where we have strong cross-functional dependencies. For example, needing to run an experiment in our manufacturing facilities, having better tracking of resources and ensuring that we have a holistic project plans that get us to avoid what have historically been some road bumps that we've hit and the path to commercialization.

How this comes to life? A lot of the product categories that we have in the Safety and Industrial business group, we can have in the market for decades. If you take the example of abrasives. This is an example of how we've continued to reinvent what is a core category we consider to be foam tapes. Form tapes are fairly ubiquitous across the industrial landscape. They're very effective materials for efficient assembly.

If you think about something like the rearview mirror that's shown here, it's a relatively complex tape. Sometimes you have contours. You also have dissimilar materials. In this case, you're bonding glass to plastic or metal substrate. Foam tapes are very effective for this. We reinvented this category in the 1980s when we introduced 3M VHB acrylic foam tapes, adding really two significant dimensions to the functionality here.

First was durability. And the second was a stronger bonding performance, which opened up new applications and new avenues for growth. The example shown here was bonding aluminum panels to the exterior of a building. We reinvented this category again in the early 2000s when for the growth in mobile devices, especially smartphones and with design trends leading towards thinner bezels, how do we take the same technology and deploy it in a way where you have much thinner bond lines and very different bonding requirements, including the ability to withstand drops or environmental contaminants.

And hopefully, last night, you had a chance to see our newest innovation in this form tape space, which is our 3M VHB extrudable tape. This was shown at the technology expo. And if you looked at it, it looks a little bit like a hot melt adhesive or glue, but it's, in fact, a pressure-sensitive adhesive. It is a tape that is robotically dispensed, and it allows us to do things that are completely different. For example, having different contours, different bands that are difficult to achieve with a non-extruded tape, but also bringing new functionality.

For example, the ability to seal and bond at the same time. And when we're looking at new use cases for this, new opportunities for growth. One of the biggest areas we've seen an uptick is in battery -- bonding the lids for batteries for like EV or other battery vehicles across the industrial landscape. But I mentioned, and Bill talked about, commercial excellence and how that's going to be a differentiator for us going forward. And when we shifted into our new global operating model, starting just about two years ago.

Prior to that time, our commercial organizations are really organized by -- on a country or area basis. And there's a huge opportunity for us to really redefine what it looks like within 3M to have a world-class commercial organization that we operate on a global basis. And it really comes down to these 4 pillars that we're talking about here.

First, aligning our target incentives at the rep level. Importantly, we've pulled forward our target setting process and how that looks, and how that's deployed down to the individual rep level. So on the first of the year, all of our sales professionals understand what success looks like. Importantly, we've also made a shift where historically, we've primarily looked at lagging metrics as to what defines success within our sales force, to a more balanced view of leading metrics and lagging metrics, including are we winning on a daily, weekly and monthly basis.

And this is all built on a standardized operating rhythm. The second -- or the third piece then is around pricing and what we can do more to optimize pricing to drive both volume and profitability, which I'll talk about in just a minute. Channel effectiveness is another really important part, particularly for our model within SIBG, where about 90% of our business goes through a partner. We've strengthened our alignment through joint business planning.

As we enter the year, we've put together detailed business plans with our top 200 channel partners around the world that really defined on a quarterly basis to see are we pacing? Are we growing? Are we driving and executing against the priorities that we defined with those partners. The second piece is how we maximize the impact of our channel incentive investments. We invest and co-invest with our channel partners for growth, including things like marketing, development funds.

But as we pulled the global organization together, we saw that we had sometimes varying practices across the different geographic reasons, sometimes over investing in areas where we hadn't seen growth, or we did not expect to see growth. So we've reset that going into this year, having a view on our channel investments, that's really more looking at aligning where the investments are coming and where we expect the growth to come from.

And then importantly, around accelerating our opportunities to cross-sell. The final piece is around customer loyalty. This starts with customer service. And this is a team sport. As Peter mentioned, we partner very closely to drive and improve what we need to improve within the group. But we're also looking at how can we close the loop with a closed loop customer care model to ensure that we're addressing the needs of our customer to drive repurchase.

And then we're leveraging predictive analytics to see how can we -- rather than try to win back business that we've lost, how can we get ahead of things and identify customers who are at risk. But at the end of the day, the takeaway is really the most important thing. In our new global operating model, we have a very different opportunity to drive visibility and rigor up, down and across the organization.

And what that really means is down to the sales rep level, all the way up to me, leading the organization we have all of our -- alignment around all of our objectives and what it's going to take to grow. And this has really been the first time this has ever happened within the organization.

So it starts with this consistent operating cadence with more uniform performance management. And if you look at the pieces, what we call commercial management, you'll see that every piece that I've talked about in there, the pipeline health, customer retention, cross-sell and pricing all exist in there. And that's because in the weekly conversations that we expect our sales reps and managers to have every week, all of those pieces are coming together in a consistent way. Consistent dashboards, consistent visibility and looking at things like pipeline health.

Do we have enough in the pipeline to meet our sales objectives? Are we closing things at a rate that meets our expectations? Are there things that are languishing too long in the pipeline that we should move on and pursue other opportunities? The reality is, as we pulled this together, we found that we had varying practices across the geographic regions, and we didn't consistently pull all these pieces together into this consistent commercial management structure.

If I blow out pricing just as a little bit more of an example, for the first time, we looked at pricing across the entire global enterprise. And we do price adjustments in order to win volume business. But what we found is that we had a disturbing number of those price adjustments that were going to relatively small pieces of business. In fact, about 60% were going -- those adjustments were going for business whose annual value was less than $20,000.

And there's a tendency to look at that and say, well, sometimes things don't turn out like we expect. But the challenging part was we saw that, in fact, in a lot of cases, those adjustments were made for very small quantities, sometimes for quantities as low as one.

So we've put together -- we've put in place a new governance framework around pricing. New ways to measure looking at awarding adjustments on price, tying that back specifically to volume. And then linking back on a year-on-year basis to see, did that come to pass as we expected it to do? But all this focus, the standardization, both from an objective as an operational standpoint, we believe, will give us much bigger focus on how we can spend our time on winning in the marketplace. Bill has talked, I think, a little bit about cross-sell and the big opportunity that we have to cross sell. And what I'm showing here are an example just of three of what we call affinity payers.

And so if you look, the first is welding in bonded abrasives, the second is paint application and specialty masking. And the third is coated abrasives and disposable respiratory. Given our business model where we have multiple categories where we're partnering with our channel partners, we have some unique visibility relative to our category focused competitors, where we can leverage our point-of-sale data to understand where there's opportunity for growth, both for us and also for our channel partners.

If I take the welding example, we know for our highest penetrated end user accounts, we can sell about $1.40 in abrasives for every dollar that we sell in welding safety. And what this enables us to do is then look through that same point-of-sale intelligence and say, where accounts where we're relatively underpenetrated, and partner with our channel to go after those accounts, either through sending our end user sales reps there, or activating this through the channel.

So what we've done very specifically is we've built outsell sheets or opportunity pages that specifically pull these two products together, pass those on to our channel partners, and created incentives for our distributor sales reps to go out and win back that business. We're still relatively early on in this process. We launched a pilot in the United States just after Thanksgiving. So kind of going into the Christmas season. And through January, we had launched six, what we call affinity pairs with four of our channel partners here in the United States and developed about $7 million in an open pipeline of opportunity.

So we're now in the progress of scaling this within the United States in Q1, moving into EMEA in the second quarter and looking at how do we, A, deploy this more broadly, meaning engaging more of our channel partners in this opportunity, and bringing more of what we call affinity payers. So we've identified up to 50 of these now that we're going to be rolling out on a -- launching on a rolling basis with our channel partners. And we believe this is over a $100 million growth opportunity for us as we go through the next three years.

The paint application one is one I would highlight. It's interesting because we've launched this now. One of our largest channel partners in the United States actually has us on the landing page of their e-commerce website. And what's interesting to me isn't the fact so much that it's on their website, but this is really more of a tape focused channel partner, and they're now seeing this as an opportunity for growth, not just for 3M with our new pain application system, but also in their own business. So we're very excited about the opportunity that this is going to provide us.

And finally, I'd like to just talk a little bit about what we're doing to drive best-in-class service to increase customer loyalty. As we looked and Bill came in, as we were looking at growth and where our growth challenges existed, it became clear to us within SIBG that part of what I'm holding us back from growth was the fact that we were seeing more erosion than we had understood in a lot of our existing business. And this is a business that we had gone out and sold in one, partnered with our channels to deliver, but we realized a couple of things as we dug into this.

First was, it was a bigger number than we thought. If you look at the page there, if you look at our 3M average, it's a bigger number than we thought, and it was also larger than benchmark we expected from leading peers. The second piece was this really isn't something that we've historically actively managed, or consistently actively managed, in the past. We had efforts around what we called erosion. But we didn't have a consistent way to measure it. We didn't have a consistent way to communicate that to our selling organizations, and we didn't have a consistent way to loop back on our activity to secure the business.

The second piece was it varied quite a bit by account size. The data that we're showing here are actually data from the United States. And what it shows is that our medium-sized channel partners, and these are channel partners in the United States that average around $10 million in sales, they account for about 20% of our business. But in fact, on a dollarized basis, they're about 65% of our erosion. So we're looking at this as a focus area of how do we go after this very specifically?

One, because it's very targeted. This is a limited number of accounts. These are not thousands of accounts. It's more like 100 accounts in the United States. So it's very actionable. And then the third piece is, it's actionable because we understand now root cause better than before. So our root cause, we did a customer survey looking at specifically what drives churn and not unexpectedly, the number one concern was around service.

And the number two concern was around price. And so what we've put now in place is first a closed-loop model, both to address accounts where we're seeing erosion, and looking at where we have opportunities, focused opportunities, for improvement around service or potentially alternative product offerings to address some of their price concerns.

The second is how can we leverage predictive analytics. When we went back and looked on a five-year historical data, we found some interesting ways that we can model where we could predict accounts were likely to churn with about a 70% certainty based on a number of input factors, including things like the number of late order lines that the customer had experienced in a specific period of time.

So we've built out now and deployed this predictive analytics model, which will also help us proactively address this customer erosion. And then finally, improved service is a big opportunity. It's going to take a little bit longer, which is one of the reasons why we've put in place the mitigation actions that we have.

So with that, I'd like to wrap up by saying our objective, our commitment is to outperform macro over the next three years. We're going to do this by continuing to solve our customers' biggest problems and driving productivity for them. We are going to accelerate innovation, continue to accelerate innovation. We're on the uptick, and we're continuing to drive that.

We are going to build a world-class commercial organization, operationalizing the three pillars that I talked about today, specifically into SIBG as part of the overall effort across 3M, and then consistently drive in everything we do, operational excellence.

So with that, I'll thank you for your attention, and I'm pleased to introduce my colleague, Wendy Bauer, who is here to give you an update on the Transportation and Electronics Business Group.

Wendy Bauer - *3M Co - Group President of Transportation & Electronics Business Group*

Good morning. I'm Wendy Bauer, and I have the privilege of leading our Transportation and Electronics business here at 3M. Before I jump into outlying our business strategy, I want to take a moment to say how I got here at 3M.

I joined 3M just eight months ago, from eight years in the technology industry, most recently with the Amazon Web Services, and with 20 years in the automotive and manufacturing industry before that. My enthusiasm to join 3M stemmed from the fact of recognition of 3M's deep innovation history in world-class manufacturing at scale. I also saw an opportunity to bring my leadership experiences of operating large organizations at speed, innovating at the leading edge with and across industry ecosystems, executing complex and diverse go-to-markets, and in transforming organizations with modern day tools, technology and methods such as AI.

Today, I'll share details and how we're thinking about the future of TEBG, and specifically the plan and approach and actions we're going to take to get there. To begin with, TEBG is a $7.4 billion business. We serve several end vertical markets such as automotive, aerospace, data center, semiconductors and more. Each of these complex industries, we bring tailored portfolios to best serve the most pressing needs of those industries. Our business is globally diversified and aligned to the global nature of the industries in which we serve and their uniqueness.

A strength of TEBG is our ability to innovate with and supply our customers around the world. This is important for these industries. And important to how we operate is TEBG is through the word together. Together with our customers, together across the industries and other providers in the industries that our customers also collaborate with, and together as one 3M.

We know, of course, and Bill and Chris and John and others have spoken a lot about this, underpinning everything that we do around the innovation front is our focus on operational and commercial excellence. Chris has spent a lot of time for excellence across the organization, and that is very important for TEBG as well. But today, I'm going to focus a bit more on the innovation side of our business. In contrast, TEBG's business is highly correlated to spec in cycles with our customers. So getting that innovation right is important as we lay out our foundation of how we're moving forward in the future. 2024 was a strong performance year for TEBG. We delivered 3.4% organic sales growth, and we outperformed macro.

Our operating margins were 23.2%, up 220 basis points. The performance of TEBG was foundationally based on that focus on operational excellence, strong collaboration across the organization and of course, from new product introductions with several of our leading customers in those spec-in places that we've won and secured business as we've partnered with them. We also made key progress on several of the metrics that we focus on internally as well.

OTIF, I'll start with. As Peter laid out, we delivered record performance of recent years and achieved 90% in our business, up 600 basis points from the year prior. We also delivered 69 new product launches, up 41% from the year prior. And importantly, those new product launches were across all of our end vertical markets. As we did that, we also focused on building a robust innovation pipeline so that we can sustain and accelerate our new innovation launches in forward years, including in '25.

As part of those NPIs, we've focused on making sure that we're aligned tightly with our most strategic customers, so we're bringing the newest innovations, again, to their most pressing needs. To ensure that we're laser-focused on delivering our plan as TEBG, we've established a very simple framework, this anchors our prioritization and our decision-making so that as TEBG operates and as we operate together across the organization, we can do so decisively and act with speed and discipline. All of this begins that we are clear on our priority vertical markets that we are serving and what those customers need.

You've seen we've classified and made reference to priority and core. All of the end markets that we elect to participate in are important for our business and all have a role to play in our business. But we also know that some of them simply have higher growth potential than others. For us, this is about ruthless prioritization of how we're going to align and where we're going to align our investment dollars to.

Portfolio. We've spent time deeply assessing the strength of our portfolio as we've evaluated outside in the needs of our customers and the needs of technology innovation advancement in those respective industries. While in many cases, we have very diversified portfolios, we know we have an opportunity to continue to innovate with them and make them even stronger as we look forward.

With our customers, 3M has a long rich history of innovating and collaborating with customers. Yet we've identified opportunities to elevate how we do that, where we do that and doing that more with the right leading innovators around the world for all of the industries that we serve.

And lastly, on go-to-market. The industries that we serve are deeply complex. And while we innovate with our end OEM customers, we know they expect us to operate with and collaborate across the industry ecosystems. And that means that we have to deeply understand how those value chains of industries work and to show up in all of the right places at the right time and serving all of those customers along those value chains in an efficient and effective way. As I mentioned, TEBG serves many end vertical markets, and we've identified them as priority and core.

For our priority, this is where we're doubling down because we believe that we are well positioned to win because the innovation breakthroughs needed for these industries align to 3M's core capabilities and need advancements at the material layer for those innovations.

Here, we're allocating more of our investments because we see approximately 70% of our future growth is going to come from these priority industries. In these industries, we expect that we will outperform macro as we move forward.

On the portfolio front, we're committed to industry-leading differentiated portfolios that create customer value and align to industry trends. We know that we need to focus our innovations where our customers and where the industries themselves are innovating to push the history of those industries forward. As we do that, we know we need to have a balanced approach. We need scalable solutions that scale customers and industries, but we also know that we need to innovate high-value industry-specific offerings aligned to those trends.

Let me talk about automotive as one example of these five priority industries. For anyone familiar with the industry, you know the industry is focusing on advancing more safe, more sustainable mobility for around the world. The industries themselves and leading automotive customers are focused on how they're going to bring software-defined vehicles to market that requires new electrical architectures. In contrast, they're focused on topics like right to repair.

Each of these two topical areas are top of mind for the industry, but they are solving different challenges. They require different domain expertise. They require different technology breakthroughs. So we here at 3M and within TEBG, we know that we have to more deeply understand these industries than ever before. So we're deepening our industry expertise to align that with our knowledge and deep expertise and capability of material science.

Bill and John covered our focus on NPI acceleration across the company, and that is clear. For TEBG, that is so incredibly important to our future direction. TEBG is intentionally shifting a higher percentage of our R&D resources to advancing scalable platforms that deliver high-value vertical solutions. We've identified three core measures by which we will be evaluating our progress and holding ourselves accountable.

First, we're increasing our investment in priority verticals. We're going to be ensuring that we're aligning to those major industry trends. And here, 80% of our new NPIs will come from priority verticals.

Second, we're increasing our focus on innovation-oriented relationships with the leading innovators of their respective industries. Here, 80% of our new NPIs will come from bench-to-bench relationships with those strategic customers that we've identified specifically to those industries.

And third, we're increasing our focus on breakthrough innovation. Here, we've committed that at least 40% of our new product introductions will come from breakthrough technology innovations rather than incremental innovations.

If you attended the technology Open House last evening, you would have seen several examples of unique differentiated TEBG technology and solutions. And many of these solutions you saw were in fact, developed with our most strategic customers. At the technology show last evening, Electronics business was one of several showcased. You would have seen demos of display films, for example, used in our consumer electronics business and also in the automotive industry in the interior of vehicles today. If you know electronics, you know that arguably, it is the, if not one of the fastest paces of innovation of any industry out there. And to support our customers, we know that we have to be partnered with the right innovation leaders in innovating with speed.

Here, you can see one customer that 3M has a long-standing relationship with, BOE. It's the largest display manufacturer globally, and it's a place where 3M has that deeply rooted technology-oriented relationship and continued innovation. Here, the voice of the customer quote that you can see from Alex highlights through his perspective, the value BOE sees with working with 3M.

Here, he's highlighting the long history of co-development and through that joint co-development and relationship that we have, our ability and proven history of bringing tailored solutions to market. TEBG prioritizes this kind of relationship with our customers across all of these industries that I've identified. I'll move on now to utilizing automotive, again, one of our five priority verticals is an example to articulate how we're thinking about our portfolio today, where we're innovating and what that means for our business as we look forward.

Automotive is an industry where we have both differentiated solutions and a broad portfolio today, but we are also innovating in continued areas and adjacent areas for future growth as well. We've analyzed both where we can grow share with the existing solutions we have today, and we've also identified new areas of innovation that are aligned to 3M's core competence, and we believe we have a right to play.

Here, you can see 3 areas that I've identified, ePowertrain, software-defined architectures and Body-in-White. All 3 are very important topical areas for our automotive customers in the industry. In ePowertrain, for example, automotive OEMs are focused on developing next-generation battery systems. As they're doing so, they're focused on power efficiency challenges. And as they're advancing that technology, they're discovering new challenges daily and how they're really going to improve the range, how they're really going to improve serviceability requirements that their end customers are demanding. Pivot over to software-defined architectures.

As we're bringing software-defined vehicles to market, automotive customers are having to transform their electrical architecture as well. And as they make those transformations, they're discovering new challenges new challenges on electrical interfaces and thermal management.

And shifting over to Body-in-White. It's an area where automotive OEMs are focused on vehicle safety, sustainability, but importantly, cost competitiveness as well. As they move to those next generation of body structures, they're faced with new technologies and different kinds of architectures. Each of these three areas in the examples that I referenced require breakthrough innovations that sit at the material layer where 3M plays.

3M has been supporting the automotive industry for over 100 years. As I mentioned, we have a competitive portfolio today that we continue to invest and innovate in. Historically, our core areas were in areas like bonding and joining, acoustics or in display films. These areas remain differentiated, and we see an opportunity to continue to grow with existing and with new customers that perhaps don't take and adapt the entire portfolio. Beyond the core, we've been innovating in areas of new growth like the three that I mentioned, but we also see room for continued innovation and broadening of our portfolio.

I'll give you a concrete example. In electric vehicles in the market today available for consumers to purchase provided by our OEM customers, we have thermal barriers and vent path coatings in market today. As you can imagine, with the advancements of electric vehicle technology, the space is rapidly evolving and customers are discovering new challenges daily, and they're turning to 3M to be their technology innovation partner to solve those new challenges at rapid pace.

So what does this mean for our business outlook? In the automotive business, we measure our progress in our business by the term PPV, penetration per vehicle or dollars per vehicle on average across the industry unit builds around the world. Today, we have approximately $22 per vehicle on average across the global industry.

As we look forward and focus on advancing our relationships with customers and bringing our portfolio to new and existing customers and driving broader portfolio adoption, we see an opportunity to grow our PPV to 1.5 times where we are today. That means we see an opportunity to grow our business from the 22 to the low to mid-30s over the next five years.

As I shared, 3M has been supporting the automotive industry for over 100 years, and working with industry leaders around the globe. Here, an example is Honda. Honda operates around the world, and it's a customer known for its innovation history. This is an example where you can see the voice of the customer Matsui-san, where he's highlighting the value that 3M brings because of our unique insights, our unique and diversified experiences and our unique capabilities.

Through strong collaboration and a long history of relationships with customers like Honda, we're able to continue to innovate and move with speed in diversifying and bringing high-value solutions to our automotive customers around the world.

I'll now shift to a second example of our five priority industries, semiconductor. Similarly to automotive, this is an example where we have both differentiated solutions today, and we see opportunity for continued innovation tomorrow. Like automotive and the other priority industries, the semiconductor industry is rapidly evolving and pushing the boundaries of innovation.

Semiconductor OEMs must meet the demands of high-performance, power-efficient specialized chips. Here, we have existing solutions that range from wafer substrates to chip fabrication and chip transport solutions. But as OEMs focus on next-generation chip designs, we see opportunities in chemical mechanical planarization and advanced packaging as areas that need that material science layer innovation breakthrough.

3M is supporting the semiconductor industry for over 25 years. We have differentiated offerings today. And again, we see that as the semiconductor industry is pushing the technical boundaries of advanced node technology, the industry's needs rapidly are evolving, and they're turning to 3M to be actively engaged with them and innovating with them on the leading edge as they're solving their challenges.

Here, we're operating with leading semiconductor companies in this bench-to-bench relationship way that I've described. The result of this tight collaboration that we have is advancing our portfolio in areas like next-generation pad conditioners in substrate grinding and lapping or in low-loss dielectric material, again, because each of these examples require that material layer innovation breakthrough.

So what does this mean for our semiconductor business outlook? Here, we measure our progress in the semiconductor industry in dollars per MSI, or revenue per million square inches of wafer. Today, our business is approximately $22,000 per MSI on average across the global industry. Like automotive, by applying our two growth strategies that we've laid out and how we partner with customers to deepen those relationships and bring our valued portfolio to customers today and to continue innovating with the industry's leaders, we see an opportunity to grow our business here in the semiconductor to 2 times to where we are today over the next five years.

Today, I've shared with you where TEBG has been and how we're thinking about our future and importantly, how we're ensuring we are laser-focused on getting there. TEBG is committed to sustained above-market growth. For us, the how is simply focus, focus on increasing investment in our priority verticals, focus on accelerating our innovation. As we do that, focus on ensuring we are collaborating with the right innovation leaders for the industries that we're serving. But these actions we know are simply not enough. We have to expand our channel collaboration. We have to continue to build upon and focus on commercial excellence. We have to modernize how we work and be disciplined as we do.

But for these industries, we have to execute and operate at speed. It is essential. And importantly, as I started, how we operate is by the word together with our customers across the industry ecosystems and together is 3M. We are excited about TEBG's trajectory over the next few years, and we believe that we have a great opportunity to drive value for both customers and shareholders.

Thank you for your time today. And at this time, I'm excited to turn it over to Karina.

Karina Chavez - *3M Co - Group President, Consumer Business Group*

Good morning, everybody. It's my pleasure to now give you an overview of our Consumer Business. I'll start by saying that I've been in the company for 16 years. I've been in this role almost two years. And the story that you will hear from a Consumer Business is where we are in our trajectory. And our trajectory will start by recognizing where are we in our journey, what are the components that are going to continue to shape what we do next and how do you take on those tidbits that prove that we're already on our journey of reinventing.

So I'll start by saying that we are the retail outlet of 3M technology. If you had the opportunity to be with us yesterday, you probably saw that some of our products actually are very similar to what you would find in an industrial outlets and that we not only share the 3M technology but also some of the capabilities from a manufacturing perspective are also shared with other parts of the businesses as well.

We are organized in four portfolios almost equally split with direct-to-retail business model. That means that we go with one phase to our customers in the US and around the world. We are disproportionately based in the Americas with a very strong hold in the US market, which is one of our strengths as well, as we continue to expand into different categories within the same store.

And that is a true differentiator of the 3M Consumer Business versus other CPG companies, where you might find that some of them are concentrated in cleaning, but we actually have cleaning, hardware, lawn and garden, paint, so the ability to be in different parts of a store also is part of our strength and why you should believe in the next chapter for the Consumer Business.

We are available in all retail formats, whether that is mass, clubs, home improvement, pure-play e-commerce in the US and around the world as well, pharmacy and office, too. Our intent in the Consumer Business is to reinvent the everyday to make the world of difference. And the reason why we're saying reinventing the everyday is because we want to be more in the everyday of the consumers' lives.

The second reason why we say reinvent is because it's a nod to our innovation legacy, but it's also a nod to the best days for this business are ahead. Recognizes also the brand component that we have, the technology that we have in that retail presence.

What all you hear now is where are we in this transformation journey. As I said, I've been in the business for over 1.5 years, and I've had the opportunity in the 16 years that I've been with the company to look at this business from different angles. From an emerging market living in Indonesia to supply chain in Latin America, to the strategy role, I had the opportunity of looking what would make this business reinvent itself and how do we reorient it for growth.

So about 18 months ago, very similar to what Bill mentioned in his introduction, we started to look at what our makeup was and what was causing part of that poor growth, poor service, high portfolio complexity, cost headwinds, decreasing levels of advertising and merchandising that were impacting growth. So what we did over the last 1.5 years is honing in into our brand leadership, relooking at our portfolios and the SKUs that are -- were part of it, looking at where do we have competitive differentiation within those portfolios. And through 2024, we took a very close look and taking those nonperforming SKUs.

As a result of that, in the space that we were creating in partnership with Peter and Enterprise Supply Chain, because of that complexity was going down, we were able to increase the levels of service. And as you heard from Peter and in a Consumer Business, it's critical to have service levels that are 93%-plus. Ideally, a retailer would want 95% to 98%. Anything below that, starts with fines to you. And that also means that you're going to lose shelf space and also means that you're not going to be available for the next season.

So for us, taking complexity to support that service improvement was critical through 2024. As a result of that, we saw improving levels of organic growth through the quarters. What we also ended up with was a lot higher OTIF or on-time in-full service to get back some of the shelf space that because of our poor service, we were being contested on.

We were able to increase our operating margins as well, and we were able to keep bringing the light to our consumers around the world with the 36 products that we introduced last year. And as we created part of that space in the gross margin and then the operating front, we were able to reinvest into advertising and merchandising, because as I said, the reason why this business struggled for a number of years, and now we're seeing early signs of that recovery was that multipronged approach of high complexity, cost service and low levels of advertising and merchandising.

And so again, improving service already, 40 bps of service improvement. NPI still continue to be there as an engine to bringing excitement to retailers and consumers as well, promoting our products on the shelf to make sure that they continue to turn. And we were able to post above-market growth for selected categories, including Command, Meguiar's, safety and abrasives, some of which you saw yesterday.

So therefore, when I tell you about how we'll continue to do this, it probably is now a little bit more straightforward that we will continue to hone in the things that are working for us over the last 18 months. So number one is our foundational strength, our iconic brands, that material science that powers all of our assortment and that retail presence that allow us to get back for more shelf space. There are three things that we need to do, right?

We need to get part of our assortment more vibrant, continue to reinvent. As you heard from John, portfolio reinvention and bringing back those NPIs will be critical for this business. Number two is not only making sure that those products are fantastic on the shelf and for consumers, but we also put resources behind it to tell the consumers about them, which is demand generation. And number three, it's all about making sure that those products are on the shelf well displayed all the time.

So let me take you through our first strategy, which is all about portfolio reinvention. And this is about moving from that pruning of SKUs that we did through 2024 to management along the full life cycle of the categories that we have. That holistic process that takes you through the introduction of the SKU, that takes you to growth and maturity. And when we see maturity, we see that next uptick for what is coming next at retail. It also means that we have to do it at (technical difficulty) and at speed that this requires. You heard from John and Peter cycle time improvements for us, that is 15% of cycle time improvements.

Last year of our 36 products, 17 of them were developed and launched within a year. We can do this. Now we have to just accelerate the scale and put more fuel into that.

And then the last component is how do we continue to bring innovation that delights consumers. So let me give you an example, which, again, if you had the opportunity of joining yesterday, you saw upper left-hand side, that is our first ad in the late 1990s. And then we started with something like this. This was our first hook. We progressively evolved through all of these hooks, white hooks through the decades, they still sell a good margin on those products, but that was not enough, right? Not all the consumers, not all the young generations find this super appealing.

So what we did is we continue to evolve our assortment to what do you see in the middle of the slide which is we expanded away from just the wall to go into bath assortment and into the kitchen as well. We also modernized with the way that the hooks look a little bit more contemporary into different type of finishes. And all the way to the bottom, we made them available for different seasons and different types of consumers as well.

So all the way to the bottom to the left-hand side, you see that colorful command. Those are products that we introduced for back-to-school season, selling very well and back to college in all of the retailers in the US and in many places around the world. And not only it was for back to school, it was also for Christmas. So we also adjusted the design of our hooks to make them appealing for Christmas season. We also had picture hanging strips that also sell very well for indoor and outdoor. And now we're going into the core as well, honing in into what made us successful. This platform, I had, again, anchored on the most trusted brand for decorating and damage free, sold $600 million last year, growing above GDP, around 6% as well, and we will do that as well in the years ahead.

Strategy number two. So fantastic products is not enough. Many times, we've heard that when people come here and see our products they sell, they tell us this is your best kept secret, and they refer to a SKU. And we need to move from the best kept secret from everybody knowing about our products. So for us, the way that we do that is through advertising and merchandising, which last year hit 2.7, which is well below a CPG average. Our goal is to continue to increase, and we will do that with the space created in operational excellence, as Peter walked through the plan.

We're counting on investing on four brands. Those four brands are tied to that everyday use that I mentioned at the beginning. You decorate through the year. You change your filter 3 times-plus a year. You wash your dishes every day. You wash your car also fairly often. That's why Filtrete with filters, Command with decorating, Meguiar's with washing your car and Scotch-Brite with washing your dishes makes sense for us in terms of honing in 70% of our ad merchant through the life cycle, through the strapline and promoting again, that's life cycle rejuvenation of our portfolio.

But it's not only about choosing the brands, it's how do you want to engage our consumers and how do you want to do it in a more frequent basis. And it's not only about the more money, it's how do you make that more money a lot more efficient. And so in order to do that more money, more efficient, we are combining or including AI and combining data scientists with our digital marketing teams. And so what we're doing for that is we are increasing that efficiency and using those tools, AI tools for translation, imaging formatting, understanding what filter size to promote for what type of location in the US. Some of the part of the country wants a deep filter, some of them want 1 inch, the sizes of the HVAC vary, and so part of that optimization that was done manually, we can now automate it and be more efficient with the resources as well.

We also apply visual attention system for AI to develop and understand where the eyes of the consumer are going to go when they stand in front of the planogram and optimize also packaging and copy for online as well, which is the last image that you see there.

So let me take you through one example. This is about Meguiar's, $300 million. This is focused on the car aficionado, the car enthusiast. And what you will see on the screen is in-house capability, on how we do this, running at a speed of retail, tying in from the fantastic products that our labs develop and our marketing teams together, all the way to bringing it to life.

So you need to make sure that the bottle is appealing, that the handle is appealing, that you're able to turn it into great images, create excitement in social media, take it to the trade shows and the events that you're in, post it and make sure that you're reposting as well and engaging with the brand, demonstrating the value of the product and making sure that the consumers are liking it and you do it over and over and over again.

Why? Because that's what the consumer likes. The consumer likes high engagement categories, particularly in brands like Meguiar's, but also Command. So what you saw in the video represents 3,000 digital assets, earning Meguiar's the number one in auto appearance landscape. That's the award that you see on the bottom right-hand side of the page. It also shows 0.5 million one-on-one connections that we had in the U.S. with our car enthusiast. It also shows our hybrid ceramic wax, which is number one and generating 3 times more sales versus the next in line category as well. And as a result of this, we were able to increase household penetration 2% last year.

So last strategy. So I already told you about having fantastic products, how do you tell the story about those fantastic products through our consumers. Our third strategy is how do you make that successful for our partners and our retail partners around the world. So you heard from Peter, 95% service is our goal. For us, we actually want to be a little bit north of that, 95%, 98% would be fantastic. And certainly, that's something that we're working with Peter and team as well.

And as he said, it's the tools, it's the processes and it's also the connection between the supply teams, the planning teams as well as all the way down to our key accounts, understanding where are the seasons, when do they turn shelf space, any promotions that we need to support our consumers in difficult times, and that's part of a partnership that's going to drive that 95%-plus as we engage relationship with our retailers as well. And as they trust us more because they know that we can deliver on time and full all the time everywhere for everything, we will be able to regain and expand our shelf presence.

So last example, I'll give you Scotch-Brite. So Scotch-Brite is our $800 million brand. It's our most global brand. The reason why it's most global as well is because the users are more common than most of our other brands. Everybody has dishes to wash and we have been able to adjust the portfolios to different parts of the world, which is what you see a little bit on the screen.

So all the way in the bottom, what do you see is social media for India. And what we do there, as I said, is having the great product. This is talking about having that brand activation that I mentioned before and all the way to the right-hand side is how do you make it available in all the retail outlets where in this case, the Indian market will bind. So this is a traditional trade, traditional trade market picture in India.

In the middle section, what you see is Scotch-Brite in Latin America. And again, the packaging, we adjust the type of sponges that they need based on the type of food that is eaten in these different parts of the world. And we make sure that we partner with our retail partners to when we are promoting and where we're having the communication all the way to the right-hand side, that's a Brazilian ad. We have the NCAP in the supermarket that has that display and that consistency between the value proposition of the product, the brand image that we want to project and the activation of the promotion and the value that the customers are getting.

So in a nutshell, I know this is potentially not very exciting, performing at macro. There is a long way to go. Certainly, that is not our ambition. Our ambition is to continue to accelerate. And as you saw these replication of these three examples, how do we accelerate what Command is doing for all our portfolio, what Meguiar's is doing for all our portfolio and what Scotch-Brite is doing for all our portfolio. And that will require some time. That's why our first stop is how do we perform at macro with those three strategies.

We have to create the space so that, that space that is created through operational improvements can be fueled into our three growth strategies: performing and reinventing our portfolio, having that fantastic product and assortment that's going to delight customers and consumers. Number two is putting money behind those fantastic products to make sure that everybody knows about what we do. And number three is how do we strengthen those partnerships to make sure that our products are displayed everywhere all the time.

So with that, thank you for your attention, and I will pass it on now to Anurag, who will take us through financials.

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

Thank you, Karina, and good morning, everyone. As a final presenter today, I'll bring together everything Bill, Peter, John, the President spoke about and explain how the strategic actions being taken today as well as a renewed focus on innovation, commercialization and operational excellence will play through our four financial priorities, which are; first, driving profitable growth, driving top line combined with productivity, margin expansion.

Second, ensure we deliver robust free cash flow generation. Strong earnings will lead to strong cash flow, combined with working capital and capital expenditure efficiencies. Third, effective capital deployment, ensuring that we fund R&D and CapEx for growth as well as continue paying a healthy dividend, maintaining optionality while keeping a strong balance sheet.

These four financial priorities will enable consistent value creation for years to come as we operationalize the performance through the 3M Excellence Program, our management operating system, ensuring that we execute against all these priorities.

So first, 2024 was a pivotal year for us. The spin-off of Solventum, substantially completing the large restructuring program we had, the renewed focus on productivity and working capital initiatives helped us return to top line growth, ensuring that we expanded margins by 280 basis points, which was higher than the guidance that we had given, the top end of the guidance, EPS growth of 21% and returning $3.8 billion cash back to the shareholders.

So on the back of a strong momentum in '24 and the focus on the strategic priorities, we do believe that we have a very solid medium-term outlook that will accelerate growth, continue to expand margins, deliver high single-digit EPS growth rate as well as convert cash more than 100%. First, just on 2025, I wanted to reiterate the guidance that we gave in January across all the four metrics. Organic sales growth, operating margin, EPS and free cash flow.

Now moving on to '26 and '27, we will outperform macro, and I will define what we call macro in a bit, but we'll accelerate the outperformance versus macro.

Second is operating margin expansion of 100 basis points in '26 and '27, which will help us reach to 25% by 2027, which will be a new peak for us, the highest being 23.5% in 2018. And excluding EPS growth from 4% to 8%, which is the guidance for this year to high single digit in '26 and '27 and converting free cash more than 100%. I will go into each one of these buckets in subsequent pages.

So first, starting with the top line, macro. Given our business mix, our macro for us is a blend of IPI and GDP. It's 80% IPI and 20% GDP. Last year, at this time of last year, we thought that the macro was going to grow at over 2% or IPI over 2%. We ended up at 1.1% with a blended macro at 1.4%. For us, this year, we expect macro to be at 2%.

And what we've assumed in our medium-term outlook is that macro will be in line of 2025, which is at 2% growth. We do expect to accelerate our growth versus the macro and deliver $1 billion of cumulative revenue over the medium term, above the macro of 2% over the next three years. And this will come half from innovation and half from commercial excellence.

We heard John talk about the investments we are making, the focus and priority verticals, areas that we are looking at to improve our cycle time, cut down the value-added time. All of these will help us generate good revenue going forward. On commercial excellence, we heard all the presidents talk about all the different initiatives that they are going to go through, including the go-to-market. It basically comes down to three things. First is we're going to make sure we have the right salespeople, the coverage, the right processes and your pricing so that we can generate volume.

Second is work with our channel partners to ensure that we are able to sell more. Cross-selling was an example that Chris spoke about, a lot of opportunities there, investing in A&M, which Karina spoke about. And that's also very critical and co-investing with them, which Wendy spoke about. And last is to ensure that we do serve them very well so we can improve our retention.

So you put all of these together, we are very fairly confident that we will be able to generate growth. We're making very good progress across all these fundamental initiatives and should see the growth accelerating over the next couple of years.

Operating margin. We expect a 360 basis points improvement from 21.4% to 25%. 300 basis points of that will come from gross margin, 60 basis points will be G&A efficiency, partially offset by the investments that we are making in R&D and sales. On both gross margin and G&A, clearly, there is going to be productivity initiatives, which is going to help us on the margin expansion as well as we'll be able to mitigate all the stranded costs.

The stranded costs, just to ground everyone, we have said that we're going to have $100 million in '25 from PFAS, which will go up to $200 million or incremental $100 million in '26. And in '27, as some of our TSS with Solventum wind down, there will be another $100 million of stranded cost there. So through the three years, a $300 million stranded cost. But we're very confident that volume and productivity will not only help us offset these stranded costs and fund growth investments will result in expansion in the medium term and beyond.

We heard Peter talk about how complex our supply chain is and the tons of opportunities for margin expansion over there. They essentially come across four buckets. First is internal manufacturing. We have about 110 plants, costing us about $5.5 billion a year. Peter and the team are already looking at areas to streamline the processes. He gave the example on OE, on automation and the Kaizen events. A combination of all of this will help us drive $300 million reduction over the medium term.

If you look at direct material and external manufacturing, we have about 10,000 suppliers over here. We've already started on the work of supply consolidation, moving to low-cost sourcing as well as ensuring that we're negotiating better with our suppliers. And this will help us bring the cost down of $400 million, and this category is about $5.5 billion as well, so we were able to reduce it by $400 million.

On cost of quality, we thought it was $650 million. It's actually closer to $750 million or 6% of COGS. The best in class is about 3%. Through the medium term, the next three years, we should be able to reduce that by about $175 million, which takes us close to 4.5% with more runway to take it further down beyond the three years.

Last is logistics. Logistics is about $1.8 billion for us. Again, everyone's heard about the Command strip example, the complicated network we have. That may take a little bit of time before we're able to bring that down. But in the short term, in terms of looking at the mode of transport between air, sea and ground, looking at how we are filling the containers full versus less as well as driving automation. There's a lot of opportunities over there.

So if you look across the four buckets, we are very confident of driving over the next three years $1 billion of reduction, net of material inflation, wage inflation and stranded costs and also ensure that we have a good track going forward, not only for the three years, we are going to be investing about $250 million or about $80 million every year.

Where these investments are going to go? First is around talent. We make sure we get the right talent, and we also train them very well. Secondly is about the quality improvement, which is very important. The tools that we put in place over there, supply qualification or customer qualification as we move our suppliers. So this, we have put a placeholder right now for the $250 million, $80 million a year. We look at it, we'll meter it because this is not only to drive the improvement or reduction over the next three years, but take us to the high 40% gross margin goal that we have beyond the three years as well.

On growth investments and G&A efficiency. So today, between G&A, sales and R&D, we spent about $5.2 billion. A lot of good work has been done in the G&A over the past few years to bring it down. It's about $2 billion for us. Today, roughly slightly over $2 billion. There's still more opportunities going forward.

Firstly, if you look at IT, we spent close to $1 billion. That number has come down over the past few years, but the team is looking at application rationalization, infrastructure optimization, looking at how we are going with external providers and a bunch of other activities and tools to see what we can do to kind of optimize and drive that.

Second is indirect expense. As we've streamlined and as we change our operating structure a little bit, we have more visibility now on the external spend that we have. And the external spend is to external subcontractors, it's travel, it's real estate, it's other places and what we can do over there to drive it down. Third is end-to-end processes. If you look across the organization, be it on order to cash, source to pay, a few others. And the way we are serving our customers, our suppliers and the way we are internally doing work around that. And by driving technology, driving AI through that, I think there's a lot of opportunities for us to streamline the process. This will not only bring down the cost, but also going to improve the customer satisfaction, turnaround time and lead time. So it's a combination of all of these.

So confident about on the G&A through these opportunities, we can generate more efficiency. As we are doing that, we are going to invest in the top line of the organization, which is on R&D and sales. Starting with R&D. We saw 1,000 NPI launches over the next three years, which means that by '27, it's going to be much more than double of what we did last year.

Clearly, we're going to free up capacity by reducing the non-value-add time, improving productivity, repurposing some into the NPI function as well, but we also have to go out and hire engineers to make sure that we deliver that, a few hundred of them. So that's baked into this number.

On sales, is we have to ensure that we go out, we get the right salespeople. We have the right coverage. Wendy spoke about making sure on the priority verticals, we're covering our customers well, we need to make investments over there on advertising and merchandising as well. So there, you'll see some investments of ours go through.

But overall, if we will do this in a metered manner, we will see how the macro is progressing. We'll see how our volume growth is coming in, and we'll make sure that these investments will pay us good returns as we move along. So very confident on the G&A, and we'll make sure that on the selling and R&D, we are investing while we are looking what's happening in the future.

Okay. Now moving to cash. Okay. We've done very well on cash last year. We plan to deliver robust cash flow generation and conversion of approximately 100% or more each year over the medium term from strong operating income growth, working capital efficiency and CapEx. So just first, just looking at on the working capital side.

Again, significant opportunity to reduce inventory that Peter spoke about, while ensuring that we maintain good service with our customers. And we believe both can go hand in hand. Our goal in the future is to reduce it to 75 days. Over the next three years, we're going to reduce it from 94 to low 80s. Each day of reduction is worth about $35 million to us, and that's going to help on the conversion side.

Second, on CapEx. The first thing on capital expenditure is what we've done is we've tightened the process, starting with threshold. The approval for bill used to be $10 million. That has now come down to $2.5 million of approval. So we've looked at what all the thresholds over there are. We've tightened the process in terms of the business cases, the rigor, the reviews behind that and where the CapEx is going in. We have put a placeholder of $1 billion for the next three years, with the mix shifting more towards growth and productivity, growth to drive the top line and productivity for all the cost-reduction initiatives that we have primarily around the supply chain side.

So we have to make sure that we deliver on the growth and the productivity, so we put in $1 billion. But still, it's going to be slightly less than our depreciation and amortization put together. So between strong earning growth, working capital efficiency and a little bit on the CapEx side, we are confident of delivering more than 100% free cash flow conversion in the medium term.

We do believe we have significant flexibility to deploy capital. If you look on the left-hand side, just starting with the sources of cash, we ended last year with $7.7 billion of cash in our balance sheet. We need slightly more than $3 billion for working capital. So that means we have got roughly about $4.5 billion of excess cash.

Our guidance for this year is 100% conversion on free cash flow. That's about $4.2 billion. You drive that with earnings growth plus a little bit of conversion opportunities, you'll get to between $13.5 billion and $14 billion of free cash. Solventum, our 19.9% stake is worth $2.5 billion or slightly low. Look, on the left-hand side, we've got about $21 billion of sources.

Bill spoke about $10 billion coming back to the shareholders. If we continue growing our dividends at the rate of our earnings growth, it's a high 30% payout right now. It's about $5 billion. Our share buyback, another $5 billion-plus. So talking about $10 billion-plus over there. We will continue to pay down on public water supply and combat arms, our legal settlement commitment. By the end of the medium-term '27, we would be done with 70% of our payment for both of these. So that if you have the two of them, it's $18.5 billion.

So I spoke about the sources being close to $21 billion, year $18.5 billion, it's about $3 billion different plus opportunities on the balance sheet side, insurance recoveries, divestitures. So it gives us ample optionality to deploy our capital, including M&A into various other ways, which could be accretive for everyone.

As Bill mentioned, the new performance mandate is relentless focus on execution and constancy of purpose. And as part of the operationalizing the 3M Excellence Program, our management operating system, we've got to ensure that we are consistently performing across all our priorities, be it on innovation, cost productivity, commercial excellence and cash flow generation. And we're going to do it across each one of them.

I'll give you an example. Let's take NPI, we spoke a lot about it today. It's now one set of KPIs and targets, which is deployed across the company. The health of the pipeline, the launches, the financials. Second is one source of truth with standard tools and processes to track the resource allocation, status of the launch sales. Third is the operating cadence, depending upon the program, daily, weekly, monthly, quarterly to ensure that we're delivering on the KPIs we set ourselves. And then continuous improvement as we measure it against the business cases, how we did and what is it that we can do better.

So this is really embedded into the system, into the company, and this is how we're going to drive and help us meet our medium-term goals of outperforming the macro getting to 25% operating income by 2027, high single-digit EPS growth in 2026 and '27 and more than 100% free cash flow conversion.

So overall, I believe we have a solid foundation and actionable strategy, including a renewed focus on operational excellence to accelerate momentum and performance in the medium term, and I'm excited to work with the team in executing towards it and giving all of you regular updates as we make progress towards that.

Thank you. With that, we'll take a short break and be back at 11:25 for Q&A.

Unidentified Company Representative

The program will resume in 5 minutes. Please take your seats.

QUESTIONS AND ANSWERS

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Thank you and welcome back to the Q&A session here. (Conference Instructions)

Jeff, just why don't we start with you?

Unidentified Participant

There you go. My question, I guess, I have two, but if I could just start with one. When you look at the capital deployment slide that we saw here, obviously, there is a fair amount of flexibility, particularly when you look when you get past the next three years on the liabilities, right? I think there's $5 billion in the next nine years. So it's almost really drops off the radar screen.

But the essence of my question is there's some particular threshold in terms of maybe settling unknown issues and or getting more visibility on insurance recoveries that you would feel is kind of a necessary trigger to perhaps be more aggressive on capital deployment, whether it's more share repurchase or on the M&A side.

William Brown - *3M Co - Chief Executive Officer*

So it's a good question. We just produced our K about two, three weeks ago, and we give a pretty extensive update on what's happening on the liability side. The things that -- and we went for 3.5 hours, but I actually talked about it, by the way, if you know what I'm saying. But you read it's very extensive. The thing that's on our radar screen clearly is going to be the personal injury cases are happening in the MDL. They're trying to narrow it down into 1 or 2 disease states. That will be a trial probably in October period, but the judge is trying push that pretty hard and watching that. We're in the middle of that. There's a lot of work that's happening behind the scenes. So that's certainly on our radar screen.

And then you have the AG cases, most of which are in the MDL. Most of the AG cases are sitting there. There's a few that are outside of the MDL. The other one that's clearest to the boat is New Jersey. It's going to trial in May. So as you read in the K, we are in mediation today on New Jersey. Beyond that, Vermont is outside of the MDL, it's in August. That's a trial ready date, so that could actually get lagged beyond that.

And you have a bunch of things happening internationally that they're one-off. They tend to be focused on the facilities that we have in Europe, and that will likely be elongated some time probably after October. So all of these things are on our radar screen. You saw Anurag put the chart up there talking about $8.5 billion of payment on combat arms and public water supply in the next three years. We have some opportunity between now and then to really think about what these liabilities maybe, what obligations we may have to actually afford and then what we can do with capital deployment beyond that. But look, if there's an opportunity to step up on repurchases, that's something that we'll do, but it's a little bit further out than what we're talking about today.

Unidentified Participant

And I'm sorry, just a second one, unrelated. Just on the new LTIP and everything, is that tied directly to what we saw today in terms of the performance objectives and assume it would be. Maybe just a little bit of color on sort of what the upside multipliers are though, if you beat those numbers.

William Brown - *3M Co - Chief Executive Officer*

So yes, there are specific numbers, and it revolves around the earnings per share that we see cumulative over the next three years and your models will get to almost exactly the spot that we happen to be in. Anurag talked about $13.5 billion to $14 billion of cumulative free cash flow in the next three years. So it's sort of top end of that is what the LTIP happens to be.

So it's directly anchored to what we're talking about today. And I think that was important feedback from investors, but I think more importantly, with our discussions with the Board and what this management team wanted to do, if we're going to get up there and talk about those things, that's what we're actually going to get paid upon.

I think that was quite important. So I think it's a 10% up or down multiplier that changes the payout range. And on the TSR, I think it's on a top or bottom quartile plus or minus 20%. So bottom quartile minus 20%, top quartile performance versus -- on a TSR basis versus the S&P Industrials, it's a 20% payout on the upper end.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Julian?

Julian Mitchell - *Barclays Bank - Analyst*

Thank you so much. Maybe just a question on the top line growth outlook. So I think it's about 3% kind of company-wide organic growth for '26 and '27 versus 2% market growth or macro growth. But I guess what I was trying to clarify was the two non-consumer business groups, it looks like they're leading that growth of sort of 3% plus.

But when I looked at the SIBG deck, for example, it shows like 3% market growth, I think, for that segment. So I was just trying to understand, is the sort of 3% growth of SIBG and TEBG above their market growth rates or sort of in line with their own growth rates? Because when I looked at the SIBG, you had, I think, half a dozen different TAMs and growth rates laid out there. Those look like kind of 3%-ish already.

William Brown - *3M Co - Chief Executive Officer*

I think, Julian, your math is -- that's pretty good. I mean I think SIBG and TEBG, I think we talked about outperforming the macro. And as Chris had mentioned, the macro is effectively IPI. IPI is around 2% this year, right, sort of holding it flat in the next couple of years, and we'll see how that evolves.

We do expect to outperform that. And as you talked about around 3% in '26 and '27, that's sort of in the right ZIP code in terms of organic growth. By the time we get to '27, it's about 100 basis points above the macro. But it depends on the performance that's happening in both on the commercial excellence and new product introductions. We wouldn't have put the targets out there today if we didn't think we could actually get there. I'm pretty optimistic about the opportunities on the commercial excellence side. I think Chris went through it in a fair amount of detail as to what's behind that. I think that's been eye-opening to the entire team.

This is a material science innovation-driven company. I'm not sure we've necessarily been the customer-focused, customer-backed innovation-driven company we want to be, but we've got an opportunity to be better on the commercial side for sure. We laid out a number of different levers there.

So we will see better growth on the two industrial side businesses, TEBG and SIBG and probably more -- as Karina said, more about macro. But she was pretty clear, I think, saying aspiring to be better than that macro performance in CBG. So the math is roughly correct.

Julian Mitchell - *Barclays Bank - Analyst*

And then just one quick follow-up around the footprint optimization. You have 200 distribution centers and plants combined. How much rationalization of that is embedded in the 25% operating margin goal?

William Brown - *3M Co - Chief Executive Officer*

So not a lot. There's a few distribution centers that we think we can close, and they're not expensive to close. They'll be worked on over the next couple of years. On the factory side, it could be cells within a factory or small centers within a factory. But we won't see big consolidation over the next three years.

I think as Peter clearly laid out, we've got a lot of opportunities in optimizing what is typically is called the 4-wall spend and optimizing the network as it is today. And I think those are foundational. You can't think about what you might do with the network and how you can consolidate sites or assets within a site unless you have a really good foundation of how things are made today, what's your utilization today, it's foundational.

But getting that information, there's lots of opportunities for us in the next couple of years to do that. That being -- I would say 110 factories and 88 distribution centers is probably a few more than we necessarily need. But that's something that's a little bit beyond what we're talking about today.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Maybe Andrew and then it'll be good that side.

Unidentified Participant

Yes. As we think about R&D, right, and sort of making R&D more efficient, it seems to make sense to sort of dial it down to get it more efficient before ramping it up, right? But in your slide deck, you indicate that it seems that over the next three years, R&D is going to be -- so in your schedule, when do you sort of think this process runs its course, right, when you sort of do the right kind of R&D and the R&D organization actually sees that this is the more efficient R&D. So the question is, when should we see R&D bottom? A, is this the right way of thinking about it? And b, when should it bottom?

William Brown - *3M Co - Chief Executive Officer*

You say bottom in terms of --

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

Percentage of revenue.

William Brown - *3M Co - Chief Executive Officer*

Right now, we're around 4.3% was last year, 4.3%. We see over the next couple of years, our math right now is to come up a little bit, about 50 basis points over the next three years, so 4.7%, 4.8% in that range. But look, I mean, we replan this every year. So we'll meet that. If there's a demand and pull for the investment, then we'll end up funding that.

Our math and our modeling that we put together today does support that. That being said, there are opportunities to do all the things that John talked about. That's not going to be over one year or two. It's a multiyear journey. So we'll look at how the progress we're making on increasing capacity and throughput through that factory and then decide what other ideas are coming through the pipeline and which we want to need to fund with incremental dollars. And I think it's a math exercise we go through every year.

Unidentified Participant

Is this the right framework to think that it sort of has to get more efficient before the organization more --

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William Brown - *3M Co - Chief Executive Officer*

I think it's in parallel. I think it's in parallel. That's what we're focused on right now. But look, I think we talked a lot about 1,000 new product launches in the next three years. Wendy had mentioned about working on the funnel, making sure the right number of ideas in the funnel, that's really important.

It was great for us to launch 169 last year. We had a really great Q4 and a really great December. The fact is a lot of things got pulled forward. So we have to make sure we've got our funnels continued to kind of our pipeline keep filling up. And that's what the team is focused on right now. So that's kind of how we're thinking about right now, Andrew. I don't know if Anurag or John even wants to comment on it.

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

No, I would just only add that the team right now is really working on efficiency and taking out reduced -- taking out eliminating waste, improving the value-added work that's actually been done. That's the focus of the team right now and where we're starting.

Unidentified Participant

As just follow up question, you sort of have a bucket for insurance proceeds, and is there a scenario where we could see some of the insurance? And I understand there's a lot of uncertainty. But is there a scenario where we could see some of these insurance proceeds in '26?

William Brown - *3M Co - Chief Executive Officer*

Yeah. Yeah, that was a follow-on question. Jeff asked the same one. I didn't answer it properly. But yes, we collected it was about 340 last year. And that's really at the front end. We really just started last year. So there will be more in '25, more in '26. We haven't quantified the total value of the insurance policies against we're going after. We're going after it, I think, very aggressively, both through litigation and arbitration. It's ongoing. So there's a reason that, that was a place on that chart.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Maybe take -- one Steve here.

Unidentified Participant

A short-term question and a long-term question. First of all, just economy, what are you seeing out there? What are the tea leaves for you guys? And then secondarily, for the next couple of years, high single-digit earnings growth is really like not that spectacular.

Once you kind of absorb what you need to absorb in the next couple of years, you have high-40s gross margins. Now you're talking about getting this flywheel, I'll use the term flywheel, getting that going from a revenue perspective. I mean, can we think about this going forward as kind of like maybe a 3% to 5% grower with a drop-through of north of 40% beyond '27 once you kind of absorb what you need to absorb?

William Brown - *3M Co - Chief Executive Officer*

It's part of the risk of giving what we think are relatively aggressive targets, they always get stretched a bit. We, by the way, that's what I do internally. So I'm with you on this one. Let me start on the first one, just some of the macro. It's still very early in the year, only a month after we gave our earnings release and the macro numbers haven't really moved materially. Auto is still negative, but maybe a little less negative. The data I saw was retail a little bit better than we thought, at least in the IHS macro US retail sales.

We're not yet seeing through that in our numbers, but that's apparently getting a little bit better. Semis are maybe a little bit weaker, but still double digit. So things are moving around a little bit, but it's not material in terms of how we see the year. For us, we're watching very carefully like every investor in this room and watching here is around what's happening in DC and policy in general, tariffs in particular, around what's happening in trade is depending upon what happens in the next week.

I think March 5 is when the 30-day pause with Mexico and Canada expires. So what does the President do beyond that? What's he going to do in Europe? What's he going to do with China beyond the 10% in effect? Steel and aluminum is coming up in the next week or two, I think, March 12.

So there's a lot of different conversations happening around the macro. There's a lot of questions on tariffs, and that's going to bleed through somehow. And we're watching it very carefully. There's just a lot of uncertainty. But as we sit here today, that's why we reiterate our guidance today, we haven't seen macro, at least for us changing since we talked just a couple of months ago.

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

And just I'll give you a little bit more color on your longer-term question as well. So Steve, as you said, it's high single-digit growth in '27. Julian earlier said that implies about 3% growth in '27. So just breaking down the different pieces, every point of revenue growth is about $250 million. You take the increments of that to the bottom line, $85 million, $87 million, about $0.12, $0.13 of EPS. So clearly, there is that if the revenue accelerates, there is a more flow-through, which comes to the operating income.

But below operating income, there are two things. One is debt and tax. As you know, the interest rate environment is still fairly high. This year, we have about $1.8 billion of debt coming due, which we factor into our guidance. And '26, '27, it's another $2.2 billion. And the next year is below 2% currently, '27 is a little bit above 2%. But today's rates are around 4%, 5%.

So clearly, that's going to be a headwind if rates stay where they are as we go into '26, '27. And we've also assumed tax to be around 20% with what we have this year. So we'll see these two things. But yes, if first, obviously, we have to get to what we said. But if we can accelerate volume growth, interest rates plays out over the next couple of years, there could be opportunities to do more.

Unidentified Participant

Sorry, I guess I was just saying steady state longer term beyond that with a high-40s gross margin, can you convert this -- can you drop through something north of 40% on the go-forward revenue growth beyond '27? So would that be kind of the thoughts around the model?

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

If you run the math, all else being equal, if volume growth continues to accelerate and gross margin goes up at the same clip, right, you will get to that, I think. Yeah, you will get to that.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

One more here, maybe Nigel?

Nigel Coe - *Wolfe Research - Analyst*

Maybe just a follow-on to that. So I think your '27 gross margin target is 46%, so in that range. So you said high 40s, so let's say, 49% round numbers. So it implies you've got maybe some runway to 100 basis points per annum beyond '27. So maybe just ask Steve's question a slightly different way. And just on top of that, when you think about the 100 basis points per annum of enterprise margin expansion in '26, '27, are all three segments tasked with that kind of margin expansion? Or does it vary across the three?

William Brown - *3M Co - Chief Executive Officer*

We haven't really given any sort of color on that.

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

We haven't given details but just think of the margin expansion that we have and what all the businesses spoke about, there will be margin expansion across all the three segments for us to get there. Yes, it could -- the rates could vary depending upon different things, but it would imply that.

Nigel Coe - *Wolfe Research - Analyst*

And that runway, sorry? Sorry, the runway, gross margins, high 40s. Does that imply 100 basis points beyond '27?

William Brown - *3M Co - Chief Executive Officer*

It implies growth beyond '27 for sure. Yes. Is it 100 basis points? I mean we'll come to that at the next Investor Day. I mean, but it's going to grow beyond that, yeah, for sure.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Yeah, let's come back here, Scott.

Scott Davis - *Melius Research - Analyst*

Bill, can you drill down a little bit more on price? Because when you think about IP and 2%, I mean, these are pretty low numbers, below CPI and PPI, right? So historically, the price has kind of been a 0% to 1% for 3M. But there's some mix shift stuff in there, that's a little hard to kind of measure. But how do you think about what good looks like in price?

William Brown - *3M Co - Chief Executive Officer*

So we've historically been covering material cost inflation with pricing. I mean it's been in the order of 3M-wide, 40 basis points to 50 basis points in that range during COVID. I think there was times it was kind of 2% or even higher covering material cost inflation.

So that's moderated a little bit this year. It's in that range, in the range between 0% and 1%. Most of our pricing is going to come out of Chris' business in SIBG. Karina and CBG, it's maybe a little bit, but it's almost flattish in pricing. Same thing in TEBG. It's hard to disaggregate price because a lot of it is spec in business that's included in the spec in price and the spec in win.

So most of what we talk about is pricing within Chris' area. And I think, Chris, you've been running something on the order of about a point or so in price and all the things that you talked about today around different governance and corridors. There's an opportunity for clearly to do more than that how do we sized this here. It's not a specific number, but an opportunity to do better on price.

Scott Davis - *Melius Research - Analyst*

Okay. And at the beginning of your presentation, you talked a little bit about divestitures and I guess you can think about divestitures. You can also think about SKU rationalization to help get gross margins up. But can you help us understand a little bit of materiality without going into detail, are we talking about a couple of percent of revenues and divestitures? Could be a 10% -- some sort of circle.

William Brown - *3M Co - Chief Executive Officer*

Yes. So what's in flight today, it's in the 2% to 3% range is where we're at today. So that's what's actually in a process. I talked about this a couple of quarters ago. There's a few that are moving a little bit faster. There's a few moving a little bit slower. A lot of these businesses are relatively small, collectively, again, 2% to 3%. It takes some time to put together, do the QOE and put together the offering memorandum, all the things we're doing. So we're still in that process. Some are beyond the bid stage, some are at the front end of it. We'll see where we go in this, but it's going to be more than the 2% to 3% over time.

When you step back and you look at those three buckets, our priority verticals are a little more than 60% of the company. But there's more than 60% of the business probably in the upper box, if you will, what we're going to invest in. There's some percentage of the business, again, 2% to 3% plus some other things maybe in the bottom piece around divesting, all depends on the entanglements.

I mean that's the thing we've to keep an eye on. It's not just entanglements, but also the stranded costs that come when you get out of businesses. So when Anurag talked about $300 million worth of stranded costs between PFAS and the wind down of the TSAs on Solventum, as you're selling businesses, we've got more stranded costs to deal with.

So we have to make sure we meter this and do it right and appropriately. And those are the things that we're looking at. The other businesses in the middle are the ones I'm sort of saying we're going to harvest. Some may move further up, some may move further down or some may need just stay there.

They're perfectly good businesses, decent margins. Some are in a nice up cycle, so we might ride through that and see where we generate good cash. But right now, we're focused on the bottom piece in terms of divestitures. The ones in flight are 2% to 3%. And I think that's how I'd frame it for today.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

I'll take one here and then go back here. Joe Ritchie?

Joseph Ritchie - *Goldman Sachs Group, Inc. - Analyst*

Great. So first off, thanks, everybody, for the detailed presentations. I thought it was great. Bill, I've got a question. We learned a lot. There's a lot of detail, right? And basically, what you're describing is this transformation journey, continuous improvement.

How are you tracking all of this to make sure that you're staying on top of all the different things that are occurring and that you can measure those metrics real time and then adjust whenever like any issues pop up.

William Brown - *3M Co - Chief Executive Officer*

So it's a good question. We have, I think, a very good operating cadence of reviews. We have something happening every month, sometimes it's multiple times a month, sometimes every week. It's not like a daily scorecard wake up and hit a button and something pops up around what's OTIF for SIBG yesterday, although, of course, I'm watching that very, carefully, as you heard.

But it's really like how do you monitor all these pieces over time and then be nimble enough and agile enough to spend time to be able to dig into where there might be problem areas or things requiring additional attention. So every month, we've got a monthly financial review, an operating review, some sort of review. We have a monthly operating committee team that meets that you see across the state here plus other folks. But we're tracking these. We see every single week, we see an update from Peter's team on what's driving OTIF, on time in full by business, by sub-business, where the product issues are, what factors are an issue.

It's just a way to monitor what's happening and allows us to engage when we think we've got to go in and course correct. So we've got activities across all of these things. We're just starting with a monthly review, not just with the operations of the business, but also with R&D. John is smiling over there because this is about how do you drive that up-tempo and rigor. As we went into last year, we weren't tracking the launches to the launch calendar we ought to be tracking, not just monthly or weekly, almost by day.

So now as we look out this year, we have a pretty good cadence of what's supposed to launch and when. Not everything is going to go to plan. I completely understand that. But when it doesn't, the question is why doesn't it? Was it a bad forecast? We have the right resources, the customer do something? Things happen.

But by us here, focusing on that from a top-down basis and the folks working on it day-to-day, when they realize this kind of information is shown to us, I think it drives a different level of rigor and governance and pace and everything else. So that's kind of what we do. It's a daily exercise. But I see over the last 10 months us getting better and better each day on how we're performing in these particular metrics.

Joseph Ritchie - *Goldman Sachs Group, Inc. - Analyst*

Okay. That's helpful. And just a quick follow-up. John, you mentioned earlier back in the 2015, 2016 time frame, you were in that 500 -- 400 to 500 zone in terms of product launches. I think we've probably started to see the benefit of that maybe more in like the 2017, 2018 time frame. So just talk a little bit about how quickly you should start to see some of the benefit from all this R&D spending and all the product launches that you're doing today.

John Banovetz - *3M Co - Executive Vice President, Chief Technology Officer, Environmental Responsibility*

So if you just take a look through it, it will take a little bit of time, I think, as Bill laid out, the commercial excellence is immediate, and then we'll start to see the flywheel and the new product engine start to ignite as we go forward. So I mentioned our cycle time across all the different products across everything else, about 13, 14 months, and our goal is to get that down under a year ballpark. So if you think about that and how we can turn the products out and start turning them, that gives you an idea about, I think, the timeline and the time frame. So over the next couple of years, I would say.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

I'll come over there. Amit, maybe at the back.

Amit Mehrotra - *UBS Investment Bank - Analyst*

A quick question and clarification, Anurag. To Julian's question, you said 3% growth in 2027. If I look at Slide 91, I just do the rough math of the $1 billion over the 2% growth, I'm getting to $26 billion of revenue in '27, which is 4% growth in '26 and '27. I don't want to split hairs, but I just want to clarify that point. And then just related to that, there's obviously a lot of tariff noise and tariff uncertainty. How are you incorporating that uncertainty into the outlook? So why don't I just start with those two first.

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

Sure. Okay. Why don't I first answer your question. So if you look at the -- so it's 2% macro growth over the next three years. And then on the $1 billion, our cumulative $1 billion above the macro, the split between the three years is this year, we gave guidance of 2.5% over 2%. So it's $125 million. That $125 million then becomes $325 million and then goes up to $600 million. So as you go from $125 million to $325 million, it's $200 million, 100 basis points, $325 million to $600 million, $275 million, another 100 basis points. So that's the math to get to the 3%- plus for that.

William Brown - *3M Co - Chief Executive Officer*

And on the tariff piece, look, we've seen -- I mean, first of all, we're -- as you know, we're a net exporter. We export $4 billion, we import $1.7 billion. The $1.7 billion is about half of which is in Mexico and Canada, mostly Mexico, less in Canada, but it's in that range of about half of that $1.7 billion or $850 million.

China for us about 10%, so $170 million. So even today, that 10% tariff, $17 million, that's in our numbers. You're only talking about a couple of pennies and it's within that $0.30 range. We do buy steel and aluminum. It's around $100 million with a tariff on that. That's, I think, March 12. That's again, it's a couple of pennies. That's within the range that we're talking about in terms of earnings per share for the year, $7.60 to $7.90. So it's in that range.

If the President goes forward with a 25% tariff on Mexico or Canada and if there's retaliatory tariffs on the other side, it becomes a different conversation. But right now, the other piece that are actually we're tracking, we can absorb within the guidance range we have.

Amit Mehrotra - *UBS Investment Bank - Analyst*

That's helpful. And just one follow-up in terms of the industrial business. As I think about OTIF being kind of in the low 80s in industrial, that's where a lot of the complexity. I think you have 100,000, 200,000 SKUs there. Is there an opportunity to rationalize the SKUs to kind of get a bigger boost on that OTIF and realize the progress even sooner?

William Brown - *3M Co - Chief Executive Officer*

I'll let Chris jump in here. But I think there's an opportunity even with the SKU count today, it's about 110,000 more or less. So just over 100,000 in Chris' business. But there's an opportunity to do better than 81% even if I had that SKU complexity. That's a driver, that's a contributor to low performance, but it's not the only thing.

There's things we can do in terms of demand planning and more rigor around that, that will actually bring 81% up to 90% without a lot of SKU reduction. SKU reduction is going to be important, but it's not the big driver of that. Chris?

Yeah. I mean, so SKUs is something that we've worked on, we'll continue to work on. And I think there's the absolute number, but then there's also a question of within the portfolio, is there value from some of the complexity that we're having. So we've been working with Peter and his team and starting to take a little bit more of a plant-by-plant view to understand where we have complexity.

Are we actually getting value out of that complexity? Or is it just something that slows us down? So we're trying to take a little bit more of a surgical approach to how we manage that. And the other piece that I would add in is, again, as we've come from a little bit more of a geographic-focused model, how do we optimize or harmonize kind of some of where the places we produce these things, which also feeds into, I think, some of the improvements that Peter talked about in terms of these 1,000 lanes.

There's cases where we make the same thing in multiple places where there's maybe an opportunity to clean that up to Bill's point, even with our existing SKU count. I don't know, Peter, if you have any other --

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Peter Gibbons - *3M Co - Group President, Enterprise Supply Chain*

I would say that our team is certainly not counting on SKU rationalization to improve service. That's for sure. That's a different topic. But there is more complexity in SIBG. But at the same time, you just got to break the problem down. We've got assets that we just got to get the OEE up faster or offload production to another site or an outside vendor.

We've got suppliers that we're working really hard with to improve their service. We keep learning different things about how our production planning works and how we can fine-tune that so it's better for Chris' plants and Chris' business. So we are not counting on that because we've learned through CBG and TEBG that there's so many good things we can work on across the chain. I would rather drive it up to the 90s and then talk about is there scope to simplify. I wouldn't want to give up on getting us to the 90% mark this year.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Maybe take two more here, maybe Joe and then Dean --

Joseph O'Dea - *Wells Fargo Securities - Analyst*

Hi, thank you. Can you just talk about the LTIP structure has flexibility in it. And so you can get there, better growth, you can get there better margins. And so when you think about the targets you have around product launches, the growth above macro, can you talk about what's implemented within those goals to drive accountability on both the revenue growth side of things as well as the margin performance side of things and ultimately get to the LTIP targets?

William Brown - *3M Co - Chief Executive Officer*

So of course, the LTIP is going to be on cum EPS and free cash flow. So in order to get there, we've got to hit these targets we've talked about. I mean it's a pretty integrated model we put together that drove the output on EPS and free cash flow. So we were not going to get to the free cash flow in the target without substantially improving inventory turnover, without driving growth, without driving commercial excellence and introducing new products. Those are all embedded in that model.

Back there's obviously an annual plan. That's going to be a third, a third, a third between revenue, op income and operating cash flow. So there's a real short-term hit those pieces that then cumulatively add to the LTIP plan. So it's a pretty embedded contained model. And it's a stretch goal. It's for sure. This team is going to get stretched to do it, but it's consistent with the plan we laid out today.

Joseph O'Dea - *Wells Fargo Securities - Analyst*

And then just in terms of when you talk about things like where OTIF got to or Chris talked about erosion, just a little bit of background on getting to those places and for how long efforts have been underway to now start to come off of those levels and see improvement around the organization.

William Brown - *3M Co - Chief Executive Officer*

So I wasn't sure I heard all of that. The microphone is maybe not working, but --

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

Yes. I think the question is if you look at OTIF or you look at Sorry? You look at erosion, how long have we been doing this far? And they're all at different levels of maturity.

William Brown - *3M Co - Chief Executive Officer*

Yeah. So Peter can jump in on OTIF. I mean we've been focused on this for the last couple of years for sure. It's gotten -- and certainly, since I've been here, we've seen a lot of attention to it. We are looking at this weekly, Peter, certainly daily, Peter and Chris daily on SIBG. So it's been a very important focus of that.

I think as Chris had mentioned, when he talked about erosion or churn, that's kind of a more recent discussion. I think it only goes back six months or so. And we did a lot of analysis over like the third and the fourth quarter on this. I think Chris can jump in and talk more about this is when we really start to quantify what is that erosion, who's eroding and why is that? You talked about the survey that we've done and then to get at to why people are leaving.

So that's only been in the last six months. So we're very in the early stages of making corrections to that. But one will drive the other. Improving OTIF, that's a key driver for churn or attrition. And when we fix that, I think we'll fix a lot of the churn issues as well.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Maybe Dean, yeah.

Deane Dray - *RBC Capital Markets - Analyst*

I wanted to circle back on R&D and innovation, and we heard a lot today about running R&D like a factory and efficiency and productivity and cycle time. But it strikes me that innovation has less to do with spreadsheets and a lot more to do with the art of managing science, the fostering collaboration. It's a cultural element, not a spreadsheet element. So that's the first question. How do you foster innovation and not get too caught up in the rigors of the efficiency?

And a second related question, I look at the new tagline on excellence, R&D has failures all the time, and that's just the result of trial and error. And so every lab does this and has failures. And how do you encourage failure? How do you embrace it? And how do you measure it? And it's a natural outcome. I just want to hear how you address that.

William Brown - *3M Co - Chief Executive Officer*

Yes, it's a good question. I'll let you start there, John.

John Banovetz - *3M Co - Executive Vice President, Chief Technology Officer, Environmental Responsibility*

They're great questions. They're great questions about how we approach. The first one, and maybe the -- you're 100% right. Innovation is not driven by a spreadsheet. It's not driven. It's driven by creativity. It's driven by collaboration across the groups. It's driven by pushing ideas forward and things. And in fact, you can make a mistake by making it too much spreadsheet, too much parts through it. I personally lived through that in a previous life at 3M as a researcher doing that as well.

What we're trying to do is make sure that we keep the innovation. We keep the spark. We keep the creativity. We give room to our researchers in order to invent and discuss and collaborate. But once we have an idea, we want to be rigorous around do we have the right financials around it? Are we driving it? Is there no gap between the lab, the pilot and the manufacturing so that we can be efficient in how we make the decisions, not necessarily about the creativity that goes behind it. And I think one way to think about it might be about disciplined creativity going forward. So you still have that creativity, you sell the connection, you sell that collaboration as you go.

The second question you asked around failure, it's 100%, I would agree with it. But I'd say I hate failure. I hate failure. I mean, I don't want to fail. I don't want our teams to fail on individual projects as they go. But it is part of innovation. If we don't fail, we're not pushing the limit. We're not pushing and creating something differentiated. If every single one of our projects was successful, then I'd question whether or not we're making really something differentiated in the marketplace. So we're just copying what's already been there.

That said, the best thing you can do about failure and it's something within 3M is to embrace it. The worst part about failure is if you fail and you don't learn from it. And within 3M, because we can exchange information across the company so well that if I fail in one business or one product line, we can actually learn from that and take it apart.

I'll say, the biggest failure in innovation is that if you don't learn from what you failed at in the form. So you have to embrace it, you have to understand it, but you have to learn from it to go forward, and then you can create the next piece and the next piece. And without that learning, that's the real failure is if I failed and I never learned anything from it.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Maybe we'll take a last one here, Andy, and then we'll go to you Bill, for the closing remarks.

Unidentified Participant

I'll try to do this. So basically, one of your main multi-industry peers always talks about customer-backed innovation for R&D. I heard that from you guys, but it was kind of like on one slide and sort of. So maybe talk about your assessment, Bill, because I think one of the, I don't know, critiques of 3M in the past is you spend a lot, but then does it really result in market outperformance or not. So how have you assessed that? And how do you look at that going forward?

William Brown - *3M Co - Chief Executive Officer*

So Andy, it's a great point. I mean I think we've got to -- and I think Wendy spent a little more time on just one slide on just making sure that we engage more than with one large innovation partner. And that's the whole point. It's got to start with the customer. What do they need, not just need today or need to replace something that they're buying from somebody else but understanding enough about where they're going that we can preempt some of those needs.

We're just not as attuned to what's happening at the lab bench with engineers in the facility and the top-to-top type conversations that we need to have. That is something that's going to evolve. It's not going to happen overnight. You're 100% right. Spending $1 billion and you look back on organic growth, we haven't seen outperformance on organic growth. I think it's underperformance on organic growth.

So we've got to make sure the machine runs better. We got to make sure the idea funnel is richer. We've got to make sure it starts with the customer moves back because at the end of the day, those are the people who are going to buy that solution. So yes, it sounds like a tagline or a piece that we were mentioning, but it really is fundamental to the change that we've got to embark upon here in R&D.

And I think most important, I think, in Wendy's area, frankly, because she's the one dealing mostly with large multinational OEMs, either in electronics or automotive or elsewhere and really understanding deep at their bench level in the designers level, where they're at two, three, five years down the road and making sure internally, we're starting to line up against that. So it's fundamental.

Wendy Bauer - *3M Co - Group President of Transportation & Electronics Business Group*

Yes. Just one comment to build up on what Bill said very well. I think one of the observations that I had with the team is we really dug into this point in particular. Yes, we do a lot of customer-backed innovation. But what we were finding is those relationships were translating into what I would refer to as niche products that started with a customer in that setup but stopped with that customer.

And so we want to make sure that we're being very intentional of who are the industry innovation leaders in a particular domain specialized area of an industry. Innovate there, but very clearly know who's customer two, three, four and be diligent to push that through. That also helps us triangulate that what we're bringing is scalable to help the industry more broadly and doesn't turn into that niche. So it's the balance of being disciplined around both dimensions of that.

Unidentified Participant

That's very helpful. And then just totally not to pick on Karina, but like if I look at the segments, it's the only one that's sort of market to perform, right? And so, is that a function of the competitive environment? Karina didn't talk about strategic pricing like Chris did, for example. Like can you really focus on that to sort of jump start? Like what jump starts to get you to outperform in that segment?

William Brown - *3M Co - Chief Executive Officer*

I'll let you jump in here, Karina.

Karina Chavez - *3M Co - Group President, Consumer Business Group*

So we are looking at pricing. Part of that pricing comes from new assortment at higher price points or at a different price point. So NPI has been a lifter for 2024 and how do we continue to drive for a different kind of assortment. Certainly, competitive pressures and the landscape over the last 24 months really on inflationary pressures and how the consumer is feeling has definitely impacted the way that we think about price and how we will think about assortment differently.

So really focusing on -- that's why part of our strategy is about reinventing that portfolio to redefine where do we want to play, where we can command price and do it through innovation. In addition to having the same execution in terms of working with our retailer partners and where do we have potential leakage and continue to drive part of the execution of pricing as well.

Chinmay Trivedi - *3M Co - Senior Vice President, Investor Relations and Financial Planning & Analysis*

Okay, that's time.

William Brown - *3M Co - Chief Executive Officer*

Okay. Well, thank you very much, everybody. Let me first thank the team that's up here and all the people that aren't here but work behind the scenes to make this happen. It does take a lot of time and effort to bring us to this conversation like this today, but it's not a one-off event. We'll continue to do events like this. We'll be out meeting with investors.

I'll talk a lot more at our earnings releases on the metrics we're talking about today and the progress we're making. I started this last July and continue to talk about the things that I'm seeing and how they make a difference and how they're helping us drive shareowner value.

We're going to stay laser focused as a team on the three priorities. It's going to be growth. It's going to be operating performance and it's going to be effective capital deployment. But what I want to make sure I emphasize today is and underscore is what I've been talking about. What you've been asking about is the culture.

This is a new performance culture for this organization. Somebody really smart once said culture strategy for lunch or something to that effect, it couldn't be more true than at 3M. I do think we have a great strategy, but really outdriving and outperforming and delivering value to the owners here is going to come from that performance culture, the up-tempo, the rigor, the discipline, all of that.

And I'm seeing really good progress. And I hope you did as well today. It's a one-off event, but we're going to continue to have these, and you'll see this mature over time. I'm really very optimistic about where this company could go.

And I'm really glad I joined you 10 months ago, and I'm really enthusiastic about the opportunities ahead of us. So thank you very much for taking the time to be here today and for joining us last night. Again, the team did a great job last night as well. So thank you very much. Safe travels back. Thank you.