Q1 2022 Earnings Call Transcript
Michael Roman, Monish Patolawala, and John Banovetz
April 26, 2022

Slide 1, Cover Page
Bruce Jermeland, Senior Vice President, Investor Relations

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

With me today are Mike Roman, 3M's chairman and chief executive officer, Monish Patolawala, our chief financial and transformation officer, and John Banovetz, our chief technology officer.

John is joining us today to discuss our progress on the sustainability goals that we introduced in February last year. Mike, Monish and John will make some formal comments then we will take your questions.

Please note that today's earnings release and slide presentation accompanying this call are posted on the home page of our investor relations website at 3M.com.

Please turn to slide 2.

Slide 2, Forward Looking Statement
Bruce Jermeland

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

Please note, throughout today's presentation we will be making references to certain non-GAAP financial measures. Reconciliations of the non-GAAP measures can be found in the attachments to today's press release.

Please turn to slide 3.

Slide 3, Change to non-GAAP reporting
Bruce Jermeland

Before I hand the call over to Mike, I would like to take a moment and highlight a financial reporting change we are making starting here in Q1 2022.

We recognize that the increases in legal-related charges that we have incurred the past couple of years have impacted investors understanding of our underlying financial and operating performance.

We have been disclosing respirator and PFAS impacts in our public filings and have decided to provide additional disclosure by expanding the scope of our non-GAAP measurement adjustments to include all impacts of accrual changes and legal fees for respirator mask, PFAS and Combat Arms matters.

This change is a result of discussions we have had with many of you along with recent benchmarking work we have done.

This morning we issued a Form 8-K with updated non-GAAP financial performance history for the past three years. Further, we will be issuing a Form 8-K amending our most recent Annual Report on Form 10-K to reflect the effects of this change in our non-GAAP measures and changes in segment reporting immediately after filing our Q1 2022 Form 10-Q this afternoon. Also, our Q1 2022 financial performance and full-year 2022 guidance in today's press release and presentation incorporate these changes. Please note that our guidance does not include future changes to reserves for PFAS or Combat Arms.

Highlighted on this slide is the impact of this change to our non-GAAP financial reporting. As you can see, operating margins in 2021 were 22.2 percent on this new adjusted basis, or up 70 basis points from pre-COVID levels in 2019, versus down 40 basis points on the previous basis. And adjusted EBITDA margins have expanded 110 basis points since 2019 to 27.6 percent.

Slide 4, Change to non-GAAP reporting
Bruce Jermeland

Looking specifically at our Q1 2022 performance on slide 4, adjusted earnings were 2 dollars and 65 cents per share. This result excludes total special items of 39 cents per share which is comprised of:

- 13 cents of legal-related costs in the quarter
- Along with a 26-cent charge for PFAS-related remediation in Belgium, which we previously announced via a press release and Form 8-K filing on March 30th. As we indicated in the March press release and Form 8-K filing, this charge would be reflected as an adjustment in arriving at our first quarter results, adjusted for special items.

We remain committed to providing strong transparency in reporting our financial performance, and of course, we are always here to address your questions.

With that, please turn to slide five and I will now hand the call off to Mike.

Mike.

Slide 5, Delivering growth and shareholder value in 2022
Mike Roman, Chairman and Chief Executive Officer

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

In a challenging global environment, 3M delivered a strong start to 2022. As Bruce just noted, to provide additional clarity on litigation-related costs and our underlying business performance, starting in the first quarter we are reporting adjusted earnings to exclude significant litigation costs, which was 13 cents in Q1. As we communicated on March 30th, we also made an additional investment related to our operations in Zwijndrecht, Belgium which resulted in a 26-cent charge -- excluding this investment, our financial outlook for 2022 remains unchanged.

As you recall, at our strategic outlook meeting in February we committed to driving growth and shareholder value in 2022 by continuing to innovate for our customers and reposition our portfolio to win in attractive markets. We also committed to deliver strong margins, EPS, and cash flow through a focus on operational excellence, while continuing to invest in growth, productivity and sustainability.

In the first quarter, we executed well and followed through on these commitments… which I will discuss on slide 6.

Slide 6, Creating value and delivering for customers
Mike Roman

We relentlessly focused on serving our customers while managing supply chain disruptions, inflation, and geopolitical pressures.

We posted organic growth of 2 percent, along with sequential margin improvement, adjusted EPS of $2.65 and robust cash generation.

Overall demand is strong, though the global economic outlook has softened due to challenges in certain end-markets, evolving impacts from COVID and recent geopolitical events.

All of our businesses started the year with good performance. End market demand was strong in Safety and Industrial, partially offset by a decline in disposable respirators. In Transportation and Electronics, our automotive business continued to outperform build rates, despite the impact of semiconductor shortages. Health Care performed well with 5 percent growth… and Consumer grew 3 percent, in addition to 9 percent growth last year.

To position us for long-term growth, we continue to prioritize investments in high growth opportunities across our businesses … commercial opportunities that are sizable and significant. For example, our automotive electrification platform grew 20 percent organically on the strength of new innovations, on top of 30 percent growth in 2021. In health care, our biopharma business posted 15 percent organic growth, as 3M science advances the development and manufacturing of new therapeutics and vaccines. To support growing demand for our biopharma solutions, we are investing $35 million to double capacity at our plant in Columbia, Missouri.

We also continue to manage our portfolio and unlock value for our customers and shareholders.

We are on track to close the divestiture of our food safety business in the third quarter… and in March, we divested our floor products business in Western Europe, enabling us to prioritize other parts of our consumer business.

In addition, yesterday we announced that we acquired the technology assets of LeanTec, a provider of digital inventory management solutions for the automotive aftermarket segment in the United States and Canada. It is another example of how we win in the core and build for the future, creating new platforms to access emerging trends and opportunities -- in this case, the “connected bodyshop,” one of 3M's digital platforms that brings together data, analytics, and material science.

We continue to navigate global supply chain disruptions, which have been amplified by recent geopolitical unrest. We are doing whatever is necessary to take care of customers, while managing extended lead times and elevated inventory levels. At the same time, we have continued to drive strong pricing to offset inflation.

Like many other global companies, we are actively managing through the conflict in Ukraine. Our focus remains on ensuring the safety of 3Mers in harm’s way. I am proud of how 3M has stepped up to help - from donating nearly $4 million, to employees welcoming refugees into their homes. We stand with our Ukrainian colleagues and have suspended operations in Russia.

Given what we are seeing around the world, we expect supply chain challenges to persist for the foreseeable future.

Our balance sheet remains strong – allowing us to invest in the business, while returning $1.6 billion in the quarter, to our shareholders through both dividends and share repurchases. We increased our dividend in the first quarter, marking our 64th consecutive year of increases.

With respect to litigation, we are vigorously defending ourselves in Combat Arms bellwether cases.

We are pleased that a jury sided with 3M in the most recent bellwether trial earlier this month, which was a plaintiffs' counsel pick. To date, we have won six and lost eight trials, and have appealed or will appeal all adverse verdicts. Eight bellwethers were also dismissed by plaintiffs before they went to trial.

I would also like to provide an update on operational disruptions at our factory in Zwijndrecht, which I know is top-of-mind.

Last month, I visited Belgium to meet with local leaders and affirm our commitment to the Zwijndrecht community. As previously stated, we continue to work with Flemish authorities to address our remediation obligations and work toward greater operational certainty.

Last September we announced an investment of 125 million Euro to advance air and water stewardship in our existing operations… which has included the installation of a new, state-of-the-art filtration system. In addition, last month we committed 150 million Euro to remediation that addresses legacy manufacturing and disposal of PFAS on 3M's site and in the surrounding area.

To help reduce the impact to customers, we are supplying from other global sites, and actively working to address any future potential impacts.

We will continue to collaborate with officials to bring idle processes back online in Zwijndrecht, deliver essential products to our customers and follow through on our commitments.

On May 11th, we will publish our Global Impact Report, highlighting our progress to our Sustainability commitments. In a moment, 3M's Chief Technology Officer, John Banovetz will provide an update on an important part of these commitments, our environmental stewardship goals.

In summary, the first quarter was a good start to the year for 3M – and I thank all of our employees for their contributions. As I mentioned earlier, we are committed to addressing the broader challenges of supply chain disruption and litigation risk, as we continue to invest in our underlying businesses which remain strong and well-positioned to grow.

We are maintaining our full-year expectations, as adjusted for the reporting change that we have discussed, which will provide greater clarity regarding our underlying performance as we navigate litigation matters.

At 3M, we are driven by purpose, and powered by four industry-leading businesses, unique global capabilities, and a highly experienced and diverse team. I am confident in our ability to grow above the macro and improve our operational performance as we move through 2022.

I will now turn it over to John Banovetz.

John.

Slide 7, Executing on our environmental stewardship goals
John Banovetz, Executive Vice President, Chief Technology Officer & Environmental Responsibility

Thank you, Mike, and please turn to slide 7.

As a global manufacturer, 3M has a long record of environmental stewardship:

- Over the last two decades, we have reduced our greenhouse gas emissions by 75%, while more than doubling our revenue.

- Nearly 50% of our global electricity use is renewable – on our way to 100% -- and;
- Over the last five years our innovations have helped customers avoid 100 million tons of emissions.

To drive our growth as a company, we will continue to build on our strong foundation, advance our strategy, and invest in science-based commitments to improve the environment.

Last year we accelerated our leadership with a commitment to invest $1 billion and deliver on new goals around air, water, and waste. As you see on the left side of this slide, our goals are meaningful, authentic, and impactful to the world. They are rooted in 3M science, applying math to a path to rapidly bend the curve on emissions.

We committed to a 10% reduction in water use by 2022, and a 25% reduction by 2030. To improve water quality, we committed to install filtration technology by 2023 at our largest water-using sites. And we committed to become carbon neutral, with aggressive milestones along the way. Finally, we will reduce our use of virgin fossil-based plastic by 125 million pounds by 2025.

Over the last year, we have made strong progress on each of our goals, putting us ahead of schedule in some areas and on track in all other areas.

We have already cut our carbon footprint by 25% and reduced our use of water by more than 10%, which included a new closed-loop water recirculation system at our factory in Decatur, Alabama.

As Mike mentioned, we've also advanced our filtration capabilities in Zwijndrecht with a new, state-of-the-art system – part of the 125 million Euro investment we announced last September – with additional work completed at several other 3M sites. Later this year in Cordova, Illinois, for example, new filtration technologies will be fully installed – including ion exchange and reverse osmosis. We've announced a $165 million investment in Cottage Grove, Minnesota, which follows our decision last year to close our incinerator, resulting in improved waste management while reducing energy and water usage at the site.

In addition, over the last year we have reduced our use of plastic by 19 million pounds through innovative designs in our consumer business – such as our Scotch double-sided mounting tape, which we reformulated to eliminate PVC plastic in packaging and reduce our solvent use by 300,000 pounds per year.

In summary, we are on track to meet or exceed each of the goals laid out last February, and we will advance our progress in 2022. This year, we expect to reduce our water usage by an additional 5%, double our reduction of virgin-based plastic, and further expand our filtration capabilities across our largest water-using sites.

I am proud how 3Mers have come together to follow through on our commitments. Moving forward, we will continue to work with communities, customers, and governments to advance our environmental stewardship and make a difference in the world. As Mike mentioned, I encourage you to read our annual global impact report, to be released on May 11th, for more details on our priorities and progress.

Now I will turn it to Monish, who will cover the details of the quarter.

Monish.

Slide 9, Q1 2022 operating margin and EPS
Monish Patolawala, Executive Vice President, Chief Financial & Transformation Officer

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

Please turn to slide nine.

The 3M team delivered strong execution in Q1 in a macro environment that remains extremely fluid and increasingly uncertain. We remained focused on delivering for our customers, drove operational execution, and maintained cost discipline while also continuing to invest in the business to fuel growth.

First quarter total sales were 8.8 billion dollars, which increased 1.7 percent on an organic basis. As a reminder, organic sales growth does not include impacts from FX or M&A.

Adjusted operating income was 1.9 billion dollars, with adjusted operating margins of 21.4 percent and adjusted earnings per share of 2 dollars and 65 cents.

On this slide you can see the components that impacted our operating margins and earnings per share performance as compared to Q1 last year.

We continued to drive price actions, realize savings from past restructuring and maintained strong spending discipline, which helped offset both known and new headwinds.

As I highlighted in my February investor day presentation, we made significant progress driving actions in 2021 to address rising raw material and logistics costs. We are leveraging the power of daily management, data and data analytics, along with the spirit of embracing the "red" to direct actions to offset the inflationary pressures. During last year, we developed new sourcing and pricing tools and processes to improve agility, drive alignment, and simplify our processes.

In addition, we also are enhancing our reporting and data analytics capabilities by rolling out tools that model price realization, leakage, and elasticity. These efforts continued to pay off in Q1 as benefits from selling price actions offset raw material and logistics headwinds.

Looking ahead, while we see raw material and logistics inflation persisting, we will continue to leverage daily management, powered by data and data analytics with the expectation of offsetting raw material and logistics inflation through pricing actions in 2022.

Also, during the first quarter, we completed the final actions related to our December 2020 restructuring announcement. Since Q4 2020, we have incurred total pre-tax restructuring charges of approximately 280 million dollars versus an original expectation of 250 to 300 million dollars.

These actions are expected to deliver total pre-tax savings of approximately 250 million dollars, or at the top end of our estimated range of 200 to 250 million dollars. We realized 180 million dollars of the savings in 2021 and expect the balance of the savings, or 70 million dollars, in 2022, which is incorporated in our guidance.

In the quarter, we experienced a year-on-year decline in disposable respirator demand of nearly 50 million dollars which negatively impacted operating margins by 10 basis points and earnings by 3 cents a share.
On any given day our global sourcing, manufacturing and supply chain teams continue to navigate a number of items, including:

- Raw material and logistics availability
- Evolving COVID-related impacts, including mandated lockdowns, employee absenteeism in our U.S. factories in January and February and now in China
- The continued shutdown of certain operations in our plant in Belgium
- And recently, the impacts from the geopolitical crisis in the Ukraine

These dynamics continue to result in ongoing changes to demand plans along with increasing costs and pressuring manufacturing productivity as we work to serve our customers.

Also, as you will hear from me throughout the year, we continue to prioritize investments in growth, productivity, and sustainability to drive long-term performance and capitalize on trends in large, attractive markets including automotive, home improvement, safety, healthcare, electronics, and software.

Moving to raw materials, we continued to experience inflationary pressures with a year-on-year increase of approximately 215 million dollars in the quarter which resulted in a headwind of 2.4 percentage points to margins and 30 cents per share to earnings.

Foreign exchange fluctuation is something we are watching closely particularly given the geopolitical uncertainties. During the quarter, FX was a benefit of 10 basis points to margins however was a negative 4 cents per share impact to earnings year-on-year, primarily the result of the strength of the U.S. dollar.

Other financial items increased earnings by a net 4 cents per share year-on-year, with benefits from a lower share count and a decline in net interest expense more than offsetting a headwind from a higher tax rate.

While year-on-year margins and earnings declined, it is also important to look sequentially given the fluid and uncertain environment. Our actions to continue drive price to offset inflation, navigate supply chain challenges and control costs enabled us to expand adjusted margins and earnings 140 basis points and 20 cents per share, respectively.

Please turn to slide 10…

Slide 10, Q1 2022 cash flow and balance sheet
Monish Patolawala

First quarter adjusted free cash flow was 715 million dollars with conversion of 47 percent, which was in-line with our expectations.

Year-on-year conversion was lower due to higher cash compensation and an increase in capex for growth and sustainability investments.

Looking at the full year, our free cash flow conversion expectations of 90 to 100 percent remain unchanged.

As you know, we currently have a very fluid environment, especially around global supply chain and logistics challenges. Therefore, we will experience some working capital ups and downs in the short run, but you should see the benefits of the power of data and analytics and operational rigor start to play out once things stabilize.

Capital expenditures were 424 million dollars in the quarter, up 37 percent year-on-year as we increased investments in growth, productivity, and sustainability. For the full year, we continue to expect capex to be in the range of 1.7 to 2.0 billion dollars.

During the quarter, we returned 1.6 billion dollars to shareholders through the combination of cash dividends of 852 million dollars and share repurchases of 773 million dollars.

Our cash flow, the global economic situation and our stock price are all factors into determining the pace and amount of share repurchases. We believe our current stock price presents a good buying opportunity, and we have been active in the market to start the year. While we are currently out of the market due to the pending Food Safety divestiture, we currently anticipate 2 billion dollars in aggregate share repurchases over the course of the full year.

Net debt stands at 13.3 billion dollars, up approximately 2 percent, as we continued to invest in the business.

Our capital structure is well positioned, giving us financial flexibility and optionality. Our strong balance sheet and cash flow generation capability along with disciplined capital allocation continues to provide us the financial flexibility to invest in our business, pursue strategic opportunities, and return cash to shareholders while maintaining a strong capital structure.

Please turn to slide 12 for our business group performance for Q1.

Slide 12, Safety & Industrial Q1 2022 commentary
Monish Patolawala

I will start with our Safety and Industrial business which posted organic growth of 0.5 percent year-on-year in the first quarter. This result included a disposable respirator sales decline of approximately 50 million dollars year-on-year, which negatively impacted Safety and Industrial's Q1 organic growth by one and a half percentage points.

Our personal safety business declined mid-single digits organically versus last year's 20 percent pandemic-driven comparison.

Looking ahead, we continue to anticipate that COVID-related disposable respirator demand will decline as we move through 2022. However, if trends change, we remain prepared to respond to changes in demand as COVID impacts evolve.

Turning to the rest of Safety and Industrial, industrial adhesives and tapes, electrical markets, abrasives, and closure and masking were all up mid-single digits compared to last year, while roofing granules and automotive aftermarket businesses were up low-single digits.

Safety and Industrial's first quarter adjusted operating income was 699 million dollars, down 14 percent versus last year. Adjusted operating margins were 22.9 percent, down 3.5 percentage points.

Year-on-year adjusted operating margin performance was impacted by higher raw materials and logistics costs and manufacturing productivity headwinds. Partially offsetting these impacts were selling price increases, spending discipline, and benefits from restructuring actions.

The Safety and Industrial Business Group continues to focus on building the future through emerging trends and opportunities. Most recently, 3M acquired the technology assets of LeanTec to advance digital solutions for auto body shops. This digital platform integrates data capture and analysis with material product platforms, providing shop owners and managers more access to data for enhanced productivity and inventory management.

Slide 13, Transportation & Electronics Q1 2022 commentary
Monish Patolawala

Moving to Transportation and Electronics on slide 13 which declined 0.3 percent on an organic basis, primarily due to the ongoing impacts of semiconductor supply chain constraints on the automotive and consumer electronics end-markets.

Organic sales in our auto OEM business were flat year-on-year versus a 5 percent decline in global car and light truck builds as we continue to gain penetration on automotive platforms.

Our electronics-related business declined low-single digits organically with declines across consumer electronics, particularly smartphones and TV's. These declines were partially offset by continued strong demand for our products and solutions in semiconductor and factory automation end-markets.

Turning to the rest of Transportation and Electronics, commercial solutions grew high-single digits, advanced materials was flat, while transportation safety was down mid-single digits year-on-year.

First-quarter operating income was 496 million dollars, down 11 percent year-on-year. Operating margins were 21.2 percent, down 2 percentage points year-on-year.

Operating margins were impacted by higher raw materials and logistics costs, manufacturing productivity impacts, and investments in auto electrification. These year-on-year headwinds were partially offset by increases in selling price, strong spending discipline, and benefits from restructuring actions.

The Transportation and Electronics Business Group is focused and executing well against its strategic imperatives to build new growth platforms in high-growth segments including automotive electrification, semiconductor, electronic materials, and graphic and architectural films.

Slide 14, Health Care Q1 2022 commentary
Monish Patolawala

Turning to our Health Care business on slide 14 which posted a first quarter organic sales increase of 4.7 percent, with growth across every business.

Our medical solutions business increased mid-single digits organically. First quarter U.S. elective medical procedure volumes were approximately 85 to 90 percent of pre-COVID levels as COVID slowed the pace of procedures, particularly in January and February.

Sales in our oral care business grew low-single digits year-on-year. Global oral care procedure volumes dipped in January and February due to COVID but started to recover in March. Overall patient visits for the quarter were 85 to 90 percent of pre-pandemic levels.

We continue to watch COVID-related trends and its impacts on the global healthcare industry, including labor shortages which drove lower than expected surgical and dental procedural volumes in the quarter.

The separation and purification business increased mid-single digits year-on-year with sustained demand for biopharma filtration solutions for COVID-related vaccines and therapeutics.

Health information systems grew mid-single digits driven by strong growth in revenue cycle management and clinician solutions.

And finally, food safety increased high-single digits. As Mike mentioned, we remain on-track for a Q3 close of the planned divestiture of this business which will be combined with Neogen.

Health Care’s first quarter operating income was 448 million dollars, down 3.5 percent year-on-year. Operating margins were 21.1 percent, down 1.4 percentage points.

Year-on-year operating margins were impacted by raw materials and logistics costs, manufacturing productivity, investments in the business, and food safety deal-related cost. These impacts were partially offset by benefits from leverage on sales growth, strong spending discipline, and benefits from restructuring actions.

Despite the current environment, the Health Care Business Group is focused on delivering clinically differentiated, innovative platforms that improve patient outcomes and reduce cost of care.

We have been sharply focused on 3 key segments: wound care, health care IT and biopharma filtration. These segments are well supported by key market trends, which include:

- Increasing chronic conditions driven by an aging population
- Shifting of care to lowest-cost settings
- Improving healthcare access trends
- And finally, digital and connected solutions

Please turn to slide 15.

Slide 15, Consumer Q1 2022 commentary
Monish Patolawala

Lastly, our Consumer business delivered first quarter organic growth of 3.4 percent versus last year, with growth across every business.

Our home improvement business continued to perform well, up low-single digits on top of last year's growth of over 20 percent. This business continued to deliver strong growth with our home improvement retail customers in our category leading Filtrete and Command brands.

Stationery and office and home care grew low-single digits organically in Q1.

And finally, our consumer health and safety business was up low-teens year-on-year.

Consumer's operating income was 224 million dollars, down 17 percent compared to last year. Operating margins were 17.1 percent, down 3.7 percentage points year-on-year.

Historically, Q1 is typically our lowest margin quarter of the year for our Consumer business, but this year's operating margin was further impacted by ongoing supply chain constraints, along with higher raw materials and outsourced hardgoods manufacturing costs, and manufacturing productivity impacts. These headwinds were partially offset by good price performance, strong spending discipline, and benefits from restructuring actions.

Continuing to innovate and drive sustainability within the Consumer Business Group is a top priority. As consumers and businesses are increasingly shopping online, they want solutions that protect their packages and contents while making the process more convenient and sustainable than ever.

As a result, we recently launched Scotch Cushion Lock, a new, sustainable alternative to plastic cushion wrap and a perfect solution for protecting and packaging items with 100 percent recycled paper. Our Scotch portfolio is centered on innovating and serving this large and growing market.

Please turn to slide 17 for a discussion on our 2022 outlook.

Slide 17, 2022 planning estimates – updated to reflect change in reporting
Monish Patolawala

As you know, most companies are facing a macro environment that has become even more fluid and uncertain due to several factors, including:

- Continued global supply chain and logistics challenges
- Ongoing impacts from semiconductor constraints, particularly on the automotive and electronics industries

- Evolving impacts of COVID-19
- Growing geopolitical uncertainties
- Increasing foreign exchange volatility
- And finally, rising inflationary pressures including raw materials, logistics, labor, and energy costs

This has resulted in softening trends impacting full-year growth expectations for GDP and IPI. Both macro indices are now expected to be up approximately 3 percent versus up 4 percent at the start of the year.

Despite the fluid and uncertain macro environment, we continue to expect organic growth in the range of 2 to 5 percent.

Adjusted earnings per share is expected to be 10 dollars and 75 cents to 11 dollars and 25 cents. This range incorporates the change to our adjusted earnings that Bruce highlighted at the start of the call.

And finally, free cash flow conversion expectations remain in the range of 90 to 100 percent.

Before I wrap up let me make a few comments regarding the second quarter.

First, we are seeing a slow start to sales in April, primarily due to COVID-related impacts in China along with the geopolitical crisis in the Ukraine.

Raw materials and logistics costs are expected to be up, impacting Q2 year-on-year by approximately 225 million dollars.

We expect disposable respirator demand to decline both year-on-year and sequentially by approximately 100 to 200 million dollars.

During the first quarter, and particularly over the last month, growth expectations for transportation and electronics end-markets have moderated.

- Second quarter global auto builds are currently forecasted to increase approximately 2 percent year-on-year, however, decline 3 percent sequentially, and
- Smartphones are forecasted to be up approximately 1 percent year-on-year but decline 5 percent sequentially.

We expect both U.S. medical and oral care elective procedure volumes in Q2 in the range of 90 to 95 percent of pre-COVID levels.

And finally, as a reminder, last year's second quarter included an approximately 90 million dollars operating income benefit, or 12 cents per share, from a Brazilian Supreme Court social tax ruling.

To wrap up, although we remain cautious in this current environment, we are bullish about the long-term. We are committed to delivering for our customers, taking appropriate price actions, driving operational execution, and managing spending while continuing strong financial rigor and maintaining a strong capital structure and financial flexibility. In the long run we will grow above the macro, expand margins, and deliver strong cash.

I want to take a minute to thank the 3M employees for delivering for our customers and shareholders in a very uncertain and fluid environment.

Our team delivered 1.7 percent organic sales growth in the quarter, 21.4 percent adjusted margins, up 140 basis points sequentially, and generated 715 million dollars in adjusted free cash flow.

I also want to take a moment to personally thank our customers and suppliers for putting their trust and confidence in us and for maintaining strong and close partnerships that help us navigate the current challenges.

We had a good start to the year. We are watching the environment closely and working on navigating current challenges, with more work to do.

That concludes my remarks for the first quarter.

With that, we will now take your questions.

Slide 19, Questions & Answers

Mike Roman

To wrap up, we had a good start to the year with solid growth, sequential margin expansion, and strong cash generation. We are positioned for a successful 2022, and will stay focused on taking care of our customers, driving growth, and improving our operational performance.

Thank you for joining us.