**Q1 2024 Earnings Call Transcript**
**Michael Roman and Monish Patolawala**
**April 30, 2024**

**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 and Monish Patolawala, our president and chief financial officer. Mike and Monish will make some formal comments then we will take your questions.

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

Please turn to slide two.

**Slide 2, Forward looking statements**
**Bruce Jermeland**

Please take a moment to read the forward-looking statement. During today's conference call, we will be making certain predictive statements that reflect our current views about 3M's future performance and financial results. These statements are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Item 1A of our most recent Form 10-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, Q1 2024 actuals and full-year earnings outlook approach**
**Bruce Jermeland**

During today's presentation Mike and Monish will discuss our total company Q1 2024 results which are inclusive of the Health Care business and are on the same basis on which 3M provided first-quarter guidance back in January.

As we have mentioned, it is important to note that Solventum Corporation's separate financial reporting will differ from the basis of presentation used by 3M for the Health Care segment.

3M's full-year 2024 earnings guidance initiated today is on a continuing operations basis, reflecting Solventum as discontinued operations for the full year, including the first quarter of 2024.

In addition, we will be treating changes in the value of our 19.9% equity interest in Solventum as a special item in arriving at non-GAAP results, adjusted for special items.

And finally, we are providing additional financial information this quarter in our press release and slide presentation given the impact of the Solventum spin. We hope that you find the information useful in understanding our Q1 performance and outlook for 2024. We also plan on filing additional information on a continuing operations basis including in late July or early August Form 8-Ks with recast 2023 Form 10-K and Q1 2024 Form 10-Q information.

**Slide 4, Financial reporting framework**
**Bruce Jermeland**

Please turn to slide 4 for a summary of our updated post-spin financial reporting framework.

Beginning with the second-quarter, Safety and Industrial, Transportation and Electronics, and Consumer business segment operating income will include the impact of the dis-synergies, or stranded costs, previously associated with Solventum.

In addition, we have added a new operating category named “Other” for Solventum Transition Service Agreement costs which 3M will be reimbursed for beginning here in April.

Finally, Corporate and Unallocated will incorporate the commercial agreements between 3M and Solventum that started on April 1st.

One final comment, in the appendix on slide 27 you will find information on our Public Water Suppliers and Combat Arms legal settlements, including the pre-tax payment schedule by year, and total combined pre-tax present value and after-tax estimates.

With that, please turn to slide 5 and I will now hand the call off to Mike.

Mike.

**Slide 5, Strong execution, significant progress on priorities**
**Mike Roman, Chairman and Chief Executive Officer**

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

In the first quarter, we delivered strong results that were better than our expectations as we returned to adjusted organic growth and achieved double digit adjusted earnings growth. We improved performance across our businesses and in our operational execution. We also completed the spin-off of Solventum and finalized two major legal settlements.

Our results demonstrate the positive impact of the changes we have made over the past last several years. We’ve also made significant progress in executing our strategic priorities, which has positioned the company for long-term shareholder value creation.

In the first quarter, on an adjusted basis, we delivered revenue of $7.7 billion, including improved organic growth, operating margins of 22%, up 400 basis points, and earnings of $2.39 per share, up 21%.

On April 1st, we successfully completed the spin-off of our health care business, Solventum, creating two world-class companies well-positioned to deliver greater shareholder returns through distinct and compelling investment profiles. As independent companies, both 3M and Solventum are better able to tailor their capital allocation and investment priorities to win in their respective markets.

I want to thank and congratulate the teams whose dedication made this major accomplishment possible, and wish the entire Solventum team, led by CEO Bryan Hanson, great success in the future.

In Q1, we also finalized two major legal settlements.

First, our settlement agreement with U.S.-based Public Water Suppliers received widespread support and participation. It was granted final approval by the Court on March 29th.

We anticipate making total payments with a pre-tax present value of up to $10.3 billion over the next 13 years. The first payment is expected in the third quarter of 2024.

It is important to note our agreement with public water suppliers addresses the detection of any type of PFAS at any level. This includes PFAS that have already been detected or may be detected in the future, including those that are the subject of the U.S. EPA's recently announced limits in drinking water.

Second is our settlement of the Combat Arms multi-district litigation.

As of today, more than 99% of claimants have chosen to participate. This provides us the certainty and finality the settlement was intended to achieve.

We anticipate making total payments up to a pre-tax present value of $5.3 billion through 2029.

We also continue to make good progress on our exit of all PFAS manufacturing. We are on track to meet our commitment by the end of 2025 and are working closely with each of our customers to complete an orderly transition.

In summary: The progress across all three of our strategic priorities has helped make 3M stronger, leaner, and more focused on what we do best - utilize 3M science to make indispensable products for our customers.

I will now turn the call over to Monish for more details regarding our performance in Q1 and to discuss our guidance for 2024.

**Slide 6, Strong operational execution drives Q1 results**
**Monish Patolawala, President and Chief Financial Officer.**

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

Please turn to slide 6.

We continue to build upon the strong foundation we laid in 2023. We remain focused on our priorities and the team continues to deliver improving results. We posted strong adjusted results in the quarter, including sales of $7.7 billion, operating margin of 21.9%, earnings per share of $2.39, and free cash flow of over $800 million.

These results were better than our expectations as we continued to drive strong operational execution and spending discipline. We also benefitted from significant operating leverage, particularly in Transportation and Electronics which was driven by strong organic volume growth in electronics and automotive. Our results also benefitted from the acceleration of certain nonrecurring actions which I will go through in more detail on the next slide.

Our first quarter adjusted sales of $7.7 billion exceeded our expectations of $7.6 billion as we delivered improved organic growth which was partially offset by a headwind from foreign currency translation.

We delivered adjusted organic growth of nearly 1%, or up 2.4% excluding geographic prioritization, product portfolio initiatives, and last year's disposable respirator comp.

Organic growth was driven by our Transportation and Electronics business as the team won share gains from spec-in wins and new product introductions with automotive and consumer electronics OEMs. This drove strong organic growth as the OEMs ramped production for new launches for end customers.

Geographically, year-on-year strength in China and EMEA was driven by our strength in electronics and automotive. Sales in the U.S. were flat year-on-year, with industrial and healthcare end-markets showing relative strength offset by consumer retail softness.

Please turn to slide 7 for details of the components that drove our year-on-year operating margin and earnings performance.

**Slide 7, Q1 2024 operating margin and EPS**
**Monish Patolawala**

As mentioned, on an adjusted basis, we delivered operating margins of 21.9%, up 400 basis points, and earnings of $2.39 per share, up 21% versus last year's first quarter.

Our first quarter performance was driven by improved organic growth, particularly in Transportation and Electronics, along with a continued focus on operations, restructuring actions and spending discipline which drove better than expected improvements in operating margins of 340 basis points and earnings of $0.42 per share.

As disclosed in our Form 10-K and as factored into our 1Q guidance that we provided in January, our year-on-year margins and earnings were benefitted from the delay of our stock-based compensation grants from our normal timing in the first quarter to the second quarter due to the Solventum spin. This timing adjustment added 140 basis points to margins and $0.15 to earnings per share as compared to last year's first quarter.

We also accelerated certain nonrecurring benefits, including property sales as we progress on our asset light strategy. This benefitted first quarter year-on-year operating margins by approximately 70 basis points and earnings by $0.08 per share.

We accelerated restructuring actions in the quarter incurring pre-tax charges of $122 million, which was higher than our guidance of $75 to $100 million. This compared to last year's restructuring charge of $52 million, resulting in a negative year-on-year impact to margins of 90 basis points and $0.10 to earnings.

Foreign currency negatively impacted adjusted margins by 60 basis points or a negative $0.09 per share as a result of the strong US dollar. This headwind was larger than we had expected.

The reconsolidation of Aearo Technologies in Q2 2023 resulted in a $0.01 benefit year-on-year to earnings per share and was neutral to margins.

As expected, our adjusted tax rate was 20.5% this year which was higher than when compared to 17.7% in last year's first quarter, resulting in a $0.09 headwind to earnings.

And finally, other financial items and shares outstanding netted to a positive $0.04 per share year-on-year impact. This benefit was primarily driven by interest income on proceeds from Solventum's issuance of $8.4 billion in debt prior to the separation, partially offset by a non-op pension headwind.

**Slide 8, Q1 2024 cash flow and balance sheet**
**Monish Patolawala**

Please turn to slide 8.

First quarter adjusted free cash flow was over $800 million. Adjusted free cash flow conversion was 63%, in-line with our historical first-quarter trends.

We continue to focus on driving working capital efficiency, including improved cash conversion cycle times. I am pleased with the progress we have made, yet there remains significant opportunity to further improve performance in all aspects of working capital.

Adjusted capital expenditures were $355 million in the quarter, down 20% year-on-year. The lower year-on-year spend is primarily due to nearing completion on water filtration investments at our manufacturing facilities.

And finally, we returned $835 million to shareholders via dividends.

Turning to the balance sheet, net debt at the end of Q1 stood at $10.4 billion, a decline of 13% year-on-year driven by strong free cash flow generation of our businesses.

Also of note, in late February, Solventum issued debt of $8.4 billion for which the repayment obligation went with Solventum, while 3M kept approximately $7.7 billion in proceeds upon spin on April 1st.

These proceeds, combined with our business' strong and reliable cash generation have further strengthened our balance sheet. In addition, the retained 19.9% equity stake in Solventum will provide additional future liquidity.

Also, during the quarter, we retired $2.9 billion of debt.

Our strong capital structure and robust cash generation provides us with the financial flexibility to continue to invest in our business, return capital to shareholders and meet the cash flow needs related to legal matters.

Now, please turn to slide 10 for a discussion on our business group performance.

**Slide 10, Safety & Industrial**
**Monish Patolawala**

Starting with our Safety and Industrial business which posted sales of $2.7 billion, down 1.4% organically.

Industrial end market demand remained mixed in the quarter.

We delivered strong double-digit growth in roofing granules driven by replacement demand and storm repair.

Industrial adhesives and tapes posted low-single digit organic growth driven by spec-in wins in new bonding solutions for consumer electronics devices.

The personal safety business declined low-single digits as strong demand for self-contained breathing apparatus for the first responder market was more than offset by a year-on-year comp headwind from disposable respirators.

And finally, we experienced year-on-year organic sales declines in electrical markets, abrasives, automotive aftermarket, and industrial specialties.

Geographically, industrial markets in the United States were up 1%, while China remained challenged.

Adjusted operating income was $664 million, up 18% versus last year.

Adjusted operating margins were 24.3%, up 410 basis points year-on-year. This performance was driven by benefits from ongoing productivity actions, timing of stock-based compensation and strong spending discipline. These benefits more than offset headwinds from lower sales volume and higher restructuring costs.

**Slide 11, Transportation & Electronics**
**Monish Patolawala**

Moving to Transportation and Electronics on slide 11, which posted adjusted sales of $1.8 billion, or up 6.7% organically.

Consumer electronics end markets were stable in the quarter while the semiconductor market remained soft.

Our electronics business outperformed the market, up mid-teens organically year-on-year. The introduction of new products continues to be well received in the market as evidenced by recent spec-in wins. In addition, we also experienced continued channel inventory normalization as electronics demand stabilizes.

Our auto OEM business increased 13% in Q1 versus a 1% decline in global car and light truck builds.

We continue to win increased penetration, including strong momentum in automotive electrification, which was up over 30% year-on-year in Q1. We also saw an increase in channel inventory at tier suppliers during the quarter given the forecasted 8% sequential increase in the auto OEM builds from Q1 to Q2.

Looking at the rest of Transportation and Electronics, commercial branding and transportation grew low-single digits organically and advanced materials was flat year-on-year.

While our Transportation and Electronics business is off to a good start to the year, we estimate that approximately two-thirds of the strong first-quarter organic growth was driven by initial buy ahead by customers as they ramped production and introduced new products, along with channel inventory normalization.

Transportation and Electronics delivered $479 million in adjusted operating income, up 68% year-on-year.

Adjusted operating margins were 26.3%, up 960 basis points versus Q1 last year. The team achieved this result through strong leverage on improved electronics volumes, ongoing productivity actions, strong spending discipline, and the previously mentioned timing of stock-based compensation grants.

Partially offsetting these benefits were headwinds from restructuring costs.

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

Turning to slide 12, the Consumer business posted first quarter sales of $1.1 billion.

Organic sales declined 3.9% year-on-year with continued softness in consumer discretionary spending, which included a 2.4 percentage point impact from portfolio and geographic prioritization.

Home improvement, and consumer safety and well-being declined low-single digits, and home and auto care declined mid-single digits, while packaging and expression declined high-single digits organically.

We continue to invest in the business including supporting successful new product launches such as Command Heavy Weight hanging products and sustainably focused Scotch-Brite Cleaning Tools and Scotch Home & Office Tapes.

Organic growth declined across all geographies. The U.S. was down low-single digits, Asia Pacific mid-single digits, and EMEA high-single digits.

Consumer's first quarter operating income was $216 million, up 21% compared to last year, with operating margins of 19.0%, up 400 basis points year-on-year.

The improvement in operating margins was driven by benefits from productivity actions, portfolio initiatives, strong spending discipline, and the previously mentioned timing of stock-based compensation grants. Partially offsetting these benefits were headwinds from lower sales volume and higher restructuring costs.

Finally, included in the appendix, is a slide on the first quarter performance for Health Care. The business delivered results within our expectations with organic growth of 1% and operating margins of 17.5%.

Now turning to guidance for the year on slide 14.

**Slide 14, Initiating 2024 full-year earnings guidance on a continuing operations basis**
**Monish Patolawala**

As Bruce mentioned at the beginning of the call, our full-year 2024 outlook initiated today is on a continuing operations basis, reflecting Health Care as discontinued operations for the full year, including the first quarter.

We have confidence in the momentum we have built throughout 2023. We continue to deliver strong results including the first quarter, which was better than expectations.

The guidance initiated today represents a return to growth, adjusted margins up 200 to 275 basis points year-on-year versus the illustrative mid-point of 18.7% for 2023, and over 15% earnings per share growth at the midpoint.

We anticipate full year adjusted organic growth of flat to up 2%, or up 1 to 3% excluding the impact from geographic prioritization and product portfolio initiatives we are taking.

This estimated organic growth range incorporates full-year external forecasts for major end markets, including:

- An expectation of continued mixed growth in industrial end markets.
- Automotive OEM build rates are currently forecasted to be down slightly.
- Consumer electronics are expected to grow low-single digits for the year, while the semiconductor market is currently forecasted to start the year slow and improve as the year progresses.
- And finally, consumer retail discretionary spending is expected to remain muted for the year.

As mentioned, we expect a strong expansion in adjusted operating margins of approximately 200 to 275 basis points year-on-year, up from an estimated mid-point of 18.7% in 2023.

With respect to adjusted EPS, we anticipate full-year 2024 earnings in the range of $6.80 to $7.30 per share on a continuing operations basis, or over 15% year-on-year growth at the midpoint.

Turning to cash, our businesses continue to deliver strong and consistent free cash flow. Our expectation is that adjusted free cash flow conversion performance post-spin will remain in the range of 90% to 110%.

Please turn to slide 15 for more details on our full-year guidance.

**Slide 15, 2024 key assumptions on a continuing operations basis**
**Monish Patolawala**

Included in our outlook is for normal sequential patterns through the year, coupled with the end-market trends just discussed. As a result, we anticipate that our second half of the year sales will be slightly stronger than the first half.

Our expectations also include a 1% foreign currency headwind to sales given the strength of the U.S. dollar at current spot rates, or a negative $0.20 to earnings per share.

We also anticipate an approximately 75 basis point benefit to sales from the commercial agreement with Solventum. Please note that this benefit will be reflected within acquisition and divestitures from an external reporting perspective.

We expect adjusted operating income and earnings per share to show relative strength in the second half of the year. This is primarily due to the impact from the timing of the Solventum spin on April 1st along with our pre-tax restructuring charges of $250 to $300 million that are weighted 70 %to the first half of the year.

We will continue to benefit from productivity and restructuring actions, partially offset by increased investments in the business as we progress through the year.

Looking at below the line items, we estimate full-year other expense, net will be in the range of $75 to $100 million, mostly weighted to the second half of the year.

And our 2024 adjusted tax rate is expected to be in the range of 19% to 20%, with the first half of the year coming in at the high end of the range.

As Bruce mentioned earlier, and detailed further on slide 26 in the appendix, the new operating category named “Other” is forecasted to have a net operating loss of approximately neutral to $25 million. This range includes first quarter net operating loss of approximately $65 million on a continuing operations basis. Beginning in April, Transition Service Agreement costs plus a markup will be reimbursed to 3M and therefore we will generate modest income in the three remaining quarters of the year.

Finally, Corporate and Unallocated includes full-year 2024 sales in the range of $225 to $275 million for commercial agreements with Solventum beginning in April. We expect full year Corporate and Unallocated net operating loss in the range of $125 to $175 million. These ranges include first quarter revenue of approximately $25 million and net operating loss of approximately $75 million.

As we have previously discussed, we estimate annualized dis-synergies of approximately $150 to $175 million. These costs were previously associated with Solventum and will now be allocated to Safety and Industrial, Transportation and Electronics and Consumer starting in April.

Specific to Q2, we expect continued strong execution to drive operating performance. As disclosed in our Form 10-K, stock-based compensation grants were delayed to Q2. As a result, we expect to incur $125 to $150 million in expense in Q2. We will also increase investments to support end-market demand and drive growth and productivity.

Please turn to slide 16 for more details by business group.

**Slide 16, 2024 business group outlook**
**Monish Patolawala**

Taking into account my earlier comments regarding current full-year macroeconomic and major end market forecasts, we estimate organic sales growth in Safety and Industrial to be flat to up low-single digits.

Adjusted organic sales growth for Transportation and Electronics is forecasted to be up low-single digits. This is better than our estimated range of flat to up low-single digits provided in January, recognizing our strong Q1 growth performance.

And in Consumer, we estimate organic sales to be down low-single digits, which includes our ongoing product portfolio initiatives. These actions are estimated to create a year-on-year organic growth headwind for the Consumer business of approximately 2-percentage points.

I want to take a moment to thank our team for the work they have done in successfully executing across our three strategic priorities. Their disciplined work has created value and returned capital to shareholders with the successful spin out of our healthcare business. They have also helped reduce risk by reaching two large settlements while making progress on the exit of PFAS manufacturing. And, most importantly, our teams have made tremendous progress on fundamentally improving how we work, which is driving better performance across the business.

In closing, we delivered a strong start to the year. As we look ahead, we are focused on building on our momentum, supporting expectations for a return to organic top-line growth, margin expansion, investments in high growth and attractive end markets and continued strong cash generation. This leaves us well-positioned for long-term success and consistent value creation for our customers and shareholders.

Please turn to slide 17 and I will turn it back over to Mike.

**Slide 17, Resetting our dividend post-spin**
**Mike Roman**

Thanks Monish.

Paying a competitive dividend has been a priority for 3M for more than 100 years. This will continue to be true following the spin-off of Solventum.

As a part of the spin, we distributed 80.1% of Solventum's outstanding shares to our shareholders, and post-spin have made the decision to reset 3M's dividend.

As a result, we anticipate a dividend of approximately 40% of adjusted free cash flow. This represents a dividend that is in line with our industrial peers and well above the S&P 500 median, with the potential to increase over time.

We expect to seek board approval to declare the second-quarter dividend in May, with payments anticipated in June.

In addition, post-spin, we have stepped back into the market for share repurchases.

**Slide 18, Closing comments**
**Mike Roman**

Before I conclude, let me emphasize some important points from the quarter.

Q1 was a strong start to the year, driven by significant improvements in operational execution as well as the achievement of several major milestones toward our strategic goals, including the successful spin-off of Solventum and the settlement of two major legal matters.

I would like to thank our people for their dedication and continued focus on delivering value for our customers and shareholders. Through their efforts, we are well-positioned to deliver a strong 2024.

Tomorrow, May 1st, I transition into the role of Executive Chairman. I look forward to working with Bill Brown as he assumes the role of CEO.

That concludes our formal remarks, and we will now take your questions.

**Slide 16, Questions & Answers**
**Julian Mitchell - Barclays Bank PLC, Research Division - Research Analyst**

Congratulations, Mike, on the transition. And obviously, you'll stay very involved in the Executive Chairman role.

**Mike Roman**

Yes. Thank you, Julian.

**Julian Mitchell**

Absolutely. Maybe just to start off with, Monish, you packed a lot of clarification on the moving parts into the prepared remarks. Maybe just to try and understand a little bit better the quarterly sort of cadence here. So it sounds like second quarter EPS, down slightly maybe versus the sort of $1.70 continuing ops number for Q1, and that's really because of the stock comp and the one-timers that you talked about. So do we think about sort of second quarter revenue being similar to first quarter, margins down a bit because of the stock comp and one-timers?

And then as we step into the second half, you've got higher revenues half-on-half and then sort of good operating leverage of the stepped-up revenue. Maybe just any thoughts around that.

**Monish Patolawala**

Yes. I would say, Julian, so you summarized it. I would go back and say there's so many moving pieces that I would really say first look at first half, second half. And then when you do that, we would also show you that on revenue, we are starting to hit normal seasonality trends. So on revenue, the first half, second half is 49-51. And then the margin split first half, second half is 47-53. And the reason for that is some of the items that you've mentioned. Part of the biggest item there is the -- is Solventum's first quarter, where we don't get reimbursed for TSAs, and that's driving the 47 to 53.

If you now go into the important factors just into Q2 to make sure that I cover all the points, restructuring charges are between $250 million to $300 million for the year. 70% is weighted to the first half. Similarly, you mentioned it too and I said that in my prepared remarks, we will incur stock-based compensation headwind around $120 million to $150 million. FX, the stronger dollar continues to remain in the second quarter. So we got to factor all that in. And I would say that's why we've given you first half, second half guidance, there are more details. I know Bruce and the team can walk you through it. But if you start with that, I think you'll get directionally in the zone that we are talking about.

**Julian Mitchell**

That's very helpful. And then maybe a second question, perhaps more for Mike, but on capital allocation. So clearly, you and the Board spent a lot of time thinking about balance sheet leverage of 3M to settle on that sort of 40% dividend payout ratio. You also mentioned, though, on the buyback some step-up since the Solventum spin. So maybe help us understand kind of how you and the Board are thinking about 3M's leverage requirements from here. How meaningful could a buyback be? And then tied to that, Monish, any clarification on interest expense guide for this year based on that balance sheet?

**Mike Roman**

Sure, Julian. I would start with we continue to be a strong cash generator, and we're well capitalized to invest in our business, which is – continues to be the first priority for capital allocation and also return capital to shareholders, including the dividend that we've been talking about and share repurchases.

And I -- my comment, we're back in the market. The pace will depend on how we view the macro, how we look at our performance, the intrinsic value of our stock. We haven't declared really how we're going to move forward on that. But I -- so well positioned to, like I said, invest and drive the capital allocation priorities that we talk about.

**Monish Patolawala**

Julian, I'll answer your second question. When we talk about below-the-line items, we talk about 2 things: mainly it's pension and it's interest expense/income. So I'll combine the 2. So our guide is net expense of $75 million to $100 million or $0.10 to $0.15 per share. Q2, as I mentioned, will continue to benefit from the interest income that we receive from the -- dividend that we receive from Solventum of $7.7 billion. And so therefore, the $75 million to the $100 million guide for the year will mostly be weighted to the second half of the year.

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

Mike, hopefully, the Exec Chairman role is a bit less stressful than Chairman and CEO role. So congratulations on that. So just a few more – maybe a few more details on the 2Q, Monish. The restructuring -- and I understand 70% in the first half, 30% in the second half. How does that phase between 1Q and 2Q? I'm just trying to understand whether that's fairly level-loaded or whether there's a bit more coming through in the second quarter.

And then on the restructuring, I see the total charges. But in terms of the gross payback, what kind of payback are we assuming on that restructuring? And are we still on a 3M RemainCo basis, still on track for $700 million to $900 million of savings by '25?

**Monish Patolawala**

Yes. So I'll start with the first one, Nigel. As I said, it's 70% weighted in the first half of the $250 million to $300 million range. In the first quarter, at a WholeCo basis, we did $122 million of restructuring that I've said in my announcement, and then you'll see Health Care was approximately $20 million of that. So you've got $100 million that is on a RemainCo basis. And so the balance is -- so you can get the math.

When I come to your next piece on payback, I just wanted to start again, I've said this before, I'll say it again, you have to look at restructuring in total. So when we started this program we said, there are multiple things we wanted to achieve. Number one was we wanted to change the way we work, and the way we achieved that was streamlining our supply chain, getting a shorter path to customers and third was reduce stranded cost, have a lighter center as well as create oxygen to invest in the business. And when we put that program together, that was including WholeCo.

As we have now spun out Health Care, you can see all those items starting to come in, which is margin expansions coming in. And that is happening because of the improvement we have in our supply chain and the way we work. It's happening because we are closer to customers. It's happening because we have reduced stranded cost. When we started our journey and we announced the spin of Health Care, we had said industry benchmark was somewhere between 1% to 1.5% of sales, which is like $400 million to $450 million. And now our dis-synergies from the spinout of Health Care are the $150 million to $175 million, and we're going to keep working that, in some cases, grow into it; in some cases, we'll keep working it down. And you've seen we've been able to do that.

And at the same time, we've created oxygen to invest in the business. And Mike mentioned some of the spec-in wins that we have got in TEBG. We have continued to invest in CBG. In a down market, we have done the same with SIBG, and we had over 30 new launches across the company in the first quarter. So that's the way I would look at it.

On a payback basis, I would tell you that we are still continuing to have very good payback. And in fact, we were able to accelerate some of our restructuring actions as well as get some one-time gains like property sales in Q1. So overall, look at the total margin, 200 to 275 basis points up on a year-over-year basis, which is a reflection of all the actions the team has taken.

**Nigel Coe**

Great. My follow-up question is on the dividend. There's been a huge sort of cautionary about the potential dividend scenarios, but hopefully, that's now behind us. But the 40% payout ratio on adjusted free cash flow, is the intent, Mike, to keep that 40% relatively stable going forward, so as you grow earnings and free cash flow going forward, the dividend should increase as well?

**Mike Roman**

Yes, I would think of it as a guide of how we're thinking about it. The approximately 40% of adjusted free cash flow, that's the way the Board -- that's the guide that the Board is looking at as we go forward. So I -- that's where we start as we go forward with continuing operations. That's the best way to think about it, Nigel.

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

Mike, thanks for all your help over the years. Congratulations.

**Mike Roman**

Thanks.

**Andrew Kaplowitz**

Can you update us on your industrial channels within Safety and Industrial? Are they generally to the point where you have better visibility and destocking is mostly over? And it does seem like -- for instance, Industrial Adhesives and Tapes has been turning the corner over the last couple of quarters. Is that a bit of a canary in the short-cycle industrial businesses that you have?

**Mike Roman**

Yes. Andy, I would say if you look at inventory in the channels as kind of a measure of that, that's -- I would say it's been reducing some of the inventory in the channel really around improving supply chains. We talked a bit about this last quarter. As supply chains improve, our distributors in the channel are taking advantage of shorter-cycle times and managing down some of their inventory.

There's also a bit of a cautious outlook. Monish talked about a mixed outlook for industrial markets. And if you think about it, look at our results from Q1, Industrial Adhesives and Tapes and Personal Safety, when you adjust for the year-over-year respiratory change, those were both – they are multiple market -- multiple industrial market-focused, and they are both up slightly in the quarter. So they're seeing a bit of both across their markets. We have some market-focused businesses like Industrial Minerals as that's seeing strong demand. And then we have some other market-focused businesses in industrial like automotive aftermarket and our kind of our industrial specialties, which was a lot of our products that go into shipping. So the shipping dynamics, the mild winter impacts on auto repairs, those are -- we're seeing kind of the downside of that in some of those markets.

So it's a mixed market. Again, the channel is adjusting, taking advantage of improving supply chains and, I would say, somewhat cautious about the broader mixed nature of those end markets.

**Andrew Kaplowitz**

That's helpful, Mike. And then, Monish, obviously, you mentioned the relatively good T&E start. You did have a pretty easy comparison in Q1. But 7% growth, you're still guiding of low single digits. I know it's up a little bit. You mentioned the buy ahead was a big part of the Q1 improvement. But is there any reason why your improved spec-ins wouldn't continue in electronics? And then are you seeing any improvement at all yet in semiconductors and those kind of end markets?

**Monish Patolawala**

Yes. I would say, first, we are thrilled that we've got the spec-ins, so that's a big positive. As I said, 2/3 of the total, 6.7%, that's approximate. We don't have the perfect number. We believe it's partly driven by inventory normalization both in auto and electronics, plus customers starting to buy ahead as they start building for end markets or consumer end markets.

What I would tell you is second half is so important for the consumer electronics business, and we are watching that trend. If there is a big pickup in consumer electronics, we will definitely grow with it because we are now speced in to many more devices than before. So that -- I would say second half is what we are watching, but this is where we see it right now.

And then on semiconductor, our view is we saw the first quarter slow, and we believe that this will pick up in the second half, Andy. And that's what we are watching there, too. All indications keep saying that it's going to get better, but we are watching those trends.

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

Best of luck to you, Mike, in your next endeavors, et cetera.

**Mike Roman**

Thanks, Scott.

**Scott Davis**

Guys, I had a couple. I'll just start with a knit and then ask a real question. But why -- I'm looking at Slide 27. Why does the 2026 payment dip? What was kind of the -- just walk us through a little bit of the color of the kind of how these payments were negotiated annually.

**Monish Patolawala**

Yes. So there were so many facts that were put together, Scott. This is one of them on how these profiles were scheduled. So there's no particular reason to give it out to you. This was a lot of factors, pluses and minuses that put the whole agreement together.

**Scott Davis**

Okay. So there's nothing specific in there that 2026, you'd...

**Monish Patolawala**

No.

**Scott Davis**

I can take it off-line.

**Monish Patolawala**

Yes.

**Scott Davis**

Okay. More importantly, Mike, if you look back at the long-term growth rate ex Health Care of 3M, it's been kind of sub-2%, so below GDP. And that includes some price inevitably, I would assume. What do you think the entitlement growth rate of this business is longer term? I mean just go back 10 years, so I think that's a full cycle for sure. But when you think about the next 3 or 5 years, what do you think that the business should be able to grow at? Obviously, Bill is going to have his own initiatives. But what is your view on that?

**Mike Roman**

Yes. Scott, I won't get ahead of Bill and kind of how he's going to think about going forward. You saw our guidance for this year, it's in line with macro. Importantly, when you look at what drives our growth, it's really investing in the business. The organic investments have been the dominant driver of growth for us as a company, and we expect that to continue as we move forward. Like I said in my speech, making indispensable products for our customers, and that means leveraging our innovation, our technologies, our manufacturing capabilities to come up with differentiated solutions for our customers and do that more and more prioritizing our investments. As we've talked a lot about, where do we prioritize investments? In attractive markets, markets that are -- have growth dynamics that are better than the macro. That's kind of the way to really drive this growth strategy forward, and that's how we think about it. That's how we focus. It's important that we really do prioritize leveraging our innovation so that we create not only the growth, but the differentiated value leader in a way we deliver value to shareholders in terms of margins and cash. And so it's a -- that's the way I think about the formula for growth, and it's been the foundation for building the company, and it's a foundation for success as we go forward as well.

**Scott Davis**

Totally fair. I'll pass it on, but congrats on getting all this work done the last year. It's -- I'm sure it's been a lot of heavy-lifting. So congrats and best of luck this year.

**Mike Roman**

Thanks, Scott.

**Monish Patolawala**

Thank you.

**Andrew Obin - BofA Securities, Research Division - MD**

It's Andrew Obin. Mike, congratulations, and great job getting all this legal stuff out of the way.

**Mike Roman**

Thanks, Andrew.

**Andrew Obin**

Yes. So I would take an issue with Scott's statement about lack of growth at 3M. I don't know where he's getting his numbers because pre-COVID, company has grown at, on average, at 3.7% organically based on my model. So I actually have the exact opposite question. What is this, for example, safety and growth, right? You say that industrial production is growing 2%, yet the guidance is 0% to 2%. You have 100 bps sort of this portfolio geography drag.

Can we just dig in as to what you think are impediments to growth coming out post COVID? Because it does seem things have changed after that. Can we just -- right? Because I would have expected that you would outperform industrial production, right? And every year, there seem to be sort of new headwinds that are completely logical, but they seemingly come out of nowhere. Why the company's growth sort of seems to be below average?

**Mike Roman**

Yes. Andrew, it's kind of building on maybe my answer to Scott. The macro is an important part of this, and we think about the macro for us – for 3M is a combination of GDP where we have our Consumer business, and then it's also around industrial production in a broader industrial and transportation and electronics. But importantly, we go down and we really look at the markets that we're part of. And so driving that growth and, again, the way we deliver on growth better than macro or in line with macro is to pick markets where we can really leverage our innovation and be differentiated and drive our growth out of those attractive markets. And so what is the driver of it?

Maybe if you don't do this well, that's your impediment question is to really prioritize those attractive markets where you can -- where we can deliver differentiated 3M solutions. That's the model that will drive us forward.

**Andrew Obin**

Right. And then maybe just a follow-up. I know you guys are tweaking your global distribution, exiting some, right, direct distribution. You are starting to utilize distributors. Can you just talk about sort of what have you experienced so far with these changes to the models? What are the pros and cons? Because some of the commentary referred is that 3M is leaving money on the table with its distributor, some sort of legal risk associated. How do you mitigate those? And what has the experience been so far?

**Mike Roman**

Yes. Andrew, just talking about the change, so this was part of the restructuring -- actually was part of the model change that we've been making, really focusing on leading through our businesses globally and prioritizing where they -- the most important parts of their business and looking at what's the best model to put in place. And so geographic prioritization was the way we termed it. And so we focused on some of those smaller countries that we operate in. We talked about approximately 30. We've launched this in 27 countries at this point. It's really a model to move to an export model. And we do have to -- it's much more than kind of the way we've talked about on the headlines. You have to set up a successful model. You have to set up a model to support distributors. You're changing from the traditional 3M model in those countries to an export-driven model. So it's important that we not only have capabilities in region, but globally to support that kind of model in those countries.

It's also important that we have a strong governance everywhere we operate around the world. So we continue to focus on advancing our governance model as we make those changes. So it is much more dimensions to the change. We're off to a good start and successful with that. We call it a revenue impact this year because we're switching to an export model. And so we're driving a different price model with our distributors. But that is going to continue to drive, I think as it succeeds, will drive very good performance for us on a go-forward basis.

**Monish Patolawala**

It also helps us -- to add on to Mike's comments on pros, benefits, you take a lot of structure out from those countries, that also has benefited us on the margin line. It also helps us focus our portfolio. Like what are we going to sell? And therefore, it's SKU rationalization that once you get through this, you will have a different inventory profile that support those smaller countries. So they're still very important countries for us. In no way are we walking away. It's just a different way of approaching them.

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

Mike, I echo all the best of luck, congratulations.

**Mike Roman**

Thanks, Joe.

**Joseph Ritchie**

I'm going to start just -- just let us start with a quick just clarification. So just apologies if I missed it, like Slide 15, where you give the operating income number of $1.2 billion. So if I just kind of back out the performance this quarter, it assumes Health Care stranded cost of roughly $100 million to $150 million goes to the segment. So I just want to make sure I have that right.

And then also on that slide, on the restructuring charges, Monish, going back to your comments from earlier, so the way to think about it is $100 million-ish the first quarter ex the Health Care number, that's the apples-to-apples comparison to the restructuring charges of $250 million to $300 million for the year?

**Monish Patolawala**

So try me again on the first piece of the question because I didn't follow exactly. But I'll answer your second one. So the $250 million to the $300 million is embedded in here, and that's on a continuing ops basis. So that does not include Health Care.

**Joseph Ritchie**

Okay. All right. Great. Yes. So just on the operating income quickly, I think you guys have roughly $1.7 billion this quarter. I think we had like roughly, call it, $350 million or so in Health Care profit. So you back that out, that's above the $1.2 billion number. So I was just basically trying to understand how much the Health Care stranded costs go into the other segments.

**Monish Patolawala**

Yes. So I think that there are 2 pieces to this. One is the dis-synergies of Health Care, which on an annualized basis right now, we think it's $150 million to $175 million. And then the second piece of this is, as I've mentioned, there's $250 million of cost that we hold on behalf of Solventum for which you get reimbursed in April 1 onwards. So you eat Q1 with no reimbursement basically.

So if you look at our Other segment, Joe, you will see -- or Other category, you will see a loss of $65 million in there in Q1. And that's basically, we don't get reimbursed for that in Q1.

**Joseph Ritchie**

Got it. Okay. No, I think I've got it and can follow up afterwards...

**Monish Patolawala**

Yes, Bruce can follow up off-line with you.

**Joseph Ritchie**

Yes, yes. And then just another quick follow-up on the electronics business. And so I know the stats you kind of gave on demand and then inventory normalization. Is it possible to kind of parse out the inventory benefit that you're seeing? I'm just curious like how much of that 15% came from just inventories normalizing just because -- maybe I'm just not close to it anymore. But I'm just curious, like what other like products are really kind of driving end-market demand for electronics at this point?

**Mike Roman**

Yes. Joe, what we talked about in the results for TEBG in the first quarter in electronics, these are spec-in wins on some of the mobile platforms. And so the inventory, it's getting ready for the demand, really the demand that they're seeing into the second quarter. And at this point, it's really -- that's the step-up. And then there's a portion of it that's inventory kind of filling into the value chain of those OEMs. But it's -- the bigger part of it is the spec-in -- for us, anyway, the bigger part of it is the wins in the spec-in side of it.

**Joseph Ritchie**

And Mike, that's smartphone demand?

**Mike Roman**

It's mobile devices, largely phones. Yes, yes, largely phones.

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

Mike, congrats again, and thanks for all the help over the years and the effort.

**Mike Roman**

Yes. Thanks, Steve. Thanks.

**Stephen Tusa**

Just to be clear, you said 40% of adjusted free cash flow. Can you just help us with what the construct of that is? What is adjusted free cash flow?

**Bruce Jermeland**

You're referring to the dividend, Steve, I presume?

**Stephen Tusa**

Yes, just the construct. I don't need a number for cash. Just how do you define that adjusted free cash?

**Monish Patolawala**

Yes. So if you look at all our material that we have submitted, you will see historically what we have broken out is from our GAAP results, there are certain items that we have been adjusting to get to adjusted results, which is litigation expenses. Number one. Number two is PFAS because we've been exiting -- we've been showing PFAS as an exit. And number three was all the costs incurred to spin out Solventum or the Health Care business. So it's the same construct there. And as always, Steve, if we decide to change something, we'll keep you all posted on changes to adjustments. So those are the big ones. And if you see our press release statements or schedules, you will see that split by category in there.

**Bruce Jermeland**

Yes. Steve, it's all detailed in our press release attachments.

**Stephen Tusa**

Right. So whatever you're paying out in cash for these liabilities, that is adjusted out of free cash. So for example, the $4.3 billion or whatever in this year will be adjusted out, and then you take whatever we want to assume for free cash flow and then take 40% of that?

**Monish Patolawala**

Correct.

**Bruce Jermeland**

Correct.

**Jeffrey Sprague - Vertical Research Partners, LLC - Founder & Managing Partner**

Thanks for clarifying that on the dividend. That was a key question. Also, I just wonder, to any degree, has Bill Brown been involved in the kind of the formulation of the updated guidance here, whether explicitly or tacitly? And I know he's formally starting tomorrow, but just any color on that would be interesting and helpful.

**Mike Roman**

Sure, Jeff. Bill is, as you would expect, getting ready to step into the role. He's been engaged with myself and senior management and the Board since the announcement. But he's really -- his part is being informed and getting ready to start, as you said, tomorrow. He's not part of the decisions on what we've laid out here in the earnings call today. So he starts tomorrow. Bill starts tomorrow, and I look forward to working with him as he does.

**Jeffrey Sprague**

Great. And then just thinking about, again, the cash flows as it relates to the liability outflow that we're looking at here. What guidance, if any, could you provide on what you're thinking on insurance recoveries?

And if you're successful in those claims, when those might start flowing as potential offsets to the liability schedule?

**Monish Patolawala**

Yes. So we believe that we are eligible for insurance payments. We have put our insurance providers on notice for PWS and for Combat Arms. And in fact, for Combat Arms, we have -- we are working on an arbitration to recover that. So as you know, these things take some time to work through, and that's what the teams are working on. And we'll keep you posted as soon as we come to know on what that number could look like.

**Brett Linzey - Mizuho Securities USA LLC, Research Division - Executive Director**

Congrats to Mike.

**Mike Roman**

Thanks, Brett.

**Brett Linzey**

Yes. I want to come back to the portfolio and the geographic prioritization. So you called out the 100 basis points headwind in '24. Should we think of the first quarter as the starting point and just simply anniversary that headwind for the balance of the year and it's complete? Or is this more of a multiyear initiative with some top line drag?

**Monish Patolawala**

So there's a little bit of drag next year, but I -- it's not big. I would just say the first half of this year will be slightly heavier than the second. But directionally, I would say, yes, you can use the first quarter as the math that gets you across the 4 quarters.

**Brett Linzey**

Okay. Great. I guess the follow-up, you called out some contribution from those initiatives in each of the segments. Are you able to size what that benefit is? And I would imagine it's sort of structural, but any color would be great.

**Monish Patolawala**

Yes. I would just say when we look at it in total is why are we doing these portfolio moves or geographic moves. It comes down to it allows us to do better focus, better prioritization. So at the end of the day, you're going to see it in multiple places. You're going to see better sales growth in other products because we're exiting these and the teams can focus, whether it's ad, merch, et cetera. You will see it in inventory because, again, we'll be able to focus our inventory on the products that we want to focus on. And you're going to see it a little bit in margin. That margin will take a little bit of time to come through. But some of these products that we are exiting are below our average margin. So it does help us lift the average margin. And then as I said on the geographic prioritization side, you get a lot of structure out, which is already embedded in our margin that we are seeing. And we are getting some onetime benefits on property sales that we disclosed this quarter.

**Joseph O'Dea - Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst**

I wanted to ask on PFAS, and you've talked about the exits there, kind of progressing to plan, if not a little bit ahead of plan. But just how do we think about alternatives? I think there's been press over the years on different applications across a number of different end markets when we think about semiconductors or military or auto. Do you expect to participate in that? I mean, where are you on the sort of product innovation pipeline and being able to sort of provide alternative products to what you're exiting?

**Mike Roman**

Yes. And Joe, as I said in my comments, we work with each of our customers as part of the transition. I would say there's kind of 3 alternatives for them. One is PFAS from another source. A number of the applications, many of the significant applications, they're challenged to find an alternative. So that's what they're looking to do is source PFAS from another supplier. The second one is perhaps there's a chemistry that has similar properties that isn't PFAS, and you can move into that. We're exiting PFAS, and we're not going to move into other chemistries. They'll be durable and persistent to meet the requirements of these applications.

The one area where we can help and what we're doing for ourselves is working to discontinue the use of PFAS in our products. And we're engineering them all. We're designing them. We're on them. And there's a number of applications our customers have where that's very difficult to do and challenging, and they don't know a solution today. But for us, the majority -- the vast majority, we're already worked through solutions. So that's something that we can help customers with, and we are. We're helping them look at the alternative ways to design and engineer their processes and products.

**Joseph O'Dea**

That's helpful. And then second question is just related to CERCLA designation and really just trying to understand what the designation versus not getting the designation means at a high level. I think when you first announced this being proposed, you talked about how 3M's view was this would not lead to a timely or appropriate kind of remediation. But just to try to understand, having the designation versus not having it at the end of the day, kind of what that means.

**Mike Roman**

Yes. There are certain, I would say, EPA responsibilities that would come with CERCLA designation. We, at this point, we don't anticipate an impact on our ability to serve customers. And we'll -- as we better understand all of those requirements, and we're committed to meeting and complying with the requirements under CERCLA and the EPA guidelines.

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

My congrats to Mike and also to the team on orchestrating all these moving parts.

**Mike Roman**

Yes. Thanks, Deane.

**Monish Patolawala**

Thank you, Deane.

**Deane Dray**

And just a quick follow-up on that last PFAS question. So the enforcement actions by the EPA, they set PFAS as hazardous. So that's a milestone and then in the process of setting up the Superfund. So would either of these actions put you closer to be able to set a reserves? I know you couldn't before for accounting purposes. It was not estimable or the probable, but now we're closer to that. So are you closer to where you could be setting reserves for these remaining unaddressed PFAS liabilities?

**Mike Roman**

Yes. Deane, we are -- as I've said a number of times, we're proactively managing this, all aspects of the PFAS dynamic. And as soon as we can get to probable and estimable, we will take the reserves. And we'll keep you informed, and I would refer to our SEC filings for updates.

**Deane Dray**

That's really helpful. And just one other one, I'm sorry. Is there any scenario where 3M would continue to manufacture PFAS after the year-end 2025 target?

**Mike Roman**

No, Deane, we're committed to that exit. We're on track, and we're committed to follow through.

**Mike Roman**

This concludes my last earnings call as 3M's CEO. I would like to thank the investors, shareholders, analysts, employees and family who join these calls each quarter. I greatly appreciate your questions and diligence in working to better understand our company. I'm confident that under Bill's leadership, our people will continue to build on the momentum from our strong start to the year. Thank you for joining us, and have a great day.