Q3 2024 Earnings Call Transcript
Bill Brown and Anurag Maheshwari
October 22, 2024

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

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

With me today are Bill Brown, 3M's chief executive officer and Anurag Maheshwari, our chief financial officer. Bill and Anurag 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 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-Q 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.

With that, please turn to slide 3 and I will hand the call off to Bill.

Bill

Slide 3, Solid Q3 execution; top priorities update
Bill Brown, Chief Executive Officer

Thank you, Bruce, and good morning, everyone.

First, I'd like to take a moment and welcome Anurag to his first 3M earnings call. Anurag recently joined 3M in early September after serving as CFO of Otis. I've had the pleasure of working with Anurag off and on over the past 20 years and look forward to his leadership and partnership as 3M's CFO.

Earlier today, we reported strong third quarter results with non-GAAP earnings per share of $1.98, up 18% on 1% organic revenue growth. Our overall company margins increased 140 basis points to 23.0% and free cash flow was

$1.5 billion with conversion of 141%. And we returned $1.1 billion to shareholders during the quarter via dividends and share repurchases.

These results extend our strong 2024 operating performance with non-GAAP earnings per share over the first 3 quarters up 30% on 1% organic revenue growth. As a result of the team's strong operational performance and disciplined capital deployment, we raised the bottom end of our full-year earnings guidance by $0.20 to a range of $7.20 to $7.30 versus a prior range of $7.00 to $7.30 per share.

During our Q2 earnings call I described our top three priorities: #1, driving sustained top-line organic growth through both reinvigorating innovation and improving commercial excellence, #2, improving operational performance across the enterprise, and #3, effectively deploying capital.

As I mentioned in July, getting more productivity out of our R&D investments is going to take some time, but we're beginning to make progress on both R&D effectiveness and efficiency. A lot of our recent efforts have focused on the basic blocking and tackling and improving the fundamentals of our R&D and commercialization processes. For example, we've taken actions to improve enterprise-wide visibility on specific investments in our product development pipeline, and we're driving a new rigor and discipline into product launch calendars and raising accountability for post-launch sales performance.

We're fast-tracking projects for low-risk product-line extensions, eliminating non-valued-added activity from our engineers' workload by off-loading or outsourcing administrative tasks and increasing pipeline velocity through efforts as simple as reducing the time to set up an SKU, from 100 days on average last year to about 60 days this year.

And to address bottlenecks and drive productivity in the product development process, we're shifting capital spending within our existing budget to fund upgrades of R&D facilities to allow us to scale rapidly from lab to pilot to manufacturing.

And finally, we're shifting about 100 people within R&D to focus on new product development, including those who are rolling-off PFAS-related projects, and adding more than 50 new engineers in the fourth quarter to high-priority focus areas such as specialty materials and films for the automotive, aerospace, electronics and semiconductor markets.

After a decade-long slide in new product introductions, we've bottomed-out and are starting to turn the corner with new product launches expected to be up about 10% this year, with a further acceleration next year.

I recognize these are only initial steps on a long journey toward bending the organic growth curve, and in the meantime, we have to improve how we execute at the customer interface. We're working through the details of how we staff, train and incentivize our salesforce, price our products, leverage our distribution network and capture cross-sell opportunities – and we'll share those details as they evolve – but one area where we've seen continued progress is delivering on-time-in-full (OTIF) to our customers. I know we've lost business and have paid fines due to poor delivery performance, and I'm encouraged by the steady improvement we're making, ending Q3 at ~89% OTIF -- up 5 points since the beginning of the year and 10 points above Q4 of '22.

As we push harder on OTIF, we're getting more visibility on the weak links in the value chain, from the performance in our factories to our suppliers and to our logistic providers. In our factories, we're looking harder at the reliability of our assets and our capacity to surge, and we've now implemented a common metric to measure operating equipment efficiency, or OEE, across the major assets in our 38 largest facilities. Utilization on these machines going back to the beginning of the year averages around 50% -- well-short of best in-class companies and pointing to opportunities to free up capacity to better respond to quick turn orders by optimizing changeovers and improving maintenance practices.

When it comes to our suppliers and contract manufacturers, we're implementing more rigorous standards and expectations for on-time performance, which has been running in the low 60% range for the past few years and is now in the low-70's.

A common theme in all of these discussions is the need for significantly higher demand visibility and forecast accuracy, which has been running in the mid-60% range – 10-15 points below expectation and well-below best-in-class companies. We recently kicked off a project to redesign our forecasting process and we're in the early stages of a 15-week sprint to test and tune our demand plan for two large divisions using different analytical tools. Initial results through the new model show a lot of promise in improving forecast accuracy which will allow us to level-load our factories, reduce inventory throughout the value chain, and improve on-time delivery to customers.

As I mentioned in July, this is a "back to basics", "focus on fundamentals" approach that lays the groundwork for a more holistic look at network complexity. While we've closed facilities in the past, and have a few more in-flight today, gaining maturity in our OEE metric will allow us to take a fresh look at consolidation opportunities at both the site and the work cell level over time.

A critical enabler of our op ex agenda is the depth and capacity of our operations leadership team, and we continue to onboard new talent, particularly in the areas of quality, materials planning and continuous improvement.

These efforts are all part of a broad operational transformation at 3M, the foundation of which is a "safety first" culture. While our injury rate has improved versus last year, it's not where we want it to be. Earlier this month, we launched a company-wide campaign called "Journey to zero" that engages every employee in our drive toward an injury-free workplace.

Turning to capital deployment, through nine months, we've generated $3.5 billion of adjusted free cash flow with conversion of 102% after investing $1.7 billion in R&D and cap-ex. We've returned $2.7 billion to shareholders, including share repurchases of $1.1 billion. Our balance sheet remains strong, and we're actively reviewing our portfolio with a few small businesses now in the early stages of a sale process.

So overall, we're making progress on the three priorities that I have laid out, and I'm encouraged by the energy and desire of our team to win by delivering for our customers and creating value for our shareholders.

With that, let me turn it over to Anurag to provide more details on the quarter and our updated guidance.

Anurag

Slide 4, Q3 2024 performance
Anurag Maheshwari, Executive Vice President and Chief Financial Officer

Thank you, Bill. Starting with overall company Q3 performance on Slide 4.

Total adjusted sales were $6.1 billion with organic growth up 1.0%, or up 2.0% excluding geographic prioritization and product portfolio initiatives. These results reflect end-market trends that were largely in-line with expectations, including mixed industrial markets, strong growth in electronics, a decline in automotive OEM build rates, and continued softness in consumer retail discretionary spending.

Looking geographically, adjusted organic growth was led by Asia Pacific up mid-single digits driven by our electronics business. The U.S. was flat with strength in home improvement and commercial branding and transportation, offset by a tough comp in personal safety as self-contained breathing apparatus benefitted from significant supply recovery last year. And EMEA was down low-single digits due to the decline in global car and light truck builds.

Adjusted operating margins expanded 140 basis points to 23%, driven by benefits from improved organic growth, continued productivity, and restructuring.

This strong operating performance along with benefits from below the line items resulted in adjusted EPS of $1.98, up 18%, or $0.30.

Turning to revenue by business group on slide 5.

Slide 5, Q3 2024 business group sales results
Anurag Maheshwari

Safety and Industrial sales were $2.8 billion, with organic growth of 0.9%.

The growth was primarily driven by the industrial adhesives and tapes division, which saw particular strength in bonding solutions for electronic devices.

In addition, we saw growth in roofing granules and electrical markets while the balance of the divisions was down slightly due to ongoing market softness and unfavorable prior year comps.

Transportation and Electronics adjusted sales were $1.9 billion, up 2.0% organically.

Our electronics business delivered high single-digit organic growth as consumer electronics OEM customers ramped production volumes ahead of the upcoming holiday season.

Automotive and aerospace division organic growth was down mid-single digits in the third quarter. The auto OEM business declined in line with global car and light truck builds, while aerospace delivered strong growth driven by bonding and acoustic solutions.

Year to date, our total auto OEM business was up 4% versus a 2% decline in global car and light truck build rates. We continue to gain penetration with adhesives, tapes, display films and electronic materials on multiple new auto OEM platforms.

Looking at the rest of Transportation and Electronics, advanced materials grew high-single digits with strong glass bubble demand for light weighting applications in transportation and oil and gas markets. Commercial branding and transportation was up low single-digits driven by demand for graphics and pavement markings.

Finally, the Consumer business sales were $1.3 billion. Organic sales declined 0.7% which included a 2.3 percentage point headwind from portfolio prioritization.

Home improvement delivered mid-single digit growth driven by new products in our Command portfolio, introduced for the back-to-school and holiday seasons.

The remaining divisions within the Consumer business declined due to portfolio prioritization actions as well as retail customers continuing to be price sensitive and value focused.

Through the course of the year the Consumer business has improved, and we expect the trend to continue in the fourth quarter.

Turning to slide 6.

Slide 6, Q3 2024 operating margin and EPS
Anurag Maheshwari

As mentioned, on an adjusted basis, we delivered Q3 operating margins of 23%, up 140 basis points, and earnings per share of $1.98, or an increase of $0.30.

Operational performance, including organic growth along with ongoing benefits from productivity and restructuring, contributed 160 basis points to margins, while foreign currency was a headwind of 20 basis points. These items combined with acquisition and divestiture impacts contributed $0.14 to earnings. The remaining $0.16 of EPS growth was driven by last year's high tax comp along with benefits from net interest and a lower share count.

Turning to cash, we generated solid adjusted free cash flow of $1.5 billion in the quarter driven by strong income generation and positive working capital flows while continuing to invest capital to support growth and sustainability. Conversion for the quarter was 141%.

Overall, we have had very strong year-to-date operating performance. We have expanded margins 380 basis points, grew EPS by 30% on 1% organic growth, and generated $3.5 billion of free cash flow with conversion of 102%.

Based on this performance we are updating our full-year 2024 guidance on slide 7.

Slide 7, 2024 full-year earnings guidance
Anurag Maheshwari

We expect our full year adjusted organic growth to be approximately 1% with business group estimates unchanged with Safety & Industrial flat to up low-single digits, Transportation & Electronics up low-single digits and Consumer down low-single digits.

Full year adjusted operating margins are expected to be up 250 to 275 basis points versus the prior range of 225 to 275 driven by continued momentum from productivity.

This operational benefit combined with lower net interest expense and share count gives us confidence to raise the lower end of our EPS guidance by $0.20 to a range of $7.20 to $7.30.

Finally, our expectation is that we will continue to deliver robust cash flow with strong working capital performance in the fourth quarter. With year-to-date conversion at 102%, we expect that the adjusted free cash flow conversion performance will be 100% plus for the full year.

Before we turn to Q&A, I want to take a moment to thank the 3M team for the warm welcome. I am excited for the opportunity ahead of us and look forward to working with the team as we execute the priorities Bill has laid out.

With that, let's open the call for questions.

Slide 8, Q&A
Scott Davis - Melius Research – Analyst

Good morning, everybody. Bill and Anurag and Bruce, and congrats to all on a good start here. Yeah, I want to talk a little bit about this operational transformation. It seems like a pretty heavy lift, but obviously, you're making some progress. But last quarter, you spent some time on supply chain, in prepared remarks, not as much this quarter. How big of an opportunity? Is that kind of step 2 or step 3 down the road and kind of getting the supply chain reoriented? And how big of an opportunity do you think that is, Bill, now that you've had a little bit more time in the seat?

Bill Brown

So Scott, thanks for the question. Look, we continue to make good progress across all of the elements in our operations. Our cost of goods sold is $13 billion, a piece of it -- a big piece of it is supply chain. So obviously, that is a high degree of focus. We're looking to drive 2% net productivity, so 2% net of inflation across all those elements, including in supply chain. We have about 25,000 direct suppliers, including 4,000 contract manufacturers. Our teams are working hard to consolidate that, drive performance, and we continue to do a good job on this. I think we're at the front end of what I would say to be a long journey. I think we get a lot of value out of basic negotiations. I think we have a lot more opportunity as we think more about value engineering in our product, that's a relatively small component of our overall supply savings. So the teams are working, I think, very, very hard on this.

Again, as I step back across all the $13 billion, if you drive and get 2% net, you're talking $650 million more or less of $250 million, $260 million worth of net productivity. There's a lot of value there that we can capture year-over-year.

I spent a little time in my prepared remarks talking about one of the key levers because I think it's both a growth and an operations level, and that's delivering on time in full. And we're getting -- doing very well -- very good job in our factories. The team is performing well, but it's pointing out some opportunities to drive better supplier performance, and we're really, really focused on that. We've seen some improvements over the last year. But I think a lot more to do in terms of driving the full value chain performance improvement, including with our supply base.

Scott Davis

That's helpful. And Bill, you talked a little bit about needing to change the incentive structure a little bit. Will you -- do you think you'll have a new incentive structure and comp plan in place for 2025? And what does that really mean? Does that mean kind of increasing the variable component? Can you really, dialed in, kind of to where you want it this quickly?

Bill Brown

So good question, Scott. I think before we get to the comp plan, I think what's going to be more important for us is to make sure we have very clear objectives across the management team, deep in these organizations. So we all understand what we're accountable to achieve to shareholders and to one another. I think that's step 1. And I do think we have an opportunity to get a little more crisp on our objective setting process. But of course, the back end of that is comp plans, I think you will see some adjustments in our '25 comp plan.

We are out speaking with shareowners about that based on the results we had earlier this year in our AGM. But yeah, we'll continue to look at our comp plans, not just at executives, but as it flows into the organization. And importantly, with our between 5,000 and 6,000 salespeople out there, we'll continue to look at, do we have the right incentive structure to drive the right behaviors across the full 60,000-plus people in the company. So Scott, there's going to be changes that will be made. We'll talk more about that as they come to fruition in the coming months.

Andrew Obin - Bank of America – Analyst

I guess I'll ask two questions, follow-up on Scott's question. Just, Bill, what are your views on centralization inside 3M? I know Mike pushed for a lot of centralization, which was a departure from what his predecessor Inge Thulin has done, which ran the company in very, very decentralized way. So I just would love to hear how your operating philosophy has evolved since you joined the company. That's part one.

Part 2, we're just getting a lot of questions on insurance recovery related to PFAS and combat arms, particularly given the news side of Carrier where they indicated that perhaps, they could indicate, they could recover insurance in excess of their costs. These are public statements. So any sort of publicly available updates on where you are in the process on insurance recovery would be helpful? Congratulations on a good quarter.

Bill Brown

Great, Andrew. Thanks for the questions. I mean, first of all, I think about 2.5 years ago. Mike did consolidate all of our factories and supply chains under a common leader, under Peter Gibbons, I think it was the right thing to do. It allows us to look across 110 plus or minus factories and close to 100 -- to an 80 and 100 distribution centers and really look at performance, performance metrics, how they compare with one another. It's a network, they flow together. So artificially separating them that by a business group or by geography did not make a lot of sense. So you'll get the power of the whole by looking at all of the operations together. So if you call it centralization, I call that global coordination. I do think that was the right step and it was smart to do that, and we're reaping the benefits of that. And I think going forward, the value we'll be able to get out of operations is because of that operational, that organizational change.

So I think it was the right step. I think the move to globally coordinating business units, depending upon the business that we run globally, some we run regionally, but all within those three broad business groups, I also think that was good. There'll some adjustments in how we structure the BGs over time, perhaps within the three business groups. There are certain geographies that stand out that we're really focusing heavily on and we want to put a little more attention on. But generally, I think Mike was taking the right steps and particularly in the supply chain area. So that's on that piece on sort of your point about centralization.

On insurance recoveries, just quickly, you'll see this in the Q. In Q3, we've covered $54 million in insurance recoveries between combat arms and public water suppliers. Year-to-date, it's over $175 million. Recovery efforts continue. I know it's top of mind given what other folks are talking about. We're active in arbitration and litigation with multiple insurers. We intend to ramp up our recovery efforts in the coming days and weeks. And we do expect our insurers to honor their policy obligations to us in full. The difference with others is our liability that we settled for is quite a bit higher than our insurance -- total insurance value. So it's a little bit different than others, but we're ramping up our efforts and we're starting to recover, and we'll recover more over time. We'll update investors each quarter and through our Q as we recover more on insurance.

Nigel Coe - Wolfe Research - Analyst

Good morning. And Bill, thanks for the update. These are really helpful. On the insurance point, I just wondered could you maybe clarify what the total coverage would be from a point perspective. Understand that you're working on ramping up the recoveries there.

But my first question is really around the 2 points of net productivity. You've got a lot of initiatives in play here. You've got the supply chain nationalization, OTIF target improvements, OEE improvements and a lot of other things as well. Any sense on what's more important here? What is the supply chain driving the bulk of that 2 points in the next two or three years? I mean any sense there? And do we need some heavy lift structuring to achieve those targets?

Bill Brown

So thanks for the question, Nigel. I don't think I can say much more on the insurance recoveries or how much we're getting, I mean, other than what we've captured to date. So I think we'll update you on that as we go. We expect that to ramp a bit better.

But look, when I step back, I mean look at $13 billion worth of cost of goods, half of that is going to be -- roughly is supply chain. So you'd expect the bigger parts of our productivity is going to come out of supply chain. We have seen restructuring benefits flow through in our factories. That is also a factor. We continue to drive lean activities on our factories and you're seeing the benefits of lean production, lean operations across our factory network. We're seeing benefits in our transportation cost and our logistics expense as running through our distribution centers.

Last time, I spoke quite a bit about the amount of waste we generate in our company. It's -- or yield loss, however you want to characterize it, 5% of cost to be. So it's quite substantial. We are getting at that. You're not going to get big, big dollars every year. You get it in tens of millions and chunks over time. But we're at it. We're running Kaizen events continuously to go get it. We've more than doubled the number of Kaizen events this year over last, and we expect that to continue going into next year.

So all of these pieces will drive that net productivity the team is pushing hard I would say stepping back, the biggest put is going to come out of the biggest part of cost base, which is supply chain.

Nigel Coe

Okay. Bill, that's helpful. And then maybe Anurag, congratulations on the new role. Just wanted to maybe get a bit more color on 4Q, especially it looks like 1% organic growth very much on trend, but it looks like the 4Q margins come in about 20.5% at the high end, quite a big step down Q to Q. I just want to make sure that's the right math. And any below-line color would be helpful.

Anurag Maheshwari

Great. Thanks a lot, Nigel. I think you covered it. The Q4 margins are pretty much in line with what we expected. Sequentially, Q4 has been lighter than Q3 margins by about 300 to 350 basis points due to seasonality, which translates into lower sequential revenue of about $200 million, lower under absorption in the factories due to shutdowns, inventory management and timing of cost and investments.

So overall, it's pretty much in line with what we expected. But if you kind of take a step back, we raised the bottom end of the guide by $0.20; at the midpoint by $0.10 and that is largely because of the focus on productivity. We've seen good -- really good progress on that. Plus the share -- benefits of share repo and the higher cash flow generation, which is leading to a higher interest income or lower net interest expense. So putting all of that together, making progress across all these areas, and Q4 pretty much in line.

Jeffrey Sprague - Vertical Research Partners - Analyst

Welcome aboard, Anurag. I just wanted to come back a little bit in the neighborhood of some of these earlier questions. Predominantly, I just want to get a sense of the fact we're kind of at the tail end of the prior restructuring. I think you did $165 million of spending in the first half and had something like $110 million to go in the second half. So I'm trying to get a sense if that is still on track.

And then, Bill, of these very numerous and granular things that you're laying out here, are we seeing much benefit from that in 2024? Or is this really sort of laying the groundwork for 2025, and a lot of the margin expansion in 2024 is really the underlying prior restructuring plan.

Bill Brown

Jeff, it's good questions. I mean, first, on the restructuring, we are on track. Your numbers are right, $165 million in the front half and about $110 million or so in the back half of the guidance, so $275 million for the year. That's about where we're at. And there's a little bit more that will tail into next year to complete the program.

And yeah, some of the gross margin and net margin improvements this year coming from restructuring, they're coming from a lot of productivity programs that have been in flight, some are ramping up and have more focus and effort in the last five or six months. But a lot of these things are going to be realized over time.

This is a football metaphor, it's couple of yards and a pile of dust in a lot of ways to get ground game going on operational excellence. It's a multi-quarter, multiyear journey. So the way I look at this, I think we're still, Jeff, in the early innings of becoming operationally excellent. And I think the bulk of the opportunities are ahead of us, which is why I think as I look out the next one, two, three years, we should continue to see margin growth coming out of a lot of what's happening across our factory network. There's a lot of levers to pull there's no big winners, no big hitters here that drive a big one-timer in a particular quarter, but it's getting better at all of these things every quarter, quarter after quarter, and then extending that sort of philosophy on operational excellence across the rest of the enterprise.

There's no reason why being good and reducing waste and improving throughput doesn't extend to how we run R&D, how you run a legal function, HR function, finance. And I think when you do it across the whole enterprise, you really start to become a much better company. And I think between now and then, we've got a lot of room to go and a lot of opportunity ahead of us.

Jeffrey Sprague

Great. Understood. And then just thinking about kind of the capital deployment question, you stepped up on buyback a bit in the quarter in spite of writing a sizable liability check. How should we think about just managing kind of the outflow of cash on repo and/or dividend against the backdrop of sort of the schedule of liability payments? I mean maybe it's kind of a question about what's the comfort level on minimum cash or something like that as you're operating going forward?

Bill Brown

So I'll start, and this is Jeff, and I'll turn it over to Anurag, as the new CFO to offer his thoughts because I know he's been putting a lot of time on this. But yeah, I mean, we did step up here in Q3 on repurchases. It's at about $700 million. It's $1.1 billion year-to-date. Look, we're generating good cash flow. We don't see, on the horizon going out through next year, big liability payments that aren't already on our balance sheet. So we've got an opportunity to deploy capital. I think we were smart in doing that here in Q3. We've got capacity. We ended Q3 with a pretty hefty cash balance. Our leverage ratios remain pretty attractive. We've got an open authorization from the Board. So look, we took advantage of that here in the third quarter. We've got more capacity to do more. And so I feel pretty good about where we stand today. But maybe Anurag, as the new CFO, can comment on his thoughts on just the strength of the balance sheet.

Anurag Maheshwari

Sure. Jeff, I really believe that our capital structure is actually solid from a cash balance, leverage, cash flow generation and optionality perspective, which allows the optimal capital deployment and allocation. As Bill mentioned, we have a very hefty -- a good cash balance. We ended the third quarter at $7.3 billion, which is more than 2 times of the working capital requirements of the business. On leverage, it was a net leverage of 0.8 times at the end of the third quarter and more importantly, maintaining a strong investment grade rating with ratings of A3 or A minus. And as we've seen through the quarter and the course of the year, the cash flow generation has been robust.

For the first nine months, we generated $3.5 billion of cash flow and that's after investing $1.7 billion in R&D and CapEx. And we do expect in years to come the cap -- as earnings grow, we make progress in working capital, especially in the area of inventory, this will increase our cash flow and keep the conversion higher than 100%. Also, we have optionality in terms of the 19.9% stake in Solventum and any other future portfolio reshaping we do.

So putting all of that together, it's a strong capital structure. We have optionality, flexibility to invest in the business to drive growth, and also to return capital to shareholders. So that's an active discussion we're having and we'll probably come more about it, talk more about it over the next few months.

Julian Mitchell - Barclays - Analyst

Good morning and welcome, Anurag. Maybe, Bill, a lot of very good color on the -- some specific sort of tools around driving operational excellence. But maybe trying to tie it together, I think at a conference about 6 weeks ago or so, you talked about getting gross margins for 3M into the high 40s. Right now, you're sort of 42-ish or so rate, including some charges. So is the right way to think about the medium term, maybe sort of 400 or 500 points of gross margin uplift on the sort of total enterprise level?

And then operating expense inclusive of SG&A and R&D, that's sort of staying relatively stable in the low 20s as a share of sales as you sort of squeeze out more efficiency and returns from the R&D?

Bill Brown

Yeah. So Julien, it's a good question. We are running kind of in the low to mid-40s right now and gross margin in the 43%, 44% range, plus or minus. There are points in time in the past where we were high 40s. That's excluding healthcare. So in our -- the way we have our business structure today, it's certainly achievable. As I laid out sort of the math there and earlier in this conversation, $13 billion worth of cost of goods. If we do 2% net productivity, it's more or less $260 million. If we did it every year, it's sort of a point a year of gross margin.

Of course, there's lots of dynamics here. You've got mix happening in the business. You have new products coming in. We've got kind of -- as next year, middle of next year as we exit PFAS manufacturing, you have some under-absorbed costs within those factories we've got to take care of. Eventually, Solventum is going to move some of their production away or in the TSAs will wind down. We've got to absorb that. So there's going to be lots of puts and takes. So it won't be a linear journey over the next number of years, a growing gross margin. But I do see that that's a big focus of ours. We've got to be really pushing that hard to drive gross margin improvement over time.

Our R&D level is about 4.3%, 4.4%. I mean it could drift up, could drift down a little bit in the 10s of basis points. It's not in -- or tens of basis points, it's not a big mover. SG&A could see some leverage over time just based on volume. But I think the bigger driver in the future is going to be coming out of gross margin.

And I remind you, I'm focusing on growth and margin expansion for sure, working the pedals across both of them. But as I step back, driving growth is also a margin driver because of a high drop through we get on incremental volume.

So that's kind of the way I see the future playing itself out. I don't think today, I'll get much more specific. We'll lay this out a little bit more clearly to investors as we turn the corner in '25, and come back and host an Investor Day towards the end of February. I think we'll have a little more clarity in laying this out a lot more clearly to investors at that point. But anyway, that's the math as I see it today, Julian.

Julian Mitchell

That's helpful. And just circling back on your top line comment just there, so you're moving at about sort of a point of organic growth through the second half year-on-year. Just wondered how you're looking at the overall sort of demand environment into next year.

And when we think about the netting off of NPIs picking up versus your pruning efforts about 100 points this year, how are you thinking about the net of those two items over the next 12 months?

Bill Brown

Look, 1% organic this year isn't what we should be aspiring to. Again, it's the middle of the range we set a couple of months ago. It's traveling in the order of where the market happens to be. IPI is running around 1%, 1.1%. It's 1.2% for the year. Steps up a little bit going into next year. GDP in the 2.5%, 2.7% range. Again, that's kind of in the same on next year. So it's low single digits. And I think overall, we're performing kind of in line with that, including auto build, semis, electronics. All this consumer, all that together, trending in line.

I look at NPI, and as that matures, early good signals were up 10% on numbers of launches this year over last. We see that rate accelerating 25%. But stepping back, we're still in order of magnitude less than we were at the peak days in terms of how many products we've launched in the marketplace. So we've got to get that R&D engine moving again. That is going to be essential to improving on our growth rate and starting to hit and then outgrow the market.

That will start to bear fruit into next year, maybe the end of next year and into '26. And that's why I took a lot of care last time and earlier to say we've got to get better at selling what we have on the market today, which means we got to work our sales force and all those pieces of it. Do we have gaps in our sales force coverage? Do we have the right incentive structures? The right training? The right people in the field, the right distributors? Are we pricing correctly? Do we have cross-sell opportunities? All of these things will drive growth. And I think we've got to pull all those levers.

And it's why I came back earlier on in this conversation and really doubled down on OTIF because we are losing business if we're not delivering it on time and full to customers. We know it. We see it every single day. So that is the nearest-term lever we can pull is getting better and on time and full.

And as I step back and you put all that stuff together and turn the quarter into '25, we should see better growth. That would be my expectation. But -- it's not going to happen overnight. These efforts do take some time, and we'll lay this out a lot more clearly to investors as we turn the corner into '25.

Nicole DeBlase - Deutsche Bank – Analyst

Maybe just a little bit more on some of the portfolio review comments you made at the beginning, Bill. I guess any thoughts on like what types of businesses could be considered noncore? And if there's anything chunky coming or if these are all kind of like smaller divisions or businesses that you're looking at?

Bill Brown

Yeah, Nicole, thanks for the question. Look, I mentioned last time, I did it very purposely that we're going to take a fresh dispassionate look at the portfolio, as you would expect, I would do coming into this new company.

But let me step back. I mean, the lens that I'm looking through is a strategic lens at the moment to think about the portfolio. And it's really on where we can leverage technology and innovation to differentiate to win at the customer interface. When it came to 3M, it's very clear to me, very clear all those 60,000 people that have been here, that technology is what differentiates 3M. People join the company because of innovation. So I'm really looking through a lens of can we leverage investments and the capabilities we have in material science and technology to make something different versus competitors and solve a need that others can't. And that's the lens that I'm really looking at here.

So we have a few businesses that are small. If and when we transact on them, you won't notice it in the overall report. There are a couple of points of revenue. So it's relatively small, but it's a start. It's the things that I thought were near term and the ones that we could take advantage of today. But our evaluation continues.

Again, as I turn next year, we come up in front of investors I'm expecting that I'll be standing in there talking about a matrix, which has something looking like what parts of our portfolio perhaps don't fit to us over time. And at the same time, it's not for today, but looking at what other things do belong with us that aren't currently owned by 3M.

So it's a pretty holistic assessment. We're in the very, very early days, Nicole. But a couple of deals that we're pushing on right now, early stages, but it's the direction we want to head in over time.

Nicole DeBlase

Okay. Got it. That's clear. And then maybe just on the business trends, what did you guys see in China in the quarter? And any thoughts on 3M's ability to benefit from stimulus activity happening there?

Bill Brown

So China for us is a pretty good size market. It's about 10% of our sales. Year-to-date, we're up about 11%, more or less, a little bit higher than that in the first half, a lot of it driven by automotive. Up mid-single digits here in the third quarter, pretty much in line with, I think, where the market is in China. So we feel pretty good about what's happening there, again, a lot of it is driven by automotive.

Roughly half of what we do in China is for export, export out of the country and roughly half stays within China. And both are performing reasonably well. We'll see as we get into next year, the outlook for the overall economy, we can read where the GDP happens to be forecast for next year. But there's a lot of stimulus activity, a lot of conversations around geopolitical issues. We'll see as we turn the corner where China is going to be. But we're bullish on the economy there. We're bullish on our team there, our ability to compete. We have more than 5,000 people on the ground, 7 factories, and I think we have a good ability to be a strong participant over time in China.

Bruce Jermeland

Nicole, just to quickly clarify. The strength has been in electronics in China, not automotive. All in, we're up about 11% year-to-date. Ex-electronics, we're up roughly about 3% organically.

Steve Tusa – JPMorgan Chase & Co. - Analyst

Sorry about that. Anurag, thanks, congratulations and looking forward to working with you here. Just wanted to delve into price a little bit more in this algorithm of productivity and gross margin. Where does price play into that? And are you expecting to get back to that kind of a positive margin price cost spread going forward?

Bill Brown

Well, it's a good question. I mean this year, we are seeing positive price. It's about half our organic growth, more or less, plus or minus 0.5% or thereabouts. We are covering material inflation this year, it were back to where we were kind of pre-pandemic level is a little bit higher than that in -- during pandemic because, obviously, inflation was spiking there.

But as I step back on this, we should get pricing, particularly as we drive new product introductions and bring differentiated products into the marketplace. We do expect that. I see it in two pieces. I think one is we have an opportunity to get better at more surgical pricing, so pricing to volume generated.

I made a comment last time that we've got some opportunities to tie volume rebates, discounts, et cetera, to price. And that's something that we're working very, very hard on, as well as tightening down on what we call gross to net and all the pieces between that, volume discounts, market development funds, rebates, those kinds of things, that could be quite substantial.

And I think we've just had a better opportunity to get pricing. But as I look forward into next year, we should continue to be able to cover at least the material cost inflation in our price.

Anurag Maheshwari

And just to add to that, Steve, as Bill mentioned, our price should cover cost and inflation, for us -- inflation and the cost going forward. The one way to kind of think about the margin expansion moving forward, clearly, volume is the biggest driver for us in terms of operating leverage that we have, and the net productivity that we are driving. So volume in that productivity should be critical margin expansion drivers.

Steve Tusa

And that -- you view price cost as separate from that productivity, I would assume?

Anurag Maheshwari

Yeah, correct.

Steve Tusa

In the bridge?

Anurag Maheshwari

Yeah.

Steve Tusa

So then I'm just wondering like if you got like good guys going your way and assuming like the economy doesn't like go to hell, what is the – like R&D flat, you should get SG&A leverage. You're talking about this productivity, price cost is not a headwind, like what is the headwind to margins going forward? Like, what's the negative?

Anurag Maheshwari

Yeah. So the negative is essentially inflation that we will see over there, which is a wage inflation moving forward. But besides that, you shouldn't see any more, of course, FX is there, which we don't know which way that could move. But if you look at overall margin even for the year, right, it's basically four pieces. It's a quarter of volume, a quarter of the restructuring cost, that -- which came down lower compared to last year, it's a quarter of the TSA reimbursement and a quarter of net productivity.

If you go into next year, there will be a little bit lower on the restructuring cost charges. But again, it's going to be more volume and it's going to be more on the productivity side with the biggest headwind being on inflation and potentially FX. It depends which way it goes.

Steve Tusa

Sorry, one last one. How much is labor as a percentage of your cost again?

Anurag Maheshwari

Labor as a percent of our cost is close to $10-ish billion. Yes. $8 billion to $10 billion. Yes.

Andy Kaplowitz - Bank of America - Analyst

Good morning, everyone. Could you give us a little more color into your consumer business? I think you talked about that it's getting a bit better. Could you elaborate on what you're seeing there is I think that business tends to be first in first out in historical cycles. And I know you're focused on pricing in that segment, maybe that segment could be the most competitive in terms of pricing. Can you make the pricing improvement you need in that segment?

Bill Brown

So on consumer, we were down about 3% in the first half, down about 70 basis points in the third quarter. But keep in mind, it has about 230 basis points of headwind associated with some of the portfolio prioritization efforts that the team is working on. And if you go back Q1 to Q2 to Q3 and then head into Q4, it's becoming less negative in terms of organic growth and it's trending to perhaps be positive in the fourth quarter.

For the full year, down low single digits. For the overall -- it's mostly a USAC business, a USAC retail business. So USAC retail sales is down about 50 basis points for the year, down about 80 basis points. So it's sort of trending in that -- in the line with where USAC retail sales happen to be.

When you look at the parts of the portfolio in the quarter, we had pretty good growth in our Command strips, home improvement, Command strips business. That was up is partly due to some new product introductions in that space and that they're performing pretty well there. The other the parts of the portfolio were a bit weaker were flat to down. So they offset the positive trend in home improvement. But we see good improvement trends going into the fourth quarter. It all depends upon what happens in holiday season as we get through the next couple of months. But the trend line is moving up in terms of its organic growth rate.

Andy Kaplowitz

Helpful. And then, Bill, maybe just stepping back. You've talked a lot about growth through innovation. But how are you pushing 3M as to focus their innovation on maybe what I would call the right markets because it strikes me that there are just a few big global markets that are driving growth right now.

Bill Brown

So yeah, we're spending a lot of time thinking about where we spend our precious $1 billion in R&D for sure, and making sure it's going after the right areas as part of our overall governance process and how we're developing our strategic plan to focus on those markets where we have a right to win, we can actually earn value. We have a strong return on investment in the spaces. And look, the team is pushing on this, and this is a big focus of mine, a big focus of the team. So more to come on that, but it's certainly part of the lens and the calculus that we're looking at and where we're spending the -- or investing our R&D dollars.

Brett Linzey - Mizuho Securities - Analyst

Good morning, all, and welcome to Arnurag. Just wanted to come back to the rationalization efforts. So I think it was a point of drag in the quarter, 1 point for the year, perhaps just isolating rationalization and leaving out some of the new product launches and other growth. Should we be thinking about another point of headwind next year as you continue the simplification efforts? Or is it something less as we proceed and advance forward here?

Bill Brown

No, Brett, it should be declined substantially going into next year. I mean we'll lap the year. So there'll be a little bit of drag on effect for things that happen in the course of '24. But we shouldn't see significant headwind from portfolio or geographic prioritization going into next year. Our intention -- Anurag and I haven't talked about this, but our intention would likely be to not speak so much about that in our '25 results. It's something that really people do, companies do, just at a normal practice as you continue to look at your portfolio. And you add something, you take some things out, you replace things. And I would expect that going into next year, to be less part of our conversation than this year.

Brett Linzey

All right. Makes sense. And then just a follow-up on NPI the launching of the new products, 10% growth next year. Just wanted to better understand the associated costs and where those introductions are aimed at the segment level. Should we be thinking of a commensurate level of R&D step-up? Or are you able to achieve this with repurposing the spending base?

Bill Brown

No. So it's within the existing spending base. As we go into '25, we'll come back and talk more about where we see R&D. But a couple of things are happening. One is just it's a shift within where we spend our R&D really comes in kind of three buckets. I mean, it's about a third that goes into corporate research, longer-term horizon things, basic technologies, there's kind of a third that's incremental line extensions, new product introductions. There's a third that's going after cost reduction, fixes, all those kinds of things. So there's going to be some shift that's going on between those pieces. That middle bucket used to be around 40%, it dropped below 30. That piece is coming back up. It's now above -- it's now around a third on 32%, 33%. But that middle bucket on new products, new product line extensions is where we're shifting money to drive new product reductions.

To be clear, the number of new product introductions this year in '24 is up 10% over last year, and we expect that that 10% will accelerate in 2025 through those pieces I just mentioned a couple of minutes ago. A large part of our investment in new product introduction is going to be mostly in our safety and industrial business and transportation and electronics business. There is some that goes into the consumer business. You'll see more going into next year. We see more introductions coming out of new product investment. But the lion's part of it is really in those other two businesses, and that's where a lot of the launches that I talked about a minute ago were occurring.

We'll share more information as we get into next year, not just the numbers, but where we're investing, what verticals we're investing, where we're going to prioritize our spend in the future and why, why we think we can win, and we'll lay that out very clearly with investors as we get into February.

Joe O'Dea - Wells Fargo Securities, LLC - Analyst

I wonder if you can elaborate a little bit more on the operating equipment efficiency comments you made. And when you talked about 50% utilization, well short of best-in-class just in terms of any clarification of what kind of best-in-class would look like as well as what your targets are over, call it, the next 6 or 12 months there?

Bill Brown

Sure. Yes. Look, operating equipment efficiency is really -- it's a fundamental metric. Companies that do manufacturing, have implemented this over many, many years. It's a relatively new concept. We have 38 large factories, it's about 75% of our volume. And about 140, about 80% of the assets that are in those factories, we implemented OEE. I mean you can implement it, but actually build it into the way the machine runs, it takes some time to do that. So it's not a manual process, that's actually built into the way the machine runs. And look, if it's running 50%. The reality is we should be running -- best-in-class companies are in 80% range or north of that. So we're well short of that.

So the implication of this is that, first off, what's driving that underutilization? Is it a lot of changeovers because that's -- it's idled capacity? Is it poor maintenance practices and the machine is down? Is it volume or capacity? But it's sort of fundamental to figuring out how do you handle surge volume. And longer term, once that metric gets matured, and we come back and talk about a more holistic look at our network and the complexity we have in our network, it will allow us to say, well, where can we consolidate sites or cells or assets in our factories based on the utilization that happens to be out there.

It's also more than theoretically possible, you were spending capital for a capacity expansion, yet, we're running 50% utilization on certain assets. So longer term, we should also be looking at this as a way to make sure we're spending capital in the right places. So it's really fundamental. We're started. We've got a metric -- measure for where we've been year-to-date. And it will mature as we get into '25, probably it will be 80% done by as you get to the second quarter of next year. But it's a fundamental way of looking at how you're performing. And I'm really proud of what the team has done in the last couple of months to drive that into our factories.

Joe O'Dea

And then also just wanted to ask on electronics demand trends. I think you commented that organically up high single digits. So earlier in the year, some spec in tailwinds, but it seems like still growing at a good clip as you move later into the year. And so any color there whether what you're seeing is trending with the market, if you're seeing any sort of share gain or taking advantage of pricing opportunities out there with the electronics growth.

Bill Brown

Yeah. So electronics was up pretty good. Year-to-date in the quarter. We did have some back-end wins. I think we're growing at slightly higher than the market. We're watching pretty carefully what happens in the holiday trends here and what happens in the fourth quarter going into next year. So we're pretty pleased with where we've been so far. It comes from a lot of the sophisticated films that we've created that are going into a variety of electronic devices. They're very sophisticated things, multilayer optical films, optical adhesives, things that allow LCDs to look like OLEDs in terms of screen performance. Gives you privacy and other things that you can then extend into the larger screens, larger displays in cars. That's what drives our AutoE business. So it's a pretty important technology. It's allowing us to perform well in electronics as a whole.

So we like the trends. We're watching what happens in the holiday season, and we'll see what happens going into next year. So doing pretty well, actually in semiconductors as well. It's -- we're growing way above the market. That's been a pretty important trend for us this year, doing pretty well in data centers, not a big part of our business at the moment, but pretty pleased with that. But specific to electronics, outgrowing the market, and it's because of the spec-in wins and technology we have.

Joe Ritchie – Goldman Sachs – Analyst

Welcome, Anurag. Bill, I think you mentioned earlier that you were honing in on redesigning your forecasting and demand planning across, I think, two of your businesses. I'm just curious like what are some kind of initial thoughts on improvements you think you can make? And then why not focus a little bit more holistically across the entire portfolio at this point?

Bill Brown

Well, this will eventually go across the entire portfolio. But like stepping back, we are sitting there where we're not delivering to where we want to be on-time and full to customers. We're proud of where it's gotten to, but it's not where it needs to be. So we've got -- we're not delivering on time, yet we're sitting on 100 days of inventory at the same time. And so how do you fix this? And we're looking at the assets in our factories, on average and the ones we're measuring at running at roughly 50% utilization across the largest ones. And you run that calculus and there's something wrong in this whole value chain, and then go back to suppliers. Suppliers delivering on time in full to us - we're running in the low 60s now, in the low 70s, but that there's a ring, it's an average. So it's below 50% to up to 80%.

And what's happening is it's just how you manage the flow through that supply chain. And it starts with the front end of it. It starts with the demand signal. So what are we using to tell the factory what to produce at a SKU level, and then how does that translate based on stock on hand to what you tell the suppliers to do based on their OTIF performance, the lead time on logistics, this whole chain has to work incredibly smoothly because it's very complicated.

So it really comes back to this fundamental of what is that forecast demand signal. And the reality is, as we dug into it in a couple of divisions where we struggled with on time and full, our forecast accuracy is not very good. So there are analytical tools that are available that we are starting to look at. It takes some time to implement them. You've got a data cleanse, you've got to look at what are the right parameters. You ought to be building into the model. Is there a manual overlay or not based on unique circumstances having for a SKU.

That whole process has to run well. And if your forecast accuracy is not good, you cannot run your factory very well. Your inventory will be high, your suppliers won't perform, your logistics providers won't be available. So it has to run like a smooth running clock and it's clear we have opportunity to do better here. As we refine the model, yeah, we'll roll that out through the rest of the business as appropriate. But this is really looking at two big divisions where we need a really high degree of focus early on. So it will roll out over time as we get success here.

Joe Ritchie

Yeah. That's super helpful, Bill, in detail. I'm curious, do you think that by February, you'll have some kind of sense for what type of opportunity this presents for the organization?

Bill Brown

Yeah. We'll certainly know by February, the results of the couple of divisions were in they're big divisions, not like small pieces. But we can estimate from that, we could probably estimate would -- what's going to happen as we roll it out to other divisions. So yeah, we can sort of lay out a lot more to where I think you want to go, which is it's nice to talk about forecast accuracy, but tell me a little bit about how it's going to affect delivery performance, cost performance, inventory level. And I think we can kind of connect the dots on this as we get further mature in this particular area, Joe.

Chris Snyder - Morgan Stanley - Analyst

Bill, on the last call, you talked about how you believe the business should be growing in excess of GDP. And I think to a prior question, you talked about better growth maybe into the back half of '25 and into '26. So is that just simply a function of the investments that you guys are making innovation that's going to allow you to start outgrowing the end market and it just takes time? Or is there also an assumption that maybe the consumer just the served end markets get better into the back half of '25 as we kind of see that pickup in growth?

Bill Brown

So Chris, our crystal ball is not going to be any better than what the various prognosticators out there are looking at in terms of what happens with industrial production, GDP, consumer behavior. I look back at the end of last year for what was predicted on IPI this year, and I think it was predicted 1.7 then 1.2. So I'm not sure these indicators are all that powerful to predict what might happen in the market or the macro year out or year and a half out.

Look, first off, we got to grow with the market, and I think we're doing a good job with doing that this year at about 1%. As I said last time, and I think at your conference, the 1% is not where we want to be, to actually grow that and be performing better without putting a time frame on it, it comes into these two levers.

One, we've got to get this R&D machine running. As I mentioned then, I'll say it again today. That's going to take time. Our development time, our development cycle is a year or more on developing and commercializing launching a new product. So there's a time frame that that's going to take to turn that piece around. But there's some initiatives that we've got to get at today, and that's a lot more aggressive this at the customer interface, selling, pricing, these other things, which has a near-term effect. When you put all that stuff together, is it growing at GDP or more than that, we'll describe that more over time. I want to sort of walk before I run here and that's kind of where I'm standing as we speak today, Chris.

Anurag Maheshwari

Yeah. And just to add, right, we've grown three quarters consistently 1%. As Bill said, we'll give more color as time go by over there. To Steve's question earlier, we said we can grow operating margin at a pretty healthy clip given all the levers we have. As we go into next year, as you are aware, we do certain headwinds from higher pension expense, lower interest income. Of course, we mitigate that through share repurchase, but that's a $0.30 headwind that we see from below-the-line items.

But if I kind of look at what's driving in terms of all the discussion we just had around the factory, the supply chain, looking at the indirect cost and all the productivity along with that, along with the tailwind, we can see with the reduction in restructuring charges, it gives us confidence to expand operating margins next year while driving top line growth, and we'll give more specific details next year.

Chris Snyder

Appreciate that. And then if I could just follow up on maybe some of the portfolio pruning. Is it fair to assume that whatever business the company decides to leave, they will get paid for it? Not -- no more organic exit or at least nothing very sizable in terms of organic exit? I understand maybe certain SKUs or product lines can come and go.

Bill Brown

Yeah. Look, I think there's going to be, over time, natural portfolio pruning in terms of SKUs. As you bring new products on, it may obsolete other things that need to go out. That churn, that part of -- that's a normal part of business, and that should all be sort of absorbed within your normal organic growth contributions that we should be growing at the market for. So that is -- as you just pointed out, Chris, a distinct from a selling business, which we're going to look at that on an inorganic exit. We'll look hard at cash effects, dilution effects, all those pieces. We'll make sure we get paid more value for that business than we would have assumed today within 3M.

But I think your question was really on organic. And as I turn this year, like I said, I think we'll probably talk less about kind of the portfolio shifting that going all up inside the company on SKUs and geographies and things like that.

Deane Dray - RBC Capital Markets - Analyst

Thank you. Good morning, everyone. Thanks for fitting in, and welcome to Anurag. Thank Bill, this came up in the local paper, but it'd be interesting to hear your thoughts on the challenges you're facing, both operationally and culturally, to get the 3M employees back to the office. You all have been fully remote for longer than most companies. I know you've announced some initiatives, but would love to hear some color there.

Bill Brown

Well, so look, I mean it's -- we need to grow our business. We need to innovate. Part of that is we need to solve problems for customers. I do think that you problem solve, innovate better in person. We're going to maintain flexibility in our workforce. What we've done is for our largest sites at our most senior people, we've asked those individuals to be on the site wherever they report on Tuesday through Thursday with some flexibility on Monday and Friday. This is an opportunity for us to continue to build our culture, build our relationships, problem solve as a team. And I think it's the right step.

I know a lot of our customers have moved in this direction in the past. Maintaining some flexibility in our workforce is really important to me. It's important to our employees, and we're allowing that. But it gives us an opportunity to be able to look across the table from one another and really dig in and problem solve in a better way than I think you can over Teams or Zoom or some other format like that. So that's why we're leaning in a little bit more on bringing people back at sort of -- at our larger sites including here at 3M Center.

Deane Dray

Got it. And then just a last question. A lot of discussions today about new product introductions, efficiencies in R&D. Will you be bringing back the New Product Vitality index? Is that one of the measures that 3M had at one time, but then went away from it? What's your thought there?

Bill Brown

No, I'm happy to talk about it. I know there was reasons why we pulled away from it. We don't want to get that to be oversold or built into a comp metric or whatever. But the reality is it's an important metric. Because we've pulled back from introducing new products to the marketplace, we know that. I talked at some detail as to how many NPIs have come down over time and where we're at last year, going up 10% this year. The net effect of that is our product portfolio in the marketplace is aging, for sure.

Our NPVI on a five-year basis is running just over double digits, 10%, 11%. We used to be 25%, 30% for the more super innovative companies that are in that range. I'm not going to say when we get back there, but it's one that's on my mind. We need to have more fresh offerings on the marketplace. So we ought to be better than low double digit in terms of Vitality Index. And I'm happy to talk about that over time in terms of the metric, what's happening to it, why I think it's important. But I don't want to overuse it with investors or here with employees because there's lots of other metrics, of measures that drives are we becoming effective at driving innovation in the company. That just happens to be one of them.

Closing Comments
Bill Brown

Well, thank you very much to all of the analysts for joining today and asking a number of very, very good questions. I want to importantly thank all 3Mers for their dedication, their hard work on behalf of our customers and our shareholders throughout the quarter, throughout the year, and I look forward to speaking with all of the investors as we get into late January, issue our Q4 results. And in late February, probably the last week of February, as we host an Investor Day likely here in Minneapolis. Have a very good day, everybody. Thank you so much.