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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M first-quarter earnings conference call. (Operator Instructions) As a reminder, this call is being recorded Tuesday, April 22, 2025. I would now like to turn the call over to Chinmay Trivedi, Senior Vice President of Investor Relations and Financial Planning and Analysis at 3M.

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

Thank you. Good morning, everyone, and welcome to our first-quarter earnings conference call. With me today are Bill Brown, 3M's Chairman and Chief Executive Officer, and Anurag Maheshwari, our Chief Financial Officer. Bill and Anurag will make some formal comments, and we will take your questions.

Please note that today's earnings release and slide presentation accompanying this call are posted on the homepage of our Investor Relations website at 3m.com.

Please turn to slide 2 and take a moment to read the forward-looking statements. During today's conference call, we'll be making certain predictive statements that reflect our current views 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 these most important risk factors that could cause actual results to differ from our predictions.

Please note, throughout today's presentation we'll 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.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Thank you, Chinmay and good morning, everyone. We had a strong start to the year with first quarter adjusted earnings per share of $1.88 up 10% versus last year and above expectations. Organic sales growth was 1.5% with all business groups posting positive growth.

Operating margins increased 220 basis points year-over-year through productivity and cost controls while we continued to invest in growth initiatives. And free cash flow was solid at about $0.5 billion as we benefited from strong earnings, working capital improvements, and disciplined capital expenditures.

These results were achieved during a dynamic macroenvironment and demonstrate the performance culture that's starting to take hold at 3M. The urgency and operating rhythm the team exhibited, along with the round the clock interactions with customers and suppliers drove a strong finish to the quarter, and I'm really proud of the resilience and persistence of all 3Mers.

We're exercising a new commercial excellence muscle with a much tighter alignment across the supply chain, and we're institutionalizing the March op tempo to execute at that pace in every month of the quarter and every week of the month. In this environment, it's critical for us to focus on what we control and remain deliberate in executing on the three priorities we discussed at our recent Investor Day, driving sustained top line organic growth, improving operational performance across the enterprise, and effectively deploying capital.

Central to the top line growth is increasing the cadence of new product launches. In Q1 we launched 62 new products, up about 60% year-on-year on top of a 32% increase in 2024. And we achieved more than 70% on time launch attainment, up from 56% a year ago.

Our new product pipeline health continues to improve, and we're on track to launch 215 new products this year and 1,000 over the next three years. We've bottomed out and turned the corner on five-year new product sales with Q1 up 3% and tracking well toward the target of growing sales from products launched in the past five years by more than 15% by year end.

The pace of innovation is accelerating at 3M, and our teams are operating with greater urgency and focus than ever before. A few notable new products introduced in Q1 include ScotchBlue PROSharp Painter's Tape with Edge-Lock technology for sharper lines and less paint bleed through, a low sparkle optical film with enhanced brightness for the mainstream notebook market, and a new solid state drive connector for the data center market.

We're making progress on our commercial excellence objectives with standardized operating rhythms, improved target setting and performance measurement, and tighter pricing governance. We tripled the number of structured sales manager and sales rep reviews in the first quarter and completed more than 100 joint business plans with our largest customers to align on growth opportunities and capture plans.

One area of particular focus is cross-selling. We now have more than $40 million of opportunities in our pipeline across 23 product pairs, tracking well against the $100 million and 50 pair goal through 2027 that Chris described that Investor Day.

And finally, we're laser focused on customer retention and reducing churn, and we've begun deployment of a predictive analytics tool to flag at-risk accounts to proactively address the primary drivers of customer attrition. These initiatives are foundational to building a more commercially driven, customer-focused company.

As a result of these targeted actions, we saw solid order momentum in the quarter across all of our business groups. Our average daily order rate is up over 2% for the quarter, accelerating in March, and driving company-wide backlog up low -teens since the beginning of the year.

And we continue to execute well on our key operational performance metrics, including leveraging our new 3M excellence operating model. On-Time/In-Full or OTIF increased 3.5 percentage points versus last year and about 1 point sequentially to 89%, the best quarter we've had in the past five years.

Consumer and Transportation Electronics performed again above 90%, and Safety and Industrial was up 2 points to about 82%, is on a steep climb to achieve 90% by year end. Our metric for equipment utilization or OEE was up 4 percentage points sequentially to 58% and is now deployed on 191 key assets across our 38 largest factories, a 10x increase over this time last year and covering about 50% of production volume.

Having a robust baseline on unutilized capacity will help us adjust our sourcing strategy more readily to the changing trade landscape. And finally, safety performance continued to trend in the right direction with our incident rate down 25% in the quarter, following a similar improvement last year as we continue on our journey to an injury-free workplace.

During the first quarter, we refinanced $1.1 billion in debt, returned $1.7 billion to shareholders, and raised our dividend by 4%. In Q1, the Board approved the share repurchase authorization of $7.5 billion, and we now expect repurchases to be about $2 billion, up from our prior expectation of $1.5 billion.

We continue to advance our portfolio shaping efforts with one small divestiture recently signed and others progressing more slowly in view of trade policy uncertainty. Our guidance for the year remains $7.60 to $7.90 adjusted earnings per share before the impact of tariffs and offsetting cost, sourcing, and price actions. We are not flowing through the upside in our Q1 results to our full year outlook, given the uncertain macroenvironment with recent data reflecting some softening in GDP, IPI, and global auto build.

Tariffs are going to be a headwind this year, but we thought it would be prudent to hold the impact outside of our full year guidance while we digest the new policies and fully develop and qualify mitigation plans. With the significant footprint we have in the US and the flexibility of our global network, we're identifying a number of ideas to adjust product sourcing and logistics flows to mitigate at least a part of the impact, some of which are no regret moves regardless of where trade policies eventually settle.

Overall we have a solid game plan. We're executing well against our strategic priorities and we're focused on long term value creation for shareholders.

And with that, I'll hand it over to Anurag to talk through the details. Anurag.

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

Thank you, Bill. Turning to slide 4, we had a strong start to the year, performing ahead of expectations on margins, earnings, and cash. On sales, we delivered a second consecutive quarter of positive organic growth across all three business groups, performing at the high end of the 1% to 1.5% range we provided in March.

We saw strength in several of our key end markets and divisions, including electrical markets and industrial adhesives and tapes in SIBG, aerospace in TEBG, and consumer safety and well-being in CBG. And we continue to see softer trends in auto, abrasives, and packaging and expression.

Geographically, all regions grew year-on-year with the exception of Europe. China was up mid-single digits with strength in the Industrial business and electronic bonding solutions, driven by share gains with key accounts and increased orders ahead of tariff actions.

The US was up low-single digits, despite the challenging macro backdrop, with continued eye demand for cable accessories and strength in aerospace, partially offset by weakness in auto. And Europe was down low-single digits due to the continued weak environment, including a high-single digit decline in auto builds. On orders, we saw good momentum through the quarter, and our daily order rate grew by over 2%, resulting in a robust ending backlog that provides close to 25% of coverage as we enter the second quarter.

Adjusted operating margins were 23.5%, up 220 basis points year-on-year. The operating income growth of $150 million at constant currency was driven by benefits from growth, lower restructuring cost, productivity, and TSA cost reimbursement, which was partially offset by our continued growth investments, timing of equity-based comp, and stranded cost.

SIBG and CBG margin rates were up year on year, while TEBG was down as expected due to a challenging prior year comparison and inclusion of incremental stranded costs from the exit of PFAS manufacturing. The strong operational performance contributed $0.23 to earnings, which was partially offset by $0.06 of non-operational headwinds, including FX, resulting in adjusted EPS up $0.17 or 10% versus last year to $1.88.

Relative to our initial expectation of flat earnings growth in Q1, this $0.17 outperformance was driven by $0.10 of G&A efficiency while maintaining our growth investments and $0.07 of timing benefits related to spin and cost containment actions in the current quarter. We expect this $0.07 of timing items to be earnings neutral for the first half of the year.

Free cash flow of approximately $500 million came in stronger than expected on the back of better earnings and discipline CapEx spending. And we continue to have a balanced capital deployment, including returning $400 million to shareholders via dividends and $1.3 billion in gross share buybacks, partially offset by higher-than-expected stock option exercise.

I will provide a quick overview of our growth performance for each business group on slide 5. Safety and Industrial organics sales grew 2.5% in the first quarter. This growth was broad-based, with five out of seven divisions posting positive growth.

We saw particularly strong demand for cable accessories driven by construction of data centers and renewable energy projects. We also saw strength in industrial and electronics bonding solutions driven by continued share gains in structural adhesives from improved service and our focus on pipeline management, driving higher closed one.

We also saw good momentum in personal safety as they continue to win key government contracts in the US and Europe. Auto aftermarket was down low-single digits on the back of a market where collision repair claim rates are down high-single digits to the year-to-date.

Transportation and Electronics adjusted sales were up 1.1% organically in the first quarter. Aerospace delivered another quarter of double digit growth from commercial aircraft and defense related business with a strong value proposition in portfolios like films and bonding and joining, and advanced materials grew high-single digits driven by key project wins.

The Electronics business grew low-single digits, softer than expected, driven by lower device demand. Our auto OEM business was down mid-single digits, reflecting continued weakness in auto builds, particularly in Europe and the US, which were each down high-single digits year-on-year.

Finally, the Consumer business was up 0.3% organically in Q1. Growth investments and new product innovation drove strength for filters, respiratory products, pain protection, and Meguiar's auto care, partially offset by soft consumer spending, principally in Command and packaging expression.

I will now share an update on our '25 Outlook trends on slide 6. Starting with the macroenvironment, we see a softer outlook than the start of the year. Market forecasts have been lowered, reflecting weaker consumer spending and lower demand in industries such as auto and electronics.

The blended GDP, IPI 2025 growth was estimated to be 2.1% and has since come down to 1.8% for the year. We continue to believe we can grow above macro due to progress on all our commercial excellence initiatives and focus on new product introductions. However, due to the softer market, we're trending to the lower end of our 2% to 3% range.

On operating margins, due to the Q1 performance, we see upside to the midpoint of our margin and earnings guidance range. In terms of non-operational drivers, FX has been more favorable than expected. However, it is offset by share option exercise and a higher net interest. We expect the operational cadence of sales and EPS to be split equally between the first and second half, in line with historical performance.

On cash, we continue to expect approximately 100% adjusted free cash flow conversion. Additionally, to offset higher than expected share option exercise, we're increasing our gross share repurchases in '25 to $2 billion versus the $1.5 billion discussed previously. As Bill pointed out, we have bought authorization for $7.5 billion of repurchases, and we are prepared to be opportunistic in response to market conditions.

As you know, we are dealing with tariffs, and it will provide a quantification of the tariff sensitivity on slide 7. Looking from left to right on the slide, our January guidance was for earnings of $7.60 to $7.90.

As I earlier mentioned, given the Q1 strength, we are trending about $0.10 better operationally, while our non-operational is balanced between FX and below the line items. Our intention is to continue to drive for results, but we are early in the year, and given the current environment, we are taking a $0.10 contingency and maintaining our $7.60 to $7.90 EPS guidance.

On the right, I've provided a tariff sensitivity. I wanted to quantify the impact as we see it right now and outline our mitigation plan. As we have mentioned before, we import $1.6 billion into the US and export $4.1 billion from the US. China is approximately 10% of the imports and slightly more on exports for a total trade flow of approximately $600 million between the US and China.

These flows at the current tariff rates of 125% imports into China from the US and 145% from China into US will equate to approximately $675 million of potential annualized tariff impact after anticipated exemptions. In addition, tariffs on products not qualified under USMCA, along with aluminum steel, and other reciprocal actions, had an approximately $175 million impact for a total annualized impact of approximately $850 million before any mitigation actions.

Given that most of the tariffs were enacted recently and we typically carry 90 days of inventory, we expect only half of this impact this year, which is approximately $400 million or approximately $0.60 of EPS before any offsets. The team has responded quickly and is working on a number of mitigation plans, including cost and productivity initiatives, optimizing production and logistics, including leveraging a US footprint and selective price increases where feasible.

And we believe we can partially offset the headwind for an estimated 2025 net impact of $0.20 to $0.40. We will keep you updated as the situation evolves.

In the meantime, we are controlling what we can and focus on growth acceleration, strong margin expansion, and delivering strong shareholder returns in '25. I want to take a moment to thank the 3M team for remaining resilient through this environment.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Sprague, Vertical Research Partners.

Jeff Sprague - *Vertical Research Partners - Analyst*

Maybe we could start, again, maybe a little bit on the macro side. Interesting commentary about the March exit rate, but obviously, kind of post-Liberation Day, all eyes are on what happened in April. I assume that's encompassed in how you've guided here this morning.

But maybe give us some color if you could on how things progressed as you moved out of the quarter into Q2 and whether that March activity you saw maybe felt or looked like some pre-buy actions by your customers.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

I mean, first on the pre-buy, we saw maybe $10 million move from Q2 and Q1, primarily in China. So it was fairly minimal from our assessment on that part of the question.

On just the trends, as we mentioned in the prepared comments, our Q1 order rates were up a little more than 2%. We ended backlog at the end of March, up low-teens. As Anurag mentioned, we had about 25% of our revenue in Q2 covered.

As we turn the corner into April, we're seeing continued, again, it's early, only half of the month, but we're seeing continued momentum in our Industrial business and SIBG order rates. Pretty similar to where they were in March, which is a bit higher than they were for the overall quarter. So they had that ended March pretty good and it continued into April.

A little bit softer on TEBG. Again, it's a little bit early in the quarter, but maybe a little bit softer. Consumer, it typically starts a little bit weak, it's a -- the start of a quarter, the retailers close the books at the end of April, so it's typically a slower month for us. But generally speaking, Industrial, in line with March, just a tad softer in the other two businesses.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great. And then just back to the tariffs, I appreciate that build up to what the gross impact was. That's some great color.

Just when we think about, Bill, the levers you're going to pull here on the mitigation side. Maybe just a little bit more color there, how much might be price, the ability for the market to actually take price. And I wonder if you could just elaborate a little bit more on some of the moves you're making and some of the things you characterized as no regrets moves.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

So yeah, there's several things. I put it in maybe three buckets. One is -- and we referenced this at a high level in the call here. The first are on sourcing and logistics actions.

As you know, we've got 110 factories, 88 distribution centers. And in my comments, I talked about being a 58% utilization. So yeah, I guess the positive side of that is we have a lot of flexibility to move those assets up and down. And move things across our network.

So within sourcing logistics, we can change our source of supply fairly quickly and we're looking at those kinds of things. We're adjusting our trade flows, logistics flows, leveraging more bonded facilities, free trade zones.

A little bit more point-to-point shipments on our logistics that we might have done before in terms of hub and spoke. We're optimizing where value add occurs across our network, so where we might have been shipping a finished goods, we may now ship a semi-finished goods and do finishing in a different market, different country.

And we're looking at alternative production sites with different countries of origin to try to optimize the network and minimize the tariff impact on our business. So there's a bunch of things, from a sourcing perspective, that we're looking at.

There are certain things we can do relatively quickly within the first couple of months. Some of the things actually are in flight today or have been enacted.

There's others that won't take investment but just take a little bit of time to qualify something. There's others that might take a little bit of investment, a little bit more time, that's likely to be more a '26 help for us if we go forward with that, but several things we can do, some of which are being actioned today.

The second big block is around discretionary cost actions we can take. And there's a number of things that we're doing like we did in Q1 but still protecting the growth investments we're trying to make in the business.

And then the third is selected surgical price actions. They could be in the form of surcharges depending upon the customer, could be list price changes that might come into effect. They're going to be a bit more limited.

But when I put those three pieces together, we talk about our $0.20 to $0.40 offsetting mitigating actions. At the high end of that range, it's probably about 50/50 between cost sourcing and pricing. At the low end, assumes some of the pricing doesn't stick, but we're continue to work on that.

Those are all the things I think we're doing, if you will, from a defensive perspective, but I'd remind you there's some offensive opportunities here as well. We've got a very, very large US footprint. We can bring more things into the US.

There are certain products that we compete against that come in from other regions around the world. And perhaps there's an offensive opportunity to take some share here, and we're looking very carefully at that as well, Jeff.

Jeff Sprague - *Vertical Research Partners - Analyst*

Great, thanks for all that color.

Operator

Scott Davis, Melius Research.

Scott Davis - *Melius Research - Analyst*

I guess another way to follow on to Jeff's question, I think there'll be lots of questions related, it's just do you feel like you're more or less exposed than your average competitor to the tariff risk and perhaps that informs the ability to maybe get price or if everybody's in the same boat and similarly exposed, and maybe it's a little bit easier to get price versus the alternative.

But do you have any feel for that generally? I know you sell a lot of SKUs in a lot of different markets and a lot of different competitors, but is there a general -- what do you think about that?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Look, we compete against different competitors, different companies across all of our business groups and across all of our divisions within business groups. So it's going to be fairly mixed.

Obviously, we do export $4 billion, as Anurag mentioned, a piece that goes into China. That's mainly for the Electronics change, but it's also for some domestic consumption as well. I wouldn't say it's any better or worse than where our competitors happen to be, but there's certain things that we can do with the flexibility of our network that we can take advantage of costs and sourcing actions and then move strategically on what we try to do on pricing.

We do see some of our competitors, some things have moved on the Consumer side, outside of the US, primarily, China sourced. We walked away from some of that business, some of that might be private label today. And there might be some opportunities to pull back on this.

But to push pricing is going to be different in every business that we're in. We have to make an assessment of the competitive nature of the business, how differentiated our product happens to be.

And we're working very closely with all of our partners. This is a we, not us versus them, but we're working together on what do we do to mitigate the impact that's hitting all of the companies. So, a bit of a mixed bag, Scott, but I think in general, I think, we're probably a little bit better positioned than a lot of our competitors.

Scott Davis - *Melius Research - Analyst*

Okay. And then as a natural follow up, I mean, 3M is a global company, but it's a very American brand, at least that's the perception. Have you seen any kind of anti-American behaviors, purchasing behaviors from your customers and biases to perhaps go in a different direction in certain areas or is that just something that we read about in the papers, that's not a real thing yet?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Well, Scott, we haven't seen it yet. I mean, it's still early days, but we've not seen that. I'm not sure we we're anticipating that. We do have very strong brands, very global brands.

As you mentioned, a very strong position in the US We've got 50 factories here and a big chunk of our supply base, and we do a lot of R&D here. But we've not seen so far any -- so any risk coming on us because of us being a US-based manufacturer, US-based brands.

Scott Davis - *Melius Research - Analyst*

Okay. Helpful. Best of luck this year, guys. Good luck.

Operator

Julian Mitchell, Barclays.

Julian Mitchell - *Barclays - Analyst*

Maybe, I just wanted to follow up on the organic sales outlook, first off. So I think you mentioned early on that maybe you're looking at around sort of 2% organic growth for the year in the current guide.

And just wondered, when we're thinking about the balance of the year, are you assuming steady organic growth around that sort of 1.5%, 2% range each quarter to the rest of the year or do you think we see a dip this quarter and then some improvement in the back half? Any color on that and by the segments would be interesting.

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

Yeah, so just to start off with what we said is we're trending towards the lower end of the range right now, but if you look at it through the course of the year, I think it's going to be pretty stable. So let me first probably just talk about the first half and then we can talk about sequentially.

So as I said in my prepared comments, we expect the operating cadence to be split equally between the first and second half. So on the sales side, this would actually imply that Q2 would be at a slightly better than Q1. And as we move into the second half, we should see a little bit of take. So I think it's pretty balanced between the two.

As Bill mentioned on the Industrial side, we are seeing a good growth momentum. We saw that in Q1 and that should continue through the rest of the year.

On the Electronics, there are a couple of pockets of weaknesses on the macro side on electronics and auto. We saw that in the first quarter, so that could be a little bit lower than what we thought at the beginning of the year.

And Consumer is -- it's Q1 was 0.3% of flattish growth, but we expect that to pick up through the course of the year. So to answer your question, not seeing a dip in the second quarter on the back of the backlog coverage we have the orders on the Industrial side, we should see this momentum continue through the course of the year.

Julian Mitchell - *Barclays - Analyst*

That's very helpful. Thank you. And then just my second question around the tariff impact. So I think it's in the in-year framework, it's $0.60 gross headwind, $0.30 net headwind, potentially, at the midpoint of that framework you gave.

Any more details you could give us if it is around that middle of the middle type number. How do we think about the phasing of that $0.30 net headwinds through the year?

And also any color you could give on the impact by Stegeman? Is it better or worse in any division?

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

Yeah, Julian, listen, as we said, the tariffs started in February with non-USMCA aluminum steel, but the ones with the biggest impact started in April, particularly between US and China. And as I mentioned, we typically carry about 90 days of inventory, so we will see this impact in mainly in the second half of the year.

For the second quarter, we may see a couple of pennies here and there, a small impact, but that's within the guidance range of $7.60 to $7.90. So you'll see this impact in the second half of the year.

Now, regarding the businesses and the segments, we'll probably get more color as we go around here. What the team is more importantly, if you take a step back, is working on actions very quickly across the buckets that Bill mentioned and what we can control.

So obviously, on the cost side, you'll see us control a little bit faster price will come in. And then the offensive strategy, you'll see more of the benefit come through towards the end of the year or next year. So you will see us mitigating this impact more as we go along through the course of the year into next year.

Julian Mitchell - *Barclays - Analyst*

Great. Thank you.

Operator

Amit Mehrotra, UBS.

Amit Mehrotra - *UBS Securities LLC - Analyst*

Just following up on the cadence maybe with respect to EPS as opposed to the organic sales. And the last couple years we've seen 10% or so sequential uplift in EPS.

There's a lot of moving parts in terms of stock comp. I know there was a timing in terms of 1Q, 2Q stock comp. There's obviously timing of all the costs and then tariffs, but I guess tariffs are more second half given the inventory.

Could you just help us think about the cadence in light of all those moving parts as we think about EPS moving from 1Q into 2Q in the rest of the year?

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

I mean, I've already touched upon the sales, so I'll go more on the earnings side. So first, let me do the year-over-year between for Q2, and then I'll come to the sequential because as you correctly said, there are a lot of moving pieces there.

So the EPS's growth year over year should be about $0.15 to $0.20 on the operational side because of the benefits from volume, restructuring costs, productivity, the lower equity comp that you referenced to. But as I mentioned in my prepared comments, there was some Q1 timing events, so that'll be partially offset, increasing investments, but you see a big step up in Q2 relative to last year because we only started making investments in the second half of last year, and the PFAS related cost.

But operationally, you should see be up $0.15 to $0.20 on the EPS. But on the non-op side, we have a total headwind of about $0.10, and a large part of that is driven by net interest as the cash balance last year in the second quarter was over $10 billion. And now, we're returning back to more normal cash levels.

So we will have some impact in non-op pension as well, but all of that will be offset by lower share count. But if you take the net interest pension offset by the lower share count, it's about a $0.10 headwind year-over-year. So you put that together, we should grow EPS by about $0.05 to $0.10 year-over-year.

Now sequentially, you're correct, it's seasonally, revenue should be up about $300 million, which should come with good flow through. But as I said, there are some offsets around the timing of Q1 items. There is some step up in the investments.

So what you will see is about $0.05 to $0.10 again operationally, it should be good. And $0.05 benefit from a little bit below the line. So sequentially also, we should see about $0.10 to $0.15 benefit on the EPS.

So overall, if you put all of that together, for the first half, our EPS will grow about $0.22 to $0.27, which is actually a pretty much 50% of the growth of what we expect for the full year. And second half should mirror that too.

Amit Mehrotra - *UBS Securities LLC - Analyst*

Okay. Very helpful. Thank you. And then I guess maybe one for Bill in terms of -- you obviously have a lot of efficiency actions that the company's pursuing. I wonder if what's happening now gives you an opportunity to accelerate some of those actions. If you can just talk about the opportunity that you see there that'd be helpful. Thanks.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

I mean, look, this is it's a challenging situation that we happen to be in. The environment's moving pretty quickly, but the team has responded very, very well. The actions that I've talked about, I talk about it in very large buckets, but the reality is this has to be done down at an SKU-by-SKU level based on a customer or a flow, a factory to a region.

It's a very discrete analysis. And it's really helping us get into the bows, if you will, of how we actually run the business. So it's pointing out some good opportunities to do some things differently and better.

We have been focused on driving operational performance, operational excellence across the whole enterprise, including on our operations. I went through some of the metrics that we're focused on here. There's an environment that we're in, we're trying to figure out a way to offset some of the tariff effects.

But a lot of the things that we're doing are just running our game plan. It's driving on time and full up. I talked about that pretty extensively here; driving OEE or operational equipment effectiveness, improving that; driving productivity, driving cost for quality downers. All of these various initiatives, it just puts a lot more focus and attention on.

So is there more we can do? There might be simply because we're getting deeper into a deeper understanding of the trade flows and what's happening, but I think we've got a good game plan. It's executing well.

You saw it in a marginal improvement in Q1. It's also pointing out good opportunities to tighten down on G&A. So, look, it's -- we're trying to make it the best of the situation we're in and drive performance.

Amit Mehrotra - *UBS Securities LLC - Analyst*

No, very good. Thank you very much. I appreciate it.

Operator

Stephen Tusa, JPMorgan.

Stephen Tusa - *JPMorgan - Analyst*

So you guys had previously said, I think negative $0.20 on ForEx. What specifically are you now assuming for ForEx year-over-year?

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

So expecting $0.15 right now or $0.05 of headwind. From a $0.20 headwind to a $0.15 headwind.

Stephen Tusa - *JPMorgan - Analyst*

On ForEx.

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

Correct, yeah.

Stephen Tusa - *JPMorgan - Analyst*

What are you using for your euro rate?

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

Okay, so we snapped it at the end of March. Okay, so that was around [108, 109] level, right? It has moved up since then.

I guess where you're going is that, with FX moving at this rate, why is there only $0.05? So maybe let me just take a step back. And so, when we gave the guidance in January, we said operationally, we'll go $0.85 at the midpoint and we had $0.40, broken $0.20 between FX and $0.20, which was non-op.

On the FX, as you said, we assume about $0.20 over there. Now, we rerun the forecast at the end of the quarter, and now the FX headwind on the revenue from 2% has become 1.5%, which runs straight into $0.15 of headwind.

But if the US dollar continues the way it is, this headwind should definitely reduce. But as you know, not all FX rates move in the same direction. And actually in some cases, we are in net cost position.

But if they continue to go where they are, we should see an upside in the FXs, and that is the reason why we split the operational and the non-operational, which includes FX in our earnings bridge, because we want to drive on the operational side of the business. And if there is an upset on FX, we'll share it as we go along.

Stephen Tusa - *JPMorgan - Analyst*

Right. And so I guess on the non-op side, the non-op, non-FX, then there's really not much change there because there's really not much change in the FX, underlying FX assumption.

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

Yeah, that is the point. There's a penny two-year in each of the items, but not material change. For example, on interest rates, right, we had assumed about, two cuts this year. They could be three or four cuts is what we are hearing. So we've kind of calibrated for that, which is low interest income.

On pension, there's a penny or two year because the stock option exercise share accounts penny or two. So it's not very material, but the $0.05 that we have assumed in the FX improving is probably mitigated by these other items. But if FX continues the way it is, there should be net upside and below the line.

Stephen Tusa - *JPMorgan - Analyst*

Yeah, okay. And then just lastly on China, could you just -- are there sales there that you could just walk from? I mean, I know you guys export a decent amount there, obviously. I just don't know how like critical those are to your customers.

I mean, is that like an option for the exports from the US to China? I don't know how much a part of that the $850 million that actually is but is there an option to just walk from those sales?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

I don't think it's an option of like walking from the sales. We have a very strong business in China. We have important domestic and export customers in China.

I think we do have some opportunities to shift around our network to bring product into China from other regions that don't have the same sort of tariff effect. I'll give you just an example. We, today, we shipped from products from the US to China that we could also instead ship from Europe into China and then perhaps backfill that volume in the US to where those factories in Europe were directed in their products.

So there's things we can do to mitigate some of this impact and preserve the relationship and the great business we have in China. Again, it's 10% of our company. It grew double digits last year. We had solid mid-single digit Q1.

We follow our international customers there where they manufacture in China are moving more there or moving to other different regions. So we want to be there to support them. But there's some things we can do on our end just in terms of sourcing to try to mitigate some of that impact.

Stephen Tusa - *JPMorgan - Analyst*

All right. Makes a ton of sense. Thank you.

Operator

Nigel Coe, Wolfe Research.

Nigel Coe - *Wolfe Research - Analyst*

I hate to be a bore, but a few more tariff questions. Are there any perverse impacts as a result of these excessive China tariffs? So you know this increasing concerns around supply chain impact here, shipments are being made, so will be imposed in lieu of news flow. Is there any risk that your supply chain could be impacted by shippers just not making their shipments because of the tariffs?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

You know, Nigel, we've not seen anything like that yet. We haven't heard any word of that. We've seen no disruption, no supplier hesitant at the moment to ship to us. We've not actually seen much push on to us in terms of pricing.

These things will evolve over the balance of the year, but I've read a lot about what you're suggesting. We have not yet seen that in our business.

Nigel Coe - *Wolfe Research - Analyst*

Okay. That's good news. And then Anurag, just to double confirm, the 50/50 comment on EPS is based on the [$7.75] midpoint, and then the second half would be whatever lands in terms of net tariffs, is that right?

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

That is correct.

Nigel Coe - *Wolfe Research - Analyst*

Okay. And then just a quick one on cash flow, with again with the tariffs. Does that put a more of a back-end load on cash flow because you have to pay the tariffs on day one?

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

No, not really. I mean, if you look at the cash flow, we actually did quite well for the first quarter as well. Typically, it's a low quarter for us. Net income is about $1 billion. We consume about $300 million of working capital as we build up inventory.

We enter Q2, which is seasonally a high quarter, and then we have bonus payments, AIP payments of about $300 million. So that gets about $400 million, but we did better because of discipline CapEx spending and receivables.

What we're seeing going out is in terms of areas, we are definitely focusing is on the DSO and the AIP payments as well. And right now, we're not really seeing a material change in that. We're going to manage it. So I don't expect to be a little more pressure in the second half of the year, and we'll probably have a good cadence on cash flow growth as we go through the course of the year.

Nigel Coe - *Wolfe Research - Analyst*

That's great. Thank you.

Operator

Andrew Obin, Bank of America.

Andrew Obin - *BofA Global Research - Analyst*

Just another question on tariffs. Are you modeling any demand destruction related to tariffs in your core guide? Right, because you know, as prices go up, as you need to substitute things that sort of drives economic model will tell you it would drive some demand destruction on the margin. Are you thinking about it or you're just modeling the volume based on your economic forecast?

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

Yeah, so the tariff impact is all about the tariff cost impact sensitivity that we've shown. Obviously, because of the tariffs, the market's been a little bit weaker, so that's why we say we're trending lower on that range. But other than that, no, we have not modeled anything more.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Yeah, I mean, look, but just to be clear on the pricing, we're trying to be pretty smart, strategic, and surgical about this. And we're not doing without interaction with our customers.

In many cases when we put out a surcharge, it's through consultation with the distributor or a customer. There's some receptivity to a certain amount based upon the individual customer for a period of time.

There's an understanding that that volume will deteriorate. If we start to get to a point later in the year where we feel like we ought to be pushing price out to accommodate or offset more of the tariff risk and there's a volume impact, we're going to have to take that under consideration.

But the team has been very smart and surgical about how we do this. So outside of the macro erosion, we're not expecting much demand deterioration from a volume perspective because of the way we're being smart about pricing.

Andrew Obin - *BofA Global Research - Analyst*

And just a follow up question on buyback seems that the buyback is there because folks are exercising their options. Why not be more aggressive? You're doing a lot of good stuff operationally. It seems a lot of momentum that's long term underway. Why not just take adventure in the stock weakness and be more aggressive on stock buyback. What's the Board's and your thinking on that?

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

It was just a little bit more on the timing side. Let me give you some colors. So, as we ended last year, 2 out of the 10 past -- two years out of the 10 of the past 10 years options were in the money and the 2015 options, which expired this year, were not in the money.

And in February, they came into the money, so that was a one distinct exercise incident that happened and a couple more which came in the money. So it was more around that as opposed to we're seeing accelerated options being exercised. It was more timing of the 2015 options.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

But I think to your point, Andrew, I think you know we, Anurag mentioned in his remarks, we have a $7.5 billion authorization, went from $1.5 billion to $2 billion, and we have the optionality to go bigger than that if we need to in the back half of the year based on the situation we happen to have in our business. So Anurag will make the right call as we get out of the quarter into later on in the year.

Andrew Obin - *BofA Global Research - Analyst*

I appreciate the answer. Thanks so much.

Operator

Nicole DeBlase, Deutsche Bank.

Nicole DeBlase - *Deutsche Bank - Analyst*

Just a couple on the outlook within the margin puts and takes. Have you guys actually shifted the G&A productivity expectation for the full year? And same question on growth investments. And anything major to highlight on the timing of those if they've shifted at all between quarters?

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

So first thing on the growth of investments, I think we're keeping track. We said we're going to increase by $225 million. The first quarter was around $50 million and this big step up in the second quarter, and we are maintaining that cadence as we go along.

And you can see that actually in the R&D numbers for the first quarter as a percentage of revenue last year was 4.2%. This year, it's 4.8% so you see a step up of 60 basis points and all the other initiatives that Bill was talking about on commercial excellence, we're funding that.

On the G&A side if you roll through our Q1 performance, which we said, $0.17 more than what we expected, $0.10 was more on G&A efficiency and FX, $0.07 of that was G&A. And the remaining part was timing. That was more structural and permanent, right?

And then the Investor Day, we spoke about we have $2 billion of G$A. Outside that, we also have indirect expense. Late last year, what we started doing a lot of these external services, for example, were done locally. We pulled it centrally, try to see if they align with the strategic priorities. If yes -- if not, we don't spend. If they do, align then how can we leverage our global buy to get a better rate?

We saw some benefits of that in the first quarter, and we expect that to move to probably increase as we move through the course of the year. So we have taken a little bit of a hedge in our guide. As you can see the Q1 has upside, but we've taken a $0.10 hedge. If you were not to have the $0.10 hedge, then I would say that you should see at least $150 million of G&A improvement in Q1 flow through the rest of the year.

Nicole DeBlase - *Deutsche Bank - Analyst*

Okay. Got it. Thanks, Anurag. That's clear. And just a follow up on a couple of your market expectations because there's a lot of movement in these two in particular. What are you guys thinking for Auto builds and Electronics for 2025?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

So right now Auto builds, it came down very recently in the recent IHS data. It's down, I think, 1.8% global Auto builds. Now, I think, it's down about 9% in the US, so pretty big erosion from them from the middle of March. I think middle of March, it was like 4.5%. It's down 9% now in the latest estimate for the year.

Europe is down around 4% or 5% for the year. I think China is up modestly. That's for the full year. I think from what I heard recently, about 1.5 million units came out of the full year auto build forecast, and that's what's reflected in our numbers. We expect our Auto OE business to be down mid-single digits both in the quarter and for the year. So that's already modeled into our expectations.

Consumer Electronics, we think it's probably going to be up low-single digits. It was that's where we were at in Q1. We think it's about that flat up low-single digits for the year. There might have been a little bit of stockpiling in the channel in Q1, but the reality is we see that to be kind of modest growth, flattish to modest growth for us for this year.

Nicole DeBlase - *Deutsche Bank - Analyst*

Thanks Bill, I'll pass it on.

Operator

Andrew Kaplowitz, Citi.

Andrew Kaplowitz - *Citi - Analyst*

Well, I just want to ask you about TEBG margin and Q1, it still looked like it was under still a bit of pressure as it was in Q4. I know you said that that's a segment that's absorbing PFAS stranded costs, but you also said you expect to grow margin. I think in all three segments, at least before the tariff impact, so maybe you can give some more color into what's happening in that segment was the issue just the lower Electronics volume or something else.

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

So we do expect all three business groups to expand their margins to 2025. In the first quarter, we did expect TEBG to be lower. You got the drivers correct. The biggest one is the PFAS stranded costs and higher investments that we made, but also it was mixed.

If you look at Q1 last year, Electronic sales, which is a high margin business, was quite good in TEBG for the first quarter of last year, and that obviously mix has shifted. So it was a little bit of a mixed impact more in the quarter, but as we go through the year, we do expect all three business groups to margins to expand. Like we looked at this quarter, for example, SIBG and very healthy margin expansion so at CBG, and that should continue.

Andrew Kaplowitz - *Citi - Analyst*

It's helpful. And I think that we're all trying to figure out what's going on in the macro and you mentioned your Industrial businesses are holding up reasonably well in terms of order growth through April so far in line with March. So as some of the recent regional manufacturing surveys have started to look a little weaker, it doesn't seem like you're seeing it. Just trying to -- your thoughts talking to customers, you still expect things to hold up even with these surveys starting to look a little weaker?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

So it's still very early in the quarter and all of the conversations our teams are having with their customers, distributor, channel partners, seems to be reasonably solid, at least through the beginning part of April. It's continuing from where we were in the month of March.

We're watching a lot of these regional indicators like you are. And clearly, things are softening, but it's interesting when we talk to our channel partners about inventory in the channel, generally speaking, it's fairly normalized. We've not seen anything moving from Q2 into Q1 in terms of adding to inventory, adding to stocks. It's fairly normal, so we don't think there's a correction that's happening.

The elongation of orders that we had articulated about a month ago, we see that continuing here in the month of April. So what might have been a 45- or 50-day cycle time now is stretching out a little bit longer. That's one of the things that impacted us in Q1.

We saw in February orders that were just pushing out into Q2. We still see a bit of that activity, but the indicators, the macro indicators that we're seeing still look okay for the Industrial business. But again, we're watching it very carefully.

Andrew Kaplowitz - *Citi - Analyst*

Very helpful. Thank you.

Operator

Joe O'Dea, Wells Fargo.

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

Can you just talk about, tactically, how you approach imports from China and when you think about that [$160 million] or so I think that you're talking about. Just the timing of that, you've got some inventory that you're sitting on, are you pausing orders right now, waiting for better information just given the fluid nature of what we're seeing on the tariff headline front?

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

Yeah, so Joe, no, we're not pausing any orders or any shipments right now. We have 90 days of inventory, so which will bleed through by the end of June, and then you'll start seeing the impact of the tariff on the imports after that. So we're not slowing down anything on the business side.

What we are looking at is, as Bill earlier mentioned, around sourcing, logistics, discretionary cost, as well as pricing. So that's the way we are tactically approaching it right now.

And pricing, for example, in some cases, you can put a surcharge. In some cases, you need to come up with a new list price. So we're working depending upon the situation, keeping in mind that we still -- the business is going on as it was.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Yeah, a lot is coming in from China for Consumer that passes through the channel to pretty large retailers, and we're having lots of conversations with them on that. But we're not, at the moment, pausing or stopping any imports from China. And then actually don't anticipate doing that.

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

And just your comment there to make sure I understood it correctly, there would be a higher weighting of exposure on those imports from China to the Consumer side of the business?

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

On that on that element of the tariff impact that our articulated, yes, it would be more on the Consumer business. Correct.

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

And then just one on the guidance side of the corporate and unallocated and other items for operating profit. I think corporate unallocated initially $25 million to $50 million loss, other $50 million, 100 million income. The quarter I think looked a little better than we anticipated on the corporate side, but any updates or any changes to that initial expectation on those items?

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

Yeah, it's probably trending more towards the higher end and because corporate, just to take a step back, contains, obviously, the enterprise governance related costs. So there's G&A costs. There's also the Solventum transition agreements that are sitting in there.

So on the G&A side, clearly, there were some areas that we did in the first quarter. So that helps it to go towards the higher end of the range. But on the spin related items, it's mainly timing between Q1 and Q2.

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

Got it. Thank you.

Operator

This concludes the question-and-answer portion of our conference call. I will now turn the call back over to Bill Brown for some closing comments.

Bill Brown - *3M Co - Chairman of the Board and Chief Executive Officer*

Well, thank you, everybody, for joining us today. I want to thank again all the 3Mers for their continued hard work and their dedication delivering value for our customers and our shareholders. I know we covered a lot of moving parts today, but we're focused on executing against our key priorities, and we're going to update you on our progress at the next earnings release in July. So thank you very much and have a good day.

Operator

Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation and ask that you please disconnect your line at this time.