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MMM.N - Q2 2025 3M Co Earnings Call

EVENT DATE/TIME: JULY 18, 2025 / 1:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M second quarter earnings conference Call. (Operator Instructions). As a reminder, this call is being recorded, Friday, July 18, 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 of Investor Relations*

Thanks. Good morning, everyone, and welcome to our quarterly 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, then 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-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'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?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Thank you, Chinmay, and good morning, everyone. We had another quarter of strong performance with second quarter adjusted earnings per share of $2.16, up 12% versus last year and above expectations. Organic sales growth was 1.5% with all 3 business groups reporting positive growth for the third quarter in a row. Operating margins increased 290 basis points year-on-year through productivity and cost controls. While we continue to invest in growth initiatives.

And free cash flow was solid at $1.3 billion for the quarter and 110% conversion.

Our performance reflects the culture of excellence we're building inside the company as we continue to drive the rigor and optempo necessary to deliver on our strategic priorities in this uncertain macro environment. As part of our commitment to innovation excellence, we're increasing the cadence of new product launches.

In Q2, we launched 64 new products, up about 70% versus last year. which puts us at 126 launches for the first half and on track to exceed our target of 215 for the year. The pipeline remains healthy, and there’s more rigor and discipline in the process with better business cases and higher launch schedule attainment. And most importantly, 5-year new product sales bottomed last year, and was up 9% in the first half, accelerating from Q1 into Q2 and tracking well to be up more than 15% for the year.

With 64 launches in the quarter, there are a lot of exciting new products to discuss. But let me take a moment to highlight just a few. In our Fire Safety business, we launched a low-profile rugged air pack with updated electronics to enable telemetry and connectivity that has been well received by our largest firefighting customers, especially those who value compactness and maneuverability in small spaces.

In our consumer business, we've been building around the Filtrete platform, with 4 new product launches in the last 6 months, including 1 with a reusable filter frame that can be refilled by a collapsible deep pleat filter analogous to a razor, razor blade model. This innovative design reduces shipping costs and saves retailers storage and shelf space. At the same time, we're continuing our focus on commercial excellence as we drive increased sales force performance, capture higher cross-selling opportunities, improve price discipline and reduce churn. You'll recall that our team in Safety and Industrial launched the program in US late last year, and has now expanded this effort into Europe and Asia. We've trained over 400 sales managers and see early results through higher closed/won opportunities and improved order rates.

We now have 48 cross-selling pairs identified, about double since Q1 with a pipeline value of over $60 million and $10 million of new orders booked to date. We're tightening pricing controls by reducing price deviations and focusing on bigger deals with strategic customers. And we're reducing customer churn by leveraging our predictive analytics model to identify and win back customers at risk.

SIBG has been first out of the gate on commercial excellence initiative, and we're seeing promising early results with average daily order rates up low single digits in Q2. Our strategy is working. And we're now extending this 3M enterprise-wide commercial excellence model across the organization with transportation electronics quickly leveraging the learnings and best practices from SIBG while adapting it to the unique nature of a more spec-in type business.

Our second priority is operational excellence. In the second quarter, we made good progress on several fronts, including service, asset utilization and quality. On service, our on-time and full metric reached 89.6%, the highest quarterly performance we've achieved in nearly 6 years, and we exited June at just over 90%. Consumer and TEBG remained consistently above 90%, and SIBG was 83% for the quarter, improving more than 300 basis points year-on-year.

Our overall equipment effectiveness metric was approximately 59%, showing continued improvement both year-on-year and sequentially with a lot of runway ahead of us. We're now at the point where OEE is improving on a consistent basis through better tracking and deeper root cause analysis, and it's highlighting potential capacity consolidation opportunities. For example, a core manufacturing process at 3M is adhesive coating. And we have about 250 different types of coaters throughout the network, some quite old and all expensive to replace.

One of our larger coaters is in Knoxville, Iowa, making fiber adhesive tapes through an extensive effort to reduce changeovers, increase operating speed and improved machine uptime, the team drove a 12-point improvement in OEE and freed up enough capacity to retire two 70-year-old coaters at another facility. This is just one example of the broader opportunity at 3M to use a rigorous, methodical approach to get more production out of our higher-capacity assets and proactively decommission aging, less productive assets in the network.

This thinking can be extended to all of our core manufacturing processes, making, coating, slitting, packaging, and over time, more holistically to the design of our future network. We're also making progress on quality. In the second quarter, our cost poor quality was 6.1%, down 30 basis points sequentially and 90 basis points year-over-year.

We're using AI-enabled models to optimize machine settings for more efficient changeovers, leading to better utilization and higher yield. Quality is a core element of our enterprise-wide 3M excellence operating model, and we're extending our efforts to improve quality in every function in everything that we do.

Our third priority is effective capital deployment. In the first half of the year, we returned $3 billion to shareholders via dividends and share repurchases, and we'll continue to be opportunistic on buybacks in the second half of the year while preserving balance sheet flexibility. In May, we announced a settlement with the state of New Jersey on PFAS claims, taking the opportunity to settle both site-specific and statewide claims with broad protections against future litigation and cash payments spread over 25 years.

We continue to manage other state, federal and international matters, all of which are extensively covered in our 10-Q. On the back of the progress, we're making on our priorities and the strong results in the first half, we're increasing our earnings guidance to a range of $7.75 to $8, now inclusive of the anticipated impact of tariffs. We expect organic growth to be approximately 2% for the year, reflecting the current macro environment as we see it today. Slide 4 highlights several of the key macro trends we're tracking and their impact on 3M. All metrics on the left reflect a global economy that remains sluggish and moving laterally not materially improving or worsening.

Our safety and general industrial businesses were up low single digits in the first half and are both beginning to see a pickup due to our commercial excellence initiatives.

Auto will be flattish in the second half, a step up from the decline in the first half due to share gains in new models, while consumer electronics is likely to soften a bit in the back half due to slower demand for premium devices. Auto aftermarket will remain challenged and consumer will likely follow a similar pattern to the first half due to the subdued US retail environment. As we navigate these uncertain times, we're focused on what we control, solving customer problems through innovation excellence, delivering high-quality products on time to customers and driving efficiency and waste elimination, all with a renewed sense of urgency that defines our new performance culture.

And with that, I'll turn it over to Anurag to share the details on the quarter. Anurag?

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

Thank you, Bill. Turning to slide 5. We reported another quarter of strong profitable growth and robust free cash flow generation. Starting with the top line. All 3 business groups delivered positive year-on-year growth despite the fluid macro environment resulting in total company adjusted organic growth of 1.5%.

We saw continued momentum across electronics, general industrial and safety end markets, which was partially offset by known softness in auto and automotive aftermarket. Consumer was flattish as sentiment remains cautious. By geography, our growth was led by China, up mid-single digits with strength in industrial adhesives, films and electronics bonding solutions driven by strong commercial execution that led to share gains. The US was up low single digits, led by growth in electrical markets and Personal Safety, partially offset by weakness in auto OEM and aftermarket.

Europe was flat with strength in electrical markets and personal safety, partially offset by weakness in transportation safety and auto. Q2 daily order trends were up modestly year-on-year driven by our progress on commercial excellence in the Industrials businesses, partially offset by weakness in consumer as retailers are watching to see how the season plays out. Our backlog continues to grow, providing 20% to 25% coverage of third quarter sales.

Q2 adjusted operating margins were 24.5%, up 290 basis points and operating profit increased high teens or $225 million in constant currency, driven by continued strong operational performance. This included a $300 million benefit from volume growth, broad-based productivity, lower restructuring costs and equity comp timing, partially offset by $50 million of growth investments and $25 million from tariff impact and stranded cost headwind.

Collectively, this contributed $0.31 to earnings, which was partially offset by $0.02 from FX and $0.06 from nonoperational below-the-line items. Our strong operational performance resulted in overall adjusted EPS of $2.16, an increase of 12%. Relative to our initial expectations of approximately $2, this outperformance was driven by 4 factors: first, continued G&A efficiency as we make progress on IT optimization and lower indirect expenses. Second, metering of increase in year-over-year investments in response to a lower demand environment and evolving tariff landscape. Third, weakening of the US dollar. Finally, we had a $0.06 benefit from the sale of an investment below the line, which was initially anticipated in the third quarter and offset the impact from tariffs and other below-the-line items.

Free cash flow was $1.3 billion, 10% higher than last year as we benefited from strong earnings, and we returned $400 million to shareholders via dividends and executed on a $1 billion in gross share buybacks. For the first half, our gross buybacks were $2.2 billion. I will provide a quick overview of our growth performance for each business group on slide 6.

Safety and Industrial organic sales grew for the fifth consecutive quarter, up 2.6% in Q2. This was broad-based with 6 out of 7 divisions posting positive results. Similar to the first quarter, industrial adhesives and tapes and electrical markets continue to perform well on the back of new product innovation and commercial excellence. It was encouraging to see abrasives turn positive as we launch new products and execute our commercial strategy to increase sales effectiveness. Auto aftermarket continued to see challenges down mid-single digits amid industry pressure with collision repair claim rates down double digits year-to-date. Transportation and Electronics adjusted sales were up 1% organically in Q2. Growth was led by commercial graphics and auto personalization, driven by demand for a new product, the premium fleet wrap and expanding sales coverage. Electronics and Aerospace & Defense showed strength, while our auto OEM business was down low single digits, reflecting continued weakness in auto builds, particularly in Europe and the US, which were each down low single digits year-on-year. Finally, the consumer business was up 0.3% organically in Q2. Though consumer sentiment remains soft, we continue to execute on growth initiatives including new product launches in scotch, bright kitchen scouring, ScotchBlue PROShark Painter's Tape and Command and continued service improvements and increase in advertising and merchandising investment.

And along with organic growth, each business group expanded margins year-on-year. SIBG up 320 basis points, TEBG, up 230 basis points and CBG up 370 basis points. Overall, our focus on delivering organic growth and improving operational excellence helped us deliver solid results in the first half including growth of 1.5%, operating margin expansion of 250 basis points to 24% and earnings growth of 11%.

Before providing the details of our updated guidance, let me start with a reminder of how we framed it in April, which is the middle column on slide 7. On organic sales growth due to the soft macro we indicated that we were trending to the lower end of our 2% to 3% range. Our first quarter productivity gains were very strong. But given the dynamic environment, we did not flow through this outperformance into our guidance and maintained the EPS range at $7.60 to $7.90. Given that the tariff situation was uncertain, we kept tariffs out of the guidance range at the time, but estimated a gross impact of $0.60 or a net impact of $0.20 to $0.40 after mitigating actions.

We have now updated the guidance to reflect our strong first half performance and have also incorporated the tariff impact. We are updating our organic revenue growth guidance to approximately 2% and expect all 3 business groups to grow low single digits for the year with a similar profile to the first half.

On the back of a strong first half performance, we now expect margin expansion of 150 to 200 basis points and are increasing both the lower and higher end of our EPS range, which is a $0.13 increase at the midpoint, $0.23 of that coming from operational performance offset by $0.10 of FX and tariff impact. We now expect our free cash flow conversion to be higher than 100%, building on strong first half performance, efficient CapEx and second half improvement in working capital providing us with further optionality on capital deployment.

Let me walk you through the drivers of the EPS guidance updated on slide 8. First, we are flowing through $0.23 of operational improvements which include actions to offset the tariff impacts. This is driven by $0.16 of productivity, which includes the G&A efficiency gains and $0.07 metered investments. As we highlighted previously, we are investing in a metered manner while maintaining the critical growth investments to support our strategic priorities.

Finally, as mentioned, we have now included tariffs in the guidance which is a gross headwind of $0.20, partially offset by the foreign exchange headwind reduction from $0.15 to $0.05. On the other nonoperational items, there is no change from the prior guidance. Putting this all together, the EPS growth year-on-year is driven by strong operational improvement, and we now expect an operational benefit of $0.95 to $1.20, partially offset by $0.50 of tariff, FX and non-op headwinds for a total EPS growth of 6% to 10%. Regarding the second half, we expect year-on-year earnings growth of $0.18 at the midpoint. Similar to the first half, this includes an approximately $0.50 to $0.55 benefit from volume growth and continued productivity net of stranded cost and growth investments, which is partially offset by $0.30 to $0.35 of tariff impact and higher interest expense.

Before we open the call for questions, I would like to acknowledge and thank the 3M team for their focus on operational excellence and controlling the controllables in a dynamic macro environment which gives us confidence in meeting our increased guidance and delivering strong shareholder returns in 2025.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Scott Davis with Melius Research.

Scott Davis - *Melius Research LLC - Analyst*

Bill, can you talk about the new product plan? And I guess, kind of more specifically teasing out the impact on kind of margin versus growth? And how you think about the tipping point where you can really start to see growth above your end markets? I'll just like to it that, I have a follow-on.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So Scott, I'm glad you asked about R&D and NPI because it's been a very important initiative. And as I talked a year ago, this would take some time to materialize. And we are starting to see some improvement on our 5-year sales. We talked about 9% up in the first half and quite good for the year going to 15%. So it's actually trending in the right way, I'm really excited about the fact that we're launching more products up 70% in the quarter.

And we did more in the first half or about as many in the first half as we did in 2023.

So the progress on that, I think, has been quite good. I think the -- we should be expecting both improvements in growth from new product innovation as well as improving margin as you're bringing a product to market. Certainly, as these things materialize and they stabilize in a factory, we're bringing better benefits to the customers. They should generate better pricing in the marketplace. So I do expect that we should see better margin performance from them.

But really, what we're focused on is delivering against customer expectations, beating the competition, regaining share of wallet, and just getting back to that spirit of innovation at the company.

And as I said, I think the progress we've made so far has been fantastic. We're investing more in R&D. We're shifting dollars. We're shifting resources into new product development as we talked a year ago. We're up about 150 people since Q4 of last year.

So it takes some effort. It takes focus, takes following the metrics, but we're making good progress, and we should see certainly growth and hopefully some margin benefit as well.

Scott Davis - *Melius Research LLC - Analyst*

Okay. Bill, that's helpful. And I just want to follow on, on that a little bit. I mean, historically, when you think about some of your customers have been tough to get price with auto, big box guys, I mean just brutally hard. So -- is it -- have you found that new products are really going to be your only avenue of getting price for those guys?

Or because of the realities of inflation and tariffs and such, do you find it a little bit easier to capture a little bit of inflation impact from those guys also without new products.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So it's -- what we're seeing so far this year is pretty good progress on pricing and it's mostly coming out of the industrial businesses. I think you're right for auto, where it's a spec in business, as you win a spec, you tend to have some value built into that. It's hard to determine how much is price versus the value that's there. Consumer, the big box people a little bit harder as you just pointed out, -- so it's a bit -- we're getting better price certainly on the industrial side. And as I've said before, we are covering our inflation typically with a little bit more because of the tariff impacts coming through.

So doing pretty well this year on pricing, again, mostly on the industrial side.

Operator

Jeffrey Sprague with Vertical Research.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

Maybe just pivot from the growth side to the cost side and what you're working on there. I wonder if you could just elaborate a little bit more on kind of the sources of operational upside in the footprint versus kind of G&A and the like. And I asked the question in the spirit, right? The adjusted margins are moving up pretty nicely. We don't get an adjusted gross margin, for example.

So how much of it is at the gross line, how much of it's kind of in G&A? And how do you see that playing out moving forward?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Okay, Jeff. So it's a good question, and I'll start and maybe I'll ask Anurag to jump in on part of this. So for the year, it's about $0.5 billion of productivity. More or less about half is coming out of G&A and about half is coming out of our factories out of our supply chain, which, as we translate it internally, is running about 2% net of inflation, which is about what we had expected.

Inflation in the quarter, Q2 was a little bit higher than 2% and Q1 was at less than 2% for the first half, it's around 2%. For the year, we're expecting about the same and again, we're getting about 2% gross productivity, 2% net productivity on top of inflation. So it's actually been pretty good on the supply chain side. It's the elements that we've been talking about.

I alluded to in some of my prepared remarks, of $40 million, $50 million coming out of reduced cost of poor quality, which has been a good trajectory that we've been on a long journey, a lot more to do. Good movement on procurement savings, net of any inflationary pressures from our suppliers. Really good cost controls on the 4-wall side, so within our factories as well as in the logistics network as well.

So overall, about $250 million, really good progress on driving supply chain productivity. And I'd say the same thing on the G&A side, and I'll turn to Anurag to maybe say a couple of words on what's happening on the G&A side. But overall, about $0.5 billion, half G&A, half in supply chain.

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

Yes. Thanks, Bill. So Jeff, really encouraged by the performance and productivity just across both supply chain and on the G&A side. And that gave us confidence to raise the EPS at the midpoint by about $0.13. So Bill spoke to the pieces on supply chain, very consistent to what we communicated at Investor Day across the 4 buckets.

On the G&A, similarly, at the Investor Day, what we said is there are 3 areas where we would expect G&A savings to come out of IT optimization, where we spent close to $1 billion. Second is indirect expenses, where we spent more than $3 billion and then our shared services. So where we're seeing more of the opportunities coming in the first 2 buckets, I think on the IT, the team has done a really, really good job. We take our IT expenses, it's broken into 3 categories, which is protecting, maintaining investments, maintenance, which is about 2/3 of it. The team has done a good job in terms of cloud mainframe network optimization, also looking at staff augmentation, the number of applications we have.

So there's a whole bunch of tactical efforts that the team has gone through and done a good job.

And what's also shown is not only is these savings, which we can take in the quarter, but also long-term structural savings that we can see, and we are well down on that path. On indirect, I mentioned in the last call as well, we have more visibility in terms of the data, where the spend is going. So first, we look at whether it's aligned with our strategic priorities or not. If it is not aligned, then we don't need to spend. If it's aligned what's the best way for us to procure and use the leverage of the enterprise.

So I think it's moving quite well in that direction. And shared services will take a little bit more time as we go down that path. But overall, I would say, very good performance on productivity.

Jeffrey Sprague - *Vertical Research Partners LLC - Analyst*

And then, Bill, maybe just back to growth as my follow-up. Just maybe your philosophy on sort of metering the best investments. I get it the macro is not great, and you're managing a complex P&L, but it's $0.07, right? I think we all would have been perfectly happy with the guide $0.07 lower than what you put out today and you're telling us say, we're keeping our foot on the gas on the investment. So are these just kind of longer term things that weren't going to bear fruit in the near term anyhow.

And again, maybe just your philosophy on that.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

No. So Jeff, it's a good question. I mean, we look at this very, very carefully. And we are leaning in on making growth investments where we think there's a prudent payback in the near to medium term. And if we see the macro not as strong as we had anticipated, we're pulling back a little bit, but still we're significantly investing in growth investments this year.

The number is about $175 million. And when you parse that, there's significant more in ad merch, there's more in the sales force. There's more going into R&D. As I mentioned, we're up 150 people there. We're pushing people from PFAS into R&D, into new product development as well.

So we're pushing up our R&D spend as a percentage of sales. All those pieces, I think, are going in the right direction. And there are some things that are happening on the IT side that are systems related to driving growth. So all of those things we're trying to be smart and prudent and invest in to actually stimulate long-term growth by recognizing where the macro happens to be today. So I think we're being balanced here, Jeff.

We look at it very carefully. To the extent that things look a little bit better in the back half into '26, then we'll let it a little bit more out. But we watch it very carefully.

Operator

Julian Mitchell with Barclays.

Julian Mitchell - *Barclays Services Corp - Analyst*

Maybe just wanted to start with the slide 4 where you run through some of those macro buckets. I'm just trying to understand within General Industrial and Safety, the improvement there based on sort of self-help market share efforts at 3M. It sounded like that, but I wondered what you're assuming for the sort of core macro environment in the back half? And maybe just give us any understanding of how recent demand trends have evolved across different markets in the last couple of months?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Okay, Julian, I'll start here and Anurag can jump in as well. I'm glad you pointed that chart out. We spent a lot of time putting it together to make it as clear for investors as we can on what's happening in the macro as we see it and the impacts on on the company.

Look, as I mentioned in my script, the macro, just -- it's sluggish, it's moving laterally. I went through some of the numbers there on what's happening with IPI is around 2%. It's sort of flattish. GDP is about the same. It's the mid-2s and about to be the same, maybe a little bit softer in the back half.

PMI, I mentioned, is below 50%, is at 49%, but it's so it's still contracting but not as much. So again, things are just moving laterally. Consumer remains relatively sluggish. And what you see on that slide 4 is momentum building inside the company on self-help on new product introductions many of which will come out in the market. It came in the first half of the year will start to impact sales in the back half.

And the benefits of commercial excellence, which is really starting to take hold inside the company.

So general industrial includes parts of both SIBG and TEBG, so parts of those 2 businesses. So as abrasives, industrial specialties, roof and granules, electrical markets, a piece of the tapes business that goes into industrial products. And then from TEBG includes Advanced Materials, aerospace and defense, which actually we expect to grow pretty decently in the back half. Consumer branding, so it's got commercial branding and transportation safety. So you've got all those pieces in there.

It's about 38% to 40% of the company. So it's a pretty big part of it.

Again, industrial IPI is moving somewhat laterally, but -- generally speaking, the opportunities we're seeing here are principally coming from self-help. There's some in the markets. We know A&D is going to be picking up for us in the back half. It wasn't as strong in the first as we had expected, some internal, some external issues, but we see that picking up for us in the back half. Electrical markets remain very robust for us.

Again, we expect that to be high single digits going into the back half. So that's kind of a nutshell on the safety side on or on the general industry side.

On safety, we had a good start to the year. We see some acceleration in the back half. Part of it is from new product introduction, in fire safety, SCBA. We've launched a new product that and we've had some big wins with government customers. So we do see the back half on safety accelerating there as well because of both a couple of wins that we've had, but some new product introductions.

Julian Mitchell - *Barclays Services Corp - Analyst*

That's great. And then just focusing a little bit on the second half guidance. Often your third quarter earnings are up a little bit sequentially, but I understand you had that $0.06 gain moving into the second quarter. Maybe help us understand how we should be thinking about third quarter versus fourth quarter dynamics. Anything to call out on sales or the margin progression?

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

Yes. Thanks, Julian. It's Anurag here. So listen, within the second half, let's just first start with the top line. Our guidance for the full year is approximately 2% organic growth.

In the first half, we grew 1.5%. So that would imply a 2.5% growth in the back half. And we're expecting probably Q3 and Q4 to grow at similar levels around there.

In terms of EPS, Q3 is historically higher than Q4, and -- that's firstly because seasonally, our revenue is higher in Q3 than in Q4 and also on the margin side, it's higher. The ratio has been, if you look at the second half, 52% of the EPS of the second half is in Q3, about 48% is in Q4. So we kind of expect the same trend this year as well.

Operator

Amit Mehrotra with UBS.

Amit Mehrotra - *UBS AG - Equity Analyst*

I guess maybe just a separate topic, talk about PFAS. I think there was obviously a nice settlement or not a nice settlement, but a decent settlement size, with the state of New Jersey, I think you have 30 more states still pending. There's obviously a personal injury suit still outstanding. But just given the development in New Jersey and kind of the structure of that and then you're obviously year-to-date exceeding your full year share buyback target. But maybe, Bill, talk about your freshest most updated thoughts on that because I still feel there's this overhang on the value of the company based on these pending liabilities.

So I think it would be great to hear your thoughts on maybe how you view the progress on these and when you expect to maybe gain a little bit more full clarity on it.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So Amit, thanks for the question. And yes, so we did have a settlement with the state of New Jersey, both for a specific site, which we did not own. It's a Chemours DuPont site, but there was some liability there as well as statewide claims. And we believe it was the right decision for the company and the shareholders to take risk off the table. It spread cash out -- cash payments out over the next 25 years through -- so we thought that, that was quite manageable.

You're right, there's just over 30 other states AG cases, both within the MDL and some outside of the -- we're taking them piece by piece. There's obviously lots of conversation going on with the AGs and the MDL in individual states. So there's a lot of activity there. And we're -- I just want to remind you, we're exiting PFAS manufacturing by the end of this year. So there'll be no new molecules that the company has produced on PFAS going into the environment.

These are all settling legacy issues, and we're going to deal with this as best as we can. Personal injury is on the horizon. It is scheduled for -- in October, there's a bellwether case. It does -- it will be kidney cancer, there'd be 1, 2 or 3 cases that we tried around October 20.

There's a lot of conversation that's happening there as well. There's a science day on other things last month. So there's a lot of activity here. We're managing as best that we can. We -- it's important for us to make sure that we maintain the cash flexibility to handle these issues as they come, yet still invest in the growth of the company.

And that's what we're trying to do. Our balance sheet is very, very healthy. We have a lot of optionality on things that we can do and we're dealing with this and we communicate with investors with what we know as we know it, and you see a lot of it in the 10-Q.

Amit Mehrotra - *UBS AG - Equity Analyst*

Okay. Helpful. And then maybe just one for Anurag, just circling back to the first half to second half cadence. If I -- if I just kind of unpack the implied margin, I mean I think the company did 24% in the first half, guiding to 23%, a little over 23% for the full year. So obviously, that implies a step down in second half versus first half.

But obviously, revenue should be higher sequentially. So I'm just trying to kind of square that circle a little bit and understand why -- what are the puts and takes that actually take margins down 2H versus 1H when revenue is building sequentially.

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

Yes. Thanks, Amit. So yes, our first half margin is 24%. We are guiding between $150 million to 200 for the year. So that would imply at the midpoint that the second half guidance would be around 22.5%.

And the delta between the 2 is you clearly see a pickup in volume, productivity should do well. It's essentially the tariff impact that we are seeing in the second half, which is more than 120, 130 basis points. and also pick up investments and stranded costs. So that's a big delta between the first half and the second half, but volume productivity better. But if you take a step back and you look at it year-over-year, you're still seeing the second half margins go up by 110 basis points at the midpoint of our guidance.

And that's after absorbing tariff after absorbing increase in stranded costs and higher investment. So it's pretty encouraging in terms of the performance of the second half, which is, obviously, as we go into next year, mitigate more of the tariff impact, there's more productivity that will come through. So overall, the momentum in the second half operationally is similar to where we are in the first half.

Operator

Steve Tusa with JPMorgan.

Steve Tusa - *JPMorgan - Analyst*

Just a quick one to start. What's the embedded assumption on ForEx? I would have thought there was maybe a little bit more upside just given your exposure on the euro.

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

Yes. So on ForEx, our headwind on the EPS for the year is about $0.05. On revenue, we think it's about flattish. And the reason there is a disconnect between the flattish on the revenue and the $0.05 headwind is just the impact of the year-on-year hedge benefit that we had last year. As you know, we hedge our nondollar currencies, which create a hedge benefit or a loss, which lagged to the currency movements.

So last year in Q2, it produced a significant hedge benefit because of the strength of the dollar. Now the dollar weakened in the second quarter, so the hedge benefit is modest. So which is why you see all of our FX headwind in the first half of the year, which is about $0.05. As you go into the second half, you should see that kind of normalize. And for the full year, it will be about $0.05 headwind on the FX side.

Steve Tusa - *JPMorgan - Analyst*

Okay. And then just a follow-up on the consumer electronics side, I think you guys are maybe a little bit more bearish. It seems like on the trend there. Can you maybe talk about specifically where that weakness is on electronics.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So we see electronics, it's still up in the back half. It's just not as strong in the front half. When we look at the across all things, TVs, tablets, phones, notebooks, everything is sort of softening towards the back end of the year, at least that's what's been expected. We had a very strong year last year. So part of it is year-over-year comps, but started pretty good in the first half, up mid-single digits, still up in the back half, but softening versus in terms of a rate basis versus the first.

Operator

Andrew Obin with Bank of America.

Andrew Obin - *Bank of America - Analyst*

Just a question. Can we just sort of say in terms of on time in full, I know that this was a big drag on top line in Safety and Industrial. What kind of impact to top line does it have as it's improving and you're sort of regaining traction with your medium and smaller customers? Can you quantify that? Are you seeing any discernible impact yet?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So we're not going to quantify it specifically because there's a lot of factors into why customers may not buy from us because of OTIF, but improving it, delivering on-time-in-full to customers is quite important. We know from talking to our end customers. It is an element of churn why customers leave us. That number is across the company is pretty substantial. We're focused on this.

We're trying to bring it down. One element is responsiveness and customer service, it's quality, but importantly, it's on time in full.

So clearly, Andrew, as we get better on that, that's going to allow us to reduce churn grow, and we're starting to see benefits of lower churn in the back half. I think part of it probably is related to OTIF. It's hard to say exactly what part of it is though.

Andrew Obin - *Bank of America - Analyst*

Okay. Got you. And just sort of going back to the guidance. Just very simplistically, I think generally right, seasonality is a little bit different and it seems second half is weaker, despite the normal seasonality, despite accelerating top line into the second half, right, and I would imagine, based on what we're hearing actually pricing dynamic all in is not that bad on the industrial side. So can you just highlight onetime items related to your footprint consolidation and changes in -- what are the headwinds in the second half that are sort of messing with the seasonality.

Could you just quantify them for us again? I really appreciate it.

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

Thanks, Andrew. There is nothing on the footprint on any onetimers in the second half. which is doing it. Operationally, we grew the first half at $0.50 to $0.55. And second half, we grow around the same rate as well.

So volume and productivity where we see the impact is more on the tariff. We have $0.20 for the year. We had a couple of pennies in second quarter. So $0.18 of that is in the second half. That is the major impact.

On top of that, stranded cost is picking up in the second half versus the first half and a pickup in investments. So I would say those are the big factors. There's no -- not much of a onetimer over there. The only thing on the EPS between first half and second half is obviously the sale of the investment that we had in Q2, which is below the line, which impacts the second half.

Andrew Obin - *Bank of America - Analyst*

And what are the ones can you quantify the stranded costs again? I apologize.

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

Was it stranded cost? Yes. So it's $100 million for the year. It's about $30 million in the first half and $70 million in the second half.

Andrew Obin - *Bank of America - Analyst*

Okay. So that hasn't changed.

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

No.

Operator

Deane Dray with RBC Capital Markets.

Deane Dray - *RBC Capital Markets Inc - Analyst*

I was hoping you could take us through the changes in your tariff assumptions the benefit of the pause that was implemented. But did you make any specific mitigation actions in the quarter? And kind of what was the decision about including it in guidance on a go-forward basis?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So the last time we said it was $0.60 gross. Now it's $0.20 The biggest change really is going to be around China last year -- last quarter, it was about 80% of the tariff impact. At the time, the rate was 125%, 145%, so US 145%, China was 125%. They've come down dramatically to 10% and 30%.

That was the biggest source of change. Things are moving around still a little bit, but we included it in the guidance mainly because we're more than halfway through the year. Things have stabilized at least a little bit. And any changes from here, we only have a couple of months in the balance of the year that would impact '25. The rest would roll into 2026.

So we feel we're pretty well calibrated.

Of course, we're watching very carefully what happens in the EU. We've got to watch against any reescalation and trade tensions with China. -- that could be a change. But from the way we see it today, I think we know enough about it in terms of the gross and net impact to roll it through into guidance, which I think is cleaner for investors. So we're offsetting $0.20 of gross tariff with both cost and sourcing changes, which is about half of the offset and the other half is coming through price.

So the gross amount is about $140 million, nets around $70 million, about half of that, say $35 million, $40 million is price. The other half $35-ish million is going to be cost savings as well as sourcing. And the pricing piece of it that's one of the elements that's helping us push second half growth a little bit because that's mostly a second half item.

Deane Dray - *RBC Capital Markets Inc - Analyst*

Great. And then in your answer, you just put the spotlight on China and there might have been an expectation there would be some fallout because of tariffs and maybe some pushback on your business there, but up single digits look pretty healthy. So just -- have you seen much of a fallout? And how much is embedded in the second half?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So no, we actually had a very good first half, up mid-single digits. It was -- frankly, it was better than we expected coming into the year. Early in the year, we were thinking it's low single digits, it's been mid-single digits in the front half. We do expect it will slow down in the back half. That's embedded in our numbers.

For us, it's roughly half is domestic, half is export. And both were performing very well. It's some of the local stimulus happening in China for appliances, white goods, which we sell a lot of tape products into as well as their export market, a lot of which was electronics.

Again, that for us has been pretty healthy. But again, we do see it softening in the back half of the year. We're committed to China. It's a big part of the company in 7 factories, 5,000 people there. And we have a great team, great business, really driving a great job on commercial excellence there in China.

And again, it will slow down, but still be up for the year.

Operator

Nicole DeBlase with Deutsche Bank.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Maybe just starting with the demand trends through the quarter. I guess there's still been some concern out there that we've heard about like whether there was any sign of tariff prebuy, it seems like we're kind of on the verge of tabling that. So I just wanted to hear your thoughts, Bill, and if what you've seen through July kind of gives conviction that prebuy wasn't really a factor.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So it's not -- so it's hard to discern that. There's probably a little bit hanging out there, but it's not substantial, anything that might happen from Q2 into Q1, we see Q3 coming into Q2. So it's -- I don't think the prebuy is an issue. For the quarter, our orders were up low single digits as we described in the materials a little bit better in SIBG, about flattish in TEBG down a little bit in consumer, but consumer accelerated over the course of the quarter. So June was better than May.

May was better than April. So we saw some acceleration there. July, it's still very, very early. It's -- we saw some similar progress here in July. But again, it's only a couple of weeks, so it's hard to discern a pattern over that.

But Q2 orders were up low single digit.

Our backlog grew, it's about 1% sequentially, so about $2 billion. And as Anurag mentioned in his comments, I mean, we're not really a backlog-driven business. We're more book and ship. But we saw some backlog growth sequentially and 20%, 25% of Q3's covenant backlog, which is a pretty good place to be. So what I'm pleased about is orders are hanging in there and backlog is hanging in, if not growing a little bit sequentially.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

That's helpful. And then on Europe, I feel like there's definitely been a little bit of excitement building about the potential course of recovery there. I know you guys were flat in the quarter, but have you seen anything when you look at those orders and backlog that suggest green shoots in Europe?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So we're hopeful for Europe in the back half. It's an important market for us. The thing -- the watch item for us is going to be auto, Nicole, actually what we've seen overall is IHS builds globally are sort of flattish. So it moved from down a little bit to up a couple of tenths in the latest drop a couple of days ago. A lot of that's China.

-- which is driving that growth. Europe and North America, both down, which adversely affects 3M. Europe is expected to be down in the back half on auto build, and that's 1 that's important to us.

Other parts of our business are showing some signs of growth. We saw SIBG up in the quarter in Europe. And I think there's signs that there could be growth on that side, but auto is a watch area for us in Europe in the back half.

Operator

Chris Snyder with Morgan Stanley.

Chris Snyder - *Morgan Stanley - Analyst*

I wanted to ask about back half organic growth to 2.5%, so up from the 1.5% in the first half. The comps do get a bit tougher. It sounds like you guys think the macro continues to go sideways. So is that lift really all just price that's coming through and maybe some help from the NPI. And is there any buffer in that guide for maybe some volume pressure should there have been first half channel build?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So Chris, thanks for the question. Look, there is some price in there. It's probably 40 basis points, let's say, of price in that 2.5%. So -- if you look at just comparable to Q1, it's 1.5% to 2.1%. So it's up in terms of growth rate sequentially first half in the second half, but there is some pricing benefits.

I went through some of the drivers on the general industrial side, the safety business. The one area I talked a little bit about electronics, softening a little bit in the back half, but still up, there is some end markets that are up. We do see some larger orders that have come through on the government side on electrical product side.

The one area that I didn't speak about was on the automotive side, even though automotive will remain weak. We are working hard on repositioning our business there and driving growth with new models. We do expect us to be flattish in the back half from being down in the front half, even though the builds are still weak in the back half. Part of it is really aggressive commercial excellence efforts to go back and recapture opportunities in the tiers, particularly bonding and joining in acoustics and other things.

There's some model switchovers happening where we're spec-ed in, we're hopeful that we can continue our position on those new models as they get into production later on this year. So auto is a watch area for us. We do expect that to be better in the back half and more flattish versus down in the front, but that's an important driver of the second half performance, Chris.

Chris Snyder - *Morgan Stanley - Analyst*

I appreciate that. And if I could follow up on maybe competitive tailwinds that could support demand. I imagine, particularly in consumer, there's a lot of low-cost competitors from Asia, I mean, if we look at the online marketplaces. Have you seen any impact here from tariff costs on those competitors that could maybe give you guys some pricing in consumer, which I know it's typically difficult or even some share gain opportunity.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Chris, thank you. some, but it's not going to be price. It's more volume. And there's -- all of the US retailers are looking very carefully at where their source of supply is, if it's coming from non-US markets, it's important. Obviously, the tariff impact makes them a little less economic and makes us a little more attractive. So on the margin, yes, there are some opportunities there, and the team in CBG are really pushing that. It's not going to come through necessarily in price is more likely to be in volume, and those are some of the opportunities that are embedded in the back half of the year for CBG.

Operator

Nigel Coe with Wolfe Research.

Nigel Coe - *Wolfe Research LLC - Analyst*

Obviously, a lot of my questions have been answered already. Just want to make sure, Bill, I heard the price contribution in the second half. I think you said 40 basis points. Is that 40 basis points absolute price that a 40 basis point improvement versus the first half?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

No, it's 40 basis points of absolute year-over-year improvement. For the look, it's -- let me just step back on the whole thing. Just because for the year, we're getting about 70 basis points more or less of price. We typically would see about 50 basis points, which is what is required to offset 2% material cost inflation. So 2% on $6 billion of materials, $120 million that's -- and if we pass it through in price, which we've done, that's 50 basis points.

We're getting about 70 basis points. So it's a little bit of an extra lift. Part of that is coming because we're offsetting tariff headwind and a lot of that's going to happen in the back half of the year.

But part of it is going to come from some of the pricing discipline that we're putting in place. What we see very different processes on price governance in SIBG and now moving to TEBG as well. So in SIBG, we used to have about 60% or more of the deals were less than $20,000. So very small. Today, that's less than 20%.

So we're trying to be more strategic on where we give pricing discounts. The larger customers and make sure we get the volume for it.

So that's showing an effect in some price as well. So long-winded way of saying, yes, it's 40 basis points year-over-year and it's 70 basis points for the full year of price.

Nigel Coe - *Wolfe Research LLC - Analyst*

Okay. That's helpful. And then I find it curious or maybe a little bit ironic that SIBG growth is actually superior despite the fact that OTIF is lagging the other 2 segments. So number one, are you still on track to get OTIF within SIBG to 90% by year-end. And if you were to guess, if you can improve OTIF from 83% to 93%, what kind of growth uplift would you expect to see?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Again, the question gets back to like sort of trying to get as an OTIF to revenue. It's very difficult to do that. But we do know that not delivering on time is a source of churn and reducing churn implicitly drives growth. So look, 83% just over that was a good result, not what we had expected. We expect more from that as we transition into July, we're a little north of 85%.

We expect to be in the high 80s now by the end of the year. The team tells me they want to exit the year at 90%. I think that's a stretch goal. You may notice our inventories are running a little bit higher than last year. So part of it is we're making up for lower OTIF with higher inventory, so we've got to make sure that we both drive OTIF improvement in the back end, which we're really, really focused on -- at the same time, we bring down inventory.

So that's what we're trying to do. The team is focused on it. We're making progress. I would say I wish it would be faster. I think Chris would expect it to be faster, but good progress.

And we know that's going to drive growth in the back half.

Operator

Andy Kapowitz with Citi Group.

Andy Kapowitz - *Citi - Analyst*

You had a nice jump in margin after what seemed like a few quarters of pressure in TEBG. So -- could you talk about what, if anything changed? I know you talked about the metering of the investments that you're making for the company? Does it hit that segment a bit more than others or maybe you're getting closer to fully absorbing PFAS stranded costs or maybe just better mix? Any color would be helpful.

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

Thanks for the question, Andy. It's driven by volume and productivity. It's not so much of the investment. I think all the 3 segments, the margin expansion was very, very good, specifically in TEBG.

There was -- volume was about 1 point higher than last year. But just the productivity, which we did both on the supply chain and on the G&A side, it's spread across all the 3 business groups also in TEBG which more than mitigated the stranded cost that they had. So when we -- the past couple of quarters, TEBG margins have been down, we see this pick up. And as we go through the course of the year, in our current margin guide of 150 to 200 basis points. You should see all 3 business groups doing well.

SIBG and CBG will definitely do better. TEBG a little bit lighter because of the stranded cost that you pointed out, but the productivity is flowing through well there.

Andy Kapowitz - *Citi - Analyst*

And Bill, I think it might be helpful to hear about your thoughts on the fiscal environment here in the US. Maybe a little bit of color on how 3M is thinking about the big beautiful bill. I think it does put money in industrial companies pockets, given bonus depreciation, et cetera, but it doesn't seem like you're reacting to it at all. Is it just too early? How do you think about it, how might companies react to it moving forward?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

So it's a good question. It's a very broad question. I think specifically to the tax bill, it's favorable to us. It's favorable to other companies. In the sense, it helps us with maintaining reasonable FDII GILTI rates, which is important to us, helps us maintain our effective tax rate in the 20% range, which is what we had anticipated and hoped for.

So it maintains where we happen to be. It's good news because it could have gone the other way. Bonus depreciation and the R&D expense doesn't really work for us for the next couple of years because of the some of the PWS costs and other things. But that will help us in the out years. But right now, FDII GILTI rates hovering around -- maintain around 14%, which I think they made permanent.

-- is good news for the company for sure. So I won't comment on any relative fiscal environment, but that's certainly, from a tax perspective, help for the company.

Operator

Joe O'Dea with Wells Fargo.

Joe O'Dea - *Wells Fargo - Analyst*

Just wanted to make sure I just want to make sure I'm thinking about the back half organic constructs across the segments. -- where if there's roughly 100 basis points better year-over-year growth in 2H versus 1H that we would see a stronger than average improvement in SIBG, TEBG, improving growth a little bit and consumer, maybe that growth rate is more consistent with the first half? Is that a reasonable framework?

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

Yes, that's exactly what it is. Yes. So both SIBG and TEBG should be a little bit better in the back half and consumer in line with that, maybe a tick or 2 up, but -- but again, it depends on the consumer behavior, but it's really going to -- and it's a smaller business, but it hinges on the first 2.

Joe O'Dea - *Wells Fargo - Analyst*

Got it. And then actually, I thought the consumer margin was the most impressive. I think organic was up 30 bps year-over-year and op profit was up north of 20%. And so just any unpacking of the bridge there, the self-help side of things, absence of any items that were a drag last year? Any color would be helpful.

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

Yes. So we finished over 21% on CBG on the Consumer business group, which is very good. Last year, we ended on the 19% level. So this was really good. I think where you'd see the benefit more is around the productivity side.

In fact, the investments actually did go up in the consumer group relative to last year. The one compared from Q2 of last year was obviously the equity comp timing, which did impact consumer as well. But I would say more of the outperformance on the margin is driven by the productivity that we're driving both on the supply chain side as well as the G&A side, which trickle through to the consumer business.

Operator

Laurence Alexander with Jefferies.

Laurence Alexander - *Jefferies LLC - Analyst*

Just 2, hopefully, very quick ones. One is, how do you think about the effect of your metering of investments on operating leverage if demand surprises on the upside either back half of this year or next year? And secondly, can you -- on the PFAS question, I just want to follow up on kind of if I understood one of your comments. How are you thinking about the property damage side of PFAS litigation. When do you think you'll have visibility around the legal strategy to ring fence the liabilities there?

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

Yes. Maybe I'll just start off with the operating leverage first. On the operating leverage piece, we should see that flow through. Okay. Today, our operating leverage is about -- I mean, incremental is about 35%.

That will probably be the same, if not go higher. -- as volume picks up on the upside. Because if you look at the metering of investments, I mean, we're spending $175 million of a step-up in investment this year relative to last year. The metering was more because of the demand calibration. If demand softens up a little bit and you don't spend so much on advertising and merchandising.

You look at the tariff landscape, then you look at different projects and you say, okay, let's prioritize them. But when it comes to R&D comes to sales, we've added it.

For the second quarter, we had envisioned about $85 million of pickup in investment, we did more than $40 million. So it's still quite a significant amount. So that investment is probably going in the right stage -- second half, we're still maintaining the investment that we always had. And if volume comes up, I think the operating leverage should be north of 35% in the second half or in time to come.

William Brown - *3M Co - Chairman of the Board, Chief Executive Officer*

And on the PFAS question, a lot of the environmental natural resources property issues are encompassed in the AG cases, part of which was resolved in New Jersey, Vermont is coming up and moved out to November and the rest are in the MDL, and we'll handle them as they come forward. Won't circumscribe any particular number on that. There's plenty of disclosure in our 10-Q. Okay, everybody. Well, thank you very much for joining the call for all the questions we got through every analyst, which was good.

I also want to thank all the 3Mers for their continued drive towards excellence in the company, improving every single day and delivering value to customers and to our shareholders. We're laser focused on our priorities. -- and we'll be through the next number of quarters, and I look forward to speaking with you at the end of our third quarter. Thank you so much. 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.