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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Christopher Snyder *Morgan Stanley - Analyst*

PRESENTATION

Christopher Snyder - *Morgan Stanley - Analyst*

Thank you, everybody. Chris Snyder, US multi-industry analyst. Super excited to have Bill Brown up here with me today, CEO and Chairman of 3M. Thank you for coming.

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

Thanks for having me.

QUESTIONS AND ANSWERS

Christopher Snyder - *Morgan Stanley - Analyst*

Yeah, absolutely. So over a year into the job now, I guess as you kind of look back, what do you think has been your biggest success? And what do you think has been the biggest challenge as you stepped into the role?

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

So a year's gone very fast, as you'd expect. The team's been very busy. When I came in -- when I joined 3M and I came in, I saw an opportunity to get back to basics, focus on the fundamentals of the business, sort of reinvigorate the culture, focus on accountability, agility, and innovation, all those things you're trying to do to make the business better. And it's playing out largely the way I expected it would.

A year ago, I laid out three priorities around top-line growth for both innovation and commercial excellence, driving operational performance across the enterprise, and an effective capital deployment. And I think we've made really good progress on all of those dimensions. The company is responding, I think, very well to the challenge to get back to innovation in the first half of this year. And I talk about these metrics all the time at our earnings releases.

We launched 126 products in the first half of the year, which, just for perspective, we launched 128 in all of 2023. So it's up almost in line with where we were two years ago, up 70% year over year. I think, importantly, it's growing rapidly. We're on track to do better than 215 launches this year and, as we laid out at the Investor Day, 1,000 over the next three years. Again, we're -- the first six months has been progressing very well, and I see that continuing to accelerate.

The second part of growth is around commercial excellence. And this is an area that, when I started, I said, look, it's going to take a little bit of time to turn a top-line revenue around with innovation. So we've got to get better at selling what we actually have on the market today, and that's through commercial excellence.

And we started in our Safety & Industrial Business Group towards the back end of last year. And it's got several elements to it. It's getting this productivity out of our sales reps and sales management, pricing discipline, cross-selling initiatives, reducing attrition or churn of our customers.

And we're seeing really good progress. We started SIBG US, moved internationally, so we went to Europe and then Asia. Now, we're sort of drafting TEBG behind that.

And I think you see real concrete evidence of some performance improvement there. At the beginning of last year, SIBG was negative organic growth in the first half of last year. In the second half, it was up 1.6%. First half of this year, it's up 2.5%. And we do see the back end in SIBG accelerating. And that's largely on the back of commercial excellence. Some through NPI, but a lot through what the team has been doing on commercial excellence. So very good.

We're focusing pretty heavily on our culture, driving a 3M eXcellence operating model. I talked about this quite a bit on our Investor Day earlier this year, which is very important. That's sort of driving a lot of the operational excellence, which is a second priority across the company. And I talk a lot about the metrics that go behind that.

But you start to see some proof points here. And if you just look at what we did, the front end of this year, our margins were up 250 basis points over last year. For the year, we're guiding between 150 to 200 basis points. Just to benchmark you, last year in 2024, we're at 21.4%. In our plan, we laid out hitting 25% margins by 2027. That's up 360 basis points. Of course, we do 150 to 200 this year. It's tracking pretty well in advance of that target.

So I think we're making good progress in all these dimensions. I think the challenge that I've seen, and maybe the opportunity, is really around driving operational excellence in the company. And I've talked a lot about the complexity of our network, how many factories and distribution centers I have. And we've got to get at that. A lot of it's around the maturity of the team, the metrics, the processes.

I've done this before. I've seen what it takes to drive a performance culture, drive operational excellence. We'll get there. We'll hit the targets we set out at the Investor Day. But that's maybe a little bit less progress than probably a lot more on, I think, some of the things behind the top-line growth initiative.

Christopher Snyder - Morgan Stanley - Analyst

A lot of stuff for one year, so you guys are obviously moving fast. You have a lot of targets, and you unveiled a lot at the Investor Day. Collectively, there's a lot of things to improve growth and improve margins. Is one of those more important to you?

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

So it's not. It's -- the things that we talk about, at the end of the day, if we want to innovate more, we want to sustainably and consistently drive top and bottom-line growth for 3M. We've got to fix a lot of the plumbing inside the companies -- how you develop a product, how you produce a product, how you get a product to the customer -- again, back to basics. These are really kind of basic type of things that we really focus on. And we are showing, I think, a lot of progress on the initiatives we put in place. We are investing in growth initiatives inside the company. That's very, very important.

To me, when I think about it, margins and growth, I do think that there's opportunities to expand margins. We see we're doing that at the beginning of this year, yet still have money set aside to invest in growth. And I think when you drive the growth, we have good drop through that's going to expand margins. So there's a virtuous cycle here. We just -- we're on the front end of this, and I see this kind of accelerating over time.

But I do think it's really both of them. I think we have proven ourselves in the past with the ability to drive margin expansion. I think we're -- we maybe not have proven ourselves on a top line, and I think we have an opportunity to do them both. And I think that's where you see sustainable growth for shareowner value.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. You've started providing, since you came to the seat, a lot of metrics to us. On-time, in-full, equipment utilization is something that's very important. I guess what's the most important metric to you? And for all of us outside looking in, what should we monitor to say, hey, this is going on track?

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

They're all important. They're interdependent. They're not -- what I'm doing is giving you some milestones, some proof points of the progress that we're making. And these are the things that I talk about internally. As much as I share externally with investors, this is the thing -- these are the things that the team is focused on internally. You can't drive on-time, on-full, or OTIF, up if you don't fix your operational utilization of assets because you have to have surge capacity. One drives the other. These are both very important.

When I think about how do you drive growth, one of the key reasons we see customers attriting or churning from the company is we're not delivering on-time, in-full. Coming out of the pandemic, we were around 80% as a company. Back at the end of Q2, we were 89.6%, up 300 basis points year over year. Really good progress in TEBG and CBG, the Consumer Business Group, so a little bit behind on Safety & Industrial. Through Q3, we're consistently above 90%. This is -- these are the right metrics to focus on.

One thing I would draw your attention to, for Consumer, if you're below 95%, we sell to a lot of big major retailers. If you're below 95%, you get fined. I've talked in the past about the gross to net. Inside that gross to net on sales are fines, and it's in tens of millions of dollars. And it's a deduct from sales, because they simply pay you less than you had invoiced them for.

One of our largest retail customers, if we're going back forever, would always fine us every single quarter. In Q2 last year, it was \$0.5 million in a quarter. In Q2 of 2025, it was zero for the first time, because we're consistently delivering above 95%. So you start to lose that drag on the revenue growth because we're not fining or discounting. I think more importantly, they're starting to look to us that we're giving us more shelf space, because we're more reliable. We're bringing more products to market, higher quality, on time. And that's a partner that you want to be doing business with.

And this is where we're seeing some good traction along the ways here. On operating equipment effectiveness or utilization, it sounds like a metric that's a bit in the weeds, 59%. So we're measuring it sustainably, 200 assets, more than half our volume. It's going to get to 230 assets at the end of the year. These are the biggest assets we have.

So why is this important? Because if you're not measuring the utilization of your assets, first of all, you don't know what your surge capacity is for spot demand or short-term demand that you want to satisfy. That's very important. But over time, we all know we've got too many assets in the network. We have too many factories, too many distribution centers. It's fundamental to start to understand what do you do with those assets, by knowing what the utilization of those assets are today.

And I gave a small little snip of a microcosm at the Q2 earnings release when I talked about one of our coater assets. Now, we make -- we do making, we do coating, we do slitting, we do packaging. We have these core value streams across our factory network, and this is coaters. We have more than 250 coaters in our network, and we took one -- one coater, we raised the utilization by 12 points, and it allowed us to bring two other coaters in the network into that one and close these two down. Small microcosm, small example of what you can think about. Well, how about the other 250 coaters? How about the splitters? How about the factories?

And as you think about this, this is the path that we're on: the basics around how do you run this network like it is, and over time, starting to squeeze the assets down. And that's what's going to happen over time. That's what's going to give us this trajectory beyond 2027 to grow margins beyond this 25% we set out at the Investor Day.

Christopher Snyder - Morgan Stanley - Analyst

I wanted to follow up on the on-time, in-full. You talked about Q2, I think, at 90%. I think that maybe the end of '22 was 80%. So we've already seen a big improvement there. Is that having a material impact on the organic growth already? And is the bigger impact actually what you said that, no, they give us more business, and maybe that comes through a little bit later?

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

So we started to measure attrition or churn in our Safety & Industrial business. Again, they were the first out of the gates of commercial excellence. One of the key pillars of that is why are you switching business as a distributor customer to another supplier.

The feedback through that work that we've done, one of the key things is around that we don't deliver things on time in full. If a distributor needs it, it's not available. So for the first time, they'll wait. The second time, they'll wait. The third time, they may wait. By the time it's the fourth time, they're going to look to an alternative. Maybe not quite as good, maybe a different brand, but they'll start to move to that. And once you've lost them, it's hard to get them back.

And we see that. The number is substantial. It's surprising to our team internally. And one way to grow is to not shrink, not lose business. So what I can say is by focusing on time in full, we are having a different discussion with our distributors. We have seen our churn rate come down.

You will see SIBG accelerate because of that. And we are starting to win business back, small pieces, couple million here, there, by actually going back and asking for the business back and proving that we can deliver good product on time and in full. So it's a very important metric, but it's just one of many metrics we have in terms of a contract with our customers, but it's an important one.

Christopher Snyder - Morgan Stanley - Analyst

Yeah. I mean, you clearly -- you're making a commitment to R&D and innovation. You talk about the new product introductions. Are they -- I guess one, what is like the timeframe for that R&D to convert to sales? And is it having an impact in '25?

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

So what we laid out at the Investor Day is that we would generate \$1 billion of growth above the macro over the next three years. And we said half of that's going to come out of commercial excellence and half's going to come out of new product introductions. We also said that the front end of it is going to be mostly commercial excellence and that NPI or the growth from innovation will be the accelerant beyond it in '26 and '27. I can tell you, we will see some impact in the back half of this year in certain parts of the business, that's good. You'll see more acceleration in the next year.

But I think the things that we're starting to work on in terms of innovation are the right sets of things. We've now sort of built a dashboard of common metrics across the company. I know, and you know as investors, you know that NPI just launching more is sort of indicative -- it's not the result -- but it's the way you start to get the momentum moving. You get the organization thinking about it again. They start to get more comfortable with launching products, generating ideas, working on the flow.

Now, you can start to work on, okay, what's the revenue coming off of that, which is why we lean forward with investments that in the first half of this year, five-year revenue from new products is up 9% over last year. In Q1, it was up 3%, in Q2, it was up 15%, for the first half, up 9%. For the full year, it'll be up mid to high teens.

Our Vitality Index, which is a measure of five-year revenue over total sales, used to be above 20%. The beginning of this year, it was around 10%. We'll end the year at 12%, we'll get to 20% in three years by the end of 2027. That's a measure of the freshness of your portfolio, of your offering to the marketplace.

When you drive that revenue up, that new product sales, you will see incremental growth. You'll see it happening in '26 and '27. But it's also important to our customers. You'd be surprised at how many people -- I talk to our distributor and customers that are more excited about doing business with 3M simply because we're getting back to innovation. Those are the comments I have.

So we're getting shelf space because we're on time in full, but also because of the promise of new innovation, new innovative product coming onto the marketplace. The things that we're launching today, probably I'd say 80% of them are replacement products. You've got to launch them because you have to stay live in the marketplace. It's going to cannibalize some revenue.

It does bring some incremental benefits. Sometimes you can price a little bit for it. Sometimes it's lower cost, but this stuff will build over time. And as we start to move beyond the ones that are purely replacements, and you now start to launch things that are newer to the world or adjacent markets, you'll start to see revenue increase from that. And that'll be starting into next year.

Christopher Snyder - Morgan Stanley - Analyst

I appreciate that. If we look back over the last decade plus of 3M, my math would say it's been at 1.5%, maybe 2% organic growth profile. And I think anyone who listens to this message, or attending the Investor Day at the headquarters, would say the growth will get better. But I think it's harder to kind of triangulate or pinpoint, well, how much better. So I guess what do you think is the right growth profile for the company?

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

So we did 1.5% in the front end of the year. At the end of the day, we thought we would do a little bit better in Q2, but it was 1.5% in the front end of the year. But we're going to accelerate in the back half. We said 2% for the full year, which means accelerating at 2.5% or about that in the back half of the year.

This is the direction we're heading in. To get to \$1 billion over the macro, that's about 1 point above the macro, 1 point above the 2% baseline macro we're looking at. So we're seeing acceleration over the next three years, 3%. This is the front end of this journey. What I'm seeing in terms of improving the basics, there's so much opportunity to grow the top line that we had not explored. I think we're at the front end of this.

I think to sustainably and structurally change the trajectory of the company, we're going to have to look at the portfolio as well. There's some businesses -- when we look at the profit centers, there's some businesses that are lower growth and are dragged on the growth. And there's some places that perhaps we can bolt onto. And as you think about that transition over multiple years at 3M, you start to structurally shift the portfolio. That's when you start to get to something north of 3%.

So it's something we're working on. We've got to walk before we run. We've got to hit the targets we laid out to investors at the beginning of this year. I think we're making great progress, but that's kind of how we're thinking about long-term growth.

Christopher Snyder - Morgan Stanley - Analyst

Yeah. I mean, I wanted to follow up on the portfolio point. I mean, obviously, like a lot on your plate right now. But I felt like a year ago, there was maybe more conversation on the portfolio and it feels like that's kind of died down. I guess what should investors expect to be areas of interest to 3M and potential areas of divestiture?

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

So as we said at the Investor Day, we have to look structurally at the portfolio: how do we systematically move this portfolio into higher-growth, higher-margin potential businesses. And we are looking at that very surgically. At the Investor Day, I'd laid out 120, 121 different profit centers. We

were looking at it very surgically, which ones are where we think we have high growth, where we have high-margin potential, where we have a right to win, where technology is required for differentiation.

Those are very attractive markets. Those are the priority verticals that we talked about at the Investor Day: semiconductors, it's going to be data centers, it's going to be aerospace and defense, electronics, automotive, a bunch of others, safety. There's a lot of different pieces. So that's the place that we're going to start to invest in.

At the same time, that analysis looked at a bunch of businesses that just don't fit. I would size that it's around 10% of the portfolio, more or less. We're in the market for about 2% to 3% of that. That's what I talked about earlier last year -- late last year. Some of these businesses have been in the portfolio for a long time. I think they've been envisioned for divestiture for a number of years. We never took it on. They're not necessarily great businesses. We don't have a right to win, they're more commodity-like.

And so you're selling them into a market where you also now have this sort of tariff overhang. The process is ongoing. We had one that transacted earlier this year, small one. We have a couple of others that are -- we believe are getting close, but the options are kind of thin.

But the reality is that we've got to move these out. It's not just simply because they're a drag on growth or on margins, but they also do drag on management time and attention. And our time and attention ought to be on things that are more productive for our owners, which is why we're focused on this. So yeah, we talked about it late last year. There's an ongoing process, and we'll communicate as we make progress on these divestitures.

Christopher Snyder - *Morgan Stanley - Analyst*

I imagine even the ones that maybe aren't quote-unquote good businesses are benefiting from a lot of the initiatives that you're bringing to the company. Is any part of this like clean them up, get them better?

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

Well, sure. I mean, that's the approach we're looking at, really all of these various pieces of the company. So some of the ones that we're divesting, you have to sit back and look at what would it take to make it a good business. Some are not in great spots. I mean, it's just commodity markets. And the nature of 3M, we're a materials science innovation-driven company. And there's some businesses that we're in that just we don't think there's any headroom here through innovation. They're better owned by other people.

There's a number of places, even in the priority verticals, where we've got good, solid businesses, but clearly a much greater opportunity to win. And I'll give you a good example, Automotive. This year is not a great market for Automotive. The build rate sort of flattened up 1%. It's likely going to be softer in the back end of the year. We have a decent position in Automotive, I think, globally around \$22 per vehicle.

But that penetration is more on the Western OEMs, a lot less on China. And clearly, we've got to be innovating in those areas. When -- in an analysis we've done, it just sort of tear down a vehicle. And the team just did this in the last couple of months. And you have your engineers looking at all of the components that are there. What things could we provide with, who we could sell that's a product we have on the market today. It's quite a bit bigger than \$22 per vehicle.

So we have an entitlement to grow in these areas by just getting better, closer to customers, better execution at the customer interface. There's a lot of ways of just growing where we think we are entitled to win where we haven't been pushing as hard. So that's where I want to spend my time. It's not so much in the pieces that I think are more commodity-like.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. You talked about earlier, 1.5% organic in the first half, 2.5% in the back half, tariff prices coming through. You called out, I believe, better trends in July on the conference call. Can you update us on the market and what to expect from here?

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

Okay. So not much has changed in the macro from where we were at the end of July when we gave our earnings release. It's still relatively sluggish, things moving laterally, not getting maturely better or worse, really across the franchise, across the company. IPI is still running about 2%. PMIs are contracting.

We see, in auto, I just referenced Auto a little bit, flat to up a little bit. It's down in the back half of the year, was up a little bit in the front half of the year. Again, you're seeing more growth in China, less in the US and European OEMs. We think Electronics is a part of our company. These are all macro numbers softening a little bit in the back half. We think the Consumer is going to stay relatively sluggish through the back end of the year. That's our expectation today.

So it's largely where we're at. But when I step back and think about it, that's sort of the macro backdrop, but we get back to focusing on our priorities, the things that could make that different and better, and that's NPI and that's commercial excellence. And through those efforts, especially in a business like Safety & Industrial, is where we do see some acceleration in the back half of the year. We had a chart in our earnings release that laid out sort of the vertical markets we're in. General industrial is about 40% of the company. Safety is another 15%. So about 55% of the company is in a business where it was low-single digits in the first half. We see it getting better in the back half of the year.

Between Auto and Auto Aftermarket, it's about 15%. Auto Aftermarket is relatively weak and we expect that will continue to be through the back end of the year. The Automotive business, again, was a little bit soft in the front half of the year. We think that's going to be flat, then maybe down a little bit, but sequentially a little bit better. We expect Electronics to still be up low-single digits in the back half of the year, and again, Consumer sort of flattish.

So we have a lot of levers to pull that are just controlling our own destiny, and that's what we're really focused on. And that's why we came back and we said, we'll accelerate growth in the back half of the year despite what I thought is -- I think is a sluggish economy.

Christopher Snyder - Morgan Stanley - Analyst

Yeah. So it seems like, at the company level, that growth rate is as expected from July. Under the surface, are there any verticals that are maybe doing better than you thought in July? Any that are maybe coming in a little softer?

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

It's really, as we described it in July, and as I just mentioned, I think, again, general industrial is sequentially getting a little bit better, safety getting a little bit better. Electronics will be up in the back half of the year, which is good in a softening market. Part of it is through some of the introductions we're having, where we're gaining some share market in some notebooks and tablets and in some phones. We're starting to get some penetration into the mainstream market in Electronics.

We're starting to see some wins coming through in the Automotive business. Those are some of the areas that I think we're -- because we're innovating them in -- in those areas, I think we're doing pretty well.

Christopher Snyder - Morgan Stanley - Analyst

Yeah. I guess on the channel, how do you guys feel about the amount of inventory in the channel, whether it's in distribution at big box? And how do you think that could track at the end of the year?

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

So the channel is kind of normal. I mean, we track it really closely on the industrial side. It's no -- nothing notable in the channel on the industrial side.

On the consumer side, we had typical summer build and it sort of bleeds down towards the back end of the summer. And we look at over the last five years, you can see the lines, they're almost on top of one another. So it's exactly as we would have expected from where we were in the past. So no particular challenge on inventory -- on channel inventory, either on industrial or on consumer.

Christopher Snyder - Morgan Stanley - Analyst

Anything on the geographic on a regional basis that's worth calling out?

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

China for us has been a pretty good market. Last year in 2024, we were up high-single digits, in the front half of the year, up mid-single digits. We expect that to soften in the back half. Q3 so far has been in line with the first half. So a little bit better, but we still expect that that's going to soften.

Europe is a soft market. We thought it would accelerate a little bit in the back half, but it's still pretty soft. US is going to accelerate a little bit from the front half of the year. The rest is sort of in the rounding, but the thing to point out, I think China has been a little bit more resilient for us so far quarter to date.

Christopher Snyder - Morgan Stanley - Analyst

Can you talk about the business in China? Is it mostly products that are being sold into the domestic market? Are you guys supplying to OEMs that are selling domestically exporting out?

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

Yeah. So it's both. We actually have a good business in China. It's just over 10% of the company. We have seven factories, about 5,000 people. So it's a good position. About half the business in China is for the domestic China market, which is benefiting from local stimulus. And that's what we've seen in the front half of this year.

The other half of the business is for export. A lot of it's electronics. So we ship in, produce a product, sell to somebody, and then it gets exported. And that for the first half of the year was pretty good. That's the piece that we expect might soften a little bit in the back half of the year.

Christopher Snyder - Morgan Stanley - Analyst

US exports to China, I believe, like \$400 million plus for you guys, so pretty material. I think there was probably a point in time where that was like essentially embargoed when the tariff rates were at their peak levels. Now as we're seeing those de-escalate, can you talk about what you're seeing in that business? Is that starting to ramp back?

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

So it didn't stop. I mean, the reality is we kept shipping into China. We kept moving like we were moving. The teams were working, okay, what do you do to mitigate them? What passes through? What acceptance do you have? Some of this goes into inventory. It rolls out over time. So it didn't really impact the flow of product or our business generally.

Of course, it was -- it cost some cost for us. For the year, we said we'd be about \$0.20 per share on a gross basis, \$0.10 net. That is in the margins now. It's in our guidance. And part of that is China and the duties going into China which now, of course, have come down.

Christopher Snyder - Morgan Stanley - Analyst

Could you provide an update on the litigation front? The news flow is picking up a little bit, some state cases and personal injury. What should we be looking for?

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

So there's three broad areas of litigation. One is on the public water supplier issue. And we settled, as you all know, the US public water suppliers a couple of years ago, about \$12.5 billion. That cash goes out over 13 years, and we're well down the path of paying for that. There's a couple of opt-outs we've got to manage. But that's one thread.

The second thread is around attorney general cases. You probably saw a couple of months ago, we settled New Jersey. That was very favorable for us in some ways, partly because it managed the cash associated with that over 25 years, starting in 2030 going to 2050. And it gave us broad protections against other litigation around PFAS in the state of New Jersey. And that was the reason that we ended up going with that settlement.

There's other AGs that are in various forms of litigation, some inside the multi-district litigation, some outside of that. But the New Jersey framework, I think is a good one. It's what they're looking at, which is cash payments over a long period of time and broad protections against other liabilities, which is what encouraged us to move forward with that particular settlement. It was something that we try to manage as carefully as we can.

The third -- and the next piece on AG, by the way, is around Vermont. Now, Vermont was supposed to go -- it was supposed to be trial-ready in October -- in August, that moved to November. And the US Court of Appeals just very recently ruled that we have, as 3M, to right the trial -- to try that case in a federal court. So I don't know yet what's going to happen in Vermont. We haven't heard any more of that, but that's sort of evolving.

The third threat, or third area of litigation, was around personal injury. There was supposed to be a bellwether trial on kidney cancer coming in October. The judge in the MDL just recently vacated that order, and no new trial date has been set. And the reason he did that is to make sure that the plaintiff's attorneys file all of the unfilled cases. And it's really the judge trying to get some order and management around the caseload in the MDL. So we've not heard more about when that case is going to get reset. It could be -- it'll be next year. I don't know when it's going to be. I assume it'll be the same case, could be something different than the bellwether that was going to be in October.

But those are the three major areas that we're pacing. And again, in this conversation, I always refer you back to the 10-Q, because I'm giving you a couple of highlights and the things that I'm focused on. But there's a lot of things here that are worth reading in that 10-Q.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. Maybe outside of settlements, can you just kind of talk about what investors should expect around just the cash costs just to litigate these cases?

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

So we're managing this. This is something that's in our -- the cash guidance that we give and how we manage our balance sheet. We've got a strong balance sheet to afford both the expenses associated with it, as well as any settlements we happen to have.

As you know, we took up our, if you will, our guidance this year, so we have free cash above net income. Over the next three years, we said it would be in line with net income. You've got a good balance sheet around 1 times leverage ratio. We still own shares in Solventum and we sold down a quarter of it just for cash management, if you will, more than anything.

So we've got lots of things that we can do, a lot of levers to manage cash. And of course, insurance recoveries are going to be part of this over time. We always talk about this, if that comes up as a question in the earnings release, getting back money from insurance companies. But we're managing this. We think we've got a good balance sheet and we'll handle these things as they come.

Christopher Snyder - Morgan Stanley - Analyst

Yeah, appreciate that. Maybe just kind of transitioning back to the business, so 3M made the decision to stop producing PFAS. It's still a critical component in semi or auto, as what I understand. So is this just now being supplied from international suppliers? Is 3M or anyone else in the industry working on products that could replace that where there could be maybe a great market opportunity?

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

So I mean, we're out of manufacturing PFAS by the end of this year on track to what we said we would do. And that volume is going to help others. It's a component that will be used in semis and lithium-ion batteries and other parts of US government purchases for a long, long period of time. That won't be 3M. To the extent that these things are persistent -- remain persistent in the environment, that won't be part of 3M's future. But others will step in, of course.

We are doing a lot of work to engineer PFAS out of some of the products that we market and sell, like a command strip. We're down the path on innovating that, getting rid of any PFAS components in various products we have. And some of our internal R&D efforts have been directed towards that. That's starting to wind down towards the back end of the year and into next year.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. Maybe kind of talking about company margins, obviously, the macro in many ways will dictate the volumes, but there's a lot of moving parts on the margins, whether productivity, TSA, PFAS costs. Can you just kind of talk about the moving parts on margins into 2026?

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

So I'll just take you back to the Investor Day. We said we would grow our margins at 25% by 2027, and we're making, I think, great progress on this. That was -- one of the key goals was \$1 billion above the macro on top-line growth. We would be \$1 billion net productivity. We would return \$10 billion to shareholders through repurchases and dividends, about half of one and half of the other. We said earnings per share would grow at the high-single-digit rate. We said free cash would be greater than or equal to net income. I mean, that was the basic framework, and that's exactly -- that's the path that we're on.

We went into some depth on what we're doing to take costs out of our factories, our supply chain networks, and we're moving very well, purposely, down that path. A lot of opportunities in just four-wall productivity, cost of poor quality, a lot of different pieces of that, I think, we're making good progress on.

For me, I think the margin expansion at the front end of the year, we saw more opportunity coming out of G&A than I think we would have expected at the Investor Day. We had just come through a pretty extensive restructuring program, and a lot of it was driven on G&A or SG&A. A lot of it was US, because it was relatively straightforward to do. And I thought we would hold SG&A over time with more S and less G&A.

The fact is we're seeing opportunities to do better than that, and I think there's more than we had previously expected. So we're seeing lots of opportunities to drive productivity, both in the factories as well as in our G&A function. You asked about stranded cost, whether it's PFAS or TSAs, we had \$100 million this year, another \$100 million coming next year, incremental to this year, all of which is embedded inside the margin targets that I'm giving.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. And then tariffs, you guys guided a tariff, I think it was \$0.10 in the back half of the year. So not a huge number. Do you think mitigation can take time? Do you think as you look into next year, you could start to fully mitigate that or expect some carryover?

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

So we're going to try to. I mean, you're exactly right. I mean, it's \$0.10 net, it's \$0.20 gross. It's partly offset with price, partly offset with some cost actions, and we'll endeavor to kind of work on that next year. There'll be maybe some into the front half of next year, but we're getting through this year and we'll come back and talk about '26 and beginning of '26. But the direction of the team is we've got to offset it, and that's what we're really focused on doing.

So just on tariffs, just to be clear, when I talk about sequential growth, 1.5% to 2.5%, part of it is pricing coming through. So part of it is volume growth. Part of it -- I get an extra 40 basis points of growth, if you will, in the back half because of pricing going out, offsetting tariffs. So that does help us move from the 1.5% to 2.5% sequentially.

Christopher Snyder - Morgan Stanley - Analyst

Appreciate that. Well, I know we're up on time. Thank you. Could have questions all day, but we got to go.

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

Okay, great. Thank you.

Christopher Snyder - Morgan Stanley - Analyst

That was great. Thank you.

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