

LSEG STREETEVENTS

EDITED TRANSCRIPT

MMM.N - 3M Co at Wells Fargo Industrials & Materials Conference

EVENT DATE/TIME: JUNE 10, 2026 / 1:45PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

PRESENTATION

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

All right. Good morning, everyone. I'm Joe O'Dea. I lead the Multis effort at Wells Fargo and very pleased to welcome 3M for our next session and CEO Bill Brown. Bill, thank you so much for being with us this morning. We're going to get right into the Q&A.

QUESTIONS AND ANSWERS

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

Why don't we start on some of the shorter-term side of things and thinking about the demand patterns where with Q1. You outlined Q2 and some acceleration, and thinking about organic that could move north of three, just kind of what you've seen over the first quarter so far.

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

Well, first of all, good morning, everybody. It's great to be here. Thanks for having us. Just overall, our strategy is gaining traction. It's a back to basics focus on fundamentals approach to rebuild 3M as a more resilient, more consistent, higher performing company.

With better top-line growth coming from innovation and commercial excellence, better operational execution at the ground level, driving margin expansion, cash generation, and disciplined capital deployment. That's basically what we laid out a couple of years ago and we're executing very well on that.

We did have a solid Q1 start earnings per share up 14% in Q1, saw 30 basis points of margin expansion, we saw double-digit growth in free cash flow. Organic revenue growth came in just over 1%. We saw some pockets of macro pressure. But I think encouragingly, as you referenced, we ended the quarter with very strong orders up double-digit in Q1.

Backlog grew year over year and sequentially double-digit, which was very encouraging for us. As we turn the quarter into Q2. In fact, we're pretty far advanced into Q2. Those orders and that backlog is converting to revenue. We said we'd be above 3% in Q2. We'll be solidly above 3% in Q2, given the fact that we're pretty far deep into the quarter. So we're very confident about that.

We see momentum continue to build. We saw good progress in Q1 in about 60% of the portfolio, that's general industrial or safety that was up mid-single digits, which was very encouraging. We see trends in that area continuing into Q2. We saw five months of solid PMI. PMI in May was actually pretty good at 54. So it's actually encouraging the macro trends. We see that continuing to build. A couple of places of some pressure in our business, but that's really around consumer electronics, auto, a little less so on the consumer, US consumer behavior, but generally speaking, orders have been pretty good, they continue into Q2. As we sit here today, we've built backlog even further. Orders have been continuing to be solid through the quarter.

So they're more resilient. It's all coming from a lot of the work we've done on commercial excellence and innovation, which is building momentum. So the thought of it might have been some pre-buy, I think was maybe we overstated that a little bit at the end of Q1.

But the fact is commercial excellence has been pretty good. Innovation has been pretty good. The quarter's looking good. And as we see the back end of the year continues to accelerate. So we feel good from where we're standing again, a very solid Q2 and I think momentum building back into the second-half of the year.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And maybe just spend a little bit more time on the pre-buy aspect of things, because I think that was some focus thinking about the order growth that really accelerated, good order growth throughout Q1, but accelerating. And so a little bit of that.

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

So what happened is, look, we typically go out with price increases on April 1, and what was happening in the Middle East, we saw oil prices coming up. So we went out with additional price increases on top of what was April 1. And we said, based on our performance, the innovation, on-time delivery, our responsiveness into the channel, we believe our ability to drive price is a lot better.

And so we're going to hold a line on that. So we were very careful about that. We communicate that to our channel partners, to our customers. So naturally we thought we would see some acceleration of orders.

There was probably some of that but given the momentum we saw in April and May, and now into June on orders, where there might have been some pre-buy, but predominantly it is innovation driven, commercial excellence driven, and probably less so on the pre-buy. Okay. More I think the self-help part of it than the pre-buy.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

That was going to be the follow-up is it does seem like there's a bit of a rising tide behind the short cycle macro, but you would attribute more.

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

Look, there's clearly some macro strength behind us on the industrial side, on the safety side, a couple of other places like semis are good, our data center business has been pretty good. Aerospace and defense has been pretty good. Commercial branding in Q1 was pretty good. So there's good parts of the company that have performed pretty well. Some of it is macro driven.

I think I would put more on just where there's a lot more hustle in the sales force on commercial excellence. We're clearly making good strides here on innovation. And I know I'll talk more about that here, but really good progress on driving new products into the marketplace.

So frankly, I put more on the fact that it's a lot of the things that doing differently inside the company than necessarily there's a short cycle macro tone. That we believe is happening, but I think it's more the self-help side.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And let's touch on the Middle East in terms of the \$0.5 to \$0.15 of contingency within the guide on sort of oil and macro and what you've observed over the course of the quarter.

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

Look, so we said we would have \$0.5 to \$0.15 of contingency, if you will, for macro or oil-based Middle East type effects. Our business in the Middle East is not very big. It's less than 2% of our revenue. So we're not seeing an issue there. We, like other companies, have seen some logistical challenges of moving product through the Middle East, not into, but through the Middle East.

But we're managing through that. We have a big network. It's working very well. That's managing pretty well. So, as we sit here today, we do not see a need to call on that five to \$0.15 of contingency in the year, but that's as we see it today.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Okay. Then want to spend a little bit more time on segments and starting with safety and industrial. And 75% of the segment we're seeing mid-single digit plus type of growth. And to sort of address it from both a macro side or cyclical side, and then a self-help outgrowth side. So just on the cyclical and in terms of things like abrasives, and parts of the business we're seeing the good growth, what's behind that?

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

Look, abrasives, the other parts of that portfolio have actually been performing very well. The electrical markets business has been pretty strong, public safety. In that space has been pretty good. So it's actually going, I think, reasonably well. There's some macro behind it for sure.

But that's the business segment that we really launched our commercial excellence activities in back at the middle towards the end of 2024, when I came on board. So we need to drive organic growth. And that's going to come from launching more products and then selling more of what we have in the market today, which is commercial excellence.

And the team there got on that very quickly. There's several dimensions of. Part of it is Salesforce effectiveness. It's the coverage, the incentives, the training, the hustle at the front end. We're really seeing that take effect in that SIBG business for sure. We laid out an agenda to cross-sell. Perhaps we were a little conservative in retrospect.

We said we would hit \$100 million worth of cross-sell opportunities over three years. Last year, we were at \$50 million by Q1, we're at \$80 million of booked opportunities. Our pipeline is another \$85 million, and we're sort of just a year and a half or so into that journey. So that's going very well. We said we would reduce the attrition or the churn in the portfolio in SIBG.

In fact, it's been running higher than we would have expected or you would expect it. I don't think we really necessarily focused on that. This is just share a wallet loss because you're not delivering something on time or not being responsive.

But with our OTIF coming up, our new product launches, the sales hustle, we are seeing improvements in attrition rate as well. So you put all those pieces together with some innovation that's happened across those segments and abrasives and other parts, we are seeing good tailwinds in that particular part of the business.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Do you have any kind of rough approximation for the outgrowth? And so when you see this traction building behind something like commercial excellence and leading and safety and industrial and these markets that are growing.

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

So it's on a quarter by quarter basis, it's hard to see, but the way I look at this, we were say 3% to 4% in the second-half of last year. We're 3% to 4% here in the first half, 3.2% in SIBG in the first quarter. We'll be in that 3% to 4% range. It's going to accelerate. It's accelerated from second-half last year into the first half this year. It's going to accelerate first half, in the second-half, but call it 3.5%, 4% in that particular range.

Look, IPI has been running around 1.6%, 1.7%. The U.S. is 1.0. So I don't think you'd debate that at 3% to 4%, pick your number there, we're out running the macro for sure. So clearly the goal we set was to drive a billion dollars above the macro over three years, and we're seeing really good progress across the company, but in particular SIBG.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And then on the electrical market side of things, six straight quarters of really good growth there, part of that you've got data center exposure within that, but you've talked about 100 million of revenue that's inside the data center, 500 million that's bringing power to it. Just overall what your visibility is there, what you think that revenue can get to?

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

So it's been very good. I mean, first of all, EMD, the electrical markets business, about a \$1.5 billion business, and it is growing very strongly going the last six, seven quarters. It's been very good. Part of it is you have the data center business. So as you pointed out, \$600 million worth of business going at data centers.

In SIBG, it's about half a billion. That's outside bringing power to the facilities, medium voltage cables, splices, terminations, insulation, all the things you need to bring power to a facility. And that's been very good. It's been growing, high single-digits, low double-digits, a lot of momentum behind that, a lot of backlog.

We feel very good. If anything, it's a production constraint, not a domain constraint for us in that particular business. The other part of the business is roughly \$100 million is growing more than 50% each quarter, which has been really good, is around inside the data center business.

It's really the combination of what we're doing on TwinAx, which is our copper cabling, moving to optical fiber, which is our new product called EBO, Expanded Beam Optics. And that transition has been very encouraging. As we sit here today, some of the orders we saw in Q1, some of our longer lead, they deliver the back end of the year, some of it comes from that particular business.

So EBO is an optical interconnect technology. It's something that's dust resistant, it's resilient, it's durable, and reduces the time to revenue for a data center doing all the cabling by about 85%. We've got tons of IP around this, more than 100 individual patents, another 50 patents pending.

For a couple of years, we've been in testing with a major hyperscaler. It's been validated by that one. That one placed an order in Q1, it's part of the order trajectory we saw in Q1. That'll deliver in the back end of the year, and it's developing a lot of enthusiasm.

The addressable market for us around optical connects inside of a data center, again, keep in mind, that business for us is \$100 million as we sit here today. The TAM we believe at the end of Q1, we saw was over \$1 billion. 90 days later, we're thinking it's more like north of \$2 billion.

As all these hyperscalers, chip designers, developers are looking more carefully at their architecture inside of data centers, how do you replace, bring more optical interconnect because of all the data connectivity and replace copper? That is a trend that's really massive, is moving fast and we're scrambling to stay up.

A couple earlier this year we announced that we would expand the capacity of our optical fiber business by doubling it. In fact, 90 days later or so, we're feeling that might be a little bit short as we speak today. So a lot of momentum in that business. I think we're at the front end of that. And I'm really encouraged by the trend we're at.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And so that \$100 million is what sits in T&E.

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

That piece sits on our transportation electronics business. That's correct. So half a billion, it's power outside SIBG, the other parts inside TEBG.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Your market position there, you're talking about something in the scope of 10% market share and see opportunities.

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

Again, there's other technology. It takes some time to get confidence with the hyper scaler. We wouldn't have the capacity even today to be able to provide much more than we have today. So it's going to take some time to ramp up that business. But we believe we're very well positioned to gain share in that particular space.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And just last one on SIBG. As we move forward in the back half of the year, the areas that have been growing will naturally have some of the tougher comps, things like roofing granules, easier comps. As part of that mid-single-digit growth potential, is there a narrowing of growth spreads across the business?

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

There will be. I mean, we will see better comps on the roofing granules side. We're seeing that already in Q2. I expect we'll see more of that in the back half of the year. Auto aftermarket was a little light. It's probably a little light in the quarter. We'll see easier comps in the back half of that business as well. So yeah, you'll probably see some narrowing of growth across SIBG, but solidly in the mid-single-digit range or better in the back half of the year.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And it's not like the stuff that's really growing those comps become problematic.

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

I think the momentum is behind us. Yeah. They're going to be some more challenging comps in certain parts of the business, but we think there's momentum behind us. We think it's building, not slowing. So I don't see there being much of a headwind on that side yet.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Shifting to transportation and electronics and just the organic growth acceleration opportunity over the course of the year, and talk about the setup there and the drivers behind it.

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

So Q1, we were flattish in that TEBG business, but very strong orders. So orders are up double-digit. Backlog was up 30% over the course of the quarter. It was very strong in that business in terms of backlog. Again, coming back to something I mentioned before on the optical interconnects and data centers is a part of that for sure.

We think about the business, half of the business was growing mid-single digits. So again, semis, data centers, aerospace and defense in that area has been pretty good, growing at high single-digits, low double-digits, very strong commercial branding in that business was pretty solid in Q1. And then half the business was down. It was around consumer electronics and auto. Those are the two pieces.

As we think about, as it goes forward, we know we'll accelerate going into Q2, and we'll see some acceleration into the back end of the year. The businesses in Q1 that were relatively strong continue to be very strong. And the ones that were weak, the market, the macro isn't necessarily getting any better on consumer electronics or auto, but we're gaining penetration.

For example, in consumer electronics, we're penetrating more on the mainstream side and auto we're penetrating more where we don't have as much concentration. Like for example, in China, OEMs has been a big push. So we're actually gaining some share. In those vertical markets.

So we'll see some acceleration at business as we go from the first quarter to second, the second quarter into the back end of the year. And keep in mind, too, we're going to start to see both in SIBG and TEBG more tailwinds on price.

So we went out with a price increase on April 1, generally speaking across all of our business. But then on top of that, we went out with oil-based price increases that will start to benefit us a little in Q2, more substantially in the back end of the year.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And if can just unpack a little bit more the premium versus mainstream to understand the mainstream opportunity. And so the revenue mix today heavily toward the premium side, but the time line or the TAM that you have in mainstream.

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

So look, it's a -- first of all, we're about 70-30 premium to mainstream. We provide bonding solutions, adhesive tapes. We provide connectivity, thermal barriers, other things that go into phones and devices, films, polarizers and it goes into phones, tablets, notebooks, even wide screen TVs. So it's a pretty broad business. We see opportunities that take some of the things we've done for premium suppliers.

And it's not just the premium device manufacturer, but sometimes the premium device manufacturer is also making mainstream or lower-end devices. So we're seeing good penetration both with -- those typically that are more mainstream as OEMs as well as mainstream devices within premium suppliers.

And sometimes it's defeating products we have in the market today. And we're finding an ability to do that and attack parts of that business. Different polarizers we provide for widescreen TVs or small phones. So good penetration. It's growing over time. It's happening as we speak, and I think that's helping us perform a little bit better than the macro towards the back end of the year.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And then shifting to the consumer side of things and the recovery prospects there and going from sort of Q4, Q1, the challenges and how you see that unfolding going forward?

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

So on the consumer side, we started out last year, we did three quarters of about 0.3% growth. So it was just modestly positive Q4, Q1 was a bit weaker. We see Q2 getting better than Q1. It could be flat to up a little bit. We see it accelerating a little bit in the back end of the year.

I think what's encouraging of our consumer business, it's not very big, it's 20% of the company. What's encouraging is 11 of the last 13 weeks, we saw a positive POS or point-of-sale growth, which I think is very good. I mean so we're seeing good trends. We're seeing weeks of supply in the channel compress. So there's not as much channel inventory.

We've seen weeks of supply, so flow through the channel is getting a little bit better. That is a business that's benefiting from a lot of the activity that I'm talking about commercial excellence and innovation. We went for a long stretch of time. We weren't bringing any new products into the consumer products market. We just were pulling back.

We were pulling back on ad merch on innovation. And we reversed that. And what's happening now, we've -- between '23 and '25, we've doubled the number of new product launches in the consumer side. If you look at what we'll do in '26 versus '23, it's triple. And when you look at just what we're doing internationally, launching products for the international market, we're up like 7 times or 8 times.

I mean so it's some substantial investments in new product development. And it's things like Brite by Scotch-Brite, which as we sort of say the tagline we bring the joy to scrubbing back into the business. So it's like there's really good things here. We talked last year about Pro sharp painters tape was very important. Filtrete, the number of varieties or your SQUs we have in the Filtrete side.

So a lot of new innovations going in consumer. Consumer we're performing better our on time in full performance is getting better. We're advertising and promoting better. And we're starting to see that traction happen in the business. It's not going to be a big grower at the back end, but if we can get sequentially a little bit better and start to see positive growth in the consumer business, I think we'll be --

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

The next topic, which is running the 3M assets better, right? And you talked about this on the second quarter '24 call, gave more detail at the Investor Day. Kind of three core priority areas that want to dig into a little bit, starting on the growth side. And so within growth, there's commercial excellence, there's R&D. The R&D efficiency right? Because the idea is we'll spend the same amount, but we'll get more out of it. So just some of the tools that you're implementing.

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

So look, this is fundamental re-look back to basic fundamentals approach to running the way we do R&D today, as I call it an R&D factory, like a factory with metrics, instrumenting it. So it's a variety of things like are we launching products on time. We weren't measuring on-time attainment. Q1, we were at 83%. Last year was -- in the low 80s.

It was -- before that, it was kind of 70%. So continuing to get a little bit better on launching products on time, which I think is quite important. We are spending a little bit more on R&D. We're shifting our spend more towards our priority verticals. Typically, we would have spent less than 30% of R&D on new product development.

We're now running about 40%, which I think has been pretty good. It's -- we're running our business cases a lot more rigorously. We're tracking, are we accomplishing them. In Q1, we launched 84 products. We're watching the funnel.

So we're bringing more new products into the front end of the funnel. So I think the funnel health is quite important. So if you go back to where we were in 2023, we launched 123 products in the marketplace. For 3M, it's not as much as we could do. We used to do 600, 700.

It went to 169 last year it was 284. This year, we'll do more than 350, and we're well on our way tracking towards the goal of 1,000 products over the next three years by the end of 2027. So the business is doing really well in this, bringing back innovation into the business. And a lot of it is just the fundamentals of how you're executing day to day. And now we're starting to bring AI technologies into how we innovate, which is very important.

We laid out a goal at the Investor Day to reduce the cycle time to launch a product, to launch a new product by 20%. We're already tracking a little bit better than that. And AI is going to help us accelerate even further as we go beyond 2027. So this is a complete remaking of how we innovate, which is the core capability of 3M is bringing new products to life. So it's reinstrumenting that whole business, bringing what I call kind of a factory mentality to how we run R&D.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And then also on the growth side, you've introduced a target to outgrow the macro about \$1 billion '25 to '27. Just remind us where you are on that through '25, '26, what the setup would be '27?

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

We're tracking beyond that. So we said we would do \$100 million, \$300 million, \$600 million between '25, '26, '27 above the macro. Last year was about \$150 million. This year will be more than \$300 million. So we're tracking well to achieve that growth of \$1 billion over the macro.

It's really coming from the segments we've just talked about. A lot of it is the tailwind around general industrial safety, A&D semiconductors our data center business is all giving us tailwind to out-accelerate the macro. So we feel pretty good about that trajectory. And again, it's not just the new product development. The key piece last year is more around commercial excellence.

Because it's taking time to -- as you launch more products till that actually starts to drive the top line, it takes some time. So last year it was more commercial excellence. This year, it's kind of half and half between commercial excellence and innovation-driven growth.

As we get into 2027, it's going to start to be a lot more driven by new product introduction. So it's shifting a little bit the flywheel is moving and we are this year outperforming the macro and we'll continue to do that next year.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And it doesn't sound like doing better earlier on means that you're pulling anything in from --

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

No, I don't think so. No, no. Look, I mean, at the end of the day, I mean, we said we'd grow \$1 billion over the macro this is 1.5 years ago, and a lot's changed since then. The macro, I think is, if anything, it's a little bit tougher than what we had expected at the time, but the company is performing a lot better than I would have expected. So it's not pulling anything in.

It's capturing new opportunities. When we stood up at the Investor Day early last year, I mean we knew we had a product inside the data center with copper is called TwinX. We had developed EBO. It was really nascent. It was sort of buried a little bit and simply because of all the investment that's happening inside the data centers, the transition around AI and the amount of data that's flowing through these data centers, they have to move to the optical fiber.

So we've got a great technology at the right spot. So we didn't highlight that last year. It's really evolved in the last 6 months to 12 months. So it's a view at different pieces that are really picking up and taking a lot of steam here.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Another priority area is operational efficiency. And so when you outlined that it was -- the target was \$1 billion of annualized net productivity. Just walk us through where you are on that cadence.

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

So by the end of this year, we'll be at least halfway through that. So it's been good progress and it's basic things. It's around procurement savings, logistics savings, modes and flows, cost of poor quality has been something I've been talking about quite consistently. We had not been measuring it inside the company very rigorously. So we were measuring it.

We were north of 7% of cost of goods. We closed Q1 around 5.5%, 5.6%. So on a \$13 billion cost of goods base, \$13.5 billion, it's over \$200 million of cost improvement simply because of cost of poor quality. And there's probably another couple of hundred million dollars ahead of us yet. There's a lot of opportunity here.

So it's really just rewiring this. When I think about what we're trying to do around operational excellence, it gets back to this concept that we have about moving from a holding company to an operating company, and it's a multistep journey.

And I've been laying this out with it for investors sort of consistently every earnings release and the track and the progress we're making here. I said that's the path we're going to go through. It starts off with just taking all of the factories which are run regionally and have them run centrally.

So then we did that 2.5 years ago and that now we can look at across all of the company, what's happening across the flows, how the factories run together. That's been a very important part of the journey, building these metrics. I talk about utilization or OEE, that's now come up to 62.5%, 300 assets. That's been a very good performance on time in full, cost of poor quality. All these metrics around driving that factory network to be much more efficient, much more stable and it's continuing to evolve.

The next step is around the consolidation of the network, and we're making really good progress on the network consolidation. All of that is getting from sort of low 40s to the mid-40s to now the high 40s in terms of gross margin. That's the goal we have in that business. And this is the trajectory that we have put in place to get there. And each quarter, I go through some of these metrics, which demonstrates the progress we're making quarter-to-quarter. It's not a linear journey, but the company is making good progress in moving from holding company operating model to more of an integrated operating business.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And so there's momentum behind the outgrowth, but the momentum behind the net productivity because that step-up next year, that would be a larger contribution.

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

It's going to be a large contribution next year. It's going to continue -- and again, we're going to start to bring in things around the network consolidation. So lots of pieces to this. But yes, it's -- we feel very good about \$1 billion over the next -- by the end of '27.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

Yeah. And then the third priority area was around the portfolio and what you do around capital deployment as well. You've talked about 2% to 3%. There was the precision grinding and finishing business. I think that was maybe 50 bps. Just where you are on the remaining part of that 2% to 3%? Is that something that happens this year?

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

So it will happen over time. I mean, I'm not going to put a time stamp on it. But look, we said about 10% of the company is more commodity like, meaning we didn't have the right to win in certain segments. Technology wasn't being used to drive differentiation in the space. We'll look at those pieces over time.

We said there's 2% to 3% that was more in active discussions or what things we would try to do. PG&F happened to be one. So we sold the precision grinding business, it took with seven factories, brought our factory count down to now, but just about 100 with the closure that happened as well. So we saw some good activity there. The capital is really -- the portfolio side and generally capital deployment isn't just around the divestitures.

There's activity here. I've said to drive -- to grow the company long-term sustainable top line growth we've got to shift the portfolio, and we know we've got to do that. It's both getting out of some things that don't really fit but also starting to get more into things that fit into priority verticals like we've done with the Madison Scott SCBA joint venture, which, by the way, will close on July 1. So all the regulatory approvals are done. We're going to close that transaction on July 1.

It's going to be an important one for us. It's also about organically prioritizing how we spend money inside the company. 80% of what we spend on R&D now goes to the priority verticals I laid out at the beginning of last year. And this also gets at how we do capital deployment. So there's a broad piece around this. We continue to look at the portfolio. There's no time stamp on this. We'll be smart and disciplined in how we make decisions around the portfolio.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And when you think about the margin opportunity that comes through the net productivity, just in terms of which segments see the biggest impact from that and have the most opportunity going forward?

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

I think it's -- look, it's -- you'll see margin growth across the company. And a lot of the productivity because it's an integrated network, it accrues to all of the businesses across all the portfolio. But everyone's -- each business runs into different market dynamics. I think I step it back. I think the industrial businesses will see more margin growth over time than the consumer.

The consumer business is a little bit lighter in terms of the portfolio across the company in terms of the margin performance. But I'd see more in the industrial side of the business. But again, a lot of the productivity work we're doing accrues to every one of them because it's an integrated network.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

On the pricing side of things and more pricing has had to be put in the market, just what you're seeing in terms of that sticking? Or is there any kind of demand impact in pockets of the business?

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

Yeah. So we typically would see pricing to offset material cost inflation. So if it's a 2% inflation environment, I know it's a little bit higher than that, you'd see about 50 basis points of price. As we came into this year, we said we would get about 80 basis points of price in 2026. Some to cover material cost inflation, some to cover some of the tariff impact that was there last year, which is where we're at.

In Q1, we're a little bit lighter on pricing. We didn't -- we're surprised by that. Our pricing increases go out April 1. You'll see that pick up in the balance of the year. And on top of that, we went out with an oil-based price increase.

At the earnings release, we sized that \$125 million, about 50 basis points of price. So the oil price impact, cost impact was going to be offset dollar for dollar with price. That's 50 basis points. That puts us at 1.3 points of pricing across the company.

Again, similarly to my comment on the margin expansion, you'll see clearly more price in SIBG, than TEBG and better in TEBG than the consumer business is kind of the way I would characterize it. But we are seeing that price taking hold we're very confident of that. It's a different environment today thinking about pricing we were in a couple of years ago.

When you're delivering products on time and you've got hustle in the sales force, you're bringing new products to market. You're executing better, your ability to drive pricing is better than if you're not performing. So I'm confident we'll see pricing take hold in the business, as I've just laid out.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

We saw went through an inflationary period in 2022, 2023. So across the multi-industry group, good pricing response such that margins were actually moving up. But where are we in terms of that fatigue from the customer side of things? And so is the right objective these days price dollar for dollar, it does net to -- there's a margin headwind tied to it.

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

It's -- I mean, we clearly want to offset some of the cost headwinds on inflation, oil, tariffs, I mean, those kinds of things. We're clearly embarking on a journey to offset that. But look, at the end of the day, when you bring in new products to market, you have an opportunity to think differently about price and the value you provide to the channel, and we're thinking pretty hard about that. I don't think we were maybe as aggressive as we could have been last year on pricing on tariffs. I think we could have -- we could have gone out harder than that.

We're getting smarter about this. We're governing pricing a lot better. It's part of our commercial excellence initiatives. But this is an area that it's taking a lot of time and attention for the business. We're watching sort of the discounting, the rebates, the things that happen sort of the deals, if you will, a lot times in the past, because, again, in a holding company structure, pricing was negotiated down at a very local level.

And we are seeing instances where you gave price discounts with for volumes of one. So there's really no volume coming from that. We're correcting all of that. So there's a different governance process on pricing. So when you put all that together and you're launching more products, I think our ability to drive price, it maybe get some margin expansion from prices better today than it would have been three or five years ago.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

And we probably only have time for one more so, but I want to touch on Madison. And so with that combination and talking about high single-digit growth targets, the margin opportunity that you have there, just how bringing the businesses together becomes a --

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

So this was a good -- this is a very, very important transaction. We're bringing together two complementary businesses in a priority vertical, that's a safety vertical. So just by way of background, we're creating a business about \$800 million worth of revenue, a little bit better than that. We're combining our Scott SCBA, fire safety business with Madison Fire & Rescue, so suppression tools, fire rescue tools in a joint venture, which will own 51%. We've got a 49% partner in a private equity firm.

We'll fully consolidate this. Again, it's targeting for closure on July 1. So the process of being done very, very well. The businesses together independently, we're performing very well. And together, we think it will be better.

So very complementary. It opens up a broader addressable market for us. We have opportunities to leverage channels. Scott was very important in the US market but really never took the product internationally. We have an opportunity there because Madison is more -- has a bigger presence in the international markets, particularly in Europe. We have an opportunity to get better at how we drive products through the channel within the US.

We go through similar distributors, but a lot time not the same one. So we have an opportunity to do cross-sell and just better commercial execution and how we drive business. This is a space that the market itself is pretty resilient.

It's been a high single-digit grower recently. The margins today are at who actually they're above a 3M-wide average. And when I look at cost synergies, the opportunity to take revenue synergies. This is a -- what we'd say it's a quality asset with a lot of upside. So we feel good about where we're at.

I like the transaction. And again, because of the structure, when it does close, we'll be pulling \$700 million of cash out back to the parent company from the closure of this deal again July 1. So it's a great transaction, and it will be reported to the marketplace as a separate division within SIBG. So you'll get visibility into what I'm talking about in terms of the growth performance over time starting really in Q3.

Joseph O'Dea - Wells Fargo Securities LLC - Analyst

I think that brings us to the end of our time. Bill, thank you very much.

DISCLAIMER

LSEG reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES LSEG OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2026, LSEG. All Rights Reserved.