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MMM.N - Q3 2025 3M Co Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the 3M third-quarter earnings conference call. (Operator Instructions). As a reminder, this call is being recorded, Tuesday, October 21, 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 and Financial Planning & Analysis*

Thank you. 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 while 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. The 3M team delivered another strong quarter in Q3 with organic sales growth of 3.2% and the fourth consecutive quarter of positive organic growth across all three business groups against a macro backdrop that is largely unchanged and generally soft. Our 3M excellence operating model helped drive operating margins up 170 basis points, earnings per share up 10% to \$2.19, and free cash flow of \$1.3 billion, a conversion of 111%.

Our strong performance through the first three quarters of the year enables us to increase our earnings per share guidance to \$7.95 to \$8.05. And on the back of a strong Q3, we now expect full-year organic sales growth to be greater than 2% with adjusted free cash flow conversion remaining above 100%.

Our strategy is working. Our efforts to advance our top three priorities are yielding results. Most notable this quarter is our work on commercial excellence. The rigor associated with turning customer opportunities into wins faster is clear, and we are squarely focused on accounts with the highest potential while limiting special pricing actions.

Our cross-selling program continues to outperform our expectations, and we have nearly doubled the pipeline since last quarter and closed on nearly \$30 million of new business. To reduce churn, we are leveraging predictive analytics to win back business lost or at risk. And the sales organization is stepping up its performance embracing the up-tempo operating rigor and leveraging new tools and processes to win at the customer interface.

We launched 70 new products in the quarter and 196 year to date, both up about 70% versus last year, and we now expect to launch over 250 new products this year, exceeding our goal of 215 and pacing ahead of our Investor Day target of 1,000 new products through 2027.

We continue to shift resources towards new product development, align investment to our priority verticals, and drive accountability for on-time launch attainment. And most importantly, we're beginning to bend the curve on revenue from new products with sales from products launched in the last five years, up 30% in Q3 and 16% year-to-date, tracking to be up high teens for the full year.

I wanted to highlight a few specific product launches this year that contributed to our performance this quarter. Earlier this year, we launched ScotchBlue Pro Sharp Painter's Tape, a great example of a Class 3 product in our consumer business that replaces an existing offering in this space, but with a better performance and cost profile. We're now regaining share, growing high-single digits and outperforming in the category.

Another launch in the Consumer business expanded our size offering in our Filtrete business, giving us broader coverage of the market and leading to high-single-digit growth in the category in Q3. Last quarter, we launched a new lightweight wire frame self-contained breathing apparatus, which contributed to our high-teens growth this quarter in our SCBA business and SIBG. These are just a few examples that individually are not material at the company level, but collectively are beginning to have a positive impact on revenue growth and customer perception that innovation is back at 3M.

Our second priority is driving operational excellence across the enterprise. Our efforts here are driving margin expansion, improving customer service, increasing asset utilization, and reducing cost of poor quality. Our on-time and full metric was 91.6% in the quarter, improving 200 basis points sequentially and 300 basis points over last year, achieving the highest on-time performance we've had in any quarter going back 20-plus years.

We've now been consistently over 90% for four months in a row. Improved OTIF shows up tangibly in our financial results as lower service fines, but also intangible through a better customer experience, leading to winning more shelf space and enhancing customer loyalty. Our intention now is a shift to the next stage of operational excellence, sustained or improved OTIF while simultaneously tightening delivery lead times and lowering inventory.

We continue to roll out our operating equipment effectiveness metric, which is now being systematically tracked on 229 of our most important assets, representing about 60% of our production volume, an increase of 32 assets since last quarter.

Year to date, OEE is about 63%, up 300 basis points versus last year. This focus on better asset utilization is both reducing change over time and unplanned downtime and increasing run length and run rate, unlocking incremental volume opportunities. For example, in our optical adhesives line at our Jinshan plant in China, we were able to increase utilization from 63% to 81% by optimizing visual defect controls and reducing curing system downtime, freeing up enough capacity to double our share of an electronics customers business.

Quality is another critical aspect of operational excellence and is a company-wide priority. Our cost of poor quality in the quarter was 5.7%, down 40 basis points sequentially and 150 basis points year over year. Our focus on quality has driven yield launch reductions across all three business groups as we leverage Kaizen events and AI tools to optimize changeovers, use automation to replace manual visual inspection, and deploy design for manufacturing in our new product development efforts to reduce scrap during scale up.

While we're making progress, we have a long runway for improvement toward our target of achieving less than 4% cost of quality as a percentage of cost of goods sold. Our third priority is capital deployment. We returned \$900 million to shareholders in Q3, \$400 million in dividends and \$500 million of share repurchases. Year to date, we returned \$3.9 billion to shareholders.

Consistent with what we said at Investor Day and since then, we continue to evaluate our portfolio at a profit center level to shift our businesses towards higher growth, higher profit potential markets. Addressing this portfolio will not only be accretive to earnings over time, but importantly, we'll free up management time to focus on higher-value opportunities. We previously communicated that 2% to 3% of revenue was under review for being divested.

And in the quarter, we made progress with an agreement to sell our precision grinding and finishing business within our SIBG abrasive division. While this business is small at less than 1% of company sales, it's been a drag on results with over a decade of sales declines and seven dedicated underutilized factories across the US, Europe, and China. As such, we do not expect this divestiture to be dilutive to earnings. This is a good outcome for shareholders, and it's indicative of the portfolio shaping we spoke about at Investor Day that enables us to be a more focused and higher performing enterprise.

On slide 4, macro trends remained soft and largely unchanged from Q2. But due to our strong execution, we are outperforming. Looking at our end markets. In Q2, we said general industrial and safety will improve off its low-single-digit growth in the first half, and that is what happened despite a surprisingly weak roofing granules market. Electronics was up mid-single digits and flat to the first half and was a bit better than expected.

Consumer was flat as expected, and auto and auto aftermarket were down mid-single digits with performance improving modestly in auto OE and weakening in commercial vehicles. Slide 5 pulls it all together and puts a spotlight on our 3M eXcellence framework in action in SIBG.

On the right shows 11 quarters of organic growth at SIBG from minus 6% in early 2023 to the most recent quarter at 4.1%, aligned with the key factors driving this improvement. Over this period, new product launches more than doubled. OTIF improved by 12 percentage points, age backlog declined by 13 points.

Cross-selling has accelerated, and more rigor and management focus was implemented across the sales force. But while progress is evident, we're still in the early innings as we execute on the fundamentals and extend the 3M eXcellence framework to other parts of the company. I'm really proud of the team.

Our third-quarter performance gives us confidence we're on the right track and reflects the culture of excellence we're building inside the company as we continue to drive the rigor and op tempo necessary to deliver on our strategic priorities.

As we navigate these uncertain times, we're focused on what we control, innovating for our customers, embedding commercial excellence across our businesses, improving service, optimizing capacity, reducing waste, and effectively deploying capital, 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 of the quarter. Anurag?

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

Thank you, Bill. Turning to slide 6. We had a strong quarter across all financial metrics. We delivered sales growth acceleration, continued solid margin expansion, double-digit earnings growth, and strong cash flow.

Starting with the top line. In a consistently muted macro environment, we accelerated organic revenue growth from 1.5% in the first half to 3.2% in Q3 driven by successful execution of our commercial excellence initiatives and contribution from NPI underpinned by a strong operating tempo, which resulted in growth above macro.

By geography, our growth was led by China, which was up high-single digits, with strength in industrial adhesives, films and electronics bonding solutions driven by strong commercial execution that led to share gains. The US, where we first focused our commercial excellence initiatives grew nearly 4% in the quarter compared to 1% growth in the first half, with strength in general industrial, safety and demand for Filtrete filters partially offset by market-driven weakness in auto aftermarket and roofing granules.

It was encouraging to see Europe return to growth in the third quarter up low-single digits due to strength in personal safety communication solutions, which more than offset the weakness in auto. Q3 daily order trends were up 3% year on year with growth across all business groups. Though our sales came in better than expected and aged backlog continues to decline, the strength in orders resulted in a year-over-year increase in backlog, providing 20% to 25% coverage of fourth-quarter sales.

Q3 adjusted operating margins were 24.7%, up 170 basis points year on year, driven by continued strong operational performance. Operating income grew by approximately \$175 million in constant currency, including an approximately \$325 million benefit from volume growth, broad-based productivity across supply chain and G&A, and lower restructuring costs, partially offset by about \$50 million of growth investments as planned and \$100 million from tariff impact and stranded costs.

Collectively, this contributed \$0.25 to earnings, which was partially offset by \$0.04 from FX and nonoperational below-the-line items. Our strong operating performance resulted in adjusted EPS of \$2.19, an increase of 10%. Relative to expectations, our operational outperformance was driven by higher volume and productivity as the team continued to execute our strategic priorities.

I also want to mention two items highlighted in our press release issued this morning that are excluded from adjusted results. First, we recorded a pretax charge of \$161 million related to the agreement to sell our precision grinding and finishing business.

Second, we took a \$14 million charge as we begin to invest in the long-term transformation efforts to redesign our manufacturing, distribution and business process services and locations. This initiative is different from the traditional restructuring programs we have previously undertaken like the recently concluded enterprise program, which focused on short-term actions for quicker paybacks.

Accordingly, the charges related to these actions will be excluded from adjusted results going forward. Adjusted free cash flow in the quarter was \$1.3 billion with conversion of 111% as we benefited from strong earnings and capital expenditure efficiency.

I will provide a quick overview of our growth performance for each business group on slide 7. We started commercial excellence initiatives in Safety and Industrial and as a result, we are seeing early gains with organic sales up 4.1% in Q3 and 3.1% year to date.

Growth in SIBG was led by electrical markets, up low teens as we prioritized service performance and capitalize on growth in construction of data centers. Industrial adhesives and tapes had another quarter of mid-single-digit growth as they continue to win share in bonding solutions for electronics, auto and appliances from new product introduction and better order conversion.

Both personal safety and abrasives accelerated to mid-single-digit growth, up from low-single digits in the first half driven by increased sales effectiveness and new product introductions. Collectively, this strong growth more than offset known weakness in automotive aftermarket and emerging weakness in roofing granules from the slow housing market and weak consumer sentiment. Overall, our focus on commercial and innovation excellence helped SIBG grow 4.1% for the quarter the highest growth since 2018 ex-COVID.

Transportation and Electronics adjusted sales accelerated from 1% in the first half to 3.6% in Q3, bringing year-to-date organic growth to 1.9%. While there was some discrete timing between Q3 and Q4 in our transportation safety business due to a large pavement marking project, the main drivers of growth were double-digit growth in aerospace, continued momentum in the electronics business, and automotive being flattish after a down first half.

In electronics, we're expanding from the premium segment into the mainstream with new product introductions and better sales coverage. This quarter, we won content with a major mainstream player to supply optically clear adhesives for smartphones and lower sparkle film for notebooks. In our auto business, the weak commercial vehicle sales were offset by growth due to spec-in wins and increased penetration with Chinese OEMs.

Finally, in a relatively weak consumer market, our consumer business has demonstrated the ability to grow four quarters in a row, including 0.3% organic growth in each of the last three quarters. Though consumer sentiment remains soft, we experienced strong demand for Filtrete filters, Scotch Tape, and McGuire's products supported by new product introductions, continued service improvements, and increased advertising and merchandising investment.

Overall, we are delivering on our commitments with strong year-to-date results, including organic growth of 2.1%, operating margin expansion of 220 basis points to 24.2%, earnings growth of 11% and free cash flow generation of \$3.1 billion. We also returned \$3.9 billion to shareholders, including \$1.2 billion in dividends and \$2.7 billion in share repurchases.

Please turn to slide 8 for an update on our '25 guidance. Our year-to-date sales growth of 2.1% gives us confidence we will deliver growth of over 2% for the year. Our focus on productivity has enabled us to deliver strong margins every quarter. And on the back of this performance, we are updating our margin expansion expectations to 180 to 200 basis points for the year.

As a result, we are raising our earnings per share guidance for the year from a range of \$7.75 to \$8 to a range of \$7.95 to \$8.05 representing an approximately \$0.12 increase at the midpoint or 10% growth for the year. We continue to expect free cash flow conversion of greater than 100% with absolute free cash flow dollars being higher reflecting the increase in earnings.

Please turn to slide 9. This updated 2025 guidance is ahead of the initial guidance set at the beginning of the year and positions us well to achieve the financial commitments we made at our Investor Day earlier this year. For 2026, we will provide formal guidance on our Q4 earnings call in January, but our framework remains consistent with what we communicated at our Investor Day in February, growth above macro, continued margin expansion and earnings growth, and strong free cash flow generation.

While the macroeconomic outlook is uncertain, we will outperform by scaling commercial excellence across all business units and leveraging new product launches. Alongside growth, we will improve productivity in our supply chain and G&A to more than offset investments, stranded costs, and anticipated tariff impacts, resulting in margin expansion in 2026.

For EPS, we expect operational performance to be the primary driver of earnings growth similar to this year. Nonoperational performance will be influenced by changes in interest rates and FX while tax rates should remain stable and share buybacks will continue to be accretive. Finally, we continue to expect to deliver cash flow conversion that exceeds 100%.

Before we open the call for questions, I would like to acknowledge and thank the 3M team for their strong commitment to operational and commercial excellence and focus on delivering improvement day after day. Our performance to date and opportunities ahead of us provides us with increased confidence in delivering on our updated 2025 guidance and commitments we laid out at the Investor Day.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Scott Davis, Melius Research.

Scott Davis - Melius Research LLC - Analyst

You started kind of the prepared remarks around new products. So I wanted to lean in on that a little bit because every CEO at 3M has talked about new products, but you seem to be delivering and actually getting results. What -- without spending a whole heck of a lot more, really, what do you think -- what are you attributed to? Is it -- have you changed kind of the culture of compensation? I mean, I don't know, just open-ended questions, so I'll leave it there.

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

So good question, Scott. So I'm really pleased with the progress we're making on new product introductions. And I think what I've seen over the last 18 months or so is much greater pace and rigor urgency that I think we've seen in some time.

We're tapping into a lot of latent ideas, urgency, desire from the team's product developers, application engineers, business leaders to get back to what's important at 3M, and that's innovating. And we're really trying to support that. Investments coming up a little bit. We're putting some different metrics in place. Certainly, we're watching new product introductions and they're turning around relatively quickly.

Keep in mind, a lot of these 80% of these are sort of incremental line extensions, what we call Class 3, but that will build over time and become more important. I'm really pleased to see the funnel remain relatively healthy. So while we launched 70 products, we had 130 products coming into the front end of the funnel. So it's actually very, very positive.

And the number of ideas that the teams are coming up with are now close to 1,000. So we're tapping into this desire to innovate, bring new solutions to customers. And the whole team is really responding very well to this. We're increasing our speed eliminating non-value-added type activities. We are moving up a little bit on spend.

I think in the quarter, it's up by 30 basis points, but it's not substantial. We are shifting more of our R&D dollars towards new product development. A couple of years ago, we dipped below 30%. Now it's running 35%, 36%. That should grow a little bit over time. But overall, I think the team is responding very, very well. Starting to bend the curve on revenue.

You see some of the numbers coming in Q3. We'll see more in Q4. But this is something that's going to sort of accelerate as we get into '26 and '27. Keep in mind, we said we grow \$1 billion over the macro. Half of that will be in new product introductions. But a lot of that's going to come in '26 and '27 because it takes time to move the needle on that or the growth early on will come from commercial excellence.

So Scott, it's a great question. The team is doing a fabulous job, and we're just getting started.

Scott Davis - Melius Research LLC - Analyst

That makes sense. And the natural follow up really is that historically, new products have been -- you say Class 3, that's the first time I've heard that reference on the 3M call. But clearly, more focused on maintaining or driving margin in the new product flow versus kind of what I would call kind of new product categories, which was more of the legacy. If you go back to the '80s and the '90s, that was more of the 3M way was create new categories.

Do you have a -- again, it may be hard to tease this out, but do you have a sense of what kind of an upside do we have? Can 3M actually be above -- historically, it's been kind of 2%, 3% growth company. Can it be a 4%, 5%, 6% because you're actually back to creating new categories again and driving that top line above kind of that traditional Class 3, as you call it, new product innovation.

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

So Scott, so about 80% of the launches are a Class 3 means 20% in Class 4, Class 5, which are adjacent markets or bringing new products into new markets. And we've seen a couple of this year that are quite interesting, particularly in our electrical market. It was a cable prep system, which is a Class 4, Class 5 product, that's really growing very nicely.

Look, as the team really pushes on this. I do think there's incremental ideas that we're working on. Clearly, we're seeing a bit better growth in the macro here in the quarter. The macro is running in the 1% to 2% range. So posting 3.2% in the quarter is pretty good. This will grow over time. And again, it's -- we're not going to be at 50-50 Class 3 versus 4 and 5, but you'll see more 4 and 5 come in into the pipeline into next year and into 2027.

Scott Davis - Melius Research LLC - Analyst

Very helpful. Best of luck, guys. Thank you.

Operator

Jeff Sprague, Vertical Research.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

I wanted to touch on kind of the beginning of this maybe new restructuring journey that you're on. Bill, I know even from the day you started -- maybe before you started, you had sort of a vision of what should happen with this footprint, and now you've had a lot of time to be inside and really kicked the tires.

I just wonder if you could give us a sense of is this the beginning of a two- or three-year very large project. Have you even really mapped this out yet. And sort of like what should we expect as we get into maybe 2026 as it relates to the new restructuring actions.

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

So thanks, Jeff. Look, Anurag talked about in his remarks that it's unlike the prior restructuring effort, this enterprise-wide restructuring effort that was more focused on short-term actions, quick payback. This -- what we're embarking on now is a more longer-term, more thoughtful redesign of our manufacturing network, our distribution network, our business process services, as we've embarked on our operational excellence journey, as we've seen over the course of this year, we're seeing more opportunities in G&A than I would have guessed earlier in the year.

And if we didn't really say much about this in February at the Investor Day because we've learned a lot since then. So this will be a structured improvement program over time. It won't be a big bang. It'll be maybe more of a series of actions that I think will happen over time, more aligned to the long-term growth agenda of the company more aligned to what the team can go and do.

We'll evolve this in a thoughtful way so we don't disrupt the business, disrupt the momentum we're building on new product introductions and driving operational efficiency. So this is something that we're going to continue to work on. We don't size it today. We'll give updates to investors over time. It will not be a big bang. We'll shape more next quarter.

This quarter, it was \$14 million next quarter. It will be in that same range, about \$15 million. As we get to early next year, we'll sort of frame it up for 2026. But this is something that will happen over time. We'll provide some updates on what we want to do.

But this is all about how do you grow and accelerate our margin expansion journey beyond 25% by '27, that's not where we're going to stop. A lot of the ideas we're seeing here today are going to be important ways of both returning earnings to owners as well as reinvesting back in the business. And if anything, I'm seeing more opportunities today than we saw six, eight months ago when we had the Investor Day.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Great. And then maybe just back on the growth real quick. So it sounds like the upside to the top-line view here I know you can't probably perfectly parse it apart, but really isn't a better macro outlook. There's a bunch of pluses and minuses in the macro, but you would point to just more traction on the new product-related actions.

And maybe just as part of answering that, Bill, you made a comment about special pricing actions, limiting them -- did you get the price in Q3 you were talking about or you decided you didn't need it because the volumes were better? I didn't quite understand what you were going towards what that question.

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

So let me comment on two pieces. One, on just the growth in the quarter, we're really pleased at 3.2%. We had guided, if you will, to 2.5% in the back half -- we said it would be similar in Q3 and Q4. And obviously, we did quite a bit better than 2.5%. So of that 70 basis point improvement, at least 50 basis points is what we would consider to be self-help. It's both commercial excellence and NPI.

The other 20 basis points is sort of net discrete items that shifted from Q4 into Q3, as Anurag talked about in his script. But relative to the macro, look, IPI is running around 2%. We see our blended macro around 1%, so in that 1% to 2%, we're seeing 150 basis points more or less of outperformance versus the macro. And I think at least 100 basis points of that is commercial excellence and new product introduction. So I think it's very good performance on the team, doing what we said we would do over the last year, 1.5 years.

Now on pricing, just to be clear, we are achieving what we said we would do on pricing, which was generate 70 basis points of price for the year, 50 basis points in the first half, about 90 in the back half, so 70 for the year. We typically get about 50 basis points of price to offset material cost inflation that has been running around 2%, maybe a tick above that.

The incremental 20 basis points is to cover a piece of the tariffs. Keep in mind, the net tariff impact for the company is around \$0.10, gross is \$0.20. So that \$0.10 delta split 50-50 between price actions and costs. So hopefully, that answered the question. In short, it's -- we're getting price almost exactly as we said we would do at the Q2 earnings release.

Jeffrey Sprague - Vertical Research Partners LLC - Analyst

Got it. Thank you. Very clear. Appreciate it.

Operator

Amit Mehrotra, UBS.

Amit Mehrotra - UBS AG - Equity Analyst

Anurag, on the 2026 revenue, I mean, I really appreciate you kind of engaging with us this early at least on 2026. You have this long-term margin target, maybe not so long term anymore in terms of 25% by 2027. It feels like if I just take the moving parts, 3% growth, 35% incrementals. You've obviously got a net productivity piece. You get pretty close to that number in 2026, unless there's something wrong with my math.

Maybe you can just help us think about those moving pieces and maybe if you can kind of pull forward that target for margins.

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

Sure. Thanks for the question, Amit. So the internal of that page was twofold. One was obviously to see how we are performing versus the Investor Day targets that we laid out in February of this year in the spirit of transparency and how we are performing. And second was to give a little bit more of a framework for 2026, but the formal guidance will come out in January.

So first, just as you noted, if you look at the first nine months of our performance, it's been really good across margin expansion, EPS, and even free cash flow conversion. We thought we were going to be 100% free cash flow conversion at the beginning of the Investor Day, but now we're going to be over 100%. So what we laid out at Investor Day was that we'll get to 25% by 2027.

And last year, we finished at 21.4%. So that means 360 basis points over three years. If you look at our guidance this year, it's about 180 to 200 basis points. So really, really good work that we've done in terms of our margin expansion, clearly, productivity across supply chain, across G&A has really been good through the first nine months of the year.

So where we sit today, we actually feel very good about the 25% target that we set out for '27. We're moving absolutely in the right direction around there. And come in January, we'll probably provide a refresh on where we stand on our three-year targets.

So as we get into '26, Amit, I think what we are going to see is continued outperformance versus the macro. What we laid out in Investor Day was \$1 billion over three years, \$100 million this year, \$300 million next year, and \$600 million a year after a cumulative \$1 billion. Just at our second-half performance, you'll see that we have about \$100 million for this year. And next year, we see a line of sight because of commercial excellence and NPI to get there.

On the margin side, supply chain, we've done some good work this year in a couple of times, but there's still other areas in terms of the factory spend, whether we see more opportunities, we kind of drive that harder and G&A will continue. So I think overall, you will see next year again to be a strong operating performance here. And from where we sit today, we feel pretty good about where we laid out the Investor Day targets and provide more of a refresh in January.

Amit Mehrotra - UBS AG - Equity Analyst

Okay. Great. Thanks, Anurag. And then, Bill, I just wanted to ask a question on the divestitures. I know you talked about the 2%, 3%. But if I remember correctly, that 2%, 3% was kind of part of this 10% of the 120 profit centers, umbrella that you thought maybe would be better in the hands of other people.

Are you -- do you feel like you can execute more towards that 10%? Or are we still in that 2% to 3% kind of envelope? And how do you kind of -- I know this most recent divestiture is not dilutive to earnings, as you talked about, but just curious about how you balance the divestitures or the magnitude of divestitures with maybe the EPS impact to the company.

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

So Amit, look, let me be really clear about this. The process is ongoing. We're going to remain disciplined. You referenced appropriately the comments we made back at the Investor Day and in several forums, since then about how we're thinking about the portfolio, we have 120 profit centers. We've analyzed them to identify those businesses, which we believe have high growth, high margin potential, our technology-driven businesses that are consistent with the 3M sort of heritage and DNA. We have a strong right to win versus others that aren't.

And we concluded that about 10% of that portfolio are in more commodity areas where they may no longer be a strong fit for the company where we don't have a clear right to win in this material science, technology-driven business. We're only going to be selling businesses where there's clear value to shareowners above what it would be as value to selling it to somebody else as opposed to what we would have by running it on our own.

And certainly, we're taking into account as we think through that, the lost earnings, the stranded cost dilution that the management time and effort and focus that happens on small businesses that don't perform well. We did one in the quarter here, and it was important to get that over the line. I'll just take you back to my comments in the script, we're less than 1% of the revenue and seven factories. So you can imagine what the profitability of the business happens to be.

And there's other opportunities like that. We'll analyze them individually. We'll be very smart and we'll be very disciplined about this. And this will be -- it's a process that will unfold over time. And that's the process we're embarking on to build a 3M that's a higher performance, higher growth, higher margin potential overall entity, and not every business we're in today will be part of that journey going forward, Amit.

Amit Mehrotra - UBS AG - Equity Analyst

Right. Okay. Makes sense. Thank you very much.

Operator

Steve Tusa, JPMorgan.

C. Stephen Tusa - JPMorgan Chase & Co - Analyst

Just on this fourth quarter, I mean, you did the \$2.19. I think your implied is like less than \$1.80 in the fourth quarter. I mean, I know there's some seasonality there, but I don't recall that kind of drop. I think you mentioned there was some discrete item pull forward into the third. But then you mentioned that backlog provides actually some pretty good coverage for the fourth. I think the 25% coverage was a positive comment, maybe it wasn't.

Could you maybe just provide a little more color on why the more than seasonal drop-off from 3Q to 4Q?

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

Sure, Steve. Thanks for the question. It's actually quite typical between the Q3 and Q4 from a volume and margin perspective. Volume is typically \$250 million lower between the quarter because of mainly the consumer back-to-school in the third quarter and in the industrial side. So that's pretty typical.

We also have factory shutdowns in the fourth quarter. So there's an impact on absorption. So I would say that's pretty typical step down in Q3 and Q4. This year, clearly, there is a little bit of a step-up in investments and in tariffs between the third and the fourth quarter.

The investments we thought were going to be \$175 million for the year, we're stepping it up to \$185 million, most of it in the fourth quarter, pretty encouraged by what we're seeing on the revenue side and where the investment is coming through is definitely more sales force training as we

are scaling up the commercial excellence, hiring more salespeople for coverage in other parts of the world are hiring engineers, as Bill noted earlier. So definitely, there's a little bit of a step up on the investment side and tariff a little bit more in the fourth quarter. So I think it's quite typical.

If you look year over year, which is the more appropriate comparison, we do believe that we will grow above macro again in the fourth quarter. It's going to be -- if you look at the first 20 days of the month, and from the backlog coverage, you look at orders, you look at revenue, I think we are on a pretty good trend over year, and the revenue growth will pick up, and you've got good incrementals from them. We'll continue to drive on the productivity side as well over there.

We clearly driven quite well in the nine months of the year. We'll do more on productivity and G&A. And all of this will more than offset the pickup in investment in tariffs, in stranded costs. And at the midpoint of the guidance, we would be 100 basis points of margin expansion.

Now if we continue to perform the way we have in terms of either higher volume like in the third quarter or more on the margin side, we could be at the higher end of the guidance range, which would imply a margin expansion of 150 basis points in the fourth quarter for us.

C. Stephen Tusa - JPMorgan Chase & Co - Analyst

Okay. And then just lastly, on this \$1 billion of revenue, how much did you book this year of the \$1 billion, do you think?

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

About -- you mean the growth above macro \$1 billion?

C. Stephen Tusa - JPMorgan Chase & Co - Analyst

Yeah.

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

So it would be close to \$100 million by the time we finished the year.

C. Stephen Tusa - JPMorgan Chase & Co - Analyst

Right. So that should be like substantially more next year from a over macro perspective for the full year in '26?

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

Absolutely. I mean, I'll go back to what we said at Investor Day, it would be about \$300 million. So a \$200 million incremental step-up next year.

C. Stephen Tusa - JPMorgan Chase & Co - Analyst

Yeah. But you said next year is a bigger year, right, for that \$1 billion --

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

Yes.

C. Stephen Tusa - *JPMorgan Chase & Co - Analyst*

Like it's going to take a higher share. Okay. Thanks.

Operator

Nicole DeBlase, Deutsche Bank.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Maybe just a few questions on some of the business trends you saw this quarter. So I think Electronics came in ahead of expectations. Can you talk a little bit about the drivers of that? And maybe if there was any sort of timing differential between 3Q and 4Q versus what you expected and thoughts on 4Q?

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

So just on the macro, we laid out a chart in the webcast about what's happening in the macro. It remains relatively soft, pretty unchanged from what we had seen 90 days ago or so. We did see a little bit softening in roofing granules. Anurag mentioned that in his prepared remarks. It's really the housing market is a little bit soft consumer spending is a little bit soft or they're not replacing roofs as much, which has definitely softened in the last 90 days.

Commercial vehicles is down. It was down -- I think it's going to be north of 20% here in the back half of the year, and that has weakened in Class V to VIII in North America from admissions, trends and tariffs, and some other things that are happening there. We are seeing some better trends.

I mean, auto looks just slightly a bit better -- we do -- we actually were flattish in the quarter in a market that was up a little bit. Auto builds come up just a little bit year over year. So that's okay. On Electronics, we were up mid-single digits in the front half of the year, mid-single digits in Q3. Trends there are pretty good for us. It's about 10% of our sales looks pretty good. Last year, it was low double digits.

So we're doing pretty well in the Electronics segment. As you know, we provide adhesives and films, polarizer some other things into notebooks, tablets, PCs, cell phones, we've seen good penetration of the mainstream market.

We're typically a premium provider, and we're starting to see good penetration into mainstream, which is probably 80% of the market. Lot of good NPI going in that business. So we're pretty pleased with the trends on electronics, and it's just a little bit better than we had thought 90 days ago, frankly.

Nicole DeBlase - *Deutsche Bank AG - Analyst*

Got it. That's really helpful. Thanks, Bill. And then just from a geographic perspective, encouraging to see the acceleration in China and Europe. Any key standouts there in either region that really drove that improvement?

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

So US was encouraging at coming up from the first half. I think first half was up 1%. Q3 was up 3.7%, almost 4%, which is pretty good. We're encouraged that Europe has accelerated a little bit. It was down in the first half about 1 point. It's up about 2 points in the quarter, which is good. China is quite interesting. You might recall, we grew about -- I think around double digits, low-double digits last year.

In the first half of the year, we're up mid-single digits. Q3 was up high-single digits, around 8%. So it's -- it was better than we had expected. We had expected a softening in the back half. And in fact, it accelerated a little bit in Q3. Now it might weaken a little bit in Q4 but still be up. And so, we're very encouraged with the trends here.

Remember, it's -- for us, it's a little 10%, 12% of the company. It's about 50-50 domestic and export. And the China exports in September were up about 8%. So China continues to be pretty resilient in lots of ways, but we've got a great team there. There's a lot of self-help that's going on.

We changed our organizational model in China as well as in India. And we're seeing just better performance because we're driving operational excellence is driving commercial effectiveness, a whole lot better than we might have done in the past. So part of the growth that we're seeing in China is just, I would say, self-help along with the market, but I think a lot of it self-help.

Nicole DeBlase - Deutsche Bank AG - Analyst

Thank you. I'll pass it on.

Operator

Nigel Coe, Wolfe Research.

Nigel Coe - Wolfe Research LLC - Analyst

I just want to go back to sort of the point that Jeff was get into on the NPI. I think you mentioned 15% growth year to date from new products, Bill, and 19% in the quarter. I might have got those numbers wrong. But it does suggest that pretty much all your growth is coming from new product. Number one, is that correct?

And then secondly, is it too early to judge how the margin contribution is tracking for this NPI?

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

So Nigel, look, just to be clear, the numbers, we track -- what I talked about was new product sales on a five-year basis. So going back, everything launched in the last five years. So some rolls on in the quarter and five years ago, the Q3 would have rolled off. And what we're seeing is -- because that's actually what we use that as a measure for vitality.

So we measure the five-year new product revenue as a percentage of the total revenue at points in time, we were in the high 20s, 30% vitality, maybe even a bit above that. We started the year at about 10%. We'll end at 12%, will go to 20% by '27. That's what we watch, and we want -- that will convert into revenue each quarter that starts to build.

So in the first quarter, that five-year new product sales was up 3%, in Q2 is up 15%. So for the first half, it was up 9%. In Q3, it was up 30%, which now takes year to date up to 16%. For the year, we'll be up high teens, and that's going to continue to build. That's on a five-year basis.

Some of that revenue is converting here in the quarter. I would say most of the outsized growth above macro in the quarter came out of commercial effectiveness, commercial efficiency, not so much NPI. But again, as Anurag has pointed out before, that will build over time. So early on, we'll see more commercial excellence. And then eventually, we'll start to see NPI rolling in.

But the reality is as we launch more products, it's very clear that it's changing the discussion with our customers. Even if it's a typical replacement or there's some cannibalization, it's allowing a different conversation with the customer. We're gaining shelf space, and that's really encouraging to our customers, and we're winning business simply because we're launching more products.

Nigel Coe - Wolfe Research LLC - Analyst

Okay. That's very clear. Thanks, Bill. And then Anurag, maybe on 2026. Can you maybe just give us a bit more definition on some of the margin puts and takes as it relates to the tariff roll forwards, stranded costs and then some of the productivity savings?

And then maybe a tricky one on the EPS. You talked about high-single-digit growth per year planning for '26 and '27. I'm just wondering if you have confidence that that's a decent place order for '26.

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

Okay. Thanks, Nigel. Just on the margin headwinds and tailwinds for next year, it's going to be no different from what it is this year. In fact, on the volume side, as we just add a discussion, the outperformance versus macro should accelerate next year. So you should see higher volume growth, more incrementals coming -- flowing through from that next year versus this year.

On the supply chain side, we said that we'll do \$1 billion of productivity over the next three years. We did good this year, but they'll be also finding more opportunities, which I mentioned earlier, if you look at the factory spend that we have, which is close to \$6 billion in logistics. So you're going to see a little bit more on the productivity side next year.

G&A, we're off the blocks really well this year. We're in fact finding more opportunities. We did some good work on IT side, on the indirect expense. And as we move into next year and the year after, we're also going to look at what does the strategy for IT mean for us and for shared services as well as on the indirect, there's more that we can do facility management and MRO and so on. So you're going to see good tailwinds on that next year as well.

So I would say, higher on the volume side, supply chain continuing, and G&A continuing the way it is. On the EPS side, we will give you more color next year. What -- as I said, the intent of that page was when we started the year for '25, we said we will be mid- to high-single-digit EPS. Right now at the guidance, we're going to be high -- close to double-digit EPS, 10% at the midpoint of our guidance for this year.

So we're definitely off at a very strong start right now, but we'll probably give you more color on what the EPS for '26, '27 looks like next year.

Nigel Coe - Wolfe Research LLC - Analyst

Okay. Thanks.

Operator

Julian Mitchell, Barclays.

Julian Mitchell - Barclays Services Corp - Analyst

Maybe just wanted to try and understand on the margin front. I think in the sort of TE business group, margins were fairly sort of -- it was down slightly in the third quarter, I think, despite a lot of the productivity sort of measures underway. So maybe sort of help us understand any sort of drivers within that?

And then when we're looking out over the next 12 months, is the assumption that most of the segments should see sort of similar margin expansion into next year? Or is there anything particularly moving around on mix or a calibration of investment spend?

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

So I'll add it really quickly here, Julian. Look, both SIBG and CBG margins were up about 200 basis points in the quarter. TEBG was down about 20. It's a large portfolio of businesses, mix really matters in that area, but also that's the business that's going to be most impacted by PFAS stranded costs. So that was the biggest part of the headwind. And we'll talk more as we go forward as to the margin trajectory in each of the businesses, but that's really what went on here in the quarter.

Julian Mitchell - Barclays Services Corp - Analyst

Thanks a lot. And then more broadly, I suppose we'll see in the 10-Q out in a day or two, the sort of updates on the litigation or legal front, but we've had some questions from investors around the movement in claims recently on personal injury in the last couple of months. Just wondered if you could sort of flesh out anything that you have seen there in your own tracking of that type of thing and what the next steps are on that personal injury front.

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

Yeah. So -- exactly. So Julian, you're mentioning the injury claims on the personal injury, the claims on personal injury. There's really three broad areas that we're focusing as we try to manage risk here, and we're doing -- we're working relative to mitigate risk and manage risk as we go forward.

Certainly, the public water supplier piece is -- we settled that a couple of years ago, \$12.5 billion. Very few opt-outs. We've talked before about some of the AG cases. State of New Jersey was last quarter. Vermont will happen over time. We'll see Illinois sort of in September of next year. Some of within some outside of the MDL. So we continue to drive that. And you specifically mentioned about the third one, which is personal injury.

There was an October trial date for the bellwether. The judge decided to remove that date to allow unfilled cases to be filed. This is about how he wants to manage the cases in the docket as we go through this piece. It's all about and now we're at how we vet some of these filed cases is happening right now.

You'll note in the 10-Q that there have been more cases. It's just under 14,000. Each case has multiple claims, and we're now in the process of vetting all of that. And we'll talk to investors through SEC filings and these calls as we go forward as we learn more.

Julian Mitchell - Barclays Services Corp - Analyst

Great. Thank you.

Operator

Andy Kaplowitz, Citigroup.

Andrew Kaplowitz - Citibank Cameroon SA - Analyst

Bill, as you continue to shape your portfolio, I think you already talked about potential divestitures, but maybe can you talk about how you're thinking about getting 3M as exposed as you can, just some of the mega trends that are out there. For instance, you cited strong demand in your electrical markets within Safety and Industrial, which I think is levered to data centers. So how are you thinking about the overall portfolio in that sense.

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

Well, Andy, that's exactly how we're identifying the priority verticals that we're focused on. And a good part of the company is aligned to the priority verticals. You specifically mentioned data centers. We're exposed to data centers, both inside the data center as well as outside that business for us is on the order of about \$600 million, 100 inside the data center, and \$0.5 billion outside, which is connecting power to the data centers through terminations, through splices or a variety of other things.

So that business is growing pretty well. It's probably mid-teens. So we've got really good exposure that not as much as we would like, but certainly, it's growing over time. But that's how we came up with the thinking around the priority verticals was we aligned our technologies versus mega trends in the marketplace and capabilities of the company, and that's how we came up with a strategy we laid out back at the Investor Day in February.

Andrew Kaplowitz - Citibank Cameroon SA - Analyst

Helpful. And then I think margin was the highest we've seen in quite a while in consumer, can you talk about the puts and takes in that segment? I know you said it might be harder to get price within consumer, but are you actually getting any price versus cost in consumer? Or was it just good execution that you saw driving Q3 margins?

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

It's really good execution. It's really not pricing. It's the strategy that the CBG team has laid out to focus on four priority brands. They're beyond the portfolio, SKU rationalization, their focus -- they're launching a lot of new products.

I mean, they're up more than double year-to-date and in the quarter. So their NPI is really good. The commercial excellence is really good. We're pushing more ad merch to that space. So the team is performing exceptionally well. It's pure execution.

And I would say 0.3% in the quarter. They've grown positively in the last four quarters, it's 0.3% in Q1, Q2. So it's a pretty consistent story in what I would say is a relatively weak consumer market. So purely execution, they're doing a great job.

Andrew Kaplowitz - Citibank Cameroon SA - Analyst

Helpful. Thank you.

Operator

Chris Snyder, Morgan Stanley.

Christopher Snyder - Morgan Stanley - Analyst

I appreciate you squeezing me in. Maybe only one just because we're running up on time. I wanted to ask about China. First half mid-singles, Q3 high single, so accelerating. I think it's a real disconnect versus what we're seeing elsewhere from others around China.

So I guess my question is, what do you see for China into Q4 and next year? And do you think there's any risk that maybe that business is running a little bit hot to the extent there's maybe an overproduction in China ahead of some of the tariff negotiation deadline windows.

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

So thanks for the question, Chris. Look, I'm really, really pleased with what the team is doing in China. It doesn't feel to me like it's overheating, at least from our perspective. I think what we're seeing is a more resilient economy. But I think much more importantly is just the execution by the team.

As I mentioned earlier in the call, about half of the business is going after the domestic market. There's some stimulus going into the market, but the execution of our local China team to go after and attack new opportunities is quite substantial. And half the market is on the export side, and we continue to perform really well in that space as well.

One of the key growth theme for our TEBG business in China is going after China OEMs. And to capture those opportunities, you have to innovate. You have to innovate at a pace that's consistent with the pace at which these OEMs are launching vehicles in a year or in 18 months or even less than that.

And in the quarter, we saw our ability to launch a new product offering into China to capture share with a China OEM in 10 months. So we're seeing a lot more hustle, a lot more speed, more eagerness. So I'm really pleased with what's happening in China.

We thought it would soften, it did not. It actually accelerated. We think it might soften a little bit in Q4. I don't know what's actually going to happen because the team is pushing pretty hard. But I'm encouraged by the trends, our position there, the footprint, the team, the leadership, and I think we're doing a great job.

Christopher Snyder - Morgan Stanley - Analyst

Thank you, Bill. I really appreciate that.

Operator

Deane Dray, RBC Capital.

Deane Dray - RBC Capital Markets Inc - Analyst

I'll also keep it to one question. Just circling back on the divestiture and the review of potential noncore businesses. So can you talk about the timing -- is this -- is it front-loaded? Do you want to try to get it done in the next couple of quarters or will it be an annual review?

And then related, are you restricted in any way by the courts on potentially larger exits spin-offs or is that it for spin-offs?

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

So on the second one, there's no restriction. And on the former one, look, we're going to be very thoughtful, very methodical. We're going to execute transactions as we're able to do it effectively driving value for owners. We -- it's a portfolio management is not something you think about once a year or once in the strategic plan, but it's an ongoing effort.

We clearly identified a piece of the company that doesn't appear to fit, and we're executing against that while also and really importantly, building the muscle inside the company on how we execute through the basics, the fundamentals, which is the strategy we laid out in the middle of last year. It's a focus on fundamentals, operational excellence, commercial excellence, innovation excellence. And that's really what we're spending a lot of our time on.

As we think about how the portfolio should move as we pivot the business into these higher-growth verticals aligned to the question came up earlier around mega trends in our priority verticals. So this is the path we're on. And again, we'll be thoughtful and very methodical.

Deane Dray - *RBC Capital Markets Inc - Analyst*

Thank you.

Operator

Joe O'Dea, Wells Fargo.

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

I'll keep it to one as well. But I just wanted to circle back on commercial excellence and clearly some traction that you're seeing there. But trying to understand the timeline and if you could put it in the perspective of kind of what inning you're in, in Safety and Industrial? And then talk about how long it's taken to get to that \$100 million pipeline?

Because really, what I'm trying to understand is I think your earlier days on T&E and don't know where you are on consumer, but trying to think about how repeatable what you're doing in Safety and Industrial is in these other segments and the timeline to see traction there?

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

Joe, thank you for the question. It's a great one. We're really proud of what the team is doing in commercial excellence. We have great, great momentum here, and we did start mostly in SIBG, and within SIBG, was starting in US. They then went to Europe and Asia, it's the rest of world.

And then Wendy and the TEBG team as a fast followers, learning from those lessons are drafting right behind them, again, starting in the US, then going internationally. Karina has our effort going on in CBG. It's actually building, I think, terrific momentum. It's in three areas, the pillars we call them.

One is commercial management. It's how we improve our processes and capacity at the front end. It's standard tools, it's improving our sales force. It's basic execution between our sales reps, sales manager, and how they execute at the customer interface. Part of it is a second, which is channel effectiveness, is all about how we engage with the customers joint business planning.

And that's what gave rise to these great ideas on cross-selling and the pipeline that we have that's over \$100 million of cross-sell opportunities, which we now have captured \$30 million on an annualized basis. That number is going to be bigger than what Chris laid out at the beginning of this year at Investor Day. And we're actually seeing even opportunities to cross-sell between TEBG and SIBG and consumer. So it's actually quite good.

And the third is how we improve loyalty to reduce churn. This is a great opportunity. The best way to grow is to not lose. We are reducing our attrition that comes through better quality and better on-time and full performance. So this is gaining traction. We're clearly in our early innings and this will build over time for sure. So I'm really pleased with the progress so far on our commercial effectiveness work.

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

Appreciate the color. Thanks.

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

Okay. Well, I think we -- I think that brings us to the end of the call. I wanted to thank again all the 3Mers for their continued drive towards excellence, improving every day, executing against our priorities and delivering value to shareholders and to customers. And thank you very much, and thank you all for joining the call today.

Operator

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

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