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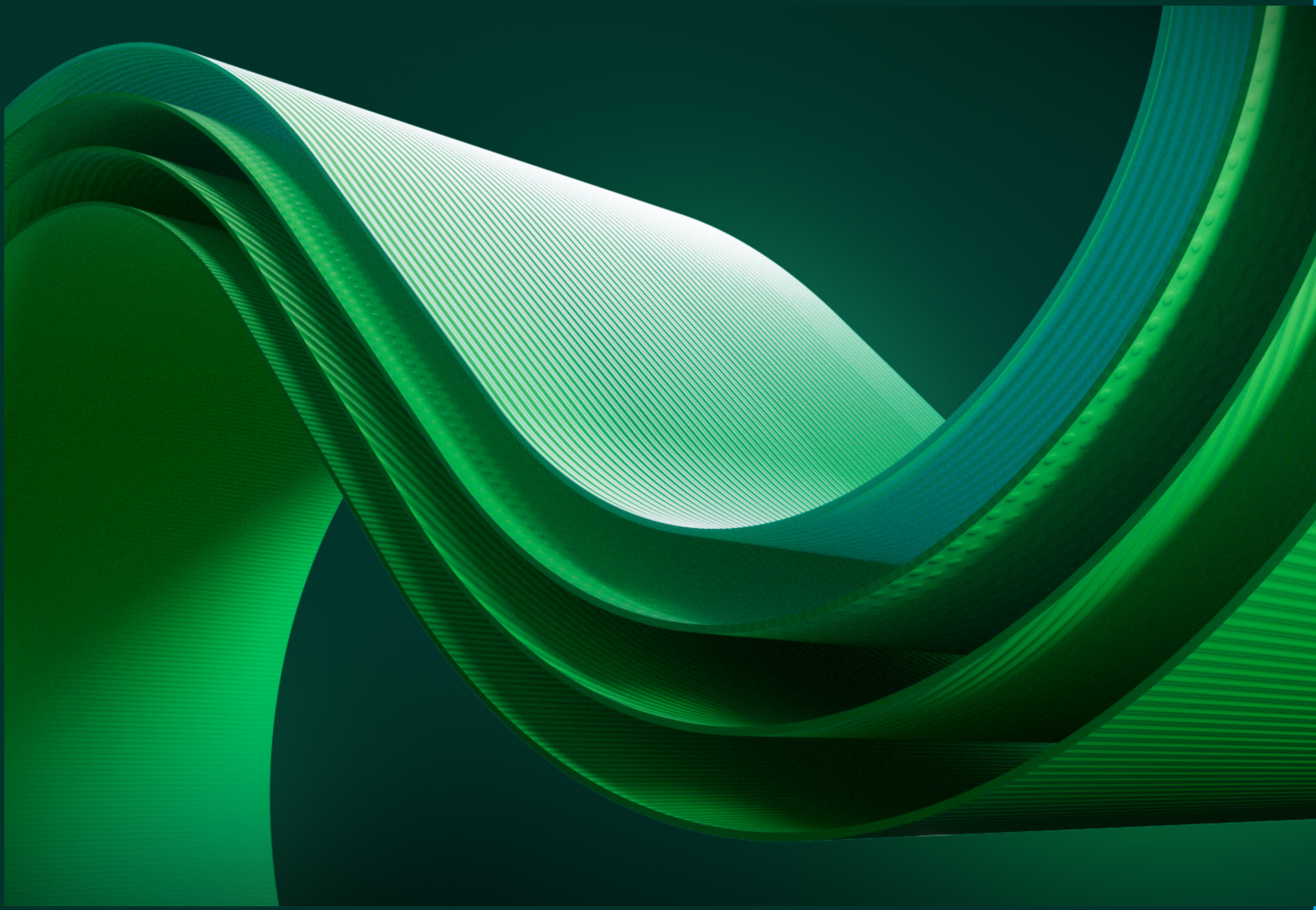

Solventum Investor Day transcript

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Corporate participants

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Presentation

Kevin Moran - *SVP, Investor Relations, Solventum*

Good morning and welcome. I'm Kevin Moran, Senior Vice President of Investor Relations. Thank you all for being here in the room. We have a full house, and my understanding is we've many joining on the webcast as well. We are so excited to be here at this point, just a couple of short weeks away from the planned spinoff on April 1.

As customary, I need to remind you that we will be making forward-looking statements today that are subject to risks and uncertainties. For a full description of these risks and uncertainties, please visit this slide at the beginning of our presentation, as well as our Form 10, which is filed with the SEC. Both documents are posted on the 3M Investor

Relations website.

Okay. As far as the agenda for today, our CEO, Bryan Hanson, is going to get us started off by giving an overview of our businesses, discussing our strong starting point, and the opportunity for value creation. Next, we'll hear from Wayde McMillan, our CFO, who's going to do a double-click within value creation and talk about our playbook from a financial standpoint. We'll take a short break. And then the leaders of each of our four segments will join Bryan and Wayde on stage for a live Q&A.

For those of you who have not had an opportunity to check out our product booths at either end of the room, those will be available at the conclusion of the Q&A. It's going to be a great morning. So let's get things started off.

[Video Presentation]

Bryan C. Hanson – *CEO, Solventum*

So listen, I'm going to start off a little unconventional just because that's the way I am. And I've been documenting this whole journey, it's been two quarters, but I've been documenting my journey, and you're going to be part of that documentation. So I'm pretty famous on social media. So if you don't want to be social media famous, Insta famous or LinkedIn famous, cover your face because I'm going to do a selfie with you behind me. If you want to be famous, just wave. Okay, ready? All right. Put this down over here. I won't be checking texts.

So, guys, in all seriousness, I'm pretty excited. I mean, this is a big day. We're not a separate company yet. This slide says Chief Executive Officer. I'm not a Chief Executive Officer yet because we haven't spun, but it feels like for the first time that we are a separate company. And I just want to say to the team members that I have here right now and the team members that are listening in, because I'm pretty sure there's a few of them right now that – just thank you, because it has been a long journey. I've only been here two quarters, but you guys have been working on this for two years. There's been starts and stops and frustration inside of that, a whole bunch of work that has been done by you to get us here. So I want to say thank you to our team members, first and foremost.

And then I want to say to the investment community, I have certain key messages I want to get across. There's a bunch of stuff you're going to hear, from the product fair, to the messages that we have, through the presentation, through the Q&A. But there are three things that I really want you to take away. I'm going to get into those in a second. But first, I want to introduce myself if you don't know who I am. So I met a few of you. I know a few of you. But if you don't know me again, Bryan Hanson. I'll be the Chief Executive Officer once we do spin, which will be soon. And I've got a deep history in med device. I've been three decades, and that means I'm getting old, but I have a lot of experience too, so that's a good combination. And in about half of that – maybe even a little more than half of that, I've been in senior level leadership positions, executive type positions. So, clearly, I have a lot of knowledge in this space.

But I think most importantly, I have a lot of knowledge and experience in transformation. And I'll just give you a few examples of that to prove it, because you can say it, it's another thing to prove it. I've been involved directly in the largest spin in medical device history with Covidien spinning outside of Tyco. And actually, this is – has a lot of similarities to that one. I've also been a part of the largest acquisition in Med device history and led that integration as the leader of Covidien inside of Medtronic. And then while at Medtronic, I led, at that time anyway, the largest divestiture in medical device history, when I sold my medical supplies business to Cardinal, which I think was a little better for me than it was for them, but either way – and then – and those are the pieces that I've been involved in the last 5.5 years or so. I've been working on transformation at Zimmer Biomet. This was a company when I started that hadn't really integrated Biomet, didn't have a clear purpose, a singular purpose. I brought that team together. We have a One ZB purpose, so One ZB mission, one team, one fight mentality. We went from 0% growth to mid-single digit growth over that 5.5-year period of time. So all different transformations, but what you find is some commonality in every transformation. There's always differences, but there's always commonality as well. And so I will leverage that experience as well as my team to make sure that this transformation goes well. Okay. That's my resume.

So let's talk on the three things I want you to take away. And these are really important because there's a lot of information coming. I'll start at the bottom because it's the most important. I absolutely see a pathway to unlocking, through the spin, significant value creation. There's no question. Full stop. I would not be here if I didn't see that. If I didn't truly believe that, I wouldn't be here. I was already a Fortune 500 MedTech CEO. You don't leave a job like that unless you see a really good path in front of you. So, I truly do believe we will create value at this organization. No question.

So why do I feel so confident? First and foremost, and I'll talk about this, we have a great starting position, better than most spins, and I'll talk about the individual characteristics of the business that give me that confidence. But I'm also a realist because I've done this a few times, and it's going to take time, and we have some challenges that we have to overcome. So think about this in years, not months, and I'll talk about what those challenges are and how we're going to overcome those. But the key message is great starting point, good foundation, the ability to manage through some challenges, it'll just take time, it's a very clear path, will drive value in this business. Okay? So that's really the takeaway of the conversation.

Now, I got to do that in basically three building blocks. I'm going to call them chapters of the presentation. The first one is a business overview because this business has been buried inside of a much larger business. So you probably don't know much about us. Quite frankly, I didn't know a lot about this organization until I started digging in, right? Obviously, I think that's just the way it is. So I'm going to give you some insights into what we do, the subsegments of our businesses, the markets that we play in, where I see opportunity right now, and where I see some opportunity for improvement as well.

Then we're going to move to the building blocks that I talked about. I truly do believe we have a good starting point, and I want to be able to go through each and every one of those that should give you confidence that we have a good starting point. And then we get to the value creation portion of this, that's where I'm going to talk about some of the challenges. We do have some things we're going to have to work through, but I have confidence that we can do it with the team that we've built. Through working that and leveraging that strong foundation, we will create value.

So let's start with the business. This is not a small business. This will be the top 3 spins in med device history. So it's a big deal. Global scale, over $8 billion of revenue last year. We create a lot of cash, which was very attractive to me when I started to look at the asset. We have a stable business because we're very diversified, and we have a deep history of innovation at 3M, as you would expect. That means we got a lot of sub brands that will survive the spin without having to leverage the 3M name. That's an important takeaway.

And we have diverse businesses. This is the reason why the business has been so stable. We have diversity in business, and we have diversity geographically out as well. So you can see the four categories that we have, I'm going to get into each of these. But what's clear is there's some commonality, but there's distinct business lanes as well. We use intellectual property across a lot of these businesses that are common, and we also call on some of the same customers. So there's a benefit to having these together. But what we can say is there's also a benefit of having them being diverse. So we have diverse set of products, we have a diverse set of geographies that we call in, which again allows more stability in this business.

So let's go to MedSurg. That's our biggest category. You've had some chances to look at the products here, but this is really broken down into two major categories. One is infection prevention and surgical solutions, and the other is advanced wound care. This is 56% of our business, so it does matter quite a bit, as you can imagine. And we've got a $26 billion diverse market that we're playing in. It's a very large diverse market and it's attractive, growing 3% to 5%. What's clear, and I'll talk about this through the presentation, is there are subcategories in this market that we would have a right to play in given our commercial structure, our brand name that we're not playing in that are much more attractive than this 3% to 5%. So there's an opportunity in this business as most of the businesses for our portfolio moves, either organic or inorganic over time, that would allow us to scale in those very attractive subcategories. Okay. So that'd be a clean message, a clear message that I'll be sending throughout the day.

So if you think about this business, what we're focused on is to bring solutions to market that allow for accelerated healing and reduction of complications. The whole concept there is we can get patients better faster, and we can make sure that we do that at a lower cost. If you think about where we really stand out here, we've built markets. We have been first to market in two major areas across wound care, and also I.V. site management. With our negative pressure wound therapy, we were first to market. With transparent dressings, we were first to market. And as a result of that, we have really strong brand recognition in this space. When you look at negative pressure wound therapy, it's our V.A.C. system for traditional negative pressure wound therapy, and it's our Prevena system for single use. And Tegaderm is a – it's a staple. It's been out there for a while. When I was a younger guy – much younger guy, competed against that technology, and it was the bane of my existence because it was that good, very challenging to unseat. It's just great technology. And it's one that we still leverage today.

From a commercial standpoint, which is a change for me from orthopedics, we have a direct commercial channel, hallelujah. It's fantastic. A direct commercial channel, you're going to find that to be pretty consistent throughout these businesses. That gives you a lot of optionality in the way that you manage your direct commercial channel. We do use distributors, but we mainly use those for extended reach and also for fulfillment purposes. Think about Owens & Minor, Cardinal, that kind of thing.

And then we call on, as you would expect, hospital systems, we call on surgery centers, and in this business home health care, as well as actually payers, given our negative pressure wound therapy business.

So if I break these businesses down first on infection prevention and surgical supplies, the largest business we have here is actually our surgical solutions. Unfortunately, it's not the fastest growth category of this, but it is where we have a lot of our revenue today, and we have really strong brand recognition with products like Bair Hugger. If you've been in the operating room, you've probably seen Ioban surgical drapes. They're used almost as a staple in most procedures. And if I think about this business, although it's not fast growth today, we have a commercial infrastructure and brand recognition that would allow us to go into near adjacencies that are attractive. So again, not overly fast today, but a really good jump off point to some really attractive MedSurg businesses.

I.V. site management is the fastest growth category of this category today. And it's where we have a significant opportunity to be able to leverage Tegaderm. Again, it was the first transparent dressing for I.V. securement. And it's not only great from the way you apply it, and believe me, this is a complicated product to apply, you wouldn't think so, but it is. It's very easy to apply. And, of course, because it's 3M, the adhesive quality is fantastic, very difficult to unseat. It's very sticky with our customers. And I mean that with the pun intended. It is very difficult to unseat this product. But on top of those properties, we also have CHG embedded in it. We're the only ones that do that have antimicrobial properties in it. And as a result of that, we can secure the I.V. site, but we can also protect the I.V. site. So, an attractive business for us.

If I move on to advanced wound care, really three categories here. And we separate negative pressure wound therapy out as a separate category just given its size. That's the largest category we have here. And unfortunately, it's not an overly fast growth category, but we see an opportunity to accelerate that growth, not just our growth, but the overall market growth. And there's really two reasons why. The first one is there's a fast growth submarket that we call single-use negative pressure wound therapy. And that's where we're going to double down with our Prevena technology. And the second is that we see significant under-penetration in this business. There are a lot of patients that could use care of negative pressure wound therapy that do not have access to it today. We actually estimate only 10% of patients that should be using this technology are actually using the technology, because it's difficult to use. It's a little bit complicated to use. You wouldn't think so, but it is. And so it's really in the highest acuity centers is where this lives today. So any patient outside of the high acuity areas is not getting access to this technology. And as the market leader, it's up to us to change that. So I see a real opportunity to increase penetration over time through a very focused effort. I'm just going to call it as – I think my business peer here loves to say, the – democratizing this technology. How do we make it easy for everybody to use and make sure that everybody has access to it? That's our responsibility as a mission-driven organization.

Advanced wound care, this is the fastest growth category that we have in our subcategories here. Unfortunately, we have a lot of gaps in our portfolio. We have great brands. I mean, Tegaderm is a great brand known in wound care. And we also have Coban, which is a compression dressing that is absolutely known. But there are significant fast growth categories in advanced wound care that we do not play in. And again, we should be able to play in those and we should be able to win. And we can do that through organic or inorganic methods over time.

So moving on to Dental, this is about the same size business as Health Information Systems, 16% of our revenue, two major categories in preventative and restorative therapies and also orthodontics. It's another attractive market, $17 billion. It's good growth at mid-single digits. And I would say in this market, even though you have some larger players, it's still relatively fragmented and would give us an opportunity at some point in the future to potentially consolidate, build more scale, and become a more substantial player in the more attractive areas of dental.

So let's talk about what this business is focused on doing. They try to bring solutions that would really span the life of the tooth, anywhere from preventative treatments like fluoride to restorative treatments when something goes wrong with your tooth to aesthetics, how do we make people smile, look better through our orthodontic solutions? And we're very well known for our ability to bring a Filtek composite to market, which was the first tooth-colored composite that would be used for cavity filling and restoring teeth. And that brand really lives on. It's a strong brand. It doesn't need the 3M name. It's a strong brand on its own.

Now, I'm going to just ask you a question, I mean I kind of already know the answer. I want to see a show of hands, anyone who's ever had a cavity filled. Okay, I think we've got people that tell the truth, because I know that it's 90% of adults have had a cavity filled. It is very likely because of our penetration in the space and the fact that most cavities are filled with tooth-colored composites, that you already have our composites in your mouth right now. Now, if it hasn't gone well for you, that was the competition. But for everyone else is happy, that was our technology.

Now, we also focus here with a direct commercial organization, which again is fantastic. As you would expect, we call on dentists, we call on orthodontists, we call on the place where dental work gets done, universities, group practices. And we have significant partnerships here that we leverage for a reach perspective, our distributors for reach – again, extended reach and fulfillment purposes.

So, if I break down this business and I look at our largest, which unfortunately is not the fastest growth, but there are some fast growth subcategories, it's restorative and preventative solutions, and restoration is the biggest part of that. And that goes down to the various components of restoration. Now we have the composites, which again would be Filtek, it's the biggest brand known. We also have the adhesives and the cements that go along with that. And as you would imagine, again, as 3M, our adhesives are very, very good, and the Scotchbond name is very strong, and again will survive the spin of 3M.

On the orthodontic side of the equation, this is actually where some of the fastest growth categories in dental live. Unfortunately, that's not where we play today. We play in the slower growth categories today, think fixed braces, but we have opportunities to be able to expand in those faster growth areas using our Clarity clear tray aligner. That's a very attractive market. But here, we really have to take a look at how do we leverage the deep material science that we have always had at 3M, but also the data science and digital science capabilities that we have in our HIS business, begin to combine those so that we can provide solutions that are unique in the market and get access and scale in that fast growth submarket of aesthetics, which is also very profitable. That's future, that takes innovation, but that's where we need to focus this business.

So Health Information Systems business, this is the one I had no idea what it was. So I've read a little bit about it, had some ideas. This is a really cool business. And I think there's a one plus one equals three opportunity here that we got to figure out over time. But I'll explain this business as best I possibly can. But remember, I have two quarters in here, so I don't know everything, but I'll give you a sense for what it does. So first of all, it's three subcategories, revenue cycle management being the largest, then we have performance management systems, and then clinician productivity solutions. And this is a big business for us. It's an attractive business. It's a $9 billion US market. It's just the US market and it's growing 6% to 8%. And in the categories we play in, it's pretty profitable business as well.

So what are we doing in this business just to kind of state what it is we focus on. It's really using software packages that we provide that take a deep knowledge decades-earned knowledge of clinical intelligence and then artificial intelligence to provide software solutions that ultimately streamline the process and the way the caregiver works. And as a result of that, gives them more time to work with the patient. And while we're doing that, we're collecting the data needed to be able to code and ultimately reimburse so the hospitals can get paid, right, so that's kind of in short what we're focused on.

We are a leader in computer-assisted coding technologies. That's kind of where we started. But we were the first to take that capability and combine it with clinician productivity solutions. And that's important because if you take the clinical documentation and we improve it, that means that we get better data that then goes into the revenue cycle management process, which means you optimize reimbursement, which is pretty important for an account, right? That's the way you get paid. So this is where we lead today. Again, a direct commercial organization. We have a lot of partnerships, technology, as well as industry partnerships, we're involved obviously with every major EHR in the US. And as you can see, we call on a wide breadth of customers from hospitals to surgery centers to governments to payers.

Okay. So let's take a look at describing what we do. And it's kind of a beginning, middle, and an end. The beginning is the clinician productivity solutions, then it's revenue cycle management, then it's performance management solutions. So think about it this way. When a clinician is caring for a patient, they have to take notes. They have to be organized first and foremost to make sure that you're caring for the patient. Well, you got to know what you're doing with the patient. But also those notes are used, as I said before, as data points that are used for coding purposes so that we can get reimbursement for that work that has been done because that's the way the process works. It starts with data, moves to the software and revenue cycle management, and then we have quality checks, if you will, on our performance management solution. So that's the process. Let me dig into it a little bit though.

So there are challenges with notes that we deal with today. Number one, they take time. Clinicians actually have to write the notes, which is frustrating for them. And it takes time away from dealing with the patient or working with the patient. So that's the first one. It just takes time. The second is a lot of times data is missing. So they're filling out the notes. They're doing what they're supposed to do, but they're missing important data. And the third is that we have unstructured data. You're supposed to put it in structured format so that you can pull it, use it for coding purposes, but it goes in an unstructured way, and you can't access it in that way or not as easily anyway. So we've acquired a company called M*Modal. We have deep artificial intelligence capability in our own organization. And the combined organizations are looking to offset those challenges, to mitigate those challenges. The first thing is we use artificial intelligence to actually nudge and remind the caregiver that you're missing information that could be used for coding. As an example, if somebody just says a patient had pneumonia, but they don't describe what kind of pneumonia it is, that could impact the type of reimbursement you get or if you get reimbursement at all. So it's very important for this AI system, which is obviously smarter than the human being because they can remember more, to be able to nudge the human being to make the change needed to get proper coding.

The other thing you can do is reach into unstructured data because it knows what it's looking for, vast data set, imagine just an amazing amount of data and find the things that we need to be able to do appropriate coding. And the other one is to actually through a technology partnership we have look at ambient listening. So we actually have the capability, we're just launching this now, to listen to common language through our system, pull out the words that are being used when the caregiver is talking to the patient or to caregiver team and use that information to build the notes for the team and all they have to do is edit it. Now our belief is as we do this, we can reduce time for note-taking, obviously. And probably because artificial intelligence, again, pretty much knows everything because of the data set that we have to work with, the accuracy and the completeness of the data is going to be better, which eventually will lead to better reimbursement – more optimal reimbursement. So once you create the data set, it goes into an EHR system. We then pull it out of the EHR system using our 360 Encompass software package for revenue cycle management. That is a decades-earned proprietary algorithm that we have to take this gigantic data set, pull it into appropriate coding so that we can get optimal reimbursement. And again, this is important for our customers because that's how they get paid. And then we check the quality of that – our performance management systems.

Okay. So that gives you an overview of what we do in this business. It's a really cool business with a lot of really smart people in it, but we need to figure out how we leverage more across our other businesses.

All right. So our last business here, not last – last but not least, is our Purification & Filtration business. This has four subcategories to it, which I'll talk about in a second. It's 12% of our business. It's a smaller business, but it's in a huge market, $41 billion market, and it has very attractive growth rates as well. If you focus on what they're looking to do, well, number one, they want to use the deep knowledge that I think everybody knows 3M has in filtration but also membranes so that manufacturers can bring biopharmaceuticals and devices to market, microelectronics to market, and make sure that we have clean drinking water. So a business that really does fit the mission of this company.

If you think about it, most people know that we're a market leader from a 3M perspective in filtration. But what you don't know, a lot of people don't know anyway, I didn't know, is that our membranes are used in a lot of lifesaving activities as well. 25 million dialysis treatments a year are made possible because of the membranes that we have and the technology that we have, and a million open heart surgeries that use oxygenators also use our membranes. So very deep connection to the mission of a MedTech company.

This is a direct sales organization. And as you would imagine, we call on anywhere from manufacturers of devices and biopharmaceuticals to you at home. If you want to go on Amazon, get our filtration system, that would really help the revenue and I would appreciate that. Okay.

So let's go to bioprocessing filtration because that's the biggest business. It's the fastest growth business. It's a profitable business. And obviously, it's where we spend a decent amount of our time. You probably saw the Harvest RC brand that we have over here. This is known in this space. And it is really a technology that we use to speed the process of getting – to getting drugs to market and making sure that we do so in a lower cost way. Now, you can imagine during COVID when a lot of us were hunkered down and hiding, with masks on, this team was working 24/7, literally 24/7 in our manufacturing facilities in Connecticut. And they did yeoman's work, intense work for months to make sure that these products could get to market and we could get the lifesaving drug therapies to market as well. So if the team is listening, thanks for doing that. I actually had talked to them about it before. They feel very proud about that, and they put a lot of work in over those months.

In our drinking water filtration, we sell to commercial institutions and also to residential. Again, as I said, you could go on Amazon, you can buy a filter made by 3M to be able to have a certain fountain that would have clear water, or you could do a whole house filtration as well. And then we also do commercial. And my favorite story on this one is that we support McDonald's for clear and almost mineral-free water. And you would think when I've heard about that, I'm like why does McDonald's care about mineral-free water? It's not really because of the water. It's because of the Coca-Cola, right, when you go to that fountain and you get a Coca-Cola at McDonald's, it tastes exactly the way it's supposed to because the water is not messing it up. So the next time – and I know all of you do go to McDonald's, you pretend like you don't, but you do. When you get a Coca-Cola at McDonald's know that we help that taste. Okay. And then the membranes, membranes for us again, as I said, it's used in lifesaving treatments, in dialysis and in open heart procedures.

Okay. So that's the businesses. That was a quick run, talking a little bit fast, but I wanted to give you an education on those businesses. And again, importantly, that we're in attractive markets. We're in attractive markets. Now, let's talk about how that parlays into the building blocks that I talked about. So I'm going to break this up into two categories. The first one is attractive markets, leading positions, strong brands. That's huge. That takes a long time to get to you guys. It's a much more challenging situation if you're not in attractive markets. Believe me, I know that because I just did it in Zimmer Biomet. It takes longer as a result of not being in attractive markets, and it increases the risk of performance.

But second to that, the second major category is that we have strong capabilities – innovation capabilities and scale in those markets, and we can leverage those as we go forward. Okay. So those are the two big takeaways. Let's break it down. If we look at the markets, I think the biggest takeaway is attractive, large, diverse markets. But we're not in certain subcategories that we need to move into. It will take time to do it, but we need to move into them through organic or inorganic methods so we can take our weighted average market growth rate up, right, take that weighted average market growth rate up so our business can perform better than it is today. And we do believe the trends in each of these markets would indicate that we have sustainability in these market growth rates. And as I said before, in these attractive markets, we have strong sub-brand recognition that does not depend on 3M. Make no mistake, 3M is a great brand. When you hear 3M, you think quality. That's why the reason I came here. When 3M calls, you pick up the phone. So that brand is strong. But we have very strong sub-brands that will survive the spin and are meaningful to our customers, which means in these markets we have trust. We have created markets through the technologies that we brought to bear. So we do have the trust of our customers in these attractive markets.

And it's not surprising, we've had decades of innovation as a result of 3M, significant intellectual property that differentiates these technologies. Over 7,300 patents, over 2,100 – this is in our organization, not 3M, 2,100 R&D engineers in our organization. We spend 7% of our revenue in research and development. I will right-size this one because this includes our Health Information Systems and also some amortization in this. So if I take Health Information Systems out of it, because their COGS basically is R&D, because it's a software business. If you just take that out, we're really still spending 4.5% to 5% though. So 4.5% to 5% in research and development is healthy spend, and that's what we have to work with. And what people probably don't know, and I'm trying to educate on, and I'm trying to understand how I leverage this even better is we have a deep data and digital science capability as well because of our Health Information Systems business. This is what others are trying to get to in MedTech. We already have it, and we have it in spades. And I'm talking about artificial intelligence and automation capabilities that we have right now in this organization. And we need to not just leverage it in Health Information Systems, we got to be able to port that capability so that we can benefit the other businesses within the organization, and that will take time. That's innovation. But I think there's a real opportunity to leverage this capability that most companies don't have.

And now, when you create these great technologies, you have these great innovations, you want to be able to get global launches. And we have that global reach. We have a large global commercial channel. We have a large commercial channel that allows us to launch products in a scaled way. We need to make sure that we're taking advantage of that. And we have manufacturing around the globe as well. So diversified manufacturing as well. And when you add all those up, it would say that, what do you have? Well, you've got a pretty consistent performing business. It's low growth, there's no question about that. It's low growth, but it's consistent. Over a decade it really hasn't changed that much, which says you have stability in your markets and you have stability in your business and diversification in your business that you're leveraging, which then means that you have a pretty profitable business that spins off a lot of cash. And now these are going to change. Obviously, these metrics will change as you spin. There's a kind of a reset to your numbers for various reasons that Wayde will get into. But clearly, we're in a good starting point when it comes to a solid financial foundation. Okay.

All right. So what gives? Right. So if you have all those great things and we're not performing what gives, right? That's the value creation story. Because I'm going to talk about now some of the challenges that we have in this organization that we can fix as a result of the spin. And I want to – just be clear, this is a good business. This is not a business that is in trouble, but there's an opportunity to unlock value that just isn't there right now. And if I look at it – again, I said we're in strong markets, we have brands, we have spin, we have global scale, but we're not performing in the market today. I think there's three major reasons why that is, and why I believe the spin will unlock value. The first is that we don't have the metrics that we're focusing on that you would focus on in MedTech. They're industrial metrics. That's more margin expansion in cash. I was in there with Tyco before. We acquired, we stripped businesses out, we got the next company, acquired, stripped businesses out, always focused on margin. We did not focus on innovation at the same rate, right, because that really is what drives growth. So that's number one.

Number two is you just don't have a lot of decision rights when you're a sub-business because there is a hierarchy in place and you're further down in the hierarchy. And as a result of that, your decision rights are limited. And your ability to leverage capital is limited because you're competing against that same capital with other businesses. Now obviously that's different when you spin out. So those are – that's probably the biggest reason. The second is that our weighted average market growth. And just to be clear, that means that it's the market growth based on our revenue – our revenue

– based on our revenue, that gives you a different level of market growth. That WAMGR is below the overall market growth.

And that's important because, as I talked about in some of these businesses, our biggest revenue is in those slower growth subcategories, which means you're at a lower starting point than the overall growth of the market. That's very difficult to overperform versus the market, if your WAMGR is lower than the market. That just speaks to portfolio management and focus on your portfolio management. And then even in the WAMGR, we're underperforming. And that speaks again to number one, and it speaks to not having – we're probably just doing too much. We're spending the money. We got the commercial infrastructure, we have R&D spend, we have capability. We're just trying to do too much. We're not focused. So, I'll talk about how the future state will change as a result of the spin. But these are the things that I've isolated in these couple of quarters that we need to address, and it'll just take time. It's a very clear path, but it'll take time.

The second is the spin. If you think about any spin, it's distracting. There are a myriad of things that we're going to have to focus on, not just up to spin, but post spin. You're going to have a team that will be very dedicated to this, but it'll be distracting for everybody. And I'm not going to get into all those. But there are two major themes that I want to pull out of this. Number one, and this is basically all spins, we have a lot of debt coming out of the gate. Part of the reason why somebody spins is to get that midnight dividend. If they get the midnight dividend, we get the debt. Now, I didn't want to have a lot of debt. I asked for less debt. But you get what you get, you don't get upset. That's what my parents always said. And so that's what I'm going to do. We're just going to get what we have and we're going to move forward. And I'll talk about how we're going to mitigate this through this gentleman over here's a capital allocation strategy.

The second one is a little more unique to us. It's not as typical. This is much more entangled business with 3M than I expected. I've not seen this kind of entanglement. Certainly at Covidien we didn't have anything like this when we spun out of Tyco. We were pretty separate business. But there's a reason for the entanglements. If you think about intellectual property as a MedTech thinker, I think of patents. And with a patent you just give field of use rights to that patent and you're pretty much separate at that point. The difference is the intellectual property at 3M is really literally intellectual property. It's know-how, it's process, and the way you protect intellectual property is to verticalize to make sure that you're your own sole source provider of that material, so you don't give those secrets to somebody else. And because of that, we have a deep connection in a sole source environment with 3M, billions of dollars we're selling that are connected to sole source arrangements with 3M as you would expect. So I didn't realize that, but it makes sense to me now.

Now, the benefit of that is we have great intellectual property that's protecting our business. And 3M has been kind enough to give us a very long runway in sole source arrangements so that we have plenty of time to be able to move away from or disentangle from 3M. The negative on this is just going to cost money. It's going to be expensive because it's very broad and it's going to take some of our best and brightest to be walled off and focused on this rather than innovation for a period of time. But there's some good to this, there's some bad to this. I just want you to be aware that this will be something that we're going to be focused on for some time that most organizations through a spin wouldn't have to.

Okay. So how do we make sure that we take those challenges and turn them into opportunities for value creation? First of all, you spin, right? If you think about a spin, what does it do right away? It attracts great talent at a senior level of the business market that you're in. Because if I take Wayde McMillan, my CFO, who's a public company CFO before this job, if you would have called him and said, hey, why don't you come over and run the Solventum sub-business of 3M, and you can be a Vice President of Finance? He would say – he'd just hang up the phone. He wouldn't even answer the phone. But now, you've got this size and scale spinning out. He's picking up the phone and joining the organization in the first quarter. So that's the difference. Once you spin an organization out in this size, those industry experts at a high level are then attracted to it. Once you get the right talent in that knows the space, you get the right metrics. Once you have that as a decision team, you make faster, more agile decisions. And once you do that, you change the focus of the organization. And then obviously, the capital allocation follows those metrics. So again, basic blocking and tackling, parenthood and apple pie. But this is the kind of stuff that people spin businesses for and create value.

So, let's look at the talent because to me that's where it all starts. In a very short period of time, it kind of speaks to the opportunity here, I was able to attract a team – some 3Mers that have been here for a while that will keep the continuity and basically the history of 3M alive for this team, that connection back to who 3M is and how we leverage that going forward. And then a lot of new teams and functions and team members that are brought over that have deep experience in MedTech and all have transformation experience, spin experience on both sides of the equation, that's really important to me because in a situation like this that will be so distracting, I cannot have anybody learning on the job. You got to come in, you've got to already been there, you've got to have already done this and you've got to be able to run your function while also focusing on the spin from 3M. And that's the reason why I went external in this situation, because I needed people that had been there and done that and lived this because it is hard work. And I tried to scare every one of the people that joined to say this is going to be hell. It's clear work. It's not that it's complicated, but it's a lot of work. And all of these people knowingly and willingly still joined, one of which worked for three months without getting paid, which is fantastic. I appreciate that, Amy.

All right. So let's go on. So that's the first thing, talent. Are you allowed to do that because I don't know if I just broke a rule there, I don't know. Okay. All right. Is it volunteering? It's volunteering, I agree. So, we wanted to then start with the name because we want to shift the mentality of this business. We want to get people excited about this business. We want to get people's hearts and their minds wrapped into this business. And we wanted to start with the name of the company. And we wanted to go to what do we want to accomplish as a team. We want with urgency to solve problems that matter for our patients and our customers and we want to do that to create momentum for them and for us. But we're going to do it with urgency. We're going to do it with speed. We're going to do it with purpose. And that's how we came up with basically solving problems momentum, Solventum. We even use with the logo, I'm not supposed to call it a logo, but I like to call it a logo, the S that looks like an infinity symbol because it basically says we are going to be maniacal, we're going to be relentless in solving problems. We are Solventum. We never stop solving for you. That was the whole meaning behind the name is to create momentum in this organization and excitement, and it worked. I can tell you it worked.

Then we take that and we move to the next slide, which is basically the road map to the mission. What I found is very important in an organization is people have to feel connected to the bigger purpose. They have to know why their job, all 22,000 people in this organization are helping this organization accomplish the mission. And in health care, the mission and the purpose is meaningful. Our work helps people get better. I mean, that's inspiring. That gets you excited. It's hard work, but you're at least doing it for a good reason. So this is the why we do what we do, the how we do what we do, and where we need to go as an organization. And what we – I promise you, this is not just a slide. This will be an indoctrination of the organization. People will understand the mission. They will understand the values and the culture of this organization. They will live with them. They will understand the strategic pillars. We'll have sub-pillars that will go all the way down to the organization. So everybody's objectives will go up to these. This will happen in 2025. It's not going to happen this year, but in 2025. This is really important to me. And in my previous organizations, when I would do a survey, 90-plus-percent of my team members would say, I not only know the mission, I not only know the strategy, but I know how I contribute to it. That means there's focus. That means there's alignment. That means there's teamwork. That's really important to successful businesses.

And we can't do it all at once. The biggest risk you have in a transformation is breaking something because you're trying to go too fast. And I am not a patient person. I always say that patience is my middle name, but my first name is no. And so the problem is I'm not patient, and I've got to be careful then I'm not going to break something. And I'm very comfortable with the organization being uncomfortable. As a matter of fact, when you're uncomfortable, that's when you're learning. But if you're not careful, you can push too hard, you could break something. So we want to come up with phases of how we're going to make this transformation happen. And when you look at these, they look like separate phases. But in reality, they're connected, deeply connected. So if I think about the first phase. It's kind of where your mindshare is. It's hearts and minds. How do we get people excited and connected to this business? It's understanding where we have challenges associated with the business beginning to mitigate those, and it's obviously working through spin transaction items, right? So that's where my mindshare is right now. And then when my mindshare shifts to a true strategic plan, it doesn't mean one stop. You're always going to talk about mission and culture that happens forever, it's perpetual, but the mindshare shifts then to the strategy. How do we then align, again probably in 2025, the actual strategy – long-term strategy of this business? And then from there, when you get one and two down, you move to three, which is more transformation, but you don't want to go to transformation until you get one and two working really well, because again you go to transformation too fast, that's when you break things. So that's the concept of this phasing.

And just a couple elements that I'll talk about in Phase 2, which is the strategy. This is where we're going to change the metrics of the company. And the number one thing that we will focus on is driving growth, accelerating growth in this organization, because that makes great things happen in MedTech as we all know. That means innovation. That means change in our portfolio, probably change in our commercial channel. But we need to focus first and foremost on revenue. We'll focus on margin expansion and cash because that is the fuel to invest in revenue growth, right? So – and Wayde will talk more about this and how we create value in those areas, but that'll be a big part of that shift in focus and strategy for the organization.

And one of the big elements of that, which is second in that – second phase, is to be very disciplined in where we are going to spend our time, what submarkets and where we're not going to spend our time. One of the hardest decisions you'll make is where you're not going to spend your time and resources, but where you are. And once we choose those markets, again based on fast growth subcategories, then we're going to create growth drivers inside of those, we can build scale and differentiate ourselves and we will again be maniacal and biased in our resourcing and R&D and commercial infrastructure and incentives, operating mechanisms, everything to drive those growth drivers. Okay? So that's where we're going to work on in that other section. So it's going to take us a little time to get there. But that's the goal. And then eventually we'll optimize, we'll de-lever, we'll use our strong cash creation to be able to look at portfolio optimization. That could mean that we're acquiring technologies or products or maybe even businesses that would be attractive for us to build scale in those fast growth areas that we've chosen. And it may mean that we move businesses out that don't fit our strategy or they don't meet our financial metrics, but we don't do that until we get one and two stable. Okay.

All right. So hopefully you can tell I've got a little excitement about this and I believe there's a clear pathway to value creation. And the things that I said were challenging. I believe that we can with time overcome. We will have the right team. We will have the decision rights. We will have the right metrics. We will have a different view of how we do portfolio management for the right reasons. And we will have extremely focused organization biasing our resources to growth drivers so that we're focusing that significant spend that we have so we get better outcome from that spend. And then from a spin perspective, again, there's really nothing I can do about the debt. But the good news is, as Wayde will talk about, we have a capital allocation strategy and good cash creation that says we can buy down that debt over time and increase that financial flexibility. And quite frankly, we wouldn't be ready to do transactions for a while anyway, right? We wouldn't be – we just wouldn't be ready.

And then from an entanglement standpoint, again, I can't change this. There are some benefits associated with it, but it's going to be very hard work. It's going to cost a lot of money, and it could be distracting, but the way you reduce the distraction, and what we're doing right now, is we're building an isolated team, a walled off team of some of our best and brightest in R&D, some of our best and brightest in manufacturing and regulatory. So that we have a dedicated team walled off from the day-to-day operations and the day-to-day operations is walled off from that. So we've got to do it. It's going to cost us money, it's going to take time, but at least we can separate it from the day-to-day operations of the business. And I hope through that information that I just gave you, and what Wayde is about to give you that, you'll see there's an opportunity here for real value creation as a result of the spin. It will unlock value. It's going to take time. This is not months. It's years. I just want to make sure people understand that. But there's a clear pathway. The risk associated with this is low because we're in attractive markets. Anybody ever see that movie, Back to School, Rodney Dangerfield. It's not the Triple Lindy. Okay. It's just a regular dive into the water. It's just going to take time. Okay. I'm going to pass it on to Wayde for the financial section.

Wayde D. McMillan – *CFO, Solventum*

All right. Good morning. Good morning. It is so great to see so many familiar faces here from the investment community joining us here in New York City, New York Stock Exchange, as we get ready to launch one of the largest health care companies in the world and to stand up a brand-new public company. Like Bryan, I'm so excited and proud to be here with the Solventum leadership team and representing our over 20,000 employees worldwide.

So as Bryan said, we are very excited. We have a really unique opportunity here. And it's unique because, as Bryan said, we're underperforming. So we've got a turnaround, an opportunity to really improve the business. And we also have a spin. Both of those could – as catalysts, could unlock significant value, each of them individually could unlock a lot of value, and we've got both. We've got an opportunity to have this turnaround inside of a spin. So that's what gets us really excited about the opportunity in front of us.

So as Bryan mentioned, I'm going to pick up on that third key message around value creation and give a playbook or a formula for how we're going to do that. So we can see on the slide, on the left-hand side are four actions. These actions are really capturing that strategy that Bryan just laid out in our focus areas and feeding them through this financial lens. I don't know for all of you that may be fans of the rule of three. We're breaking the rule here. Rule of four. We've got four actions that will feed four financial metrics. These are the key financial metrics that when we drive and improve them, we will drive significant shareholder value.

The first being revenue acceleration. That is our number one objective and the one that will create the most value for us. As Bryan just covered in our strategy, a lot of focus on improving that revenue growth rate over time. We've got great markets, 4% to 6% markets, that if we can get our growth rate back and get our share of those growing markets, as Bryan said, improving our WAMGR, we will significantly improve the revenue growth rate of this business. When we do that and do it in profitable areas, we'll expand our gross margins. Doing that will improve our free cash flows. We'll manage our capital allocation well. And doing that again will give us significant shareholder value creation here.

Now, back to the four actions on the left. Building on a strong foundation. We have to execute that separation that Bryan just talked about really well, reposition ourselves for growth, and then again working on efficiencies to fuel that growth. So let's dive into the first one, building on a strong foundation. I grabbed a couple of Bryan's slides and pulled them in and again, thinking through a financial lens here, very durable, very diverse revenue streams across four segments, across the globe, just over half our revenue inside the US, just over half outside the US. And on the right-hand side, all of these capabilities that we bring with us from 3M, again a really strong foundation, really strong team, all the talent and employees that are moving over from 3M to Solventum, and the capabilities that come with it.

Global scale, real opportunity for us to leverage that global scale, data and digital, and material science capabilities coming over. We are so impressed by the teams around our data and material science capabilities that we get coming from 3M. And then those strong brands that Bryan just covered, really strong brand recognition in the marketplace.

So there's several other capabilities listed on the right, but let's just go back to the left for a second. These four segments, each of them are very large, diverse businesses. MedSurg, it has a great position, leading positions in hospitals around the world. The dental business, very strong brand recognition, great relationship with customers. The purification filtration business, one of the ones that I didn't even know existed in this business and got to really understand it. This business has carved out some really great niches in a very large market, and they've got some great opportunities for growth. And then lastly, HIS, Health Information Systems. We think about this one like our secret weapon. The digital data capabilities, the strong software engineering teams that we have around the world. The access to data, we're embedded in the hospitals. This is primarily a US business, almost all of the revenue we have today sits within the US. And as Bryan's slide showed, we're in over 75% of US hospitals. We are sitting at the heart of MedTech in health care in the US hospital system. We have that data. We got the teams that understand how to manage it. So after being in MedTech for a long time and seeing the strategies of a lot of other businesses in MedTech, we have what many other MedTech companies are trying to do, trying to get that talent, trying to get that capability, and have access and ability to manage that data. So pretty excited about this strong group, strong foundation of four segments that we have to stand up this business.

Now, let's move on to the second category, executing on our separation. We've got two slides here. The first one is around the reset that Bryan mentioned. Of course, with any spin, there's going to be some headwinds and things to deal with. And I'm going to foreshadow guidance a little bit here across three of the main financial areas: revenue, adjusted operating margin, and free cash flow, talk about each one of them individually. So starting with revenue. This business has historically been a low-single-digit grower. In fact, last year in 2023, we were just over 1% growth. There's going to be some headwinds to that as we move through the separation for the next couple of years, certainly some business continuity challenges.

We have to move ERPs, transition our enterprise resource planning systems. We have to separate all of our distribution channels, all of our supply chains. There's a lot of work to separate entities around the globe. We're in over 90 countries. The list goes on. There's a lot of work. In fact, every single function in the company will be distracted. They'll be working on things for the separation away from their day-to-day jobs. But that's just the way it goes with separations. And like Bryan – having been with Bryan at previous separation from Tyco Healthcare into Covidien, we know how this goes. We know what has to be done to ensure the teams stay focused on the day-to-day business while they'll deal with the separation. But we certainly have a lot of work to do. And we've got one more project on here called SKU rationalization. Just want to give you all a heads up that we'll be taking a fresh look. The spin gives an opportunity for the business to take a fresh look at the tens of thousands of SKUs that we have across our businesses around the globe. We'll be thinking about lenses like profitability, volume, to make determinations on what SKUs we should potentially rationalize and set up the business for more efficient growth going forward.

Moving over to adjusted operating margins. Again, historically solid operating margins in this business. But we're going to have to deal with a few headwinds here as well. Some will be ongoing. Some will be onetime in nature. From an ongoing stand up – from an ongoing standpoint, we'll be creating new global functions to support a public company. Like any separation, we'll have to make the investments to stand up some of our support functions on a global basis. We also have some markups on the supply that Bryan mentioned, that really important IP supported products that 3M will produce for us for a period of time. We're going to have a step up in the costs for that that we'll pay to 3M.

The benefit is, as Bryan said, we've got really strong IP associated with those products. It's just we're going to have a step up in cost to pay to 3M as we separate. And then, of course, there's cost to disentangle. An example of this is we'll be standing up two new manufacturing facilities around the world to be able to move manufacturing lines from 3M plants into our own Solventum plants. So a lot of work to do as well as some cost.

And then on the one-time basis, again, like any other separation, but we have to make these investments, we have a lot of other separation agreements that we have to pay a markup on. So we'll be paying more than we typically used to pay from our allocations in the past. And then we'll have some one-time separation costs. These are things that you have to do, will take a few years. They're onetime in nature, but we have to spend the money in order to separate systems, processes, teams, entities around the globe.

Then moving over to free cash flow. Again, this business has historically had strong free cash flows, and we will in the future as well. One of the benefits of the foundation that we have, really strong cash flow generation. But it will also be impacted by the spin. The number one largest by far impact to our historic free cash flows will be the interest that we'll have to pay on that new debt as we separate.

You can see a few other things here. We'll have some one-time operating margin impacts due to the separation and those one-time costs. We'll also have increased Capex. A lot of this will be related to the separation activities. We have to make investments, as I mentioned, in systems and facilities to separate. And then there'll be an impact to working capital as well. As we separate teams around the world, our working capital could potentially be less favorable than it's been in the past, but of course, these are just again a reset to our base, which gives us a new opportunity to work from.

Second slide on separation. I'm not going to ask for show of hands like Bryan did, but I'm not sure how many of you have got through all 900 pages of our recently formed, public Form 10. We understand it's pretty voluminous out there, but it is the result of a lot of hard work. I see a few hands in the audience, thanks. It is a culmination of a lot of work from a lot of teams around Solventum. So first, I just want to say thank you. A lot of work goes into a lot of the areas of separation. The Form 10 was one that took significant effort. So it's all those that contributed across Solventum. We appreciate it.

We're going to do you a favor here and summarize some of the key elements of that. And on the left-hand side, we've got the main separation agreements and the associated timeline. On the right-hand side, some the costs associated with those separations. So you can see the first three: manufacturing, distribution, and services, services being things like IT and accounting. The first three pretty typical of any spin, in that two- to three-, four-year timeframe to separate these two companies. At the end of this, we will have created two world-class companies.

3M will be successful in its initiative to stand up Solventum as its own world class company. But a lot of work needs to happen over these next two to four years. And then a very unique one at the bottom. And Bryan touched on this earlier around supply. And you can see a very long timeline there, up to 10 to 12 years. And that's a result of all of that amazing technology, amazing technology platforms that we're going to get from 3M that supports Solventum's products, but also supports 3M products. And so we're going to go through a long process. This is the team Bryan mentioned that we're going to have to invest in, stand up and wall off so that they can complete this work. Working with the 3M business to get that IP, that know-how, those processes, and either in-source them to our own Solventum manufacturing facilities or outsource them to third party distributors. But at the end of this, what's important is Solventum will have control of its own supply, producing our own components. 3M will be – doesn't want to be – 3M does not want to be a contract manufacturer for a long period of time. So we'll be able to separate the two. We'll be our own supplier and 3M will have successfully spun off the business. It's just going to take some time.

Right-hand side, categories to – of an increased cost due to the separation. I mentioned the investment in standalone functions. We also have to stand up our global commercial infrastructure. So we had a lot of countries around the globe where we had combined entities, combined offices, combined commercial teams, all of that's been underway. 3M has done an amazing job of setting up its separation management office and planning for the separation for the last couple of years. And so we've had the opportunity to plan, but now we're working through those separations, making sure that we have the right commercial teams to support Solventum separate from 3M around the world. Lot of work in this area.

We talked about the supply continuity with the timeline and the one-time separation activities. Just a note for those for modeling purposes, anything onetime related to the separation we'll be calling out in our non-GAAP reported numbers. And then one note on the longer term, we've just called out here – this is really just for modeling purposes. It's a heads up that in year four, 3M has an option to again step up the cost of the, cost of the products that they're going to be supplying us. We've got that estimated right now at about $100 million step up in year four.

So let's move on to repositioning for growth. This was captured really well in Bryan's presentation. All the areas that we're going to be focusing on to improve revenue growth over time, you can see them down the left here, disciplined portfolio management, strengthening our commercial model and its execution, improving on R&D performance, as well as accelerating M&A. That's going to take some time because, of course, we're going to work through our capital allocation and debt paydown, but eventually we'll be able to get more aggressive and fill in some of those portfolio gaps that Bryan mentioned. When we do, when we're successful doing this, capitalizing on the spin, we'll be able to increase our revenue growth rates, get them up to market levels.

Last, let's go to that fourth action, optimizing to fuel growth. What this really means is we'll have a lot of activity in the business paired or in parallel with that effort to increase revenue growth. We'll also be focusing on efficiencies. We'll be positioning that revenue growth in more profitable areas. Our operations team, manufacturing teams, logistics teams will be working on efficiencies in manufacturing and our supply chain. And then I mentioned we'll be standing up functions on a global basis. Teams are looking at how to do that optimally today, but it's never optimal out of the gate. So we'll be working on efficiencies across our global functions over the next few years as well.

If we do that well, that will help us accelerate our free cash flows, improving revenue, improving profitability. And then we'll also be paying down debt. At the rate we pay down debt will lower interest expense and that will improve our cash flows. Disciplined capital management as well. Working capital management. We have to do this really well. We'll be working on getting back to the levels we were at, at 3M and beyond over time. And then prioritizing Capex, we have to do a good job of prioritizing where we're investing our capital paired with the growing business. Okay.

The last slide on our fueling to support this business, so where we're going to be focused and an important area for us is disciplined capital allocation. In order of priority here, the number one thing is debt paydown. As Bryan mentioned, with any separation, we have debt to deal with. And we're going to focus the first 24 months of our free cash flow heavily on paying down debt. We were successful in our first credit ratings, working with the credit rating agencies. And they've rated us investment grade. We're very proud of that. We want to maintain that investment grade rating. In order to do that, we have to pay down our debt pretty significantly over the first 24 months.

Next, another primary area for capital allocation is going to be investing for growth, focused on supporting capacity expansion in areas where we're growing the business as well as innovation. And then the third priority, returning capital to shareholders. We don't have an update in this area yet because we have to work with our board of directors on settling on what we're going to do for dividend and share repurchases. But once we have those decisions made with our board of directors, we'll be able to give them to you all.

Okay. Lot of opportunity, a lot of excitement across those four actions. Just before I turn it back to Kevin to talk about what we're going to do for the break and then move on to Q&A, let's talk about our 2024 guidance. We've got three categories for guidance: organic revenue, adjusted EPS, and our free cash flows. You can see from an organic standpoint, we're going to be negative 2% to 0% growth. On the right-hand side, we've summarized a few of the things that we need to think about as we set that guidance. Certainly going to have some spin-related disruption and that SKU rationalization project we talked about.

We're also entering a normalized pricing environment. The business has benefited the last couple of years pretty significantly from elevated pricing benefit, like many in the industry, through a pretty heavy inflationary environment. We're expecting a more normalized price environment from here. And then at this stage, we see a neutral FX impact or nominal FX. So no FX impact on our guidance at this point.

Adjusted earnings per share, $6.10 to $6.40. Again, a few things to think about as we set that guidance. We talked about the 3M agreements where we have a step up in supply cost and the stand up – our standalone functions as a public company. I should have mentioned, a few of these assumptions on the right are just for first time modeling purposes. We're not going to provide guidance on all of these levels, but understanding we're a complex business, large business, we wanted to provide this color to the right. The three metrics for guidance on the left will be what we do consistently going forward to get started.

So again, some color on adjusted earnings per share, 21% to 23% will be our starting point. We also have an estimated $400 million of additional interest expense related to that new debt. Our effective tax rate, we're starting with 20% to 21% and a share count out of the gate of 173 million shares. That leaves us with free cash flow. We're targeting $700 million to $800 million. And that includes Capex of approximately $400 million to $500 million.

So hopefully that helps you all from an initial modeling standpoint to get us started. Let's wrap it up where we started. Bryan mentioned that third key message around value creation, how excited we are to be here and how attracted we were to this opportunity. And it really comes down to this, those four key actions on the left, driving these financial metrics to create value. We're going to focus on building on that solid foundation that came over from 3M, executing the separation, repositioning ourselves for growth, and fueling that growth by optimizing and getting more efficient. If we do that, we will be creating significant value for this company over time.

So thank you all for being here today and helping us on an important step to launching Solventum as a new public company. We are incredibly excited and look forward to joining you on this venture and reporting out to you in the future. So thank you.

Kevin Moran - *SVP, Investor Relations, Solventum*

Okay. We're going to take a short break now, give you an opportunity to grab some more coffee and give us an opportunity to get the stage set up for Q&A. So let's just say we'll start at 10:25. See you then.

Kevin Moran - *SVP, Investor Relations, Solventum*

Okay. We're going to get started here in just a moment. If I can get the clicker to the right area. All right. So joining Bryan and Wayde on stage are our leaders of each of our 4 segments and you've not had an opportunity to hear from them yet today. So I think it makes sense. I'm going to ask each of them just to do a brief introduction and maybe share why they're excited about the spin. Vaughn, do you want to maybe kick us off?

Vaughn Grannis – *Division President, Purification & Filtration*

Sure. Good morning. It's good to be with you here today. My name is Vaughn Grannis. I lead our purification and filtration business. I'm a long-time 3Mer, originally started out technical, mechanical engineering about halfway through my career. I moved over to running various businesses at 3M. About 8 years ago, I joined the purification and filtration business, specifically running the bioprocessing filtration business. And then over the last couple of years, have taken on more responsibility until today, I'm very proud to lead purification and filtration.

What I'm most excited about, I think you heard it in the presentation this morning from Bryan and Wayde. It's the focus on growth. It's what we want to do, what we're excited to do, and we've got, as you heard, great opportunity with that, with the team that Bryan has brought in, it's a different tone, it's a different plan, it's a different focus, and that's exciting. But I'm also glad that they've got the experience of spins. I think we have a clear-eyed plan for the amount of work over the next couple of years. And it's pretty monumental. But the good thing is we've got a team that's done it before. And so we're ready to execute on it and take us to the future.

Kevin Moran - *SVP, Investor Relations, Solventum*

Thanks, Vaughn. Garri?

Garri Garrison – *Division President, Health Information Systems*

Good morning, everyone. I'm Garri Garrison. I lead our Health Information Systems business, lovingly referred to by Wayde as the secret weapon. I've got lots of texts during that because my team liked that name. In my work life in the past, I actually was a partner in a health care consulting firm, that was acquired in the '90s by 3M. Since that time, I've led many -- I've had many different leadership positions and took this role about 3 years ago. What excites me is the opportunity that we have to really transform our portfolio, really invest in our portfolio to really drive a reduction in the administrative burden that we see in health care today, whether that's actually in the revenue cycle processes or in how a physician or clinician works and then also being able to have the insights from data that can actually help us drive quality improvement in health care.

Kevin Moran - *SVP, Investor Relations, Solventum*

Thanks, Garri. Chris?

Christopher Barry – *Division President, Medical Surgical*

Chris Barry, I lead the MedSurg business here at Solventum I'm a short timer at 3M. I've been here roughly 2 weeks. So but I've had over 25 years in med tech. Most of that was with Tyco/Covidien/Medtronic, which I met these 2 guys and many others in the room along that journey. And then more recently, I was the CEO of a company called NuVasive.

Listen, I was so excited about this opportunity because I'm passionate about building a culture, I'm passionate about developing and attracting talent, I'm passionate about clarifying strategies and ultimately ensuring that we execute. And I saw that opportunity here. That, coupled with very great people that you see on the stage and other people in the front row is what brought me here, and I couldn't be more excited about the future.

Kevin Moran - *SVP, Investor Relations, Solventum*

Thanks, Chris. Karim, bring us home.

Karim Mansour – *Division President, Dental Solutions*

Good morning, nice to meet you all. So my name is Karim Mansour. Maybe you can hear with the accent. I'm a little French. So that's about me. But more seriously, so 18 months in the job leading the dental solutions business at Solventum. Prior to that, a carrier made of multiple assignment from finance background to business leadership position around the world. I got to live in the U.S., in Europe, in Latin America, so a good sense of international business management. Truly energized and excited about the journey ahead of us. As I said before, it's one thing to be 4 businesses out of 20-plus division in industrial conglomerates. It's a different thing to be 4 businesses, 4 segments, making a health care company called Solventum with a great potential ahead of us. So truly excited about that.

Questions and answers

Kevin Moran - *SVP, Investor Relations, Solventum*

Thank you. Okay. let's get started with the Q&A. Let's not overcomplicate this. We're going to keep it very simple. Just give me a hand, nod, eye contact. We've all done this before. (Operator Instructions) David, do you want to get started?

David Roman - *Goldman Sachs – Managing Director*

Thank you and good morning. David Roman from Goldman Sachs. I have two questions, a strategic one and a financial one. I'm sorry I haven't gotten back into the habit of taking my one question and asking seven parts, so I'll get back there eventually. So on the strategy side, you talked about closing two gaps, Bryan, one is the WAMGR to the market growth and then the market growth to your growth. So I think you've talked about your end markets. If I look at the Form 10 growing in the 5% range, so you say the WAMGR's maybe 3% to 4% or something like that, you're in that 1% last year. You're talking about flattish growth this year. Can you maybe just talk through in some specifics the closing of the gap in each of those areas? And then the one thing I think it was very helpful, you sort of talked about timelines and some of the financial pieces, but maybe you could talk about some of those timelines around the top line.

Bryan C. Hanson – *CEO, Solventum*

Okay. Great. Yeah. Those are less parts than normal for you, for sure. And so maybe I'll start and then you might take the financials. So I would say that the biggest things that we're going to concentrate on right out of the gate is that identification of where we're going to spend our time and resources. Today, we're just trying to do too much. And again, for all the right intent, but it's just too many things at one time. And so we're going to get disciplined around that market selection and the growth drivers. And the first thing you can impact once you do that is your commercial structure.

The good news is it's not incremental spend we're talking about, maybe a little, but it is just structure change. So if you're going to choose negative pressure wound therapy, for instance, as an area of concentration and market development, you've got to have specialization of your organization to be able to drive that. We don't have that today. And so when you pick these areas likely what's going to happen is that infrastructure we have around the globe, will then change to more specialization. The incentives that we have will change as a result of driving growth in those areas. That's the quickest way you can get to growth if you already have the technology.

The other thing is, if you don't have the technology and you have gaps, that takes a little more time. But it's still straightforward because we have the capability in research and development to do it. Now, we just got to point them in the right direction for the right solutions. If I just use negative pressure wound therapy again as an idea, you've got to have specialization but you also have to have the right product. It's a complicated product to use. So it's up to us to innovate ways to make it less complicated, so that we can democratize it. Again Bob I'm going to continue to use your words, so that we can have everybody use it, and expand that presence because it's the right thing to do.

Not only is it good for us, it's good for the patients that need it. Patients that heal faster do much better. If you don't heal fast enough, you can lose a limb, which is a major problem that we need to overcome. So those are the key things. It's commercial infrastructure. It's the quickest way to get there, but that's still a couple of years to get in place and get it working correctly. And then it's research and development. And then eventually, as we stabilize, we'll look at tuck-in acquisitions as well.

David Roman - *Goldman Sachs – Managing Director*

And then maybe on the financial side, sort of -- if you sort of break it into 2 areas, your capital allocation. One is, call it, like your obligatory capital allocation, which is debt service, the stand-up costs associated with setting up corporate functions and a real -- a stand-alone public company, then the sort of the discretionary side, which is how you're spending R&D, higher spending Capex. As you look right now at how you're allocating your resources, you talk about 7% R&D, 4.5% to 5%, excluding HIS, is that in your opinion, optimally allocated across the businesses? Or is it sort of like peanut butter spread across the different areas? And how are you going to ensure that you're putting money, your resources in the right places?

Bryan C. Hanson – *CEO, Solventum*

Maybe I'll start, if you don't mind. So whether or not it's optimal, I don't know yet. I mean what I would tell you is it's good.

It's a good amount of spend. We're not getting the output from that spend right now, which is a little frustrating. So what I've got to figure out first is how do we spend the money we already have better, right? So I want to spend time on that first. We will have incremental spend in R&D because we've got to separate that team, as we talked about before, and that will take -- that's research and development dollars.

The challenge with that is you're going to get some of our best and brightest doing that versus innovating, which is a little frustrating. But to me, I just want to use the money we're spending today better, make sure that the R&D that we have at the center that is very capable engineering is deeply connected to the needs of the business so that we're focusing that attention in the right areas. So to me, it's getting to use that R&D money better, get better outcome. And then when we see gaps in portfolio that we haven't been able to fill by using the money that we have now better, then we'll increase the spend if we need to. So if you've got great bolt-in items, for instance, then you increase the spend and you drive that growth, it's one of the lowest risk ways to do it.

Wayde D. McMillan – *CFO, Solventum*

Bryan, I'd probably just pick up on what you had talked about in the presentation around metrics. So I think including R&D and innovation and I think the Presidents of our businesses may talk about this is particularly through the pandemic, the focus, where innovation was focused. And so with us – where we're going to be thinking through our MedTech lens and thinking about top line growth versus solely on the bottom line, we've got an opportunity to shape that portfolio differently. So just like Bryan said, we'll be looking to optimize that over time. And – but we do that through new metrics and things that are more typical for MedTech companies. And I think as a result of that, we'll be able to start to fill in some of those gaps where we see higher growth opportunities that may not have been invested in before. I don't know if the Presidents have anything to add there from – how you've thought about your innovation pipeline.

Bryan C. Hanson – *CEO, Solventum*

Well, that's putting them on the spot.

Wayde D. McMillan – *CFO, Solventum*

Yeah.

Garri Garrison – *Division President, Health Information Systems*

I'll just add from HIS during the pandemic. We spend a lot of our time just making sure our customers could stand up their temporary hospitals if they needed software to do that. And so we were focused on that more so than I think on our pipeline during that period just because of the nature of the need and that we had so many of our customers that were impacted.

Kevin Moran - *SVP, Investor Relations, Solventum*

Let's do Rick over here.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Thank you very much. Rick Wise, Stifel. I guess I'll follow David's excellent model and ask two questions upfront. You talked about the strong foundation, Bryan, and Wayde you talked about taking digital capabilities to the rest of the company. I'm fascinated by that. And I was hoping that you could tell us what does that mean? What's it mean for growth? What kind of investment time required? Do you have the talent to do it? The divisional guys can comment. I'll let you wherever you want to take it, but that sounds exciting. And last, the – when I think about the most important question of all, of course, what are your long-term top line and growth aspirations and operating margin goals? I mean, I know you're not going to give us guidance, but as we think about – you want us to think about the next three to five years, where are you going, and where operating margins are not going to be, I hope – we hope 21% to 23% in five years. What are you dreaming about? What do you want us to reflect on? Thank you.

Bryan C. Hanson – *CEO, Solventum*

So thanks for the questions. I'll answer the first, and let me pass the second since it's harder to you. And what I would say is, first of all, you didn't ask either question that I told you to ask. So I'm going to remember that. How do we use this digital capability? So digital and data. So a couple of different things that we're thinking about. And I just want to make sure this is percolating. It's not actually something we're doing right now. And it will take some time. But the goal here is to say, how do we take a technology and a capability, add it to the other businesses and have a one plus one equals three, right? Can we do that as an organization?

The things that I'm theorizing on, and it's more just that right now is a couple of different vectors. One is taking the competency set that we have, again in digital and data science, that artificial intelligence and automation, and leveraging it across the businesses. So if you think about dental solutions, there's a real opportunity to take the material science capability and that digital science capability, combine it and have unique technologies that others can't do because it's a competency set that not many companies have. So that's one potential way that we could leverage it.

The other is just the dataset that we have access to. It's a huge dataset because we're basically in 75% of the hospitals plus in the US. And as a result of that, we have a lot of data around outcomes, whether or not technologies work or they don't work. If you just think about contracting, as an example, today we have every hospital almost using our technology in revenue cycle management, but we don't contract with our other businesses even though they're in the same entity. So is there an opportunity to just contract together and get that volume benefit? And also, a pretty sticky contract because if you can contract against both of those from a volume standpoint, no other company can compete with that because they don't have both categories.

If you think about more of a value-based health care, everybody talks about this forever. The big challenge in doing value-based health care models in contracting is the dataset. You don't have the dataset, we do. So as long as the customer allows us to use it, we can actually say what your cost is today, what your outcome is today, and we can show whether we've bent the curve or not with our technologies. As an example, if you use negative pressure wound therapy, we can tell you whether you reduced infection or not. And that's something that's very difficult for other people to do. So how do we leverage that in a way going forward to market our own technologies or change the way we contract?

The other is just if you look at trends with this data, could you see inflection points, and then what's creating the positive inflection, and could we potentially know something that others don't about a technology, go acquire it before the company knows what they have, right? There is an opportunity to see things that others can't. It's like having sonar where someone else doesn't. Those are the things that I'm theorizing that we could potentially do.

Now, what we have to do, because we've got a lot of work ahead of us just to get the businesses running well, is get a separate team, almost kind of like an executive in residence that would come in, build a team around, and be walled off from the day to day as a business and start to brainstorm on how we leverage these businesses differently. So it's going to take some time. We've got to learn more. But these are the things I'm theorizing right out of the gate. It could be pretty exciting.

Wayde D. McMillan – *CFO, Solventum*

Yeah. I'll just pick up on the guidance. We anticipated we might get this question today, Rick, because we've got 2024 guidance out, but we don't have a longer-term or even a midterm guide yet. It's going to take us some time to put that together as we develop the strategy for the business. Having said that, we do have a lot to deal with over the next couple of years. So the message as we laid it out today is we have this really unique opportunity with the spin to reset the base and we've got a lot of separation-related headwinds and activity that we'll be working through over the next few years. And then from there, along with other projects around efficiencies, we're looking to drive significant value over time, but we just can't put numbers to it yet. We'll provide you with those updates as we go over time.

Kevin Moran - *SVP, Investor Relations, Solventum*

Okay. Let's go with Vik in the fourth row there.

Vikramjeet Singh Chopra - *Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst*

Vik Chopra, Wells Fargo. A couple of questions. I'll ask one first and then the second one after. So just want to talk to you about your expectations around price. Can you just talk about what your expectations are on the company as a whole and also by segment and just what your pricing strategies are as you separate?

Wayde D. McMillan – *CFO, Solventum*

Sure. You want me to take, start with that one, or...

Bryan C. Hanson – *CEO, Solventum*

Yeah. I would just say one thing that – and then I think this is really in your wheelhouse. We have benefited, as we said, over some better pricing dynamics as most MedTech has in – as a result of that, we've seen our performance over the past few years benefit by that. So you can kind of do the math, but if you look at that pricing versus volume that would say that volume has been pretty weak, but pricing has been strong. And what, you could count on some of that being sustainable if you have put together the right mechanisms to make it sustainable. And we haven't seen that yet. So the way I would think about it is, do you have kind of a pricing czar in place, the systems around that czar, and the controls in place to be able to improve pricing? We haven't done some of those things that would make that pricing benefit sustainable. So as the market begins to move away from inflation and you see pricing come down, we haven't created anything new that would allow us to be able to benefit going forward. Does it mean that we won't do that eventually? But right now we just don't have it. Go ahead.

Wayde D. McMillan – *CFO, Solventum*

Yeah. I think you covered it really well, Bryan. The only thing I'd add is that we are, as we set up our guidance for 2024, a more normalized pricing environment, typical of MedTech. And so to Bryan's point, we don't see that added benefit that we've got the last couple of years sustaining as we go forward. We won't be breaking out our guidance between price and volume other than to say we think we're going to be more in this normalized environment going forward.

Vikramjeet Singh Chopra - *Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst*

Right. Thank you. And the second question was on dental, maybe just talk about some of the obvious gaps in your portfolio. Thank you.

Karim Mansour – *Division President, Dental Solutions*

So let's put it this way first. The good news is we are fairly integrated across the oralcare discipline. That's an important comment I'd like to make, because if you think about it, we do have presence in dental, think about prevention solution. Bryan said it around fluoride treatment. You think then about ability to restore tooth and replace. This is an important sub-market within the dental market. And then you go to orthodontics. And so what I'm suggesting here is that we do work with dentists and orthodontists around the world on a regular basis. And we have a fairly good understanding of the oral care discipline. So if we were to think about future elements of growth, for sure, we have spaces that are more attractive than others. If I think about our ability to win in restoration, we keep on making a difference and we'll keep on making a difference there. And that's one way to win. And then in the orthodontic space, obviously, aligners is definitely a space where you would expect us to keep on building momentum and get to a better place, which will help us move the WAMGR as we said before. So that's one way to answer.

And talking about adjacency, we'll talk about that in the future.

Kevin Moran - *SVP, Investor Relations, Solventum*

Let's go with Patrick over here in the second row.

Patrick Andrew Robert Wood - *Morgan Stanley, Research Division - MD of Equity Research*

Hey. It's Patrick Wood with Morgan Stanley. You've got solve in the name obviously, and you put it as a mission statement. So I'm curious to hear from the divisional heads what they – first thing that comes to mind of a problem for a customer they want to solve. Is it fixing downstream chromatography stacks? Is it sorting disposable negative pressure in the home? Like, what are the things that jump to mind that you really want to solve for your customers?

Karim Mansour – *Division President, Dental Solutions*

I can start – maybe I can start – I mean, just following on dental solution, if you were to interact – maybe you have dentist or orthodontist in your family, I don't know, but if you were to interact with those, what comes immediately in the discussion, a few things. One, they would need help on simplifying procedures. That's what they want to know. The second aspect is chair time. It is important them to reduce the lengths of a stay either through one appointment or even avoid multiple appointments. So that's what they are interested in, and outcome for sure. Is that care outcome or aesthetic outcome? They are definitely looking into this. And there is an element of the discussion that goes more and more towards affordability. That's something that – so they are expecting us to come, which we have done in the past, not as much as we would have expected lately, and that's what we need to focus back.

Vaughn Grannis – *Division President, Purification & Filtration*

Maybe I'll add to that because you mentioned chromatography and We Never Stop Solving For You just fits right with what purification and filtration does, because we are very close with our customers. We're in on their technical processes. And solving those problems is not easy and it takes a lot of engagement with them. But once we solve those problems, we're really sticky with them, because once we are on that drug, once we're on that process, the razor-razorblade model works really well for us, but our team really resonated on that. We never stopped solving for you, because it's really the essence of what our teams do around the world with our customers in all of our segments.

Garri Garrison – *Division President, Health Information Systems*

In HIS, if I looked at health care today, we all know it's just fraught with a lot of waste. And so the opportunities for us to continually look at ways to solve problems and to be able to automate things that are very manual is of utmost importance. Hospital margins have not been good in the last couple of years. Labor costs have been high, supply costs have been high. And they're looking for lots of opportunities to be able to reduce their spend and to be able to become more efficient. So that's why it really resonates with us.

Christopher Barry – *Division President, Medical Surgical*

And for me, Bryan mentioned this a couple of times, it's really extending – it really for us expanding utilization of advanced wound care, specifically in negative pressure wound therapy. We're a market leader, but the market is underpenetrated. So how do we pull the right levers? Obviously, there's specialization in the channel that we'll get after quickly. But then what other levers can we pull as an organization? That's a market development challenge that we need to address, but extend that technology so the patients that could benefit are actually have access to that technology. And that's on the advanced wound care side. On infection prevention and surgical solutions, we've got to dig in. We've got, I think, enormous opportunity and the right to play in many of the sub-segments we've got to really sort through. So I'll have more to talk about and what we're solving in that business as we move into it. But it's a healthy opportunity for us.

Kevin Moran - *SVP, Investor Relations, Solventum*

Right over here.

Anne Elizabeth Samuel - *JPMorgan Chase & Co, Research Division – Analyst*

Thanks. Anne Samuel at JPMorgan. I wanted to follow up on your comments around data. And you highlighted lot of opportunities to kind of monetize the data that you have and leverage it across your portfolio. How much of – how much low-hanging fruit is there that you can kind of work on today? And as you think about the larger opportunity that you talked about, will that require significant investment or can you do a lot of that with the solutions that you have today?

Bryan C. Hanson – *CEO, Solventum*

Yeah. In the ways that I talked about – and I'll let Garri speak specifically to her business. But I think about it outside of Garri's business. It's early, early stages. It really is getting a team assembled that is going to give us a direction here. These are just theories that I have that I'm like – when I heard about the business and really spend time with you and understanding the business, it took me a little while to grasp it. As all these young, really intelligent – and artificial intelligence people talking to you, I'm like, I don't even know what you're saying, but eventually it starts to make sense. It's like learning a language. And I'm like, gosh, you could potentially use this over here. And so it's just my guessing on what we can do with this. But I've got to get a team. We've got to separate it. We've got to really use some thinking about this, and then it will probably take innovation. And so it's not just knowing where you want to go and believing you can do it, then it's going to take some time to develop technologies or capabilities that will allow us to leverage it. But I see it as an opportunity that I didn't know existed, so I'm excited about it. I just don't know how excited I should be.

Garri Garrison – *Division President, Health Information Systems*

You should be very excited.

Bryan C. Hanson – *CEO, Solventum*

It's the secret weapon.

Wayde D. McMillan – *CFO, Solventum*

I love it, I love it.

Garri Garrison – *Division President, Health Information Systems*

So a lot of – one of the things, if you read the Form 10, that you understand that we do is we build a lot of methodologies. We have the clinical and economic research team. And these methodologies are utilized around the world. And they give us the opportunity to quantify basically what we would consider waste or quality of care issues. So think about it from this perspective. We have the capabilities to look at products that Chris may deliver, be able to measure how much reduction in complications occur, does it avoid readmissions? So, you can start to quantify the impact of those products just by using the methodologies that really tell us that we have good outcomes. And it's cost savings for their healthcare system. So that's why it's very exciting is to be able to use the content we use today in different formats and related as well to product.

Kevin Moran - *SVP, Investor Relations, Solventum*

Let's go, Josh, in the third row over there or not? Third row. On the other side, probably. We're trying to go left, right.

Joshua Thomas Jennings - *TD Cowen, Research Division - MD & Senior Research Analyst*

Josh Jennings from TD Cowen. I wanted to just dig a little deeper on the SKU rationalization opportunity. I think you may have answered the question in one of your early responses Wayde, you've got some more to do over the next couple of years. But wondering if you could just kind of quantify the impact to top line growth in 2024? Is it kind of 1 to 2 points. And then how big of an opportunity is that to kind of lift the organic revenue growth performance after you do some of this work in the next couple of years? And how long of a tail should we be thinking about this SKU rationalization process?

Wayde D. McMillan – *CFO, Solventum*

Yeah. Thanks, Josh. I'm glad you asked about that one and picked up on it from the presentation because we do think it's a real opportunity for us. Unfortunately, like a lot of things, we're still in the early stages of building the program, so not going to have a lot of quantification for you at this point. What we know is – and speaking with the leaders of the businesses, there's a real opportunity to take a fresh look at the SKUs that we have out there. We've got some very large businesses in a lot of countries around the globe. And what we know from past experience in running these types of projects, there can be a lot of value and a lot of – even not just first wave financial benefits, but the efficiencies that you can drive through an organization. It's less SKUs that have to be planned for in a supply/demand process, less inventory, less manufacturing processes, less line runs. So we're real curious actually to see as this project comes together, how much value it will have. But the teams will be working on it over the next few quarters and trying to get it launched as soon as possible. It'll – like a lot of things that we're working on, it's going to take us a couple of years to stand up the project, but we do think it will have significant value financially as well as resource – freeing up resources and time and effort for people around the company. And that could be really energizing as we really simplify things.

Bryan C. Hanson – *CEO, Solventum*

And I'll just maybe add to that, too. It's a unique situation when you spin because you've got to rebrand everything. And there's a lot of regulatory burden associated with that spin as well. So it really makes you think, am I going to spend the $8,000 for each product to be able to do the rebranding and go through the regulatory process and everything else? And then you've gotten on top of that increased cost associated with those products because we just got an upcharge from 3M. And as we move away from 3M, they're extremely efficient, likely that's going to be a higher cost, right? So all of a sudden, your profit profile has changed for certain products as well. So that catalyst in the spin and rebranding cost and all the other things that Wayde said create the perfect momentum to have a project like this. And that's why we're running it. But it's definitely a two-year process, because even if we knew exactly what we're going to take out, it takes a quarter or two just to be able to get it done. And then it would then fall into the next year as well.

Kevin Moran - *SVP, Investor Relations, Solventum*

Let's go to Jason over here in the second row.

Jason Bednar – *Piper Sandler – Senior Research Analyst*

Hi there. Thanks for doing this today, really helpful. Wanted to focus on the margin guidance for this year, 21% to 23%. It's a bit of a wide range, but I think really trying to understand, is this the right base margin to be building off of an asset, because the word disentanglement came up probably a half dozen or more times? So really trying to signal, yeah, there's a lot of work to do with a lot of heavy lifting to do, and that heavy lifting might not just be a 2024 dynamic. So how do we think about that margin build or margin outlook here? Understanding – I know Rick was asking on kind of medium-term or long-term LRP as well. But just give us a sense, is this the right base or do we need to reset lower after 2024 before we start improving from there?

Bryan C. Hanson – *CEO, Solventum*

You're going to elbow me out of the way. I know you want to answer this one, so go ahead.

Wayde D. McMillan – *CFO, Solventum*

Yeah. Sure. Happy to start this one. It is a new base for us to start from. Yeah, it's where we're going to reset the business and look to grow from here. It will take some time to improve upon it though. And that's really what we highlighted in the timelines. If you picture the timeline slide, we've got two to four years to work through quite a bit of separation activity. Again, some of those costs are going to be ongoing. So it'll impact that adjusted operating income – or operating margin that you mentioned. And some of them will be onetime in nature. And those are really just a cash impact for us at this point. So we'll be working through all those over the next few years. A lot of those plans are still in process and being finalized. So that's why we're not putting out any mid- or long-term guidance because it's going to take us a period of time to work through that. But like any separation, we'll be busy, fairly distracted, but the teams are in good shape at this point. We've stood up our own Solventum separation management office. And that team has been working with the 3M separation management office now for about four to five months. So the plans are really starting to come together. And I think they'll continue to develop as we go through 2024. But specific to your question, I think the headwinds are not going to be just in 2024. We'll see those throughout those two- to three-, four-year timelines as we complete the separation.

Jason Bednar – *Piper Sandler - Senior Research Analyst*

Okay. Thank you. And then maybe from a – thinking about Capex and free cash flow as you look out similar timeframe, yes, probably elevated this year as you – I think you said you're bringing on couple big manufacturing facilities as you work through that separation. Are these onetime Capex that we're seeing this year that's elevated? Does that then move lower and serve as a source of free cash flow in future years? And then anything from like a footprint reduction standpoint longer term as you get a better understanding of what you have to work with what's a pretty intricate structure?

Wayde D. McMillan – *CFO, Solventum*

Yes. A couple of great questions. Things we're dealing with today. I don't know if you want me to start those, Bryan.

Bryan C. Hanson – *CEO, Solventum*

Absolutely.

Wayde D. McMillan – *CFO, Solventum*

So around Capex, we certainly are seeing a step-up in the Capex spend and a good portion of the amount in the Capex guidance we gave is related to the separation as you mentioned, all the manufacturing disentanglements that we have to go through, the IT services, IT systems is where the heavy Capex investment is going there. It's TBD, or to be determined as we go forward what the right level of capital expenditures is for the business. As we talked about, we're going to be changing a lot of metrics for the business and investing in innovation and growth. And so we've got work to do yet to determine what we think the right levels of that are, and what are the opportunities to invest in. So we'll be bringing a lot of our playbook that we talked about today and putting that infrastructure in place to assess those investments. But if you think about the capital allocation policy that we covered today, that's secondary objective, which is still a primary objective for us, is to make sure that we're fueling that growth.

And so where we see opportunities to invest in fueling capacity expansion or innovation for growth, we'll do that. So I think you should think about us as more of a typical spin from a MedTech standpoint. We may have a little bit more as we go through the separation, maybe a little bit more in some of the areas where we're trying to catch up on the innovation. But over time, you can think about modeling us sort of in that general category of most MedTech companies where it's a pretty healthy Capex investment to fuel that innovation.

Kevin Moran - *SVP, Investor Relations, Solventum*

While you're warmed up there Wayde a couple of questions online relating to deleveraging. So any specific deleveraging or any target ratio or just more color on the capacity and the time frame for the next couple of years?

Wayde D. McMillan – *CFO, Solventum*

Yeah. We haven't put out a specific target for deleveraging. What's important to us is maintaining our investment grade ratings. And in order to do that, we'll be paying down debt pretty heavily over the next couple years. So without a specific target, it's our number one priority from a capital allocation standpoint.

Kevin Moran - *SVP, Investor Relations, Solventum*

And one more from online. The topic of GLP-1s. How do we think about that and potential exposure. I don't know if you know what GLP ones are. I've never heard of that before.

Bryan C. Hanson – *CEO, Solventum*

Could you explain it to me? So, obviously when you come into a business with all the hubbub around GLP-1s, you want to understand what your exposure and, Wayde talked a lot about this, I talked a little bit about it. We have a very diversified business. And most of our businesses have no connection whatsoever to GLP-1s. Chris' business – Chris has some exposure in the surgical supplies business. But for the most part, it's relatively contained. And so we're obviously paying attention to it, but we don't see it as a major challenge for our business.

Kevin Moran - *SVP, Investor Relations, Solventum*

Okay. Let's see. Any other questions in the room? Anyone who hasn't asked one yet? Let's go third row, I think that's Brad.

Bradley Thomas Bowers – *Mizuho Securities USA LLC, Research Division - Senior Associate*

Hi there. Thank you. Brad Bowers, Mizuho. Just wanted to touch a little bit on the health IT business and the mention of value-based care. Just wanted to kind of see about how much of a focus this is from the business, and I guess give you the opportunity to talk about how you're kind of uniquely positioned in the hospital. I know a lot of the technologies today are kind of focused around the physician offices and primary care, but it seems like being in 75% of offices is a good opportunity there and how that maybe could drive – find its way into revenue of some of the shared savings.

Bryan C. Hanson – *CEO, Solventum*

So again, maybe I'll start with just the concept of using value-based healthcare from a contracting standpoint and you from a model standpoint, because obviously you focus on that. The way I'm thinking about value-based healthcare and contracting would be very much what Garri had talked about previously. Can we come in, make some promises with the technologies that we have to be able to bend either cost curves or outcome curves, and then make a commitment that if we don't do those things, then you pay a different price point. So that value-based healthcare opportunity, I think, is going to be there because we have the data set that's been missing in the past. That's the way I'm thinking about contracting with value-based healthcare. But in a value-based healthcare model, from a payer standpoint, you've got solutions as well.

Garri Garrison – *Division President, Health Information Systems*

So today a lot of the value-based care companies used a lot of our methodologies in their payment process. So you're basically driving quality improvement while you're also trying to reduce cost. So our typical play in that space is to be able to provide the content for them to be able to manage things like their ACOs and those types of activities. We have products in over 75% of the hospitals in the US. They have at least one or more of our products, but most of that's going to be around coding, being able to get a claim out the door, documentation improvement, making sure that the content is present and also that it meets the regulatory requirements, and then also tools that can help the clinicians actually improve the content that they're capturing, as well as their experience in capturing it. So, reducing the burden on them of having to physically type something, being able to use the speech or an ambient tool. And then obviously the metrics that we've been talking about, those areas where we identify the waste, a lot of the hospitals are using those type of analytics so they can focus their own internal activities in order to reduce their own cost and improve their own quality. So it's kind of a – we go back to what the core is on the inside a value-based care, and it is how you're going to get quality up and cost down.

Wayde D. McMillan – *CFO, Solventum*

And I'll just say that from a partnership and a business, every company that I've ever been associated with or competed with wanted to have a data capability. A lot of the value-based health care initiatives that are driven fail because you can't measure the data, you can't quantify the results. And if you can, you do it from a third-party perspective. You can't use real data from that particular facility. And so that capability, we've got to figure it out. We got to figure out how do we collect the data, who cares about that data? Are we delivering that solution set to the right individual or group within a facility? But going back to our capability here and to Bryan's earlier point, really getting a team to really start to think this through.

But I'll tell you, the data capability is unique. It really is unique. We got to figure out how to use it effectively responsibly, but it's unique. And so it's going to be a focus of me for sure, to partner with Garri to make sure that we come up with some solutions that are unique to Solventum.

Kevin Moran - *SVP, Investor Relations, Solventum*

And then, Brad, I don't know if Anthony heard your question. But as soon as you asked it, he chimed in online. So his question is on M&A. So can you provide some more specificity on what types of areas, what types of segments are going to be top of the priority list? Will there be another leg of the stool over time?

Bryan C. Hanson – *CEO, Solventum*

So maybe I'll start and if you want to add anything, Wayde. So I look at the third phase of the phases that I talked about being more of that M&A kind of portfolio management transformation. It's going to take time for us to get there for two reasons. One, we're just not ready. As an organization, we have a lot of work to do in Phase 1 and Phase 2. So there's just not time for us to do that. Number two, we just don't have the financial flexibility to do that. So obviously we've got a lot to do to buy down that debt and get that financial flexibility.

The other one is that when you do a spin transaction, there's a tax-free nature associated with that, with a lot of dollars attached to it, and you don't want to disrupt that tax free nature. So there's a period of time where we just really can't do anything in a material way. Certainly, we'll think about those things, but it will take time for us to get there. So when we do think about the portfolio transformation that we would have, think more around technology products, small businesses to be able to tuck into markets that we already play in or near adjacent markets that we have a right to play in, not big scale transformational acquisitions. These are going to be smaller, in spaces we play to be able to complement the technology that we have and build scale faster in those faster growth submarkets. That's the type of portfolio management that we're going to play in.

And that's the good news about being in attractive markets. You don't have to make a big play to build a beachhead in a market. You're already there. Now you just got to complement those with smaller deals in those attractive submarkets. So that will be one combination. That will be one part of that portfolio transformation. The other one will be that we'll look at our own technologies, our products and our businesses and make sure that everything aligns to our strategy, meets our financial metrics. And ultimately, if they don't, we'll make decisions there as well. But that's the way we're going to think about it. The keynote is it's going to be a little while before we get there.

Kevin Moran - *SVP, Investor Relations, Solventum*

Jeff right there in the fourth.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Thank you. Good morning. Jeff Johnson from Baird. Wayde, maybe it's a question for you, but just – and David kind of started this off asking about the peanut butter spread across R&D. But in the filtration business, the MedSurg business, and in the Dental business, is the R&D intensity similar between the three? And how do we think about the commercial intensity between those three businesses as well? Can you reallocate to higher growth areas within those businesses? Do they all kind of spend about the same as a percentage of revenue or however you'd baseline that? Thanks.

Wayde D. McMillan – *CFO, Solventum*

Yes. Such an insightful question, Jeff, because just in my first four months, Bryan's first couple quarters, and as the leadership team has been coming together, it's exactly what we're working on to think about how are we going to set up our investment strategy, thinking through again these new metrics with a MedTech lens on them. So we don't have a specific update yet because the team is just formulating how we're going to approach these strategies. We're not providing how we're going to think about changing the current allocations yet if we do. But we do think about the business as a collage, and thinking about where are going to be the best opportunities for us to drive growth and profitable growth, and how to balance those across our entire portfolio.

And we're pretty excited actually. The team has been starting to get on the same page as we think about value creation, we think about how innovation is such an important element to drive that value over time. And so it's again in one of these categories that's to be determined because we've got a lot of work going on, but we'll be working – this is one of our top priorities, as Bryan said, from a portfolio standpoint and thinking about what is the right investment across the businesses, but you really have to think about the combination of the businesses together. And so we've got a lot of work to do in this area as well.

Bryan C. Hanson – *CEO, Solventum*

And I'll just add maybe a little bit to that too. Think about in this way, the businesses will present what their growth drivers in markets they want to select to spend on. It's really the best model wins, right? So we're going to have a certain number of growth drivers because you only have a certain amount of capital you can spend, and it would be the best of the best. And so as the businesses come with, here's the market I want to go after, this is why it's an attractive market, why I think it's going to be sustainable, why I think we have a right to win. And here's my growth driver area. We're going to bias our investment to that. That means research and development. That means commercial infrastructure. That means our mindshare is going to go to those areas. And so it really comes down to the businesses being able to present attractive areas for us to focus.

And if you're not in a growth driver today as a business, it can always change, right? You find the right asset to acquire, you find the right way to invest, you get the right innovation, you could easily turn into a growth driver. But it is extremely biased investment to growth driver areas, and being again just maniacal about the focus in those areas.

Jeffrey D. Johnson - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

All right. And then maybe just one follow-up, if I could. Obviously, it's a two- or three-year process at a minimum that you're talking about just to get the business level set. It's going to be extended process. Within that timeline, can you go on the offensive within certain areas or is this just going to be getting everything baselined, getting everything to where it needs to be to go on the offensive? I think, Karim's clear aligner comments, for example – I mean, at some point you could go on the offensive there. I'm just not sure there's going to be the commercial capability to do that in the next two, three, four years. Thank you.

Bryan C. Hanson – *CEO, Solventum*

Yeah. I think – so if you think about the major things that are going to drive inflections in growth, there are certainly short-term things I'll talk about in a second. We're going to go on the offensive as soon as we can. But the big things are dramatic commercial changes, taking the commercial model, changing that commercial model to specialized just takes time. You got to decide you're going to do it, you got to hire the people, and then you got to get traction in the field. That's usually an 18-month window from the time you start to where those people become profitable.

So just to give you a sense, it's going to take time to be able to choose the ideas, the areas, and then put the structure in place and then drive output. Because research and development takes longer than that, right, so you got to decide where are you going to focus, what are your growth drivers, how are you going to shift the NPI? And then because it's a regulated environment, that takes usually three years before you start to see traction in the marketplace. So we're going to see this focus on increasing revenue growth. But you should think about it as being – unfortunately, nobody likes it, a little bit back-end loaded because a lot of the work in the front is going to be to get us positioned for winning. And then you start to benefit from it over time. But there's no question, I'm seeing things right out of the gate that we can get after right now. No regrets, moves that we can be able to make. And if any of the presidents want to speak to that, feel free to do that as well.

Christopher Barry – *Division President, Medical Surgical*

No. I think you hit it. I mean, it's – the things that we can touch the fastest is going to be the commercial channel specialization focus, right? That's going to be out of the gate. How quickly we turn that around, being realistic of these situations in the past, it's going to take time. But to be very clear, I plan on getting offensive right now as soon as humanly possible. We need to start moving the things that are going to make a difference for us. But realistically, some of the things will hopefully pay short-term – have short-term results. Some things will take longer. But we're going to start gearing and repositioning the mindset of the organization immediately. We've already started that process. So I think that in itself will accelerate our performance in some way, shape, or form, but materially it's going to take time.

Bryan C. Hanson – *CEO, Solventum*

I'd just comment one more thing, too, and – because I've heard from – and Vaughn I know you've got something to say. I've heard from the presidents that they feel, which is natural in a big business, stymied to some extent to be able to make decisions. As an example, you might have a budget to work with, but you can't hire somebody unless you get approval, which is crazy, right? I mean, you got grownups running the business, so I've got to decentralize. I've got to make sure that they have the ability to make decisions. You've got to budget, live within your budget, but make the decisions you need to make to drive your business. So I think it is very natural decentralization of power that we're going to have will allow for quicker, more agile decisions so that these business leaders can do what they know is right for the business and not have to waste time asking for permission. So a lot of the budget that we have will be fixed in the beginning of the year. They have full rights to make those decisions, not come back and ask us about those decisions. Where we have the money left over, we'll go through an investment committee and we'll have parameters about where we're going to invest the money. That will be the piece that we'll control. But most of the spend is within businesses and their decision rights are theirs.

I don't know if you had anything else, Vaughn?

Vaughn Grannis – *Division President, Purification & Filtration*

No. I think that's good.

Karim Mansour – *Division President, Dental Solutions*

Maybe one comment. Just adding on what has been said, it will take time, but let's have in the back of our mind a few things. One is in most of our businesses, we usually have strong domain knowledge and we have reach. So what matters is what has been said with the right focus, with the right metrics in mind and the right decision rights – I mean, it is going to take time, but at least we start from a strong foundation. And in most of our businesses, we have that domain knowledge.

Kevin Moran - *SVP, Investor Relations, Solventum*

All right, we can go back to David for round 2.

Bryan C. Hanson – *CEO, Solventum*

Round two.

Wayde D. McMillan – *CFO, Solventum*

Two more questions.

David Roman - *Goldman Sachs – Managing Director*

Naturally. Yes. Bryan, can you maybe go into a little more detail in the decision-making because you talked about that as a critical factor that could help accelerate your performance. I guess, firstly, is – how is the company organized? Is it a matrix organization? Or do the presidents have direct full P&L authority? And then secondly, how are you thinking about incentives? I think this year it's 50% revenue, 30% OI, and 20% free cash flow, and obviously there's some mixing and matching because of the spin and things like that, but maybe talk a little bit about who – where's the real ownership in the business and then how you're thinking about incentives?

Bryan C. Hanson – *CEO, Solventum*

Yeah. On incentives, we're still working through it, to be honest, we got to work with our board on that, but I've got ideas of where I want to take it. You would think obviously revenue is going to be a key contributor to the success of the company, so that's going to be a significant metric going forward. But we'll work through that and we'll come back with more detail.

I think from a decision right standpoint, my goal is – I am corporate, but I don't like a lot of decisions being made at corporate because it's too far away from the customer. I really like my businesses to who know what's happening to be able to make as many decisions and influence the way we spend money as much as they possibly can. And that will be what we try to set up. From an ownership standpoint, right now the businesses have global responsibility for their organization. And they're pretty separate today. I think it's going to continue that way, but we'd like to look for ways to leverage connection points across the businesses in the future because we don't have that as much right now. But I really do want to see it be decentralized, I want the businesses to influence as much as we possibly can, how we spend our money and where we spend our money. And I want them to have those decision rights to move fast. Agility to me and particularly in MedTech is really important, it moves fast. If you're slow, you're not going to win.

Kevin Moran - *SVP, Investor Relations, Solventum*

All right. Let's go back to Rick, probably for the final question.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Thank you. Rick Wise, Stifel. Bryan, maybe it's time to ask a question I hinted I might ask. You've touched on it a lot today, some of the unique challenges you've got to face. It seems like execution is the key part of it. But having had the privilege of following and watching and listening to you for the last 15 to 20 years, I'm hearing a lot of the same language and sort of setup language here that I heard. Maybe compare and contrast your thoughts about Solventum relative to Covidien, to Medtronic, to Zimmer. And how we should think about not just the entanglements, which – you made those clear, but the upside here and the long-term potential, the dream.

Bryan C. Hanson – *CEO, Solventum*

Yeah.

Frederick Allen Wise - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Senior Equity Research Analyst*

Thank you.

Bryan C. Hanson – *CEO, Solventum*

First of all, I'm sorry that you've had to listen to me for 15 or 20 years. It's nothing I can do about it though, but I appreciate you sticking with me. So I would say probably the closest parallel or proxy to this is the – obviously the Covidien spin, I mean it's – from a size and scale perspective, coming out of an industrial conglomerate, I mean, it's very, very similar. When we spun out as Covidien, I said at that time this is a once-in-a-lifetime opportunity. What an amazing situation? And now here I am doing it again. It's kind of crazy. But it is, it does feel like that kind of once-in-a-lifetime opportunity. It's similar but different.

I'll tell you the biggest differences in my mind is if you think about Covidien back in the day, the benefit we had was that we had the same team that was there, that knew each other, had been working together. And we had almost no entanglements with Tyco. So we spun out, it was kind of clear and free. What we didn't have was a lot spend in R&D. We didn't have the competency in R&D. We didn't have the processes and how you're run NPI. And that was a pretty big lift for us.

Here, it's different. We have the competency in R&D. We have the capability in R&D. We just have to focus it. What we don't have is a team that's been working a long time together, now we're lucky in certain situations where we spend time together, but it's a new team we have to gel. And we have more entanglements than what we've had in the past. But generally speaking, in the places we play, it's a pretty similar setup to what we saw at Covidien, with a pretty similar story.

So I'm excited. That was one of the major reasons I came. I mean, there's no playbook that's exactly the same, but it's a pretty similar playbook that I've used both there, at Zimmer Biomet, and other situations and some businesses that I've run before. So again, the setup is pretty good to drive value here. I do want to stress, and I know I've said it a few times, it's just going to take time.

Kevin Moran - *SVP, Investor Relations, Solventum*

Before I turn it back to Bryan for a couple of closing remarks, just two reminders. One, the product booths will be open after we conclude here, and we also have box lunches available as well. So make sure to grab one of those. Bryan, can you bring us home?

Bryan C. Hanson – *CEO, Solventum*

Could you go that other slide maybe and I'll just – I'll use that to close because – that's where we're at, perfect. First of all, those box lunches are fabulous, so you could thank us for that.

So I just want to end here because what is we're going to try to get these messages across, and I hope we did. I, again, would not be here – this team wouldn't be here if we didn't believe the bottom one. We definitely have a path to create value, and the spin is unlocking that. And this was a tough decision for 3M. This is not their worst business. This is one of their best businesses, one of their most attractive businesses. But they knew that to unlock the value that it deserves, you have to spin it out for all the reasons that we've talked about. So there's real value creation opportunity here. And I could thank 3M for giving us that opportunity because they saw the value creation opportunity and they executed against it. Now we need to do our part.

And I want to say that we do have that strong foundation. I think you've heard it over and over again. We have really strong brands. If you've been to any doctor's office for a checkup, you've used our stethoscope, Littmann stethoscope is used everywhere. So you've – your heart has been listened to by your doctor by our technology. You likely have our composites in your teeth. Anywhere you go from a care perspective, you have touched our products, I guarantee it. We have a very strong presence in these and we have a lot of trust in these markets.

We're just going to have to take the time – and I want to be clear, this is straightforward stuff. I kind of joked before about the Triple Lindy versus a straight dive, but that's what we have here. This is a straightforward approach to being able to maximize our position in very attractive markets with strong brands. It's just going to take time to be able to put the commercial infrastructure in place, focus our R&D in the right areas, and then eventually start doing some portfolio management team to excel in certain areas that are attractive to us. But those are the takeaways and hopefully we've gotten those across. Strong position, a little bit of work to do, it's going to take some time, but real value creation opportunity.

Kevin Moran - *SVP, Investor Relations, Solventum*

Okay.

Bryan C. Hanson – *CEO, Solventum*

All right. Thank you so much.

Kevin Moran - *SVP, Investor Relations, Solventum*

Thank you very much.

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