

REVIEW OF FINANCIAL STATEMENTS

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Required Financial Statements

- **Balance Sheet**
 - Financial position (i.e., listing of resources and obligations) on a specific date
 - $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$
 - This equation must always balance!
- **Income Statement**
 - Results of operations over a period of time using accrual accounting (i.e., recognition tied to business activities)
 - $\text{Net income} = \text{Revenues} - \text{Expenses}$
- **Statement of Cash Flows**
 - Sources and uses of cash over a period of time
 - Operating, Investing, and Financing Activities

Balance Sheet

- **Assets**
 - Resources owned by a business that are expected to provide future economic benefits
- **Liabilities**
 - Claims on assets by “creditors” (non-owners) that represent an obligation to make future payment of cash, goods, or services
- **Stockholders' Equity**
 - Claims on assets by owners of business
 - Two main components:
 - Contributed Capital (arises from sale of shares)
 - Retained Earnings (arises from operations)
 - Increased by Revenues
 - Decreased by Expenses and Dividends

3M Company Balance Sheet: Assets

Consolidated Balance Sheet
3M Company and Subsidiaries
At December 31

(Dollars in millions, except per share amount)

Assets

Current assets

Cash and cash equivalents

\$ 1,897 \$ 2,581

Marketable securities — current

626 756

Accounts receivable — net of allowances of \$94 and \$104

4,238 4,253

Inventories

Finished goods

1,723 1,790

Work in process

1,081 1,139

Raw materials and supplies

902 935

Total inventories

3,706 3,864

Other current assets

1,298 1,279

Total current assets

11,765 12,733

Marketable securities — non-current

828 1,453

Investments

102 122

Property, plant and equipment

22,841 23,068

Less: Accumulated depreciation

(14,352) (14,416)

Property, plant and equipment — net

8,489 8,652

Goodwill

7,050 7,345

Intangible assets — net

1,435 1,688

Prepaid pension benefits

46 577

Other assets

1,554 980

Total assets

\$ 31,269 \$ 33,550

Typical Assets

- **Cash:** Cash plus short-term, liquid investments
- **Accounts Receivable:** Amounts owed by customers
 - Sales already recorded; cash collection in future
- **Inventory:** Cost of goods available for sale
 - Cash already paid; expense (COGS) in future
- **Prepaid Expenses:** Operating costs paid in advance
 - Cash already paid; expense (SG&A) in future
- **Property:** Carried at historical cost; not depreciated
- **Plant & Equipment:** Carried at depreciated cost
 - Accumulated Depreciation: Sum of past depreciation
 - Net PP&E = PP&E – Accumulated Depreciation
- **Intangible assets:** Contractual rights like patents or trademarks

3M Company Balance Sheet: Liabilities

Liabilities

Current liabilities

Short-term borrowings and current portion of long-term debt
Accounts payable
Accrued payroll
Accrued income taxes
Other current liabilities
Total current liabilities

\$	106	\$	1,683
	1,807		1,799
	732		708
	435		417
	2,918		2,891
	<u>5,998</u>		<u>7,498</u>

Long-term debt

Pension and postretirement benefits

Other liabilities

Total liabilities

	6,731		4,326
	3,843		1,794
	1,555		1,984
\$	<u>18,127</u>	\$	<u>15,602</u>

Commitments and contingencies (Note 13)

Equity

3M Company shareholders' equity:

Common stock, par value \$.01 per share
Shares outstanding - 2014: 635,134,594
Shares outstanding - 2013: 663,296,239

Additional paid-in capital

Retained earnings

Treasury stock

Accumulated other comprehensive income (loss)

Total 3M Company shareholders' equity

\$	9	\$	9
	4,379		4,375
	34,317		32,416
	(19,307)		(15,385)
	(6,289)		(3,913)
	<u>13,109</u>		<u>17,502</u>

Noncontrolling interest

Total equity

Total liabilities and equity

	33		446
\$	<u>13,142</u>	\$	<u>17,948</u>
\$	<u>31,269</u>	\$	<u>33,550</u>

Typical Liabilities & Stockholders Equity

- **Accounts Payable:** Amounts owed to suppliers on purchases
 - Inventory already recorded; cash payment in future
- **Notes Payable:** Amounts owed to banks on loans
 - Split between current (due w/in year) and long-term
- **Accrued Payables:** Operating costs (wages, salaries, interest, taxes) not yet paid in cash
 - Expense (SG&A) already recorded; cash payment in future
- **Common Stock and Additional Paid-in-Capital:** Proceeds from issuing shares of stock
- **Retained Earnings:** Sum of all prior net income less dividends

Income Statement

- **Revenues**
 - Increases in stockholders' equity from providing goods or services
 - Also called “Sales”, “Credits”, “Gains”
- **Expenses**
 - Decreases in stockholders' equity incurred in the process of generating revenues
 - Also called “Provisions”, “Charges”, “Losses”
- **Net Income (or Earnings or Net Profit)**
 - = Revenues - Expenses
 - => DOES NOT EQUAL CHANGE IN CASH!!!

3M Company: Income Statement

Consolidated Statement of Income
3M Company and Subsidiaries
Years ended December 31

(Millions, except per share amounts)	2014	2013	2012
Net sales	\$ 31,821	\$ 30,871	\$ 29,904
Operating expenses			
Cost of sales	16,447	16,106	15,685
Selling, general and administrative expenses	6,469	6,384	6,102
Research, development and related expenses	1,770	1,715	1,634
Total operating expenses	24,686	24,205	23,421
Operating income	7,135	6,666	6,483
Interest expense and income			
Interest expense	142	145	171
Interest income	(33)	(41)	(39)
Total interest expense — net	109	104	132
Income before income taxes	7,026	6,562	6,351
Provision for income taxes	2,028	1,841	1,840
Net income including noncontrolling interest	\$ 4,998	\$ 4,721	\$ 4,511
Less: Net income attributable to noncontrolling interest	42	62	67
Net income attributable to 3M	\$ 4,956	\$ 4,659	\$ 4,444

Typical Income Statement Accounts

- **Sales or Revenue:** Value of goods delivered to customers during the period (using sales price)
- **Cost of Goods Sold (COGS):** Cost of goods or services delivered to customers during the period (using historical cost of acquiring goods)
- **Selling, General, and Admin (SG&A) Expenses:** Operating costs incurred during the period
- **Interest Expense:** Interest incurred during the period
- **Other gains/losses:** Non-operating gains and losses usually from long-term asset sales (e.g., equipment, investments)
- **Income Tax Expense:** Taxes owed based on pre-tax income

Statement of Cash Flows

- **Cash transactions during the period are summarized on the Statement of Cash Flows**
- **Operating Activities**
 - Transactions related to the provision of goods or services and other normal business activities
- **Investing Activities**
 - Transactions related to the acquisition or disposal of long-lived productive assets
- **Financing Activities**
 - Transactions related to owners or creditors

3M Company: Cash Flow Statement

Consolidated Statement of Cash Flows 3M Company and Subsidiaries Years ended December 31

(Millions)	2014	2013	2012
Cash Flows from Operating Activities			
Net income including noncontrolling interest	\$ 4,998	\$ 4,721	\$ 4,511
Adjustments to reconcile net income including noncontrolling interest to net cash provided by operating activities			
Depreciation and amortization	1,408	1,371	1,288
Company pension and postretirement contributions	(215)	(482)	(1,146)
Company pension and postretirement expense	391	553	650
Stock-based compensation expense	280	240	223
Deferred income taxes	(146)	(167)	33
Excess tax benefits from stock-based compensation	(167)	(92)	(62)
Changes in assets and liabilities			
Accounts receivable	(268)	(337)	(133)
Inventories	(113)	(86)	(251)
Accounts payable	75	16	72
Accrued income taxes (current and long-term)	206	206	90
Other — net	177	(126)	25
Net cash provided by operating activities	6,626	5,817	5,300
Cash Flows from Investing Activities			
Purchases of property, plant and equipment (PP&E)	(1,493)	(1,665)	(1,484)
Proceeds from sale of PP&E and other assets	135	128	41
Acquisitions, net of cash acquired	(94)	—	(1,046)
Purchases of marketable securities and investments	(1,280)	(4,040)	(5,492)
Proceeds from maturities and sale of marketable securities and investments	2,034	4,667	5,281
Proceeds from sale of businesses	—	8	—
Other investing	102	46	14
Net cash used in investing activities	(596)	(856)	(2,686)
Cash Flows from Financing Activities			
Change in short-term debt — net	27	(2)	(36)
Repayment of debt (maturities greater than 90 days)	(1,625)	(859)	(612)
Proceeds from debt (maturities greater than 90 days)	2,608	824	1,370
Purchases of treasury stock	(5,652)	(5,212)	(2,204)
Proceeds from issuance of treasury stock pursuant to stock option and benefit plans	968	1,609	1,012
Dividends paid to shareholders	(2,216)	(1,730)	(1,635)
Excess tax benefits from stock-based compensation	167	92	62
Purchase of noncontrolling interest	(861)	—	—
Other — net	(19)	32	(15)
Net cash used in financing activities	(6,603)	(5,246)	(2,058)
Effect of exchange rate changes on cash and cash equivalents	(111)	(17)	108
Net increase (decrease) in cash and cash equivalents	(684)	(302)	664
Cash and cash equivalents at beginning of year	2,581	2,883	2,219
Cash and cash equivalents at end of year	\$ 1,897	\$ 2,581	\$ 2,883

