GENUINE PARTS CO
Form 10-Q
April 19, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019
OR
¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number: 1-5690

GENUINE PARTS COMPANY

(Exact name of registrant as specified in its charter)

GEORGIA	**58-0254510**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2999 WILDWOOD PARKWAY, ATLANTA, GA	**30339**
(Address of principal executive offices)	**(Zip Code)**

678-934-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	o	Smaller reporting company	¨
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 31, 2019
Common Stock, $1.00 par value per share	146,063,911

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$356,925	$333,547
Trade accounts receivable, less allowance for doubtful accounts (2019 – $27,443; 2018 – $21,888)	2,741,916	2,493,636
Merchandise inventories, net	3,684,580	3,609,389
Prepaid expenses and other current assets	1,102,970	1,139,118
Total current assets	7,886,391	7,575,690
Goodwill	2,192,143	2,128,776
Other intangible assets, less accumulated amortization	1,449,852	1,411,642
Deferred tax assets	21,178	29,509
Property, plant and equipment, less accumulated depreciation (2019 – $1,247,743; 2018 – $1,208,694)	1,044,788	1,027,231
Operating lease assets	953,553	—
Other assets	522,625	510,192
Total assets	$14,070,530	$12,683,040
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$4,058,211	$3,995,789
Current portion of debt	1,032,382	711,147
Dividends payable	111,355	105,369
Other current liabilities	1,343,386	1,088,428
Total current liabilities	6,545,334	5,900,733
Long-term debt	2,389,244	2,432,133
Operating lease liabilities	716,677	—
Pension and other post–retirement benefit liabilities	222,415	235,228
Deferred tax liabilities	194,178	196,843
Other long-term liabilities	429,850	446,112
Equity:		
Preferred stock, par value – $1 per share; authorized – 10,000,000 shares; none issued	—	—
Common stock, par value – $1 per share; authorized – 450,000,000 shares; issued and outstanding – 2019 – 146,063,911 shares; 2018 – 145,936,613 shares	146,064	145,937
Additional paid-in capital	77,424	78,380
Retained earnings	4,517,430	4,341,212
Accumulated other comprehensive loss	(1,189,987)	(1,115,078)
Total parent equity	3,550,931	3,450,451
Noncontrolling interests in subsidiaries	21,901	21,540
Total equity	3,572,832	3,471,991
Total liabilities and equity	$14,070,530	$12,683,040

See accompanying notes to condensed consolidated financial statements.

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GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(in thousands, except per share data)	2019	2018
Net sales	$4,736,833	$4,586,294
Cost of goods sold	3,228,665	3,150,487
Gross profit	1,508,168	1,435,807
Operating expenses:		
Selling, administrative and other expenses	1,197,220	1,133,771
Depreciation and amortization	61,977	58,363
Provision for doubtful accounts	3,969	2,701
Total operating expenses	1,263,166	1,194,835
Non-operating expenses (income):		
Interest expense	23,883	24,109
Other	9,607	(12,456)
Total non-operating expenses (income)	33,490	11,653
Income before income taxes	211,512	229,319
Income taxes	51,262	52,743
Net income	$160,250	$176,576
Basic net income per common share	$1.10	$1.20
Diluted net income per common share	$1.09	$1.20
Dividends declared per common share	$.7625	$.7200
Weighted average common shares outstanding	145,981	146,727
Dilutive effect of stock options and non-vested restricted stock awards	713	595
Weighted average common shares outstanding – assuming dilution	146,694	147,322
Net income	$160,250	$176,576
Other comprehensive income, net of income taxes:		
Foreign currency translation adjustments	27,117	42,880
Cash flow and net investment hedges adjustments, net of income taxes in 2019 and 2018 — $5,795 and $6,180 respectively	15,668	(16,710)
Pension and postretirement benefit adjustments, net of income taxes in 2019 and 2018 — $1,788 and $2,648, respectively	4,832	7,164
Other comprehensive income, net of income taxes	47,617	33,334
Comprehensive income	$207,867	$209,910

See accompanying notes to condensed consolidated financial statements.

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GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Three Months Ended March 31, 2019							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2019	145,936,613	$ 145,937	$ 78,380	$ (1,115,078)	$ 4,341,212	$ 3,450,451	$ 21,540	$ 3,471,991
Net income	—	—	—	—	160,250	160,250	—	160,250
Other comprehensive loss, net of tax (1)	—	—	—	47,617	—	47,617	—	47,617
Cash dividends declared, $0.7625 per share	—	—	—	—	(111,355)	(111,355)	—	(111,355)
Share-based awards exercised, including tax benefit of $3,812	127,298	127	(6,966)	—	—	(6,839)	—	(6,839)
Share-based compensation	—	—	6,010	—	—	6,010	—	6,010
Cumulative effect from adoption of ASU 2018-02 (2)	—	—	—	(122,526)	122,526	—	—	—
Cumulative effect from adoption of ASU 2016-02, net of tax (2)	—	—	—	—	4,797	4,797	—	4,797
Noncontrolling interest activities	—	—	—	—	—	—	361	361
March 31, 2019	146,063,911	$ 146,064	$ 77,424	$ (1,189,987)	$ 4,517,430	$ 3,550,931	$ 21,901	$ 3,572,832

	Three Months Ended March 31, 2018							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2018	146,652,615	$ 146,653	$ 68,126	$ (852,592)	$ 4,049,965	$ 3,412,152	$ 52,004	$ 3,464,156
Net income	—	—	—	—	176,576	176,576	—	176,576
Other comprehensive loss, net of tax	—	—	—	33,334	—	33,334	—	33,334
Cash dividends declared, $0.7200 per share	—	—	—	—	(105,649)	(105,649)	—	(105,649)
Share-based awards exercised, including tax benefit of $2,517	85,188	85	(4,262)	—	—	(4,177)	—	(4,177)
Share-based compensation			3,686	—	—	3,686	—	3,686
Cumulative effect from adoption of ASU 2014-09, net of tax	—	—	—	—	(5,843)	(5,843)	—	(5,843)
Noncontrolling interest activities	—	—	—	—	—	—	(702)	(702)
March 31, 2018	146,737,803	$ 146,738	$ 67,550	$ (819,258)	$ 4,115,049	$ 3,510,079	$ 51,302	$ 3,561,381

(1) Includes the effects of reclassifying realized currency losses of $27,037 out of accumulated other comprehensive loss into earnings in connection with the March 7, 2019 sale of Grupo Auto Todo. Refer to the accumulated other comprehensive loss footnote for further details.

(2) The Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases,* and ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* during the first quarter of 2019. Refer to the recent accounting pronouncements footnote for further details.

See accompanying notes to condensed consolidated financial statements.

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GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
(in thousands)	2019	2018
Operating activities:		
Net income	$ 160,250	$ 176,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,977	58,363
Share-based compensation	6,010	3,686
Excess tax benefits from share-based compensation	(3,812)	(2,517)
Realized currency losses on divestiture	27,037	—
Changes in operating assets and liabilities	(189,732)	(97,741)
Net cash provided by operating activities	61,730	138,367
Investing activities:		
Purchases of property, plant and equipment	(45,621)	(31,633)
Acquisition of businesses and other investing activities	(138,417)	(38,588)
Net cash used in investing activities	(184,038)	(70,221)
Financing activities:		
Proceeds from debt	1,350,002	1,201,441
Payments on debt	(1,092,115)	(1,153,750)
Share-based awards exercised	(6,839)	(4,176)
Dividends paid	(105,369)	(99,000)
Net cash provided by (used in) financing activities	145,679	(55,485)
Effect of exchange rate changes on cash and cash equivalents	7	(1,587)
Net increase in cash and cash equivalents	23,378	11,074
	333,547	314,899

Cash and cash equivalents at beginning of period				
Cash and cash equivalents at end of period	$	356,925	$	325,973

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for complete financial statements. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Genuine Parts Company (the "Company," "we," "our," "us," or "its") for the year ended December 31, 2018. Accordingly, the unaudited interim condensed consolidated financial statements and related disclosures herein should be read in conjunction with the Company's 2018 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements. Specifically, the Company makes estimates and assumptions in its interim condensed consolidated financial statements for inventory adjustments, the accrual of bad debts, customer sales returns, and volume incentives earned, among others. Inventory adjustments (including adjustments for a majority of inventories that are valued under the last-in, first-out ("LIFO") method) are accrued on an interim basis and adjusted in the fourth quarter based on the annual book to physical inventory adjustment and LIFO valuation. Reserves for bad debts and customer sales returns are estimated and accrued on an interim basis based upon historical experience. Volume incentives are estimated based upon cumulative and projected purchasing levels. The estimates and assumptions for interim reporting may change upon final determination at year-end, and such changes may be significant.

In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial results for the interim periods have been made. These adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of results for the entire year. The Company has evaluated subsequent events through the date the condensed consolidated financial statements covered by this quarterly report were issued.

2. Segment Information

The following table presents a summary of the Company's reportable segment financial information:

	Three Months Ended March 31,	
	2019	2018
Net sales:		
Automotive	$2,622,345	$2,564,259
Industrial	1,635,423	1,547,944
Business products	479,065	474,091
Total net sales	$4,736,833	$4,586,294
Operating profit:		
Automotive	$179,228	$184,706
Industrial	121,028	112,191
Business products	21,220	21,601
Total operating profit	321,476	318,498
Interest expense, net	(23,029)	(23,307)
Intangible asset amortization	(22,584)	(21,403)
Corporate expense (1)	(64,351)	(44,469)
Income before income taxes	$211,512	$229,319

(1) Includes $34,114 of expenses for the three months ended March 31, 2019 from realized currency losses and transaction and other costs. The realized currency losses of $27,037 resulted from the March 7, 2019 sale of Grupo Auto Todo. Refer to the acquisitions and divestitures footnote for more information.

Includes $13,009 for the three months ended March 31, 2018, in transaction and other costs related to the November 2017 Alliance Automotive Group ("AAG") acquisition and the attempted spin-off of the Business Products Group (the attempted spin-off was subsequently terminated in September 2018).

Net sales are disaggregated by geographical region for each of the Company's reportable segments, as the Company deems this presentation best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table presents disaggregated geographical net sales from contracts with customers by reportable segment:

	Three Months Ended March 31,	
	2019	2018
North America:		
Automotive	$1,813,785	$1,782,314
Industrial	1,635,423	1,547,944
Business products	479,065	474,091
Total North America	$3,928,273	$3,804,349
Australasia – Automotive	284,553	302,004
Europe – Automotive	524,007	479,941
Total net sales	$4,736,833	$4,586,294

3. Accumulated Other Comprehensive Loss

The following tables present the changes in accumulated other comprehensive loss by component for the three months ended March 31:

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow and Net Investment Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2019	$(626,322)	$10,726	$(499,482)	$(1,115,078)
Other comprehensive income before reclassifications, net of tax	—	16,669	80	16,749
Amounts reclassified from accumulated other comprehensive income (loss), net of tax (1)	4,832	(1,001)	27,037	30,868
Other comprehensive income, net of income taxes	4,832	15,668	27,117	47,617
Cumulative effect from adoption of ASU 2018-02	(122,526)	—	—	(122,526)
Ending balance, March 31, 2019	$(744,016)	$26,394	$(472,365)	$(1,189,987)

(1) Realized currency losses of $27,037 were reclassified out of foreign currency translation into earnings in connection with the March 7, 2019 sale of Grupo Auto Todo. Refer to the acquisitions and divestitures footnote for further details.

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow and Net Investment Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2018	$(568,957)	$(17,388)	$(266,247)	$(852,592)
Other comprehensive income before reclassifications, net of tax	—	(16,710)	42,880	26,170
Amounts reclassified from accumulated other comprehensive loss, net of tax	7,164	—	—	7,164
Other comprehensive income, net of income taxes	7,164	(16,710)	42,880	33,334
Ending balance, March 31, 2018	$(561,793)	$(34,098)	$(223,367)	$(819,258)

The accumulated other comprehensive loss components related to the pension benefits are included in the computation of net periodic benefit income in the employee benefit plans footnote. The nature of the cash flow and net investment hedges are discussed in the derivatives and hedging footnote. Generally, tax effects in accumulated other comprehensive loss are established at the

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currently enacted tax rate and reclassified to net income in the same period that the related pre-tax accumulated other comprehensive loss reclassifications are recognized.

4. Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of ASUs to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and any not listed below were assessed and determined to be not applicable or are expected to have a minimal impact on the condensed consolidated financial statements.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which, among other things, requires an entity to recognize a right-of-use asset and a lease liability on the balance sheet for substantially all leases, including operating leases. Expanded disclosures with additional qualitative and quantitative information are also required. ASU 2016-02 and its amendments are effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption was permitted. The ASU's transition provisions can be applied under a modified retrospective approach to each prior reporting period presented in the financial statements or only at the beginning of the period of adoption (i.e., on the effective date).

The Company adopted ASU 2016-02 and its amendments and applied the transition provisions as of January 1, 2019, which included recognizing a cumulative-effect adjustment through opening retained earnings as of that date. Prior year amounts were not recast under this transition approach and, therefore, prior year amounts are excluded from the leased properties footnote. The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to carryforward its historical assessments of: (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. In addition, the Company did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. The Company elected a policy of not recording leases on its condensed consolidated balance sheets when the leases have a term of 12 months or less and the Company is not reasonably certain to elect an option to purchase the leased asset. The Company recognizes payments on these leases within selling, administrative and other expenses on a straight-line basis over the lease term. The Company's adoption of the standard resulted in a cumulative-effect adjustment to retained earnings of approximately $4,797, net of taxes, as of January 1, 2019. The standard did not materially impact consolidated net income or liquidity. The standard did not have an impact on debt-covenant compliance under the Company's current debt agreements.

Income Statement - Reporting Comprehensive Income (Topic 220)

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). The ASU permits a company to make a one-time election to reclassify stranded tax effects caused by the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The ASU also requires companies to disclose their accounting policies for releasing income tax effects from accumulated other comprehensive income. ASU 2018-02 is effective for periods beginning after December 15, 2018, with an election to adopt early. The Company adopted ASU 2018-02 as of January 1, 2019 and recognized an adjustment to increase retained earnings and to adjust accumulated other comprehensive loss by approximately $122,526.

Compensation - Retirement Benefits (Topic 715)

In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). The updated accounting guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing, adding and clarifying certain disclosures. These provisions must be applied retrospectively. ASU 2018-14 is effective for periods beginning after December 15, 2019, with an option to adopt early. The Company is currently assessing the ASU's provisions and their impact on the condensed consolidated financial statements.

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5. Employee Benefit Plans

Net periodic benefit income for the Company's pension plans included the following components for the three months ended March 31:

	Pension Benefits	
	2019	2018
Service cost	$2,390	$2,654
Interest cost	24,348	22,113
Expected return on plan assets	(38,527)	(38,588)
Amortization of prior service credit	(17)	(37)
Amortization of actuarial loss	7,749	9,959
Net periodic benefit income	$(4,057)	$(3,899)

Service cost is recorded in selling, administrative and other expenses in the condensed consolidated statements of income and comprehensive income while all other components are recorded within other non-operating expenses (income). Pension benefits also include amounts related to supplemental retirement plans.

6. Guarantees

The Company guarantees the borrowings of certain independently controlled automotive parts stores and businesses (“independents”) and certain other affiliates in which the Company has a noncontrolling equity ownership interest (“affiliates”). Presently, the independents are generally consolidated by unaffiliated enterprises that have controlling financial interests through ownership of a majority voting interest in the independents. The Company has no voting interest or equity conversion rights in any of the independents. The Company does not control the independents or the affiliates, but receives a fee for the guarantees. The Company has concluded that the independents are variable interest entities, but that the Company is not the primary beneficiary. Specifically, the equity holders of the independents have the power to direct the activities that most significantly impact the entities’ economic performance including, but not limited to, decisions about hiring and terminating personnel, local marketing and promotional initiatives, pricing and selling activities, credit decisions, monitoring and maintaining appropriate inventories, and store hours. Separately, the Company concluded that the affiliates are not variable interest entities. The Company’s maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company’s guarantees. While such borrowings of the independents and affiliates are outstanding, the Company is required to maintain compliance with certain covenants, including a maximum debt to capitalization ratio and certain limitations on additional borrowings. At March 31, 2019, the Company was in compliance with all such covenants.

At March 31, 2019, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $809,784. These loans generally mature over periods from one to six years. In the event that the Company is required to make payments in connection with guaranteed obligations of the independents or the affiliates, the Company would obtain and liquidate certain collateral (e.g., accounts receivable and inventory) to recover all or a portion of the amounts paid under the guarantees. When it is deemed probable that the Company will incur a loss in connection with a guarantee, a liability is recorded equal to this estimated loss. To date, the Company has had no significant losses in connection with guarantees of independents’ and affiliates’ borrowings.

As of March 31, 2019, the Company has recognized certain assets and liabilities amounting to $85,000 each for the guarantees related to the independents’ and affiliates’ borrowings. These assets and liabilities are included in other assets and other long-term liabilities in the condensed consolidated balance sheets.

7. Fair Value of Financial Instruments

The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade accounts receivable, trade accounts payable, and borrowings under the line of credit and term loan approximate their respective fair values based on the short-term nature of these instruments. As of March 31, 2019, the carrying amount, net of debt issuance costs, and the fair value of fixed rate debt were approximately $1,451,281 and $1,473,599, respectively. The fair value of fixed rate debt is designated as Level 2 in the fair value hierarchy (i.e., significant observable inputs) and is based primarily on the discounted value of future cash flows using current market interest rates offered for debt of similar credit risk and maturity. The carrying amount, net of debt issuance costs, of fixed rate debt of $1,451,281 is included in long-term debt in the condensed consolidated balance sheet.

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8. Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company’s earnings and cash flows associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking cash flow hedges to specific forecasted transactions or variability of cash flow to be paid. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Cash Flow Hedge

In July 2018 and February 2019, the Company entered into interest rate swaps to mitigate variability in forecasted interest payments on $500,000 and $300,000, respectively, of the Company’s U.S. dollar-denominated unsecured variable rate debt. The interest rate swaps effectively convert a portion of the floating rate interest payment into a fixed rate interest payment. The Company designated the interest rate swaps as qualifying hedging instruments and accounts for these derivatives as cash flow hedges. The fair values of the interest rate cash flow hedges were not material as of March 31, 2019. Gains or losses related to the interest rate cash flow hedges were not material during the three months ended March 31, 2019.

Hedges of Net Investments in Foreign Operations

In July 2018, concurrent with the cash flow hedge described above, the Company entered into a cross-currency interest rate swap agreement to effectively convert $500,000 of the U.S. dollar-denominated unsecured variable rate debt to fixed-rate Euro-denominated debt. In February 2019, the Company terminated the cross-currency interest rate swap agreement and entered into a forward contract to effectively convert $800,000 of the U.S. dollar-denominated unsecured debt to Euro-denominated debt. No gains or losses were recognized at termination. The risk management objective of these transactions is to manage foreign currency risk relating to a European subsidiary and reduce the variability in the functional currency equivalent cash flows of the unsecured variable rate debt. The Company designated the instruments as qualifying hedging instruments and accounts for these derivatives as a hedge of the foreign currency exchange rate exposure of an equal amount of the Company's Euro-denominated net investment in a European subsidiary. The fair value of the forward currency hedge was not material as of March 31, 2019. Gains or losses related to the cross-currency interest rate swap and the forward contract were not material during the three months ended March 31, 2019.

As of March 31, 2019, the Company also had designated €700,000 of the face value of Euro-denominated debt, a non-derivative financial instrument, as a hedge of the foreign currency exchange rate exposure of an equal amount to the Company's Euro-denominated net investment in a European subsidiary. As of March 31, 2019, the Euro-denominated debt has a total carrying amount of $