

GENUINE PARTS CO
Form 10-Q
October 28, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)

2999 WILDWOOD PARKWAY, 30339
ATLANTA, GA
(Address of principal executive offices) (Zip Code)
(770) 953-1700
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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
September 30, 2016

Common Stock, \$1.00 par value per share 148,737,241 Shares

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (unaudited)	December 31, 2015 (unaudited)
	(in thousands, except share and per share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$225,177	\$ 211,631
Trade accounts receivable, less allowance for doubtful accounts (2016 – \$14,064; 2015 – \$10,693)	2,032,548	1,822,419
Merchandise inventories, net – at lower of cost or market	3,146,157	2,999,966
Prepaid expenses and other current assets	504,600	521,300
TOTAL CURRENT ASSETS	5,908,482	5,555,316
Goodwill	950,305	840,582
Other intangible assets, less accumulated amortization	600,130	521,213
Deferred tax assets	109,679	118,525
Other assets	491,925	460,918
Property, plant and equipment, less accumulated depreciation (2016 – \$962,480; 2015 – \$902,917)	688,851	648,217
TOTAL ASSETS	\$8,749,372	\$ 8,144,771
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	\$3,099,438	\$ 2,821,526
Current portion of debt	475,000	375,000
Dividends payable	97,955	92,595
Income taxes payable	32,594	6,762
Other current liabilities	696,544	644,771
TOTAL CURRENT LIABILITIES	4,401,531	3,940,654
Long-term debt	300,000	250,000
Pension and other post-retirement benefit liabilities	202,131	284,235
Deferred tax liabilities	51,472	50,684
Other long-term liabilities	458,944	459,956
EQUITY:		
Preferred stock, par value – \$1 per share		
Authorized – 10,000,000 shares – None issued	-0-	-0-
Common stock, par value – \$1 per share		
Authorized – 450,000,000 shares - Issued and outstanding – 2016 – 148,737,241 shares; 2015 – 150,081,474 shares	148,737	150,081
Additional paid-in capital	55,001	41,353
Retained earnings	3,983,984	3,885,751
Accumulated other comprehensive loss	(865,510)	(930,618)
TOTAL PARENT EQUITY	3,322,212	3,146,567
Noncontrolling interests in subsidiaries	13,082	12,675
TOTAL EQUITY	3,335,294	3,159,242
TOTAL LIABILITIES AND EQUITY	\$8,749,372	\$ 8,144,771

See notes to condensed consolidated financial statements.

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GENUINE PARTS COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(unaudited)			
	(in thousands, except per share data)			
Net sales	\$3,941,743	\$3,921,802	\$11,559,648	\$11,598,254
Cost of goods sold	2,743,142	2,752,577	8,091,124	8,137,880
Gross profit	1,198,601	1,169,225	3,468,524	3,460,374
Operating expenses:				
Selling, administrative and other expenses	869,562	834,372	2,522,223	2,492,537
Depreciation and amortization	37,682	34,278	108,247	105,764
	907,244	868,650	2,630,470	2,598,301
Income before income taxes	291,357	300,575	838,054	862,073
Income taxes	106,031	112,559	303,334	317,674
Net income	\$185,326	\$188,016	\$534,720	\$544,399
Basic net income per common share	\$1.24	\$1.24	\$3.58	\$3.58
Diluted net income per common share	\$1.24	\$1.24	\$3.56	\$3.56
Dividends declared per common share	\$.6575	\$.6150	\$1.973	\$1.845
Weighted average common shares outstanding	148,899	151,354	149,243	152,043
Dilutive effect of stock options and non-vested restricted stock awards	828	789	781	847
Weighted average common shares outstanding – assuming dilution	149,727	152,143	150,024	152,890
Comprehensive income	\$201,981	\$82,931	\$599,828	\$350,024
See notes to condensed consolidated financial statements.				

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2016 2015 (unaudited) (in thousands)	
OPERATING ACTIVITIES:		
Net income	\$534,720	\$544,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	108,247	105,764
Share-based compensation	15,362	13,582
Excess tax benefits from share-based compensation	(10,475)	(5,381)
Changes in operating assets and liabilities	93,498	237,623
NET CASH PROVIDED BY OPERATING ACTIVITIES	741,352	895,987
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(86,650)	(61,994)
Acquisitions and other investing activities	(365,545)	(115,414)
NET CASH USED IN INVESTING ACTIVITIES	(452,195)	(177,408)
FINANCING ACTIVITIES:		
Proceeds from debt	3,020,000	2,537,224
Payments on debt	(2,870,000)	(2,680,191)
Share-based awards exercised, net of taxes paid	(11,942)	(6,030)
Excess tax benefits from share-based compensation	10,475	5,381
Dividends paid	(288,909)	(275,379)
Purchases of stock	(143,810)	(225,175)
NET CASH USED IN FINANCING ACTIVITIES	(284,186)	(644,170)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	8,575	(12,845)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,546	61,564
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	211,631	137,730
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$225,177	\$199,294
See notes to condensed consolidated financial statements.		

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A – 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 United States 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”) for the year ended December 31, 2015. Accordingly, the unaudited interim condensed consolidated financial statements and related disclosures herein should be read in conjunction with the Company’s 2015 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions for 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, which is performed each year-end. 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 nine month period ended September 30, 2016 are not necessarily indicative of results for the entire year. The Company has evaluated subsequent events through the date the financial statements covered by this quarterly report were issued.

Note B – Segment Information

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(in thousands)		(in thousands)	
Net sales:				
Automotive	\$2,095,030	\$2,064,099	\$6,115,186	\$6,065,733
Industrial	1,162,224	1,170,252	3,482,246	3,540,106
Office products	535,175	510,825	1,493,434	1,478,878
Electrical/electronic materials	178,448	196,837	538,803	573,584
Other	(29,134)	(20,211)	(70,021)	(60,047)
Total net sales	\$3,941,743	\$3,921,802	\$11,559,648	\$11,598,254
Operating profit:				
Automotive	\$197,874	\$201,986	\$555,156	\$560,070
Industrial	85,608	90,081	255,704	266,726
Office products	30,257	36,406	97,101	107,431
Electrical/electronic materials	14,277	19,988	45,105	54,019
Total operating profit	328,016	348,461	953,066	988,246
Interest expense, net	(5,244)	(5,055)	(14,731)	(16,056)
Other intangible assets amortization	(10,339)	(8,545)	(28,324)	(25,945)
Other, net	(21,076)	(34,286)	(71,957)	(84,172)
Income before income taxes	\$291,357	\$300,575	\$838,054	\$862,073

Net sales by segment exclude the effect of certain discounts, incentives and freight billed to customers. The line item "Other" represents the net effect of the discounts, incentives and freight billed to customers, which is reported as a component of net sales in the Company's condensed consolidated statements of income and comprehensive income.

Note C – Other Comprehensive Income (Loss)

The difference between comprehensive income and net income was due to foreign currency translation adjustments and pension and other post-retirement benefit adjustments, as summarized below.

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Net income	\$185,326	\$188,016	\$534,720	\$544,399
Other comprehensive income (loss):				
Foreign currency translation	11,896	(110,874)	50,840	(211,868)
Pension and other post-retirement benefit adjustments:				
Recognition of prior service credit, net of tax	(222)	(240)	(666)	(721)
Recognition of actuarial loss, net of tax	4,981	6,029	14,934	18,214
Total other comprehensive income (loss)	16,655	(105,085)	65,108	(194,375)
Comprehensive income	\$201,981	\$82,931	\$599,828	\$350,024

The following tables present the changes in accumulated other comprehensive loss by component for the nine months ended September 30:

	2016		
	Pension and Other Post- Retirement Benefits (in thousands)	Foreign Currency Translation	Total
Beginning balance, January 1			