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# (Mark One)

**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, 2020 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: 001-35479**

**MRC GLOBAL INC.**

(Exact name of registrant as specified in its charter)

# Delaware 20-5956993

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

# Fulbright Tower

**1301 McKinney Street, Suite 2300**

**Houston, Texas 77010**

(Address of Principal Executive Offices) (Zip Code)

(877) 294-7574

(Registrant’s Telephone Number, including Area Code)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Securities registered pursuant to Section 12(b) of the Act:

|  |  |  |
| --- | --- | --- |
| **Title of each class** | **Trading symbol(s)** | **Name of each exchange on which registered** |
| Common Stock, par value $0.01 | MRC | New York Stock Exchange |

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 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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 ☒

There were 82,238,993 shares of the registrant’s common stock (excluding 169,603 unvested restricted shares), par value $0.01 per share, issued and outstanding as of October 22, 2020.

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# PART I – FINANCIAL INFORMATION

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|  |  |
| --- | --- |
| CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED) MRC GLOBAL INC.  *(in millions, except per share amounts)* |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
|  |  |  |  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |  |  |
| Cash |  | $ | **40** |  |  | $ | 32 |  |
| Accounts receivable, net |  |  | **343** |  |  |  | 459 |  |
| Inventories, net |  |  | **582** |  |  |  | 701 |  |
| Other current assets |  |  | **29** |  |  |  | 26 |  |
| Total current assets |  |  | **994** |  |  |  | 1,218 |  |
|  |  |  |  |  |  |  |  |  |
| Long-term assets: |  |  |  |  |  |  |  |  |
| Operating lease assets |  |  | **168** |  |  |  | 186 |  |
| Property, plant and equipment, net |  |  | **128** |  |  |  | 138 |  |
| Other assets |  |  | **16** |  |  |  | 19 |  |
|  |  |  |  |  |  |  |  |  |
| Intangible assets: |  |  |  |  |  |  |  |  |
| Goodwill, net |  |  | **264** |  |  |  | 483 |  |
| Other intangible assets, net |  |  | **235** |  |  |  | 281 |  |
|  |  | $ | **1,805** |  |  | $ | 2,325 |  |
|  |  |  |  |  |  |  |  |  |
| **Liabilities and stockholders' equity** |  |  |  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |  |  |
| Trade accounts payable |  | $ | **293** |  |  | $ | 357 |  |
| Accrued expenses and other current liabilities |  |  | **86** |  |  |  | 91 |  |
| Operating lease liabilities |  |  | **34** |  |  |  | 34 |  |
| Current portion of long-term debt |  |  | **4** |  |  |  | 4 |  |
| Total current liabilities |  |  | **417** |  |  |  | 486 |  |
|  |  |  |  |  |  |  |  |  |
| Long-term liabilities: |  |  |  |  |  |  |  |  |
| Long-term debt, net |  |  | **405** |  |  |  | 547 |  |
| Operating lease liabilities |  |  | **160** |  |  |  | 167 |  |
| Deferred income taxes |  |  | **80** |  |  |  | 91 |  |
| Other liabilities |  |  | **41** |  |  |  | 37 |  |
|  |  |  |  |  |  |  |  |  |
| Commitments and contingencies |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| 6.5% Series A Convertible Perpetual Preferred Stock, $0.01 par value; authorized 363,000 shares; 363,000 shares issued and outstanding |  |  | **355** |  |  |  | 355 |  |
|  |  |  |  |  |  |  |  |  |
| Stockholders' equity: |  |  |  |  |  |  |  |  |
| Common stock, $0.01 par value per share: 500 million shares authorized, 106,284,968 and 105,624,750 issued, respectively |  |  | **1** |  |  |  | 1 |  |
| Additional paid-in capital |  |  | **1,736** |  |  |  | 1,731 |  |
| Retained deficit |  |  | **(770** | **)** |  |  | (483 | ) |
| Less: Treasury stock at cost: 24,216,330 shares |  |  | **(375** | **)** |  |  | (375 | ) |
| Accumulated other comprehensive loss |  |  | **(245** | **)** |  |  | (232 | ) |
|  |  |  | **347** |  |  |  | 642 |  |
|  |  | $ | **1,805** |  |  | $ | 2,325 |  |

*See notes to condensed consolidated financial statements.*

1

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) MRC GLOBAL INC.

*(in millions, except per share amounts)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales |  | $ | **585** |  |  | $ | 942 |  |  | $ | **1,981** |  |  | $ | 2,896 |  |
| Cost of sales |  |  | **471** |  |  |  | 768 |  |  |  | **1,640** |  |  |  | 2,374 |  |
| Gross profit |  |  | **114** |  |  |  | 174 |  |  |  | **341** |  |  |  | 522 |  |
| Selling, general and administrative expenses |  |  | **100** |  |  |  | 137 |  |  |  | **352** |  |  |  | 409 |  |
| Goodwill and intangible asset impairment |  |  | **-** |  |  |  | - |  |  |  | **242** |  |  |  | - |  |
| Operating income (loss) |  |  | **14** |  |  |  | 37 |  |  |  | **(253** | ) |  |  | 113 |  |
| Other (expense) income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  | **(7** | ) |  |  | (10 | ) |  |  | **(22** | **)** |  |  | (31 | ) |
| Other, net |  |  | **1** |  |  |  | 2 |  |  |  | **(1** | ) |  |  | 3 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) before income taxes |  |  | **8** |  |  |  | 29 |  |  |  | **(276** | ) |  |  | 85 |  |
| Income tax expense (benefit) |  |  | **5** |  |  |  | 8 |  |  |  | **(7** | ) |  |  | 22 |  |
| Net income (loss) |  |  | **3** |  |  |  | 21 |  |  |  | **(269** | ) |  |  | 63 |  |
| Series A preferred stock dividends |  |  | **6** |  |  |  | 6 |  |  |  | **18** |  |  |  | 18 |  |
| Net (loss) income attributable to common stockholders |  | $ | **(3** | ) |  | $ | 15 |  |  | $ | **(287** | ) |  | $ | 45 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.54 |  |
| Diluted (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.53 |  |
| Weighted-average common shares, basic |  |  | **82.1** |  |  |  | 82.7 |  |  |  | **81.9** |  |  |  | 83.4 |  |
| Weighted-average common shares, diluted |  |  | **82.1** |  |  |  | 83.4 |  |  |  | **81.9** |  |  |  | 84.2 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  | |  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Sales |  | $ | **585** |  |  | $ | 942 |  |  | $ | **1,981** |  |  | $ | 2,896 |  | | Cost of sales |  |  | **471** |  |  |  | 768 |  |  |  | **1,640** |  |  |  | 2,374 |  | | Gross profit |  |  | **114** |  |  |  | 174 |  |  |  | **341** |  |  |  | 522 |  | | Selling, general and administrative expenses |  |  | **100** |  |  |  | 137 |  |  |  | **352** |  |  |  | 409 |  | | Goodwill and intangible asset impairment |  |  | **-** |  |  |  | - |  |  |  | **242** |  |  |  | - |  | | Operating income (loss) |  |  | **14** |  |  |  | 37 |  |  |  | **(253** | ) |  |  | 113 |  | | Other (expense) income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Interest expense |  |  | **(7** | ) |  |  | (10 | ) |  |  | **(22** | **)** |  |  | (31 | ) | | Other, net |  |  | **1** |  |  |  | 2 |  |  |  | **(1** | ) |  |  | 3 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Income (loss) before income taxes |  |  | **8** |  |  |  | 29 |  |  |  | **(276** | ) |  |  | 85 |  | | Income tax expense (benefit) |  |  | **5** |  |  |  | 8 |  |  |  | **(7** | ) |  |  | 22 |  | | Net income (loss) |  |  | **3** |  |  |  | 21 |  |  |  | **(269** | ) |  |  | 63 |  | | Series A preferred stock dividends |  |  | **6** |  |  |  | 6 |  |  |  | **18** |  |  |  | 18 |  | | Net (loss) income attributable to common stockholders |  | $ | **(3** | ) |  | $ | 15 |  |  | $ | **(287** | ) |  | $ | 45 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Basic (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.54 |  | | Diluted (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.53 |  | | Weighted-average common shares, basic |  |  | **82.1** |  |  |  | 82.7 |  |  |  | **81.9** |  |  |  | 83.4 |  | | Weighted-average common shares, diluted |  |  | **82.1** |  |  |  | 83.4 |  |  |  | **81.9** |  |  |  | 84.2 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  | |  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Sales |  | $ | **585** |  |  | $ | 942 |  |  | $ | **1,981** |  |  | $ | 2,896 |  | | Cost of sales |  |  | **471** |  |  |  | 768 |  |  |  | **1,640** |  |  |  | 2,374 |  | | Gross profit |  |  | **114** |  |  |  | 174 |  |  |  | **341** |  |  |  | 522 |  | | Selling, general and administrative expenses |  |  | **100** |  |  |  | 137 |  |  |  | **352** |  |  |  | 409 |  | | Goodwill and intangible asset impairment |  |  | **-** |  |  |  | - |  |  |  | **242** |  |  |  | - |  | | Operating income (loss) |  |  | **14** |  |  |  | 37 |  |  |  | **(253** | ) |  |  | 113 |  | | Other (expense) income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Interest expense |  |  | **(7** | ) |  |  | (10 | ) |  |  | **(22** | **)** |  |  | (31 | ) | | Other, net |  |  | **1** |  |  |  | 2 |  |  |  | **(1** | ) |  |  | 3 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Income (loss) before income taxes |  |  | **8** |  |  |  | 29 |  |  |  | **(276** | ) |  |  | 85 |  | | Income tax expense (benefit) |  |  | **5** |  |  |  | 8 |  |  |  | **(7** | ) |  |  | 22 |  | | Net income (loss) |  |  | **3** |  |  |  | 21 |  |  |  | **(269** | ) |  |  | 63 |  | | Series A preferred stock dividends |  |  | **6** |  |  |  | 6 |  |  |  | **18** |  |  |  | 18 |  | | Net (loss) income attributable to common stockholders |  | $ | **(3** | ) |  | $ | 15 |  |  | $ | **(287** | ) |  | $ | 45 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Basic (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.54 |  | | Diluted (loss) income per common share |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.53 |  | | Weighted-average common shares, basic |  |  | **82.1** |  |  |  | 82.7 |  |  |  | **81.9** |  |  |  | 83.4 |  | | Weighted-average common shares, diluted |  |  | **82.1** |  |  |  | 83.4 |  |  |  | **81.9** |  |  |  | 84.2 |  | | 2 |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) |  | $ | **3** |  |  | $ | 21 |  |  | $ | **(269** | ) |  | $ | 63 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other comprehensive income (loss) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Foreign currency translation adjustments |  |  | **5** |  |  |  | (8 | ) |  |  | **(8** | **)** |  |  | (3 | ) |
| Hedge accounting adjustments, net of tax |  |  | **1** |  |  |  | - |  |  |  | **(5** | **)** |  |  | (6 | ) |
| Total other comprehensive income (loss), net of tax |  |  | **6** |  |  |  | (8 | ) |  |  | **(13** | **)** |  |  | (9 | ) |
| Comprehensive income (loss) |  | $ | **9** |  |  | $ | 13 |  |  | $ | **(282** | **)** |  | $ | 54 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *See notes to condensed consolidated financial statements.* | 3 |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30, 2020** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Additional** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Common Stock** | | | | | |  |  | **Paid-in** | |  |  | **Retained** | |  |  | **Treasury Stock** | | | | | |  |  | **Comprehensive** | |  |  | **Stockholders'** | |  |
|  |  | **Shares** | |  |  | **Amount** | |  |  | **Capital** | |  |  | **(Deficit)** | |  |  | **Shares** | |  |  | **Amount** | |  |  | **(Loss)** | |  |  | **Equity** | |  |
| Balance at December 31, 2019 |  |  | 106 |  |  | $ | 1 |  |  | $ | 1,731 |  |  | $ | (483 | ) |  |  | (24 | ) |  | $ | (375 | ) |  | $ | (232 | ) |  | $ | 642 |  |
| Net income |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **9** |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **9** |  |
| Foreign currency translation |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(21** | **)** |  |  | **(21** | **)** |
| Hedge accounting adjustments |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **(6** | **)** |  |  | **(6** | **)** |
| Shares withheld for taxes |  |  | - |  |  |  | - |  |  |  | **(3** | **)** |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(3** | **)** |
| Equity-based compensation expense |  |  | - |  |  |  | - |  |  |  | **2** |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **2** |  |
| Dividends declared on preferred stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(6** | **)** |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(6** | **)** |
| Balance at March 31, 2020 |  |  | **106** |  |  | $ | **1** |  |  | $ | **1,730** |  |  | $ | **(480** | **)** |  |  | **(24** | **)** |  | $ | **(375** | **)** |  | $ | **(259** | **)** |  | $ | **617** |  |
| Net loss |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(281** | **)** |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(281** | **)** |
| Foreign currency translation |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **8** |  |  |  | **8** |  |
| Equity-based compensation expense |  |  | - |  |  |  | - |  |  |  | **3** |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **3** |  |
| Dividends declared on preferred stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(6** | **)** |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **(6** | **)** |
| Balance at June 30, 2020 |  |  | **106** |  |  | $ | **1** |  |  | $ | **1,733** |  |  | $ | **(767** | **)** |  |  | **(24** | **)** |  | $ | **(375** | **)** |  | $ | **(251** | **)** |  | $ | **341** |  |
| Net income |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **3** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **3** |  |
| Foreign currency translation |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **5** |  |  |  | **5** |  |
| Hedge accounting adjustments |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | **1** |  |  |  | **1** |  |
| Equity-based compensation expense |  |  | **-** |  |  |  | **-** |  |  |  | **3** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **3** |  |
| Dividends declared on preferred stock |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **(6** | **)** |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **(6** | **)** |
| Balance at September 30, 2020 |  |  | **106** |  |  | $ | **1** |  |  | $ | **1,736** |  |  | $ | **(770** | **)** |  |  | **(24** | **)** |  | $ | **(375** | **)** |  | $ | **(245** | ) |  | $ | **347** |  |

4

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY (UNAUDITED) MRC GLOBAL INC.

*(in millions)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Accumulated** | |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | **Additional** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Other** | |  |  | **Total** | |  |
|  |  | **Common Stock** | | | | | |  |  | **Paid-in** | |  |  | **Retained** | |  |  | **Treasury Stock** | | | | | |  |  | **Comprehensive** | |  |  | **Stockholders'** | |  |
|  |  | **Shares** | |  |  | **Amount** | |  |  | **Capital** | |  |  | **(Deficit)** | |  |  | **Shares** | |  |  | **Amount** | |  |  | **(Loss)** | |  |  | **Equity** | |  |
| Balance at December 31, 2018 |  |  | 105 |  |  | $ | 1 |  |  | $ | 1,721 |  |  | $ | (498 | ) |  |  | (19 | ) |  | $ | (300 | ) |  | $ | (232 | ) |  | $ | 692 |  |
| Net income |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 18 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 18 |  |
| Foreign currency translation |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 3 |  |  |  | 3 |  |
| Hedge accounting adjustments |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | (2 | ) |  |  | (2 | ) |
| Shares withheld for taxes |  |  | - |  |  |  | - |  |  |  | (6 | ) |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |
| Equity-based compensation expense |  |  | - |  |  |  | - |  |  |  | 4 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 4 |  |
| Dividends declared on preferred stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |
| Purchase of common stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (2 | ) |  |  | (25 | ) |  |  | - |  |  |  | (25 | ) |
| Balance at March 31, 2019 |  |  | 105 |  |  | $ | 1 |  |  | $ | 1,719 |  |  | $ | (486 | ) |  |  | (21 | ) |  | $ | (325 | ) |  | $ | (231 | ) |  | $ | 678 |  |
| Net income |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 24 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 24 |  |
| Foreign currency translation |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 2 |  |  |  | 2 |  |
| Hedge accounting adjustments |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | **-** |  |  |  | (4 | ) |  |  | (4 | ) |
| Equity-based compensation expense |  |  | 1 |  |  |  | - |  |  |  | 3 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 3 |  |
| Dividends declared on preferred stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |
| Purchase of common stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (1 | ) |  |  | (25 | ) |  |  | - |  |  |  | (25 | ) |
| Balance at June 30, 2019 |  |  | 106 |  |  | $ | 1 |  |  | $ | 1,722 |  |  | $ | (468 | ) |  |  | (22 | ) |  | $ | (350 | ) |  | $ | (233 | ) |  | $ | 672 |  |
| Net income |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 21 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 21 |  |
| Foreign currency translation |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (8 | ) |  |  | (8 | ) |
| Equity-based compensation expense |  |  | - |  |  |  | - |  |  |  | 5 |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | 5 |  |
| Dividends declared on preferred stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (6 | ) |
| Purchase of common stock |  |  | - |  |  |  | - |  |  |  | - |  |  |  | - |  |  |  | (1 | ) |  |  | (13 | ) |  |  | - |  |  |  | (13 | ) |
| Balance at September 30, 2019 |  |  | 106 |  |  | $ | 1 |  |  | $ | 1,727 |  |  | $ | (453 | ) |  |  | (23 | ) |  | $ | (363 | ) |  | $ | (241 | ) |  | $ | 671 |  |

*See notes to condensed consolidated financial statements.*

5

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) MRC GLOBAL INC.

*(in millions)*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
|  |  |  |  |  |  |  |  |  |
| **Operating activities** |  |  |  |  |  |  |  |  |
| Net (loss) income |  | $ | **(269** | ) |  | $ | 63 |  |
| Adjustments to reconcile net (loss) income to net cash provided by operations: |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  |  | **15** |  |  |  | 16 |  |
| Amortization of intangibles |  |  | **20** |  |  |  | 33 |  |
| Equity-based compensation expense |  |  | **8** |  |  |  | 12 |  |
| Deferred income tax benefit |  |  | **(10** | ) |  |  | (5 | ) |
| Decrease in LIFO reserve |  |  | **(20** | **)** |  |  | (3 | ) |
| Goodwill and intangible asset impairment |  |  | **242** |  |  |  | - |  |
| Lease impairment and abandonment |  |  | **15** |  |  |  | - |  |
| Inventory-related charges |  |  | **34** |  |  |  | - |  |
| Provision for uncollectible accounts |  |  | **3** |  |  |  | 2 |  |
| Other |  |  | **3** |  |  |  | 2 |  |
| Changes in operating assets and liabilities: |  |  |  |  |  |  |  |  |
| Accounts receivable |  |  | **110** |  |  |  | (4 | ) |
| Inventories |  |  | **102** |  |  |  | 56 |  |
| Other current assets |  |  | **(3** | ) |  |  | - |  |
| Accounts payable |  |  | **(63** | ) |  |  | (3 | ) |
| Accrued expenses and other current liabilities |  |  | **(9** | **)** |  |  | (35 | ) |
| Net cash provided by operations |  |  | **178** |  |  |  | 134 |  |
|  |  |  |  |  |  |  |  |  |
| **Investing activities** |  |  |  |  |  |  |  |  |
| Purchases of property, plant and equipment |  |  | **(8** | **)** |  |  | (12 | ) |
| Other investing activities |  |  | **1** |  |  |  | 2 |  |
| Net cash used in investing activities |  |  | **(7** | **)** |  |  | (10 | ) |
|  |  |  |  |  |  |  |  |  |
| **Financing activities** |  |  |  |  |  |  |  |  |
| Payments on revolving credit facilities |  |  | **(655** | **)** |  |  | (786 | ) |
| Proceeds from revolving credit facilities |  |  | **519** |  |  |  | 733 |  |
| Payments on long-term obligations |  |  | **(5** | **)** |  |  | (3 | ) |
| Purchase of common stock |  |  | **-** |  |  |  | (63 | ) |
| Dividends paid on preferred stock |  |  | **(18** | **)** |  |  | (18 | ) |
| Repurchases of shares to satisfy tax withholdings |  |  | **(3** | **)** |  |  | (6 | ) |
| Other |  |  | **-** |  |  |  | 1 |  |
| Net cash used in financing activities |  |  | **(162** | **)** |  |  | (142 | ) |
|  |  |  |  |  |  |  |  |  |
| Increase (decrease) in cash |  |  | **9** |  |  |  | (18 | ) |
| Effect of foreign exchange rate on cash |  |  | **(1** | **)** |  |  | - |  |
| Cash -- beginning of period |  |  | **32** |  |  |  | 43 |  |
| Cash -- end of period |  | $ | **40** |  |  | $ | 25 |  |
|  |  |  |  |  |  |  |  |  |
| Supplemental disclosures of cash flow information: |  |  |  |  |  |  |  |  |
| Cash paid for interest |  | $ | **21** |  |  | $ | 30 |  |
| Cash paid for income taxes |  | $ | **3** |  |  | $ | 27 |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *See notes to condensed consolidated financial statements.* | 6 |  |  |  |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) MRC GLOBAL INC.

# NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

**Business Operations:** MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings (“PVF”) and related infrastructure products and services across each of the gas utilities (gas utilities and the storage and distribution of oil and

gas), downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials), upstream production (exploration, production and extraction of underground oil and gas) and midstream pipeline (gathering and transmission of oil and gas) sectors. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and Caspian. We obtain products from a broad range of suppliers.

**Basis of Presentation:** We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2020. We have derived our condensed consolidated balance sheet as of December 31, 2019 from the audited consolidated financial statements for the year ended December 31, 2019. You should read these condensed consolidated financial statements in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019.

The consolidated financial statements include the accounts of MRC Global Inc. and its wholly owned and majority owned subsidiaries (collectively referred to as the “Company” or by such terms as “we,” “our” or “us”). All material intercompany balances and transactions have been eliminated in consolidation.

**Recent Issued Accounting Pronouncements:** In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, *Debt – Debt with Conversion and Other Options and Derivative Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40)* ("ASU 2020-06"), which simplifies guidance on the topics of convertible instruments, derivative contracts and earnings per share ("EPS") calculations. This update will be effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. We are currently evaluating the impacts of the provisions of ASU 2020-06 on our consolidated financial statements.

In March 2020, the FASB issued Accounting Standards Update ASU 2020-04, *Reference Rate Reform (Topic 848)* ("ASU 2020-04"), which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of certain reference rates, including the London Interbank Offered Rate ("LIBOR"). The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impacts of the provisions of ASU 2020-04 on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, an update intended to simplify various aspects related to accounting for income taxes. This guidance removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. This accounting standards update will be effective for annual and interim financial statement periods beginning after December 15, 2020, with early adoption permitted. We are currently evaluating the impact of this accounting standards update, but do not expect the adoption to materially impact our consolidated financial statements.

**Adoption of New Accounting Standards:** In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which requires that an entity measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. We adopted ASU 2016-13 on January 1, 2020. The adoption of this new standard resulted in the recognition of $1 million of incremental bad debt expense in the nine months ended September 30, 2020.

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# NOTE 2 – REVENUE RECOGNITION

We recognize revenue when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. We recognize substantially all of our revenue when products are shipped or delivered to our customers, and payment is due from our customers at the time of billing with a majority of our customers having 30-day terms. We estimate and record returns as a reduction of revenue. Amounts received in advance of shipment are deferred and recognized when the performance obligations are satisfied. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from sales in the accompanying consolidated statements of operations. Cost of sales includes the cost of inventory sold and related items, such as vendor rebates, inventory allowances and reserves and shipping and handling costs associated with inbound and outbound freight, as well as depreciation and amortization and amortization of intangible assets. In some cases, particularly with third-party pipe

shipments, shipping and handling costs are considered separate performance obligations, and as such, the revenue and cost of sales are recorded when the performance obligation is fulfilled.

Our contracts with customers ordinarily involve performance obligations that are one year or less. Therefore, we have applied the optional exemption that permits the omission of information about our unfulfilled performance obligations as of the balance sheet dates.

**Contract Balances:** Variations in the timing of revenue recognition, invoicing and receipt of payment result in categories of assets and liabilities that include invoiced accounts receivable, uninvoiced accounts receivable, contract assets and deferred revenue (contract liabilities) on the consolidated balance sheets.

Generally, revenue recognition and invoicing occur simultaneously as we transfer control of promised goods or services to our customers. We consider contract assets to be accounts receivable when we have an unconditional right to consideration and only the passage of time is required before payment is due. In certain cases, particularly those involving customer-specific documentation requirements, invoicing is delayed until we are able to meet the documentation requirements. In these cases, we recognize a contract asset separate from accounts receivable until those requirements are met, and we are able to invoice the customer. Our contract asset balance associated with these requirements as of September 30, 2020 and December 31, 2019 was $13 million and $26 million, respectively. These contract asset balances are included within accounts receivable in the accompanying consolidated balance sheets.

We record contract liabilities, or deferred revenue, when we receive cash payments from customers in advance of our performance, including amounts which are refundable. The deferred revenue balance at September 30, 2020 and December 31, 2019 was $3 million and $4 million, respectively. During the three and nine months ended September 30, 2020, we recognized $0 million and $4 million of revenue that was deferred as of December 31, 2019, respectively. During the three and nine months ended September 30, 2019, we recognized $0 million and $6 million of revenue that was deferred as of December 31, 2018. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

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**Disaggregated Revenue:** Our disaggregated revenue represents our business of selling PVF to the energy sector across each of the gas utilities (gas utilities and the storage and distribution of oil and gas), downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials), upstream production (exploration, production and extraction of underground oil and gas) and midstream pipeline (gathering and transmission of oil and gas) sectors in each of our reportable segments. Each of our end markets and geographical reportable segments are impacted and influenced by varying factors, including macroeconomic environment, commodity prices, maintenance and capital spending and exploration and production activity. As such, we believe that this information is important in depicting the nature, amount, timing and uncertainty of our contracts with customers.

The following table presents our revenue disaggregated by revenue source (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Three Months Ended** | | | | | | | | | | | | | | | |  |
| **September 30,** | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **U.S.** | |  |  | **Canada** | |  |  | **International** | |  |  | **Total** | |  |
| **2020:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gas utilities |  | $ | **206** |  |  | $ | **2** |  |  | $ | **—** |  |  | $ | **208** |  |
| Downstream & industrial |  |  | **131** |  |  |  | **4** |  |  |  | **50** |  |  |  | **185** |  |
| Upstream production |  |  | **61** |  |  |  | **17** |  |  |  | **40** |  |  |  | **118** |  |
| Midstream pipeline |  |  | **65** |  |  |  | **4** |  |  |  | **5** |  |  |  | **74** |  |
|  |  | $ | **463** |  |  | $ | **27** |  |  | $ | **95** |  |  | $ | **585** |  |
| **2019:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gas utilities |  | $ | 215 |  |  | $ | 1 |  |  | $ | — |  |  | $ | 216 |  |
| Downstream & industrial |  |  | 218 |  |  |  | 7 |  |  |  | 60 |  |  |  | 285 |  |
| Upstream production |  |  | 189 |  |  |  | 43 |  |  |  | 55 |  |  |  | 287 |  |
| Midstream pipeline |  |  | 141 |  |  |  | 6 |  |  |  | 7 |  |  |  | 154 |  |
|  |  | $ | 763 |  |  | $ | 57 |  |  | $ | 122 |  |  | $ | 942 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Nine Months Ended** | | | | | | | | | | | | | | | |  |
| **September 30,** | | | | | | | | | | | | | | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **U.S.** | |  |  | **Canada** | |  |  | **International** | |  |  | **Total** | |  |
| **2020:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gas utilities |  | $ | **605** |  |  | $ | **10** |  |  | $ | **—** |  |  | $ | **615** |  |
| Downstream & industrial |  |  | **447** |  |  |  | **12** |  |  |  | **153** |  |  |  | **612** |  |
| Upstream production |  |  | **266** |  |  |  | **72** |  |  |  | **136** |  |  |  | **474** |  |
| Midstream pipeline |  |  | **257** |  |  |  | **11** |  |  |  | **12** |  |  |  | **280** |  |
|  |  | $ | **1,575** |  |  | $ | **105** |  |  | $ | **301** |  |  | $ | **1,981** |  |
| **2019:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gas utilities |  | $ | 663 |  |  | $ | 14 |  |  | $ | — |  |  | $ | 677 |  |
| Downstream & industrial |  |  | 667 |  |  |  | 18 |  |  |  | 176 |  |  |  | 861 |  |
| Upstream production |  |  | 583 |  |  |  | 130 |  |  |  | 170 |  |  |  | 883 |  |
| Midstream pipeline |  |  | 435 |  |  |  | 21 |  |  |  | 19 |  |  |  | 475 |  |
|  |  | $ | 2,348 |  |  | $ | 183 |  |  | $ | 365 |  |  | $ | 2,896 |  |

# NOTE 3 – INVENTORIES

The composition of our inventory is as follows (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Finished goods inventory at average cost: |  |  |  |  |  |  |  |  |
| Valves, automation, measurement and instrumentation |  | $ | **303** |  |  | $ | 355 |  |
| Carbon steel pipe, fittings and flanges |  |  | **183** |  |  |  | 268 |  |
| All other products |  |  | **249** |  |  |  | 268 |  |
|  |  |  | **735** |  |  |  | 891 |  |
| Less: Excess of average cost over LIFO cost (LIFO reserve) |  |  | **(135** | **)** |  |  | (155 | ) |
| Less: Other inventory reserves |  |  | **(18** | **)** |  |  | (35 | ) |
|  |  | $ | **582** |  |  | $ | 701 |  |

The Company uses the last-in, first-out (“LIFO”) method of valuing U.S. inventories. The use of the LIFO method has the effect of reducing net income during periods of rising inventory costs (inflationary periods) and increasing net income during periods of falling inventory costs (deflationary periods). Valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory determination. Our inventory quantities are expected to be reduced for the current year, resulting in a liquidation of a LIFO inventory layer that was carried at a lower cost prevailing from a prior year, as compared with current costs in the current year (a “LIFO decrement”). A LIFO decrement results in the erosion of layers created in earlier years, and, therefore, a LIFO layer is not created for years that have decrements. For the three and nine months ended September 30, 2020, the effect of this LIFO decrement decreased cost of sales by approximately $14 million and $22 million, respectively.

During the nine months ended September 30, 2020, we incurred non-cash inventory-related charges totaling $34 million necessary to reduce the carrying value of certain products determined to be excess or obsolete to their net realizable value based on our current market outlook for these products. This amount includes $19 million in our U.S. segment, $1 million in our Canada segment, and $14 million in our International segment due to increased reserves for excess and obsolete inventory as well as the exit of our Thailand business. We may continue to sell to customers in Thailand from time-to-time on an export basis.

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# NOTE 4 – LEASES

We lease certain distribution centers, warehouses, office space, land and equipment. Substantially all of these leases are classified as operating leases. We recognize lease expense on a straight-line basis over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Many of our facility leases include one or more options to renew, with renewal terms that can extend the lease term from one year to 15 years with a maximum lease term of 30 years, including renewals. The exercise of lease renewal options is at our sole discretion; therefore, renewals to extend the terms of most leases are not included in our right of use (“ROU”) assets and lease liabilities as they are not reasonably certain of exercise. In the case of our regional distribution centers and certain corporate offices, where the renewal is reasonably certain of exercise, we include the renewal period in our lease term. Leases with escalation adjustments based on an index, such as the consumer price index, are expensed based on current rates. Leases with specified escalation steps are expensed based on the total lease obligation ratably over the life of the lease. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Non-lease components, such as payment of real estate taxes, maintenance, insurance and other operating expenses, have been excluded from the determination of our lease liability.

As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments using a portfolio approach. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Expense associated with our operating leases was $10 million and $29 million for the three and nine months ended September 30, 2020, respectively, and $10 million and

$31 million for the three and nine months ended September 30, 2019, respectively, which is classified in selling, general and administrative expenses. Cash paid for leases recognized as liabilities was $10 million and $32 million for the three and nine months ended September 30, 2020, respectively, and $11 million and $34 million for the three and nine months ended September 30, 2019, respectively.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Maturity of Operating Lease Liabilities** |  |  |  |  |
| Remainder of 2020 |  | $ | **10** |  |
| 2021 |  |  | **39** |  |
| 2022 |  |  | **31** |  |
| 2023 |  |  | **24** |  |
| 2024 |  |  | **20** |  |
| After 2024 |  |  | **194** |  |
| Total lease payments |  |  | **318** |  |
| Less: Interest |  |  | **(124** | **)** |
| Present value of lease liabilities |  | $ | **194** |  |

Amounts maturing after 2024 include expected renewals for leases of regional distribution centers and certain corporate offices through dates up to 2048. The term and discount rate associated with leases are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |
| **Operating Lease Term and Discount Rate** |  | **2020** | |  |
| Weighted-average remaining lease term (years) |  |  | **14** |  |
| Weighted-average discount rate |  |  | **7.0** | **%** |

During the nine months ended September 30, 2020, actions were taken to close a number of facilities as part of a broader plan to streamline operations and reduce costs. In connection with these closures, we incurred charges totaling $15 million related to impairments of right of use assets, lease abandonments and charges associated with contractual obligations under lease agreements. These are reflected in selling, general and administrative expense in the accompanying statement of operations and amounted to $2 million, $1 million, and $12 million in our U.S., Canada and International segments, respectively.

In September and October 2020, we agreed, subject to certain conditions, to sell and leaseback certain owned office and warehouse facilities. These leases are expected to commence during the fourth quarter of 2020. Upon commencement, we will record approximately $23 million of operating lease liabilities for these arrangements.

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# NOTE 5 – GOODWILL AND INTANGIBLE ASSET IMPAIRMENT

We apply a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis (as of October 1) and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis.

In the first half of 2020, demand for oil and natural gas declined sharply as a result of the coronavirus disease 2019 (“COVID-19”) pandemic. This disruption in demand and the resulting decline in the price of oil has had a dramatic negative impact on our business. We experienced a significant reduction in sales beginning in April 2020, which continued throughout the second quarter. At that time, there remained ongoing uncertainty around the timing and extent of any recovery. We took a more pessimistic long-term outlook due to the significant reduction in the demand for oil, the implications of that demand destruction on the price of oil for an extended period of time and actions our customers had taken to curtail costs and reduce spending. As a result of those developments, we concluded that it was more likely than not the fair values of our U.S. and International reporting units were lower than their carrying values. Accordingly, we completed an interim goodwill impairment test as of

April 30, 2020. This test resulted in a $217 million goodwill impairment charge during the nine months ended September 30, 2020 comprised of $177 million in our U.S. reporting unit and $40 million in our International reporting unit.

Goodwill by reporting unit is shown as follows *(in millions)*:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | U.S. | |  |  | Canada | |  |  | International | |  |  | Total | |  |
| Balance at December 31, 2019 (1) |  | $ | 441 |  |  | $ | - |  |  | $ | 42 |  |  | $ | 483 |  |
| Impairment |  |  | (177 | ) |  |  | - |  |  |  | (40 | ) |  |  | (217 | ) |
| Foreign currency translation adjustments |  |  | - |  |  |  | - |  |  |  | (2 | ) |  |  | (2 | ) |
| Balance at September 30, 2020 |  | $ | **264** |  |  | $ | - |  |  | $ | **-** |  |  | $ | **264** |  |

* 1. Net of prior years’ accumulated impairment of $350 million, $69 million and $183 million in the United States, Canada and International, respectively.

As a result of the same factors that necessitated an interim impairment test for goodwill, we completed an interim impairment test, as of April 30, 2020, for our U.S. indefinite-lived tradename asset. This test resulted in an impairment charge of $25 million during the nine months ended September 30, 2020. The remaining balance of the indefinite-lived tradename was $107 million as of September 30, 2020. The U.S. tradename is our only indefinite-lived intangible asset.

Our impairment methodology uses discounted cash flow and multiples of cash earnings valuation techniques, acquisition control premium and valuation comparisons to similar businesses to determine the fair value of a reporting unit. Each of these methods involves Level 3 unobservable market inputs and require us to make certain assumptions and estimates including future operating results, the extent and timing of future cash flows, working capital requirements, sales prices, profitability,

discount rates, sales growth trends and cost trends. As of April 30, 2020, the discount rates utilized to value the reporting units were in a range from 9.75% to 11.25%. We utilized third-party valuation advisors to assist us with these valuations. These impairment assessments incorporate inherent uncertainties, which are difficult to predict in volatile economic environments. While we believe that our assumptions and estimates were reasonable, actual results may differ materially from projected results which could result in the recognition of additional impairment charges in future periods.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Senior Secured Term Loan B, net of discount and issuance costs of $2 |  | $ | **384** |  |  | $ | 390 |  |
| Global ABL Facility |  |  | **25** |  |  |  | 161 |  |
|  |  |  | **409** |  |  |  | 551 |  |
| Less: Current portion |  |  | **(4** | **)** |  |  | (4 | ) |
|  |  | $ | **405** |  |  | $ | 547 |  |

**Senior Secured Term Loan B:** We have a Senior Secured Term Loan B (the “Term Loan”) with an original principal amount of $400 million, which amortizes in equal quarterly installments of 1% per year with the balance payable in September 2024, when the facility matures. The Term Loan has an applicable interest rate margin of 300 basis points in the case of loans incurring interest based on LIBOR, and 200 basis points in the case of loans incurring interest based on the base rate. The Term

Loan allows for incremental increases in facility size by up to an aggregate of $200 million, plus an additional amount such that the Company’s first lien leverage ratio (as defined under the Term Loan) would not exceed 4.00 to 1.00. MRC Global (US) Inc. is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing our Global ABL Facility, defined below, (which includes accounts receivable and inventory) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S. subsidiaries, as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. We are required to repay the Term Loan with certain

asset sales and insurance proceeds. In addition, on an annual basis, we are required to repay an amount equal to 50% of excess cash flow, as defined in the Term Loan, reducing to 25% if our first lien leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if the first lien leverage ratio is less than or equal

2.50 to 1.00. In addition, the Term Loan contains a number of customary restrictive covenants.

In March 2020, we purchased and retired $3 million of the outstanding interests in the Term Loan at a cost of $2 million. We recognized a gain of $1 million on the extinguishment of the debt in the nine months ended September 30, 2020.

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**Global ABL Facility:** We have an $800 million multi-currency asset-based revolving credit (the “Global ABL Facility”) that matures in September 2022. This facility is comprised of revolver commitments of $675 million in the United States, $65 million in Canada, $18 million in Norway, $15 million in Australia, $13 million in the Netherlands, $7 million in the United Kingdom and $7 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to $200 million, subject to securing additional lender commitments. MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the

obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable and inventory. Availability is dependent on a borrowing base comprised of a percentage of eligible accounts receivable and inventory which is subject to redetermination from time to time. Excess Availability, as defined under our Global ABL Facility, was $437 million as of September 30, 2020.

**Interest on Borrowings**: The interest rates on our borrowings outstanding at September 30, 2020 and December 31, 2019, including a floating to fixed interest rate swap and amortization of debt issuance costs, are as set forth below:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Senior Secured Term Loan B |  |  | **4.92** | **%** |  |  | 5.50 | % |
| Global ABL Facility |  |  | **2.71** | **%** |  |  | 3.47 | % |
| Weighted average interest rate |  |  | **4.79** | **%** |  |  | 4.91 | % |

|  |  |  |
| --- | --- | --- |
| **NOTE 7 – REDEEMABLE PREFERRED STOCK**  **Preferred Stock Issuance** |  |  |

In June 2015, we issued 363,000 shares of Series A Convertible Perpetual Preferred Stock (the “Preferred Stock”) and received gross proceeds of $363 million. The Preferred Stock ranks senior to our common stock with respect to dividend rights and rights on liquidation, winding-up and dissolution. The Preferred Stock has a stated value of $1,000 per share, and holders of Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 6.50% per annum. In June 2018, the holders of Preferred Stock designated one member to our board of directors. If we fail to declare and pay the quarterly dividend for an amount equal to six or more dividend periods, the holders of the Preferred Stock would be entitled to designate an additional member to our board of directors. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion price of $17.88 per share of common stock, subject to adjustment. Effective June 10, 2020, the Company has the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock at 105% of par value, subject to certain redemption price adjustments. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

Holders of the Preferred Stock may, at their option, require the Company to repurchase their shares in the event of a fundamental change, as defined in the agreement. The repurchase price is based on the original $1,000 per share purchase price except in the case of a liquidation in which case they would receive the greater of $1,000 per share and the amount that would be received if they held common stock converted at the conversion rate in effect at the time of the fundamental change. Because this feature could require redemption as a result of the occurrence of an event not solely within the control of the Company, the Preferred Stock is classified as temporary equity on our balance sheet.

# NOTE 8 – STOCKHOLDERS’ EQUITY

**Share Repurchase Program**

From time to time, the Company’s board of directors has authorized repurchase programs for shares of the Company’s common stock. As of September 30, 2020, there were no remaining authorizations outstanding under these programs. There were 82,068,638 shares of common stock outstanding as of September 30, 2020.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Number of shares acquired on the open market |  |  | **-** |  |  |  | 957,869 |  |  |  | **-** |  |  |  | 4,088,490 |  |
| Average price per share |  | $ | **-** |  |  | $ | 13.59 |  |  | $ | **-** |  |  | $ | 15.43 |  |
| Total cost of acquired shares (in millions) |  | $ | **-** |  |  | $ | 13 |  |  | $ | **-** |  |  | $ | 63 |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Equity Compensation Plans** |  |  |  |

Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares reserved for issuance under the plan. In both April 2015 and 2019, our shareholders approved an additional 4,250,000 and 2,500,000 shares, respectively, for reservation for issuance under the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the

2011 Omnibus Incentive Plan, the Company’s board of directors has periodically granted stock options, restricted stock awards, restricted stock units and performance share units to directors and employees, but no other types of awards have been granted under the plan. Options and stock appreciation rights may not be granted at prices less than the fair market value of our common stock on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs over a three year to five year period on the anniversaries of the date specified in the employees’ respective agreements, subject to accelerated vesting under certain circumstances set forth in the agreements. Vesting for directors generally occurs on the one year anniversary of the grant date. In 2020, 336,325 performance share unit awards, 169,603 restricted stock shares and 1,336,430 shares of restricted stock units have been granted to employees. To date, 9,553,717 shares have been granted under this plan. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price performance component. We expense the fair value of all equity grants, including performance share unit awards, on a straight-line basis over the vesting period.

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# Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss in the accompanying consolidated balance sheets consists of the following (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Foreign currency translation adjustments |  | $ | **(232** | **)** |  | $ | (224 | ) |
| Hedge accounting adjustments |  |  | **(12** | **)** |  |  | (7 | ) |
| Pension related adjustments |  |  | **(1** | **)** |  |  | (1 | ) |
| Accumulated other comprehensive loss |  | $ | **(245** | **)** |  | $ | (232 | ) |

|  |  |  |  |
| --- | --- | --- | --- |
| **Earnings per Share** |  |  |  |
| Earnings per share are calculated in the table below (in millions, except per share amounts): |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Net income (loss) |  | $ | **3** |  |  | $ | 21 |  |  | $ | **(269** | ) |  | $ | 63 |  |
| Less: Dividends on Series A Preferred Stock |  |  | **6** |  |  |  | 6 |  |  |  | **18** |  |  |  | 18 |  |
| Net (loss) income attributable to common stockholders |  | $ | **(3** | ) |  | $ | 15 |  |  | $ | **(287** | ) |  | $ | 45 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average basic shares outstanding |  |  | **82.1** |  |  |  | 82.7 |  |  |  | **81.9** |  |  |  | 83.4 |  |
| Effect of dilutive securities |  |  | **-** |  |  |  | 0.7 |  |  |  | **-** |  |  |  | 0.8 |  |
| Weighted average diluted shares outstanding |  |  | **82.1** |  |  |  | 83.4 |  |  |  | **81.9** |  |  |  | 84.2 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net (loss) income per share: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.54 |  |
| Diluted |  | $ | **(0.04** | ) |  | $ | 0.18 |  |  | $ | **(3.50** | ) |  | $ | 0.53 |  |

Equity awards and shares of Preferred Stock are disregarded in the calculation of diluted earnings per share if they are determined to be anti-dilutive. For the three and nine months ended September 30, 2020 and 2019, all of the shares of the Preferred Stock were anti-dilutive. For the three and nine months ended September 30, 2020, we had approximately 3.7 million and 3.8 million anti-dilutive stock options, respectively. For the three and nine months ended September 30, 2019, we had approximately

* 1. million anti-dilutive stock options. There were 0.4 million and 0.5 million anti-dilutive restricted stock, restricted units or performance stock unit awards for the three and nine months ended September 30, 2020, respectively. There were no anti-dilutive restricted stock, restricted units or performance stock unit awards for the three and nine months ended September 30, 2019.

# NOTE 9 – SEGMENT INFORMATION

Our business is comprised of three operating and reportable segments: U.S., Canada and International. Our International segment consists of our operations outside of the U.S. and Canada. These segments represent our business of selling PVF to the energy sector across each of the gas utilities (gas utilities and the storage and distribution of oil and gas), downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials), upstream production (exploration, production and extraction of underground oil and gas) and midstream pipeline (gathering and transmission of oil and gas) sectors.

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The following table presents financial information for each reportable segment (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| **Sales** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **463** |  |  | $ | 763 |  |  | $ | **1,575** |  |  | $ | 2,348 |  |
| Canada |  |  | **27** |  |  |  | 57 |  |  |  | **105** |  |  |  | 183 |  |
| International |  |  | **95** |  |  |  | 122 |  |  |  | **301** |  |  |  | 365 |  |
| Consolidated sales |  | $ | **585** |  |  | $ | 942 |  |  | $ | **1,981** |  |  | $ | 2,896 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Operating income (loss)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **13** |  |  | $ | 31 |  |  | $ | **(195** | ) |  | $ | 102 |  |
| Canada |  |  | **(1** | ) |  |  | 1 |  |  |  | **(3** | ) |  |  | 1 |  |
| International |  |  | **2** |  |  |  | 5 |  |  |  | **(55** | ) |  |  | 10 |  |
| Total operating income (loss) |  |  | **14** |  |  |  | 37 |  |  |  | **(253** | ) |  |  | 113 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Interest expense** |  |  | **(7** | ) |  |  | (10 | ) |  |  | **(22** | **)** |  |  | (31 | ) |
| **Other, net** |  |  | **1** |  |  |  | 2 |  |  |  | **(1** | ) |  |  | 3 |  |
| **Income (loss) before income taxes** |  | $ | **8** |  |  | $ | 29 |  |  | $ | **(276** | ) |  | $ | 85 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| **Total assets** |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **1,514** |  |  | $ | 1,915 |  |
| Canada |  |  | **65** |  |  |  | 91 |  |
| International |  |  | **226** |  |  |  | 319 |  |
| Total assets |  | $ | **1,805** |  |  | $ | 2,325 |  |

Our sales by product line are as follows (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
| **Type** |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| Line pipe |  | $ | **63** |  |  | $ | 153 |  |  | $ | **243** |  |  | $ | 468 |  |
| Carbon fittings and flanges |  |  | **76** |  |  |  | 145 |  |  |  | **264** |  |  |  | 456 |  |
| Total carbon pipe, fittings and flanges |  |  | **139** |  |  |  | 298 |  |  |  | **507** |  |  |  | 924 |  |
| Valves, automation, measurement and instrumentation |  |  | **230** |  |  |  | 362 |  |  |  | **802** |  |  |  | 1,125 |  |
| Gas products |  |  | **131** |  |  |  | 147 |  |  |  | **379** |  |  |  | 425 |  |
| Stainless steel and alloy pipe and fittings |  |  | **29** |  |  |  | 43 |  |  |  | **96** |  |  |  | 135 |  |
| General products |  |  | **56** |  |  |  | 92 |  |  |  | **197** |  |  |  | 287 |  |
|  |  | $ | **585** |  |  | $ | 942 |  |  | $ | **1,981** |  |  | $ | 2,896 |  |

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# NOTE 10 – FAIR VALUE MEASUREMENTS

From time to time, we use derivative financial instruments to help manage our exposure to interest rate risk and fluctuations in foreign currencies.

**Interest Rate Swap:** In March 2018, we entered into a five year interest rate swap that became effective on March 31, 2018, with a notional amount of $250 million from which the Company will receive payments at 1-month LIBOR and make monthly payments at a fixed rate of 2.7145% with settlement and reset dates on or near the last business day of each month until maturity. The fair value of the swap at inception was zero.

We have designated the interest rate swap as an effective cash flow hedge utilizing the guidance under ASU 2017-12. As such, the valuation of the interest rate swap is recorded as an asset or liability, and the gain or loss on the derivative is recorded as a component of other comprehensive income. Interest rate swap agreements are reported on the accompanying balance sheets at fair value utilizing observable Level 2 inputs such as yield curves and other market-based factors. We obtain dealer quotations to value our interest rate swap agreements. The fair value of our interest rate swap is estimated based on the present value of the difference between expected cash flows calculated at the contracted interest rates and the expected cash flows at current market interest rates. The fair value of the interest rate swap was a liability of $16 million and $9 million as of September 30, 2020 and December 31, 2019, respectively.

**Foreign Exchange Forward Contracts:** Foreign exchange forward contracts are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments. Our foreign exchange derivative instruments are freestanding, have not been designated as hedges and, accordingly, changes in their fair market value are recorded in earnings. The total notional amount of our forward foreign exchange contracts and options was approximately

$8 million and $21 million at September 30, 2020 and December 31, 2019, respectively. The fair value of our foreign exchange contracts was not material as of September 30, 2020 and December 31, 2019.

With the exception of long-term debt, the fair values of our financial instruments, including cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities approximate carrying value. The carrying value of our debt was $409 million and $551 million at September 30, 2020 and December 31, 2019, respectively. We estimate the fair value of the Term Loan using Level 2 inputs, or quoted market prices. The fair value of our debt was $380 million and $554 million at September 30, 2020 and December 31, 2019 respectively.

# NOTE 11 – COMMITMENTS AND CONTINGENCIES

## Litigation

*Asbestos Claims.* We are one of many defendants in lawsuits that plaintiffs have brought seeking damages for personal injuries that exposure to asbestos allegedly caused. Plaintiffs and their family members have brought these lawsuits against a large volume of defendant entities as a result of the defendants’ manufacture, distribution, supply or other involvement with asbestos, asbestos containing-products or equipment or activities that allegedly caused plaintiffs to be exposed to asbestos. These plaintiffs typically assert exposure to asbestos as a consequence of third-party manufactured products that our MRC Global (US) Inc. subsidiary purportedly distributed. As of September 30, 2020, we are named a defendant in approximately 564 lawsuits involving approximately 1,139 claims. No asbestos lawsuit has resulted in a judgment against us to date, with a majority being settled, dismissed or otherwise resolved. Applicable third-party insurance has substantially covered these claims, and insurance should continue to cover a substantial majority of existing and anticipated future claims. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers for our estimated recovery, to the extent we believe that the amounts of recovery are probable. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

*Other Legal Claims and Proceedings.* From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

*Product Claims.* From time to time, in the ordinary course of our business, our customers may claim that the products that we distribute are either defective or require repair or replacement under warranties that either we or the manufacturer may provide to the customer. These proceedings are, in the opinion of management, ordinary and routine matters incidental to our normal business. Our purchase orders with our suppliers generally require the manufacturer to indemnify us against any product liability claims, leaving the manufacturer ultimately responsible for these claims. In many cases, state, provincial or foreign law provides protection to distributors for these sorts of claims, shifting the responsibility to the manufacturer. In some cases, we could be required to repair or replace the products for the benefit of our customer and seek our recovery from the manufacturer for our expense. In our opinion, the likelihood that the ultimate disposition of any of these claims and legal proceedings will have a material adverse effect on our consolidated financial statements is remote.

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## Customer Contracts

We have contracts and agreements with many of our customers that dictate certain terms of our sales arrangements (pricing, deliverables, etc.). While we make every effort to abide by the terms of these contracts, certain provisions are complex and often subject to varying interpretations. Under the terms of these contracts, our customers have the right to audit our adherence to the contract terms. Historically, any settlements that have resulted from these customer audits have not been material to our consolidated financial statements.

## Purchase Commitments

We have purchase obligations consisting primarily of inventory purchases made in the normal course of business to meet operating needs. While our vendors often allow us to cancel these purchase orders without penalty, in certain cases, cancellations may subject us to cancellation fees or penalties depending on the terms of the contract.

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## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. As used in this Form 10-Q, unless otherwise indicated or the context otherwise requires, all references to the “Company,” “MRC Global,” “we,” “our” or “us” refer to*

*MRC Global Inc. and its consolidated subsidiaries.*

# Cautionary Note Regarding Forward-Looking Statements

Management’s Discussion and Analysis of Financial Condition and Results of Operations (as well as other sections of this Quarterly Report on Form 10-Q) contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include those preceded by, followed by or including the words “will,” “expect,” “intended,” “anticipated,” “believe,” “project,” “forecast,” “propose,” “plan,” “estimate,” “enable” and similar expressions, including, for example, statements about our business strategy, our industry, our future profitability, growth in the industry sectors we serve, our expectations, beliefs, plans, strategies, objectives, prospects and assumptions, and estimates and projections of future activity and trends in the oil and natural gas industry. These forward-looking statements are not guarantees of future performance. These statements are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, most of which are difficult to predict and many of which are beyond our control, including the factors described under “Risk Factors,” that may cause our actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Such risks and uncertainties include, among other things:

* + - decreases in oil and natural gas prices;
    - decreases in oil and natural gas industry expenditure levels, which may result from decreased oil and natural gas prices or other factors;
    - U.S. and international general economic conditions;
    - our ability to compete successfully with other companies in our industry;
    - the risk that manufacturers of the products we distribute will sell a substantial amount of goods directly to end users in the industry sectors we serve;
    - unexpected supply shortages;
    - cost increases by our suppliers;
    - our lack of long-term contracts with most of our suppliers;
    - suppliers’ price reductions of products that we sell, which could cause the value of our inventory to decline;
    - decreases in steel prices, which could significantly lower our profit;
    - increases in steel prices, which we may be unable to pass along to our customers which could significantly lower our profit;
    - our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;
    - changes in our customer and product mix;
    - risks related to our customers’ creditworthiness;
    - the success of our acquisition strategies;
    - the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;
    - our significant indebtedness;
    - the dependence on our subsidiaries for cash to meet our obligations;
    - changes in our credit profile;
    - a decline in demand for or adverse change in the value of certain of the products we distribute if tariffs and duties on these products are imposed or lifted;
    - significant substitution of alternative fuels for oil and gas;

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* + - environmental, health and safety laws and regulations and the interpretation or implementation thereof;
    - the sufficiency of our insurance policies to cover losses, including liabilities arising from litigation;
    - product liability claims against us;
    - pending or future asbestos-related claims against us;
    - the potential loss of key personnel;
    - adverse health events, such as a pandemic;
    - interruption in the proper functioning of our information systems;
    - the occurrence of cybersecurity incidents;
    - loss of third-party transportation providers;
    - potential inability to obtain necessary capital;
    - risks related to adverse weather events or natural disasters;
    - impairment of our goodwill or other intangible assets;
    - adverse changes in political or economic conditions in the countries in which we operate;
    - exposure to U.S. and international laws and regulations, including the Foreign Corrupt Practices Act and the U.K. Bribery Act and other economic sanctions programs;
    - risks associated with international instability and geopolitical developments, including armed conflicts and terrorism;
    - risks relating to ongoing evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act;
    - our intention not to pay dividends; and
    - risks related to changing laws and regulations, including trade policies and tariffs.

Undue reliance should not be placed on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We

undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except to the extent law requires.

# Overview

We are the largest distributor of pipe, valves and fittings (“PVF”) and other infrastructure products and services to the energy industry, based on sales. We provide innovative supply chain solutions and technical product expertise to customers globally through our leading position across each of our diversified end-markets including the gas utilities (gas utilities and the storage and distribution of oil and gas), downstream and industrial (crude oil refining and petrochemical and chemical processing and general industrials), upstream production (exploration, production and extraction of underground oil and gas) and midstream pipeline (gathering and transmission of oil and gas) sectors. We offer over 200,000 SKUs, including an extensive array of PVF, oilfield supply, valve automation and modification, measurement, instrumentation and other general and specialty products from our global network of over 10,000 suppliers. With nearly 100 years of history, our approximate

2,700 employees serve over 12,000 customers through approximately 230 service locations including regional distribution centers, branches, corporate offices and third party pipe yards, where we often deploy pipe near customer locations. We seek to provide best-in-class service to our customers by satisfying the most complex, multi- site needs of many of the largest companies in the energy sector as their primary PVF supplier. We believe the critical role we play in our customers’ supply chain, together with our extensive product and service offerings, broad global presence, customer-linked scalable information systems and efficient distribution capabilities, serve to solidify our long-standing customer relationships and drive our growth. As a result, we have an average relationship of over 25 years with our 25 largest customers.

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# Key Drivers of Our Business

Our revenue is predominantly derived from the sale of PVF and other oilfield and industrial supplies to the energy sector globally. Our business is, therefore, dependent upon both the current conditions and future prospects in the energy industry and, in particular, maintenance and expansionary operating and capital expenditures by our customers in the gas utilities, downstream and industrial, upstream production and midstream pipeline sectors of the industry. Long-term growth in spending has been driven by several factors, including demand growth for petroleum and petroleum derived products, underinvestment in global energy infrastructure, growth in shale and unconventional exploration and production (“E&P”) activity, and anticipated strength in the oil, natural gas, refined products and petrochemical sectors. The outlook for future oil, natural gas, refined products and petrochemical PVF spending is influenced by numerous factors, including the following:

* *Energy Infrastructure Integrity and Modernization.* Currently, gas utilities is our largest sector by sales. Activity with customers in this market is dependent on new residential and commercial development as well as upgrades of existing infrastructure. Maintenance of an aging network of pipelines is a critical requirement for these customers irrespective of broader economic conditions. As a result, this business tends to be more stable over time and

moves independently of commodity prices.

* *Oil and Natural Gas Prices*. Sales of PVF and related infrastructure products to the oil and natural gas industry constitute over 90% of our sales. As a result, we depend upon the oil and natural gas industry and its ability and willingness to make maintenance and capital expenditures to explore for, produce and process oil, natural gas and refined products. Oil and natural gas prices, both current and projected, along with the costs necessary to produce oil and gas, impact other drivers of our business, including capital spending by customers, additions to and maintenance of pipelines, refinery utilization and petrochemical processing activity.
* *Economic Conditions*. The demand for the products we distribute is dependent on the general economy, the energy sector and other factors. Changes in the general economy or in the energy sector (domestically or internationally) can cause demand for the products we distribute to materially change.
* *Manufacturer and Distributor Inventory Levels of PVF and Related Products*. Manufacturer and distributor inventory levels of PVF and related products can change significantly from period to period. Increased inventory levels by manufacturers or other distributors can cause an oversupply of PVF and related products in the industry sectors we serve and reduce the prices that we are able to charge for the products we distribute. Reduced prices, in turn, would likely reduce our profitability. Conversely, decreased manufacturer inventory levels may ultimately lead to increased demand for our products and would likely result in increased sales volumes and overall profitability.
* *Steel Prices, Availability and Supply and Demand*. Fluctuations in steel prices can lead to volatility in the pricing of the products we distribute, especially carbon steel line pipe products, which can influence the buying patterns of our customers. A majority of the products we distribute contain various types of steel. The worldwide supply and demand for these products, or other steel products that we do not supply, impacts the pricing and availability of our products and, ultimately, our sales and operating profitability.

# Recent Trends and Outlook

During the first nine months of 2020, the average oil price of West Texas Intermediate (“WTI”) decreased to $38.04 per barrel from $57.04 per barrel in the first nine months of 2019. Natural gas prices decreased to an average price of $1.87/MMBtu (Henry Hub) for the first nine months of 2020 compared to $2.62/MMBtu (Henry Hub) for the first nine months of 2019. North American drilling rig activity decreased 71% and 49% in the three and nine months ended September 30, 2020, respectively, as compared to the same periods of 2019. U.S. well completions were down 74% and 48% in the three and nine months ended September 30, 2020, respectively, compared to the same periods in 2019.

The energy industry, and our business in turn, is cyclical in nature. In 2019, our customers demonstrated an increased focus on returns on invested capital, which drove a more disciplined approach to spending that continues to impact each of our business sectors with the exception of gas utilities. In the first half of 2020, demand for oil and natural gas declined sharply as a result of the coronavirus disease 2019 (“COVID-19”) pandemic. As various governments implemented COVID-19 isolation orders, transportation use declined, energy use declined and manufacturing declined. As a result, oil consumption dropped dramatically. At the same time, the Organization of Petroleum Exporting Countries (“OPEC”) and other oil producing nations were initially unable to reach an agreement on oil production levels. This lack of agreement, between Saudi Arabia and Russia in particular, escalated concerns over the potential for oversupply of oil during a period of weakened demand thereby causing a significant, sustained decline in commodity prices. Beginning in the second quarter of 2020 to help offset the virus-related demand destruction, major oil-producing nations responded by reducing oil production but have announced their intention to start easing these cuts due to current trends indicating a modest increase in oil demand. However, the expected level of oil demand in the near term is projected to be substantially lower than prior year levels. There remains significant uncertainty regarding the timing and extent of any recovery, including the possibility of a global recession or depression and any possible structural shift in the global economy and its demand for oil and natural gas as a result of changes in the way people work, travel and interact. Additionally, the pace of demand recovery could possibly slow or pause as a result of a second wave of pandemic outbreak or heightened pandemic control measures. As a result there has been a decrease in oil and gas industry spending in 2020 of as much as 30% or more globally, including up to 50% in the U.S. upstream market. These reductions in spending directly impact both the upstream production and midstream pipeline components of our business. In addition, we have seen our customers in the downstream sector seek to defer turnarounds and routine maintenance as well as idle facilities in order to preserve liquidity and comply with COVID-19 related limitations on employee activities. Furthermore, approximately 80% of our business is concentrated in the U.S. market where the majority of industry spending reductions are occurring. Given these developments, the risk of resurgence of the COVID-19 virus and the continuing focus on capital discipline by oil and gas exploration and production operators, we experienced a sharp decline in sales beginning in the second quarter of 2020 and expect the market to remain challenged until there is a step-change improvement related to COVID-19 concerns, improving the outlook for global oil demand.

The gas utility sector of our business which is independent of oil and gas commodity prices has been impacted by certain customer activity delays due to COVID-19 concerns but has not experienced any material budget cuts or project cancellations. In the third quarter we saw a modest rebound in sales for this sector and expect this business to continue to grow in 2021 due to recent market share gains and higher activity levels as COVID-19 concerns begin to diminish.

Because of the challenging outlook for the remainder of 2020, we have taken a number of steps to further reduce our operating costs. These steps include the following:

* A voluntary early retirement program and an involuntary reduction in force to reduce headcount
* Ongoing freezes on hiring and compensation increases
* An indefinite suspension of the Company’s 401(k) matching contributions to its U.S. employees
* Reductions in annual bonus incentive targets and resulting payouts for both executive management and eligible employees
* A 30% reduction in equity grants to non-executive directors

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* For eligible executives and employees, a reduction in the long-term incentive awards that the Company grants to them pursuant to the Company’s 2011 Omnibus Incentive Plan
* Management and employee furloughs
* Closure of certain branches and distribution centers where customer spending demand does not warrant continuation of those operations as we continue to adjust our distribution network as needed.
* Continued cost reductions and efficiency efforts throughout the Company

In addition to these efforts, we are actively managing our investment in working capital to an appropriate level, which can allow us to generate cash and reduce our indebtedness.

In the first nine months of 2020, we closed 22 facilities and took other actions to reduce our costs associated with leased branches. As a result of these actions, we incurred charges totaling $15 million related to impairment of right of use assets, lease abandonment and charges associated with contractual obligations under lease agreements. Through these branch closures and other reductions in force, we have reduced headcount by over 500 employees. In connection with these reductions, we have incurred severance costs of $12 million. We continue to take actions to further reduce operating costs and have plans to close additional facilities and further reduce headcount in the fourth quarter. Additional severance, restructuring and closure costs may be incurred to complete these actions.

During the COVID-19 pandemic crisis, we have continued to operate our business. Our video and audio conferencing and enterprise resource planning and other operational systems have enabled our office employees to work from home, performing their job functions with minimal disruption or impact on our internal control environment. We required our employees to work from home as a result of governmental isolation orders and, in many cases, in advance of those orders for the health and safety of our employees. We have limited employee travel, with few exceptions, to local deliveries of our products. Our warehouses and regional distribution centers have remained open. Under various isolation orders by national, state, provincial and local governments, we have been exempted as an “essential” business as the products we sell are necessary for the maintenance and functioning of the energy infrastructure. We have taken measures to safeguard the health and welfare of our employees, including (among other things) social distancing measures while at work, certain screening, providing personal protection equipment such as face masks

and hand sanitizer and providing “deep” cleaning services at Company facilities. Currently, of our approximate 2,700 employees, we have 11 employees with current cases of COVID-19. If we were to develop a COVID-19 outbreak at one of our facilities, we have plans to isolate those in contact with the impacted employees and to either staff the facility with employees from other facilities or supply product to customers from other facilities. We monitor guidelines of the Center for Disease Control ("CDC") and other authorities on an ongoing basis, and as various governmental isolation orders evolve, we continue to review our operational plans to continue operating our business while addressing the health and safety of our employees and those with whom our business comes into contact.

As a distribution business, we have also closely monitored the ability of our suppliers and transportation providers to continue the functioning of our supply

chain, particularly in cases where there are limited alternative sources of supply. While there have been some temporary interruptions of manufacturing for some of our products, especially those who manufacture product or components in China, South Korea and Italy, many of these manufacturers have now resumed production. We have not experienced significant delays by transportation providers. Our inventory position for most products has allowed us to continue supply to most customers with little interruption. In those instances where there is interruption, we are working with our customers to discuss the impact of the COVID-19 delay. We continue to monitor the situation and have ongoing dialogue with our customers regarding the status of impacted orders.

In recent years, the United States imposed tariffs on imports of some products that we distribute. Although these actions generally cause the price we pay for products to increase, we are generally able to leverage long-standing relationships with our suppliers and the volume of our purchases to receive market competitive pricing. In addition, our contracts with customers generally allow us to react quickly to price increases through mechanisms that enable us to pass those increases along to customers as they occur. Of course, the price increases that tariffs and quotas engender may be offset by the pricing impacts of lower demand that the COVID-19 pandemic has caused. These issues are dynamic and continue to evolve. To the extent our products are further impacted by higher prices caused by tariffs and quotas, the ultimate impact on our revenue and cost of sales, which is determined using the last-in, first-out (“LIFO”) inventory costing methodology, remains subject to uncertainty and volatility.

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Effective January 31, 2020, the United Kingdom formally exited the European Union (“EU”). Following the exit, there is a transition period until December 31, 2020.

During the transition period, the U.K.'s trading relationship with the EU will remain the same while the two sides negotiate a free trade deal. At the same time, many other aspects of the U.K.'s future relationship with the EU - including law enforcement, data sharing and security - will also be negotiated. If a trade agreement is timely completed, the U.K.'s new trading relationship with the EU can begin immediately after the transition. If not, there would be no trade agreement, which could negatively impact our business, including any commodity pricing, transfer pricing and other cross border issues. However, we have a physical presence in both the U.K. and EU member states that would allow us to continue to operate and to serve our customers as needed. In the first nine months of 2020, 2.7% of our revenue was derived from our U.K. business.

We determine backlog by the amount of unshipped customer orders, either specific or general in nature, which the customer may revise or cancel in certain instances. The table below details our backlog by segment (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **September 30,** | |  |  | **December 31,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2019** | |  |
| U.S. |  | $ | **215** |  |  | $ | 301 |  |  | $ | 295 |  |
| Canada |  |  | **15** |  |  |  | 34 |  |  |  | 33 |  |
| International |  |  | **145** |  |  |  | 174 |  |  |  | 179 |  |
|  |  | $ | **375** |  |  | $ | 509 |  |  | $ | 507 |  |

Our backlog as of September 30, 2020 had decreased 26% from December 31, 2019 and September 30, 2019. There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that substantially all of the sales in our backlog will be realized in the next twelve months.

The following table shows key industry indicators for the three and nine months ended September 30, 2020 and 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **2020** | |  |  | **2019** | |  |
| *Average Rig Count (1):* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| United States |  |  | **254** |  |  |  | 920 |  |  |  | **477** |  |  |  | 984 |  |
| Canada |  |  | **47** |  |  |  | 132 |  |  |  | **89** |  |  |  | 132 |  |
| Total North America |  |  | **301** |  |  |  | 1,052 |  |  |  | **566** |  |  |  | 1,116 |  |
| International |  |  | **731** |  |  |  | 1,144 |  |  |  | **879** |  |  |  | 1,094 |  |
| Total |  |  | **1,032** |  |  |  | 2,196 |  |  |  | **1,445** |  |  |  | 2,210 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Average Commodity Prices (2):* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| WTI crude oil (per barrel) |  | $ | **40.89** |  |  | $ | 56.34 |  |  | $ | **38.04** |  |  | $ | 57.04 |  |
| Brent crude oil (per barrel) |  | $ | **42.91** |  |  | $ | 61.95 |  |  | $ | **41.15** |  |  | $ | 64.65 |  |
| Natural gas ($/MMBtu) |  | $ | **2.00** |  |  | $ | 2.38 |  |  | $ | **1.87** |  |  | $ | 2.62 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average Monthly U.S. Well Permits (3) |  |  | **1,292** |  |  |  | 4,375 |  |  |  | **1,660** |  |  |  | 5,033 |  |
| U.S. Wells Completed (2) |  |  | **1,026** |  |  |  | 4,006 |  |  |  | **5,811** |  |  |  | 11,280 |  |
| 3:2:1 Crack Spread (4) |  | $ | **10.10** |  |  | $ | 18.00 |  |  | $ | **11.96** |  |  | $ | 18.92 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. *Source-Baker Hughes (www.bhge.com) (Total rig count includes oil, natural gas and other rigs.)*
2. *Source-Department of Energy, EIA (www.eia.gov) (As revised)*
3. *Source-Evercore ISI Research*
4. *Source-Bloomberg*

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# Results of Operations

## Three Months Ended September 30, 2020 Compared to the Three Months Ended September 30, 2019

The breakdown of our sales by sector for the three months ended September 30, 2020 and 2019 was as follows (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | | | | | | | | | |  |
|  |  | **September 30, 2020** | | | | | |  |  | **September 30, 2019** | | | | | |  |
| Gas utilities |  | $ | **208** |  |  |  | **36** | **%** |  | $ | 216 |  |  |  | 23 | % |
| Downstream & industrial |  |  | **185** |  |  |  | **32** | **%** |  |  | 285 |  |  |  | 30 | % |
| Upstream production |  |  | **118** |  |  |  | **20** | **%** |  |  | 287 |  |  |  | 31 | % |
| Midstream pipeline |  |  | **74** |  |  |  | **12** | **%** |  |  | 154 |  |  |  | 16 | % |
|  |  | $ | **585** |  |  |  | **100** | **%** |  | $ | 942 |  |  |  | 100 | % |

For the three months ended September 30, 2020 and 2019, the following table summarizes our results of operations (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  |  |  |  |  |  |  |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **$ Change** | |  |  | **% Change** | |  |
| *Sales:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **463** |  |  | $ | 763 |  |  | $ | (300 | ) |  |  | (39 | )% |
| Canada |  |  | **27** |  |  |  | 57 |  |  |  | (30 | ) |  |  | (53 | )% |
| International |  |  | **95** |  |  |  | 122 |  |  |  | (27 | ) |  |  | (22 | )% |
| Consolidated |  | $ | **585** |  |  | $ | 942 |  |  | $ | (357 | ) |  |  | (38 | )% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Operating income (loss):* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **13** |  |  | $ | 31 |  |  | $ | (18 | ) |  |  | (58 | )% |
| Canada |  |  | **(1** | **)** |  |  | 1 |  |  |  | (2 | ) |  |  | N/M |  |
| International |  |  | **2** |  |  |  | 5 |  |  |  | (3 | ) |  |  | (60 | )% |
| Consolidated |  |  | **14** |  |  |  | 37 |  |  |  | (23 | ) |  |  | (62 | )% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  | **(7** | **)** |  |  | (10 | ) |  |  | 3 |  |  |  | (30 | )% |
| Other, net |  |  | **1** |  |  |  | 2 |  |  |  | (1 | ) |  |  | (50 | )% |
| Income tax expense |  |  | **(5** | **)** |  |  | (8 | ) |  |  | 3 |  |  |  | (38 | )% |
| Net income |  |  | **3** |  |  |  | 21 |  |  |  | (18 | ) |  |  | (86 | )% |
| Series A preferred stock dividends |  |  | **6** |  |  |  | 6 |  |  |  | - |  |  |  | N/M |  |
| Net (loss) income attributable to common stockholders |  | $ | **(3** | **)** |  | $ | 15 |  |  | $ | (18 | ) |  |  | N/M |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  | $ | **114** |  |  | $ | 174 |  |  | $ | (60 | ) |  |  | (34 | )% |
| Adjusted Gross Profit (1) |  | $ | **115** |  |  | $ | 188 |  |  | $ | (73 | ) |  |  | (39 | )% |
| Adjusted EBITDA (1) |  | $ | **24** |  |  | $ | 62 |  |  | $ | (38 | ) |  |  | (61 | )% |

* 1. Adjusted Gross Profit and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of these measures to an equivalent GAAP measure, see pages 23-25 herein.

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***Sales****.* Our sales were $585 million for the three months ended September 30, 2020 as compared to $942 million for the three months ended September 30, 2019, a decrease of $357 million, or 38%. The strengthening of foreign currencies in areas where we operate relative to the U.S. dollar favorably impacted sales by $2 million.

*U.S. Segment—*Our U.S. sales decreased to $463 million for the three months ended September 30, 2020 from $763 million for the three months ended September 30, 2019. This $300 million, or 39%, decrease reflected a $9 million decrease in the gas utilities sector, an $87 million decrease in the downstream and industrial sector, a $128 million decrease in the upstream production sector and a $76 million decrease in the midstream pipeline sector. The decline in gas utilities is primarily due to the impact from

non-recurring work, partially offset by recent market share gains and certain customers increasing activity levels as they recover from pandemic restrictions. Downstream and industrial sales declined due to delayed or reduced maintenance spending from lower demand as well as non-recurring turnarounds. Upstream production sales decreased 68% due to reduced spending from the Company’s customers and a 74% reduction in well completions. The decline in midstream pipeline sales are due to lower production levels and reduced demand for infrastructure.

*Canada Segment—*Our Canada sales decreased to $27 million for the three months ended September 30, 2020 from $57 million for the three months ended September 30, 2019, a decrease of $30 million, or 53%. The decline was driven primarily by the upstream production sector, which was adversely affected by the pandemic and associated reduced demand.

*International Segment*—Our International sales decreased to $95 million for the three months ended September 30, 2020 from $122 million for the same period in 2019. The $27 million, or 22%, decrease is driven primarily by reduced spending in the upstream sector followed by the downstream and industrials sector due to the lower activity levels associated with reduced demand. Stronger foreign currencies relative to the U.S. dollar favorably impacted sales by $2 million, or 2%.

***Gross Profit****.* Our gross profit was $114 million (19.5% of sales) for the three months ended September 30, 2020 as compared to $174 million (18.5% of sales) for the three months ended September 30, 2019. As compared to average cost, our LIFO inventory costing methodology reduced cost of sales by $11 million for the third quarter of 2020 compared to $2 million in the third quarter of 2019. Excluding the impact of LIFO, gross profit percentage declined 70 basis points.

***Adjusted Gross Profit****.* Adjusted Gross Profit decreased to $115 million (19.7% of sales) for the three months ended September 30, 2020 from $188 million

(20.0% of sales) for the three months ended September 30, 2019, a decrease of $73 million. Adjusted Gross Profit is a non-GAAP financial measure. We define Adjusted Gross Profit as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, plus inventory-related charges and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

The following table reconciles Adjusted Gross Profit, a non-GAAP financial measure, with gross profit, as derived from our financial statements (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | | | | | | | | | |  |
|  |  | **September 30,** | |  |  | **Percentage** | |  |  | **September 30,** | |  |  | **Percentage** | |  |
|  |  | **2020** | |  |  | **of Revenue** | |  |  | **2019** | |  |  | **of Revenue** | |  |
| Gross profit, as reported |  | **$** | **114** |  |  |  | **19.5** | **%** |  | $ | 174 |  |  |  | 18.5 | % |
| Depreciation and amortization |  |  | **5** |  |  |  | **0.9** | **%** |  |  | 5 |  |  |  | 0.5 | % |
| Amortization of intangibles |  |  | **7** |  |  |  | **1.2** | **%** |  |  | 11 |  |  |  | 1.2 | % |
| Decrease in LIFO reserve |  |  | **(11** | **)** |  |  | **(1.9** | **)%** |  |  | (2 | ) |  |  | (0.2 | )% |
| Adjusted Gross Profit |  | **$** | **115** |  |  |  | **19.7** | **%** |  | $ | 188 |  |  |  | 20.0 | % |

***Selling, General and Administrative (“SG&A”) Expenses****.* Our SG&A expenses were $100 million for the three months ended September 30, 2020 as compared to $137 million for the three months ended September 30, 2019. The $37 million decrease in SG&A was driven by lower employee-related costs, including incentives and benefits, resulting from the decline in business activity. SG&A in both three month periods included $5 million of severance and restructuring charges. In addition, operating expenses for the three months ended September 30, 2020 were reduced by $2 million as a result of the recovery of a supplier bad debt previously written off. Excluding these items, SG&A would have been $97 million and $132 million for the three months ended September 30, 2020 and 2019, respectively. The strengthening of foreign currencies in areas where we operate outside of the U.S. dollar unfavorably impacted SG&A by $1 million.

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***Operating Income****.* Operating income was $14 million for the three months ended September 30, 2020 as compared to $37 million for the three months ended September 30, 2019, a decline of $23 million.

* 1. *Segment*—Operating income for our U.S. segment was $13 million for the three months ended September 30, 2020 compared to operating income of $31 million for the three months ended September 30, 2019, an $18 million decline which was driven by lower sales offset by a reduction in SG&A.

*Canada Segment*—Operating loss for our Canada segment was $1 million for the three months ended September 30, 2020 as compared to operating income of $1 million for the three months ended September 30, 2019. The $2 million decline was the result of significantly lower sales offset by a reduction in SG&A.

*International Segment*—Operating income for our international segment was $2 million for the three months ended September 30, 2020 as compared to $5 million for the three months ended September 30, 2019. The $3 million decline was also attributable to a decline in sales offset by a reduction in SG&A including the $2 million reduction in expense resulting from the recovery of supplier bad debt.

***Interest Expense****.* Our interest expense was $7 million and $10 million for the three months ended September 30, 2020 and 2019, respectively. The decrease in interest expense was attributable to lower average debt levels and lower interest rates during the third quarter of 2020 as compared to the third quarter of 2019.

***Other, net****.* Our other income was $1 million for the three months ended September 30, 2020 as compared to $2 million for the three months ended September 30, 2019*.*

***Income Tax Expense****.* Our income tax expense was $5 million for the three months ended September 30, 2020 as compared to $8 million for the three months ended September 30, 2019. We typically record income tax expense for interim periods based on estimated annual effective tax rates. However, due to the uncertainty in our industry and the effects of COVID-19, the income tax expense for the three months ended September 30, 2020 was computed based on a year-to-date actual effective tax rate. We will return to utilizing an estimated annual effective tax rate when appropriate. Our effective tax rates were 63% and 28% for the three months ended September 30, 2020 and 2019, respectively. Our rates generally differ from the U.S. federal statutory rate of 21% as a result of state income taxes and differing foreign income tax rates. The higher effective tax rate for three months ended September 30, 2020 was primarily the result of losses incurred in certain foreign jurisdictions where there was no corresponding tax benefit as well as the reversal of a current year net operating loss benefit recognized in a prior quarter but no longer expected to be realized.

Excluding these items, the effective tax rate for the three months ended September 30, 2020 would have been 27%.

In response to COVID-19, President Donald Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures that do not materially impact the Company’s deferred tax liability and its year-to-date effective tax rate. Given the uncertain outlook, we will continue to evaluate any future tax impacts resulting from the CARES Act.

***Net Income****.* Our net income was $3 million for the three months ended September 30, 2020 as compared to net income of $21 million for the three months ended September 30, 2019, respectively.

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***Adjusted EBITDA****.* Adjusted EBITDA, a non-GAAP financial measure, was $24 million (4.1% of sales) for the three months ended September 30, 2020 as compared to

$62 million (6.6% of sales) for the three months ended September 30, 2019.

We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses, including non-cash expenses (such as equity-based compensation, severance and restructuring, changes in the fair value of derivative instruments and asset impairments, including intangible assets and inventory) and plus or minus the impact of our LIFO inventory costing methodology.

We believe Adjusted EBITDA provides investors a helpful measure for comparing our operating performance with the performance of other companies that may have different financing and capital structures or tax rates. We believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, which can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted EBITDA as a key performance indicator in managing our business. We believe that net income is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted EBITDA.

The following table reconciles Adjusted EBITDA, a non-GAAP financial measure, with net income, as derived from our financial statements (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Net income |  | $ | **3** |  |  | $ | 21 |  |
| Income tax expense |  |  | **5** |  |  |  | 8 |  |
| Interest expense |  |  | **7** |  |  |  | 10 |  |
| Depreciation and amortization |  |  | **5** |  |  |  | 5 |  |
| Amortization of intangibles |  |  | **7** |  |  |  | 11 |  |
| Severance and restructuring |  |  | **5** |  |  |  | 5 |  |
| Decrease in LIFO reserve |  |  | **(11** | ) |  |  | (2 | ) |
| Equity-based compensation expense |  |  | **3** |  |  |  | 5 |  |
| Recovery of supplier bad debt |  |  | **(2** | **)** |  |  | - |  |
| Foreign currency losses (gains) |  |  | **2** |  |  |  | (1 | ) |
| Adjusted EBITDA |  | $ | **24** |  |  | $ | 62 |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 25 |  |  |  |

## Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

The breakdown of our sales by sector for the nine months ended September 30, 2020 and 2019 was as follows (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | | | | | | | | | |  |
|  |  | **September 30, 2020** | | | | | |  |  | **September 30, 2019** | | | | | |  |
| Gas utilities |  | $ | **615** |  |  |  | **31** | **%** |  | $ | 677 |  |  |  | 23 | % |
| Downstream & industrial |  |  | **612** |  |  |  | **31** | **%** |  |  | 861 |  |  |  | 30 | % |
| Upstream production |  |  | **474** |  |  |  | **24** | **%** |  |  | 883 |  |  |  | 30 | % |
| Midstream pipeline |  |  | **280** |  |  |  | **14** | **%** |  |  | 475 |  |  |  | 17 | % |
|  |  | $ | **1,981** |  |  |  | **100** | **%** |  | $ | 2,896 |  |  |  | 100 | % |

For the nine months ended September 30, 2020 and 2019, the following table summarizes our results of operations (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |  |  |  |  |  |  |  |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |  |  |  |  |  |  |  |  |
|  |  | **2020** | |  |  | **2019** | |  |  | **$ Change** | |  |  | **% Change** | |  |
| *Sales:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **1,575** |  |  | $ | 2,348 |  |  | $ | (773 | ) |  |  | (33 | )% |
| Canada |  |  | **105** |  |  |  | 183 |  |  |  | (78 | ) |  |  | (43 | )% |
| International |  |  | **301** |  |  |  | 365 |  |  |  | (64 | ) |  |  | (18 | )% |
| Consolidated |  | $ | **1,981** |  |  | $ | 2,896 |  |  | $ | (915 | ) |  |  | (32 | )% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Operating (loss) income:* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| U.S. |  | $ | **(195** | **)** |  | $ | 102 |  |  | $ | (297 | ) |  |  | N/M |  |
| Canada |  |  | **(3** | ) |  |  | 1 |  |  |  | (4 | ) |  |  | N/M |  |
| International |  |  | **(55** | ) |  |  | 10 |  |  |  | (65 | ) |  |  | N/M |  |
| Consolidated |  |  | **(253** | ) |  |  | 113 |  |  |  | (366 | ) |  |  | N/M |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense |  |  | **(22** | **)** |  |  | (31 | ) |  |  | 9 |  |  |  | (29 | )% |
| Other, net |  |  | **(1** | **)** |  |  | 3 |  |  |  | (4 | ) |  |  | N/M |  |
| Income tax benefit (expense) |  |  | **7** |  |  |  | (22 | ) |  |  | 29 |  |  |  | N/M |  |
| Net (loss) income |  |  | **(269** | ) |  |  | 63 |  |  |  | (332 | ) |  |  | N/M |  |
| Series A preferred stock dividends |  |  | 18 |  |  |  | 18 |  |  |  | - |  |  |  | N/M |  |
| Net (loss) income attributable to common stockholders |  | $ | **(287** | **)** |  | $ | 45 |  |  | $ | (332 | ) |  |  | N/M |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  | $ | **341** |  |  | $ | 522 |  |  | $ | (181 | ) |  |  | (35 | )% |
| Adjusted Gross Profit (1) |  | $ | **390** |  |  | $ | 568 |  |  | $ | (178 | ) |  |  | (31 | )% |
| Adjusted EBITDA (1) |  | $ | **75** |  |  | $ | 178 |  |  | $ | (103 | ) |  |  | (58 | )% |

* + 1. Adjusted Gross Profit and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of these measures to an equivalent GAAP measure, see pages 27-29 herein.

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***Sales****.* Our sales were $1,981 million for the nine months ended September 30, 2020 as compared to $2,896 million for the nine months ended September 30, 2019, a decrease of $915 million, or 32%. The weakening of foreign currencies in areas where we operate relative to the U.S. dollar unfavorably impacted sales by $11 million.

*U.S. Segment—*Our U.S. sales decreased to $1,575 million for the nine months ended September 30, 2020 from $2,348 million for the nine months ended September 30, 2019. This $773 million, or 33%, decrease reflected a $58 million decrease in the gas utilities sector, a $220 million decrease in the downstream and industrial sector, a

$317 million decrease in the upstream production sector and a $178 million decrease in the midstream pipeline sector. The decline in gas utilities was primarily due to pandemic restrictions as customers paused or slowed spending during the second quarter. The decline in the upstream production sector is a result of reduced customer spending and lower activity levels, including a 48% reduction in well completions. The decline in the midstream pipeline sector is attributable to lower production levels and reduced demand for infrastructure, as well as the timing of project activity. Downstream and industrial sales declined due to delayed or reduced maintenance spending from lower demand as well as non-recurring turnarounds. All sectors were negatively impacted by the economic slowdown resulting from the COVID-19 pandemic which started in March 2020.

*Canada Segment—*Our Canada sales decreased to $105 million for the nine months ended September 30, 2020 from $183 million for the nine months ended September 30, 2019, a decrease of $78 million, or 43%. The decline was across all sectors including a $58 million decrease in the upstream production sector, which was adversely impacted by the COVID-19 pandemic and associated reduced demand. In addition, the midstream pipeline sector declined $10 million as a result of non-recurring project work. The weakening of foreign currencies in areas where we operate relative to the U.S. dollar which unfavorably impacted sales by $1 million, or 1%.

*International Segment*—Our International sales decreased to $301 million for the nine months ended September 30, 2020 from $365 million for the same period in 2019. The $64 million, or 18%, decrease is attributable to reduced spending in the upstream production sector followed by the downstream and industrial sector due to lower activity levels associated with reduced demand. Upstream production sales also declined, in part, due to the 2019 completion of a multi-year project in Kazakhstan. In addition, the weakening of foreign currencies in areas where we operate relative to the U.S. dollar which unfavorably impacted sales by $10 million, or 3%.

***Gross Profit****.* Our gross profit was $341 million (17.2% of sales) for the nine months ended September 30, 2020 as compared to $522 million (18.0% of sales) for the nine months ended September 30, 2019. As compared to average cost, our LIFO inventory costing methodology reduced cost of sales by $20 million for the first nine months of 2020 compared to $3 million in the first nine months of 2019. In addition, gross profit for the nine months ended September 30, 2020 included $34 million of inventory- related charges.

***Adjusted Gross Profit****.* Adjusted Gross Profit decreased to $390 million (19.7% of sales) for the nine months ended September 30, 2020 from $568 million (19.6% of sales) for the nine months ended September 30, 2019, a decrease of $178 million. Adjusted Gross Profit is a non-GAAP financial measure. We define Adjusted Gross Profit as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, plus inventory-related charges and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

The following table reconciles Adjusted Gross Profit, a non-GAAP financial measure, with gross profit, as derived from our financial statements (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | | | | | | | | | |  |
|  |  | **September 30,** | |  |  | **Percentage** | |  |  | **September 30,** | |  |  | **Percentage** | |  |
|  |  | **2020** | |  |  | **of Revenue** | |  |  | **2019** | |  |  | **of Revenue** | |  |
| Gross profit, as reported |  | $ | **341** |  |  |  | **17.2** | **%** |  | $ | 522 |  |  |  | 18.0 | % |
| Depreciation and amortization |  |  | **15** |  |  |  | **0.8** | **%** |  |  | 16 |  |  |  | 0.6 | % |
| Amortization of intangibles |  |  | **20** |  |  |  | **1.0** | **%** |  |  | 33 |  |  |  | 1.1 | % |
| Decrease in LIFO reserve |  |  | **(20** | **)** |  |  | **(1.0** | **)%** |  |  | (3 | ) |  |  | (0.1 | )% |
| Inventory-related charges |  |  | **34** |  |  |  | **1.7** | **%** |  |  | - |  |  |  | 0.0 | % |
| Adjusted Gross Profit |  | $ | **390** |  |  |  | **19.7** | **%** |  | $ | 568 |  |  |  | 19.6 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

***Selling, General and Administrative (“SG&A”) Expenses****.* Our SG&A expenses were $352 million for the nine months ended September 30, 2020 as compared to

$409 million for the nine months ended September 30, 2019. The $57 million decrease in SG&A was driven by lower employee-related costs, including incentives and benefits, resulting from the decline in business activity. These lower personnel costs were partially offset by $15 million of expenses associated with facilities closures, and $12 million of severance and restructuring charges in the nine months ended September 30, 2020. The weakening of foreign currencies in areas where we operate outside of the U.S. dollar favorably impacted SG&A by $3 million.

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***Goodwill and Intangible Asset Impairment.*** In the first half of 2020, demand for oil and natural gas declined sharply as a result of the COVID-19 pandemic. This disruption in demand and the resulting decline in the price of oil has had a dramatic negative impact on our business. We experienced a significant reduction in sales beginning in April 2020 which continued throughout the second quarter. As a result of those developments, we concluded that it was more likely than not the fair values of our U.S. and International reporting units were lower than their carrying values. Accordingly, we completed an interim goodwill impairment test as of April 30,

2020. This test resulted in a $217 million goodwill impairment charge comprised of $177 million in our U.S. reporting unit and $40 million in our International reporting unit.

As a result of the same factors that necessitated an interim impairment test for goodwill, we completed an interim impairment test for our U.S. indefinite-lived tradename asset. This test resulted in an impairment charge of $25 million. The remaining balance of the indefinite-lived tradename was $107 million as of September 30, 2020. The

U.S. tradename is our only indefinite-lived intangible asset.

***Operating (Loss) Income****.* Operating loss was $253 million for the nine months ended September 30, 2020 as compared to operating income of $113 million for the nine months ended September 30, 2019, a decline of $366 million.

*U.S. Segment*—Operating loss for our U.S. segment was $195 million for the nine months ended September 30, 2020 compared to operating income of $102 million for the nine months ended September 30, 2019. The $297 million decline in the first nine months of 2020 was impacted by $202 million of goodwill and intangible asset impairments, $19 million of inventory-related charges, $7 million of severance costs, and $2 million of costs associated with facility closures. Excluding these charges, operating income would have been $35 million, a decline of $67 million, which was driven by lower sales offset by a reduction in SG&A.

*Canada Segment*—Operating loss for our Canada segment was $3 million for the nine months ended September 30, 2020 compared to operating income of $1 million for the nine months ended September 30, 2019. The $4 million decline included $1 million of costs associated with facility closures and $1 million of severance costs.

*International Segment*—Operating loss for our international segment was $55 million for the nine months ended September 30, 2020 as compared to operating income

of $10 million for the nine months ended September 30, 2019. The $65 million decline included $40 million of goodwill impairment charges, $14 million of inventory-related charges, $4 million of severance and $12 million of cost associated with facility closures. Excluding these charges, operating income would have been $15 million

which was primarily attributable to cost reductions that occurred in the fourth quarter of 2019 as well as the $2 million reduction in 2020 SG&A expense resulting from the recovery of a supplier bad debt.

***Interest Expense****.* Our interest expense was $22 million and $31 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in interest expense was attributable to lower average debt levels and lower interest rates during the first nine months of 2020 as compared to the first nine months of 2019.

***Other, net****.* Our other expense was $1 million for the nine months ended September 30, 2020 and other income of $3 million for the nine months ended September 30, 2019. Other expense in the first nine months of 2020 included $3 million of asset write-downs related to facility closures.

***Income Tax (Benefit) Expense****.* Our income tax benefit was $7 million for the nine months ended September 30, 2020 as compared to $22 million expense for the nine months ended September 30, 2019. We typically record income tax expense for interim periods based on estimated annual effective tax rates. However, due to the uncertainty in our industry and the effects of COVID-19, the income tax expense for the nine months ended September 30, 2020 was computed based on a year-to-date effective tax rate. We will return to utilizing an estimated annual effective tax rate when appropriate. Our effective tax rates were 3% and 26% for the nine months ended September 30, 2020 and 2019, respectively. Our rates generally differ from the U.S. federal statutory rate of 21% as a result of state income taxes and differing foreign income tax rates. The effective tax rate for the nine months ended September 30, 2020 was lower primarily due to a non-tax deductible goodwill impairment charge during the second quarter.

The CARES Act provides numerous tax provisions and other stimulus measures that do not materially impact the Company’s deferred tax liability and its year-to-date effective tax rate. Given the uncertain outlook, we will continue to evaluate any future tax impacts resulting from the CARES Act.

***Net (Loss) Income****.* We had a net loss of $269 million and net income of $63 million for the nine months ended September 30, 2020 and 2019, respectively.

***Adjusted EBITDA****.* Adjusted EBITDA, a non-GAAP financial measure, was $75 million (3.8% of sales) for the nine months ended September 30, 2020 as compared to

$178 million (6.1% of sales) for the nine months ended September 30, 2019.

We define Adjusted EBITDA as net income plus interest, income taxes, depreciation and amortization, amortization of intangibles and certain other expenses, including non-cash expenses (such as equity-based compensation, severance and restructuring, changes in the fair value of derivative instruments and asset impairments, including intangible assets and inventory) and plus or minus the impact of our LIFO inventory costing methodology.

We believe Adjusted EBITDA provides investors a helpful measure for comparing our operating performance with the performance of other companies that may have different financing and capital structures or tax rates. We believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles, which can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted EBITDA as a key performance indicator in managing our business. We believe that net income is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted EBITDA.

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The following table reconciles Adjusted EBITDA, a non-GAAP financial measure, with net income, as derived from our financial statements (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Net (loss) income |  | $ | **(269** | ) |  | $ | 63 |  |
| Income tax (benefit) expense |  |  | **(7** | ) |  |  | 22 |  |
| Interest expense |  |  | **22** |  |  |  | 31 |  |
| Depreciation and amortization |  |  | **15** |  |  |  | 16 |  |
| Amortization of intangibles |  |  | **20** |  |  |  | 33 |  |
| Goodwill and intangible asset impairment |  |  | **242** |  |  |  | - |  |
| Inventory-related charges |  |  | **34** |  |  |  | - |  |
| Facility closures |  |  | **18** |  |  |  | - |  |
| Severance and restructuring |  |  | **12** |  |  |  | 5 |  |
| Decrease in LIFO reserve |  |  | **(20** | **)** |  |  | (3 | ) |
| Equity-based compensation expense |  |  | **8** |  |  |  | 12 |  |
| Gain on early extinguishment of debt |  |  | **(1** | **)** |  |  | - |  |
| Recovery of supplier bad debt |  |  | **(2** | **)** |  |  | - |  |
| Foreign currency losses (gains) |  |  | **3** |  |  |  | (1 | ) |
| Adjusted EBITDA |  | $ | **75** |  |  | $ | 178 |  |

Our primary credit facilities consist of a Term Loan maturing in September 2024 with an original principal amount of $400 million and an $800 million Global ABL Facility.

As of September 30, 2020, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was $384 million. On an annual basis, we

are required to repay an amount equal to 50% of excess cash flow, as defined in the Term Loan agreement, reducing to 25% if the Company’s senior secured leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if the Company’s senior secured leverage ratio is less than or equal to 2.50 to 1.00. For the current year, as a result of declining profitability and the generation of positive cash flow from working capital contraction, we will likely be required to make a repayment by April 2021 pursuant to this provision. Any such payment would be sourced from cash on hand and availability on our Global ABL Facility. As such, the payment would reduce overall liquidity.

The Global ABL Facility matures in September 2022 and provides $675 million in revolver commitments in the United States, $65 million in Canada, $18 million in Norway,

$15 million in Australia, $13 million in the Netherlands, $7 million in the United Kingdom and $7 million in Belgium. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to $200 million, subject to securing additional lender commitments. Availability is dependent on a borrowing base comprised of a percentage of eligible accounts receivable and inventory which is subject to redetermination from time to time. As of September 30, 2020, we had $25 million of borrowings outstanding and $437 million of Excess Availability, as defined under our Global ABL Facility. Including cash on hand of $40 million, total liquidity was $477 million.

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our Global ABL Facility. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on our sales of products and services to our customers at margins sufficient to cover our fixed and variable expenses. As of September 30, 2020 and December 31, 2019, we had cash of $40 million and $32 million, respectively, substantially all of which was maintained in the accounts of our various foreign subsidiaries and, if transferred among countries or repatriated to the U.S., may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during which the transfer decision was made.

Our credit ratings are below “investment grade” and, as such, could impact both our ability to raise new funds as well as the interest rates on our future borrowings. In the second quarter of 2020, Moody’s Investor Services and S&P Global Ratings downgraded our credit ratings, from B1 to B2 and B to B-, respectively, largely due to softening demand for our products due to the COVID-19 pandemic and the reduction in our customer’s spending outlook from unusually low oil and gas prices. Our existing obligations restrict our ability to incur additional debt. We were in compliance with the covenants contained in our various credit facilities as of and during the nine months ended September 30, 2020 and, based on our current forecasts, we expect to remain in compliance. Our credit facilities contain provisions that address the potential need to transition away from LIBOR if LIBOR is discontinued or replaced.

We believe our sources of liquidity will be sufficient to satisfy the anticipated cash requirements associated with our existing operations for the foreseeable future. However, our future cash requirements could be higher than we currently expect as a result of various factors. Additionally, our ability to generate sufficient cash from our operating activities depends on our future performance, which is subject to general economic, political, financial, competitive and other factors beyond our control. We may, from time to time, seek to raise additional debt or equity financing or re-price or refinance existing debt in the public or private markets, based on market conditions. Any such capital markets activities would be subject to market conditions, reaching final agreement with lenders or investors, and other factors, and there can be no assurance that we would successfully consummate any such transactions.

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## Cash Flows

The following table sets forth our cash flows for the periods indicated below (in millions):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Nine Months Ended** | | | | | |  |
|  |  | **September 30,** | |  |  | **September 30,** | |  |
|  |  | **2020** | |  |  | **2019** | |  |
| Net cash provided by (used in) : |  |  |  |  |  |  |  |  |
| Operating activities |  | $ | **178** |  |  | $ | 134 |  |
| Investing activities |  |  | **(7** | **)** |  |  | (10 | ) |
| Financing activities |  |  | **(162** | **)** |  |  | (142 | ) |
| Net increase (decrease) in cash and cash equivalents |  | $ | **9** |  |  | $ | (18 | ) |

|  |  |  |
| --- | --- | --- |
| ***Operating Activities*** |  |  |

Net cash provided by operating activities was $178 million during the nine months ended September 30, 2020 compared to $134 million during the nine months ended September 30, 2019. The change in operating cash flows was primarily the result of lower working capital requirements due to declining sales in the first nine months of 2020 as compared to the first nine months of 2019. A reduction in working capital provided cash of $137 million in the first nine months of 2020 compared to $14 million in the first nine months of 2019. In particular, accounts receivable provided $110 million of cash in the first nine months of 2020 compared to utilizing $4 million in the first nine months of 2019. In addition, inventory provided $102 million of cash in the first nine months of 2020 as compared to $56 million in the same period of 2019. The accounts receivable and inventory increase in cash were offset by $63 million of cash utilized by a decrease in accounts payable in the first nine months of 2020 as compared to $3 million cash utilized in the first nine months of 2019.

## Investing Activities

Net cash used in investing activities was primarily comprised of capital expenditures totaling $8 million and $12 million for the nine months ended September 30, 2020 and 2019, respectively.

## Financing Activities

Net cash used in financing activities was $162 million for the nine months ended September 30, 2020 compared to $142 million for the nine months ended September 30, 2019. In the first nine months of 2020, we had net payments under revolving credit facilities of $136 million as compared to net payments of $53 million in the first nine months of 2019. We used $63 million in the first nine months of 2019 to fund purchases of our common stock. We used $18 million to pay dividends on preferred stock for the nine months ended September 30, 2020 and 2019. In addition, we repurchased and retired $3 million of our outstanding Term Loan in March 2020.

## Critical Accounting Policies

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense in the financial statements. Management bases its estimates on historical experience and other assumptions, which it believes are reasonable. If actual amounts are ultimately different from these estimates, the revisions are included in our results of operations for the period in which the actual amounts become known.

Accounting policies are considered critical when they require management to make assumptions about matters that are highly uncertain at the time the estimates are made and when there are different estimates that management reasonably could have made, which would have a material impact on the presentation of our financial condition, changes in our financial condition or results of operations. For a description of our critical accounting policies, see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

# ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies and steel price volatility. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

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# ITEM 4. CONTROLS AND PROCEDURES

## Evaluation of disclosure controls and procedures.

As of September 30, 2020, we have reviewed, under the direction of our Chief Executive Officer and Chief Financial Officer, the Company’s disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

## Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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# PART II—OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we have been subject to various claims and involved in legal proceedings incidental to the nature of our businesses. We maintain insurance coverage to reduce financial risk associated with certain of these claims and proceedings. It is not possible to predict the outcome of these claims and proceedings. However, in our opinion, there are no pending legal proceedings that are likely to have a material effect on our business, financial condition, results of operations or cash flows, although it is possible that the resolution of certain actual, threatened or anticipated claims or proceedings could have a material adverse effect on our results of operations in the period of resolution.

Also, from time to time, in the ordinary course of our business, our customers may claim that the products that we distribute are either defective or require repair or replacement under warranties that either we or the manufacturer may provide to the customer. These proceedings are, in the opinion of management, ordinary and routine matters incidental to our normal business. Our purchase orders with our suppliers generally require the manufacturer to indemnify us against any product liability claims, leaving the manufacturer ultimately responsible for these claims. In many cases, state, provincial or foreign law provides protection to distributors for these sorts of claims, shifting the responsibility to the manufacturer. In some cases, we could be required to repair or replace the products for the benefit of our customer and seek recovery from the manufacturer for our expense. In the opinion of management, the ultimate disposition of these claims and proceedings is not expected to

have a material adverse effect on our financial condition, results of operations or cash flows.

For information regarding asbestos cases in which we are a defendant and other claims and proceedings, see “Note 11-Commitments and Contingencies” to our unaudited condensed consolidated financial statements.

# ITEM 1A. RISK FACTORS

We are affected by risks specific to us as well as factors that affect all businesses operating in a global market. The significant factors known to us that could materially adversely affect our business, financial condition or operating results are described in Part I, Item 2 of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 under “Risk Factors”.

# ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

# ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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# ITEM 4. MINING SAFETY DISCLOSURES

None.

# ITEM 5. OTHER INFORMATION

None.

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# ITEM 6. EXHIBITS

**Number Description**

* 1. [Amended and Restated Certificate of Incorporation of MRC Global Inc. dated April 11, 2012. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on April 17, 2012, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312512166449/d334321dex31.htm)
  2. [Amended and Restated Bylaws of MRC Global Inc. dated November 7, 2013. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8- K of MRC Global Inc. filed with the SEC on November 13, 2013, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312513440228/d627585dex31.htm)
  3. [Certificate of Designations, Preferences, Rights and Limitations of Series A Convertible Perpetual Preferred Stock of MRC Global Inc. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of MRC Global Inc. filed with the SEC on June 11, 2015, File No. 001-35479).](http://www.sec.gov/Archives/edgar/data/1439095/000119312515220651/d939010dex31.htm)
  4. \* Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  5. \* Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32\*\* Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101\* The following financial information from MRC Global Inc.’s Quarterly Report on Form 10-Q for the period ended September 30, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019, (iv) the Condensed Statements of Stockholders’ Equity for the nine months ended September 30, 2020 and 2019, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019 and (vi) Notes to Condensed Consolidated Financial Statements.

104\* The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted in Inline XBRL.

* Filed herewith.

\*\* Furnished herewith.

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# SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 29, 2020

MRC GLOBAL INC.

By: /s/ Kelly Youngblood Kelly Youngblood

Executive Vice President and Chief Financial Officer

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ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

* 1. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  2. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  3. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

1. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 29, 2020

/s/ Andrew R. Lane

Name: Andrew R. Lane

Title: President and Chief Executive Officer

ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

1. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
2. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
3. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
4. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   1. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   2. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 29, 2020

/s/ Kelly Youngblood

Name: Kelly Youngblood

Title: Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of MRC Global Inc., a Delaware corporation (the “Company”), for the period ended September 30, 2020 (the “Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. Date: October 29, 2020

/s/ Andrew R. Lane

Name: Andrew R. Lane

Title: President and Chief Executive Officer

/s/ Kelly Youngblood

Name: Kelly Youngblood

Title: Executive Vice President and Chief Financial Officer