April 11, 2019

Glass Lewis

RE: MRC Global Inc. – Report Feedback Statement

Ladies and Gentlemen:

This letter is intended to serve as a Report Feedback Statement regarding your recommendation to vote “AGAINST” MRC Global’s say-on-pay proposal. Your recommendation is contained in your report issued on April 8, 2019.

Peer Group
We believe that your negative recommendation is generally driven by your use of an unrepresentative peer group that you have obtained from Equilar. This peer group includes companies that have no bearing or relationship to our products or the energy industry, which we serve. We have run the Equilar/Glass Lewis model using the companies in MRC Global’s peer group. The results of this model using MRC Global’s peer group is a “C” or median score on Glass Lewis’ pay-for-performance grade rather than the “D” in your report.

We are a distributor of infrastructure products (including, among other products, pipe, valves, fittings and meters) to the energy industry. Our customers are oil and gas exploration and production companies, natural gas and oil pipeline companies, natural gas utilities, refiners of petroleum products, petrochemical and chemical companies. Our customers use our products in extreme temperature situations (both hot and cold) and in caustic environments. We also provide a host of value added services to our customers that include (among other things) the assembly of actuated valve packages and valve modifications to meet the customer’s technical requirements. Most of our products do not fit in boxes; rather the products are shipped on pallets or in the flatbeds of trucks. Our company is required to understand the metallurgy of our products (carbon steel, stainless steel, super duplex, nickel, molybdenum, etc.) and the product fit for a given flow control process for a particular end use. For instance, butterfly, gate, globe and check, ball, control and lift plug valves are each used in highly different technical applications. Given the technical nature and end use of our products, our management is recruited primarily from oilfield service companies, other oilfield distribution companies or manufacturers of our products. This is the primary employment market in which we compete for talent.

The Equilar/Glass Lewis peer group contains companies that have no relation to our business. This peer group includes:

- Essendent Inc. (stationary and office supplies)
- Pool Corporation (pool supplies)
- Patterson Companies, Inc. (dental supplies)
- Beacon Roofing Supply, Inc. (shingles and roofing supplies)

We are not aware of an instance in the past five years (perhaps longer) where we have recruited management (including senior management) from these companies. We are also not aware of an instance where our management has left MRC Global to work at these companies. We recognize that the Equilar methodology includes these companies because some of these companies include MRC Global in their peer group; however, our business (customers and suppliers) does not resemble their businesses, and we do not compete for talent with them. Please note that our one publicly-traded, direct competitor, NOW Inc. (DNOW), also has a peer group that does not include a single one of these
companies. Our peer group is made up of oilfield service companies and industrial distributors who provide at least some of their product to our energy customers.

Visually, following are representative pictures of our products, which bear no relation to stationary, office products, pool supplies, dental supplies, shingles or roofing products. As discussed above, these products have unique technical characteristics as well as unique logistical and supply chain requirements beyond placing the products in a box and shipping them via FedEx, UPS or some other package carrier.

We have had detailed discussions regarding this peer group mismatch on January 30, 2019 with [name redacted] and [name redacted] of Equilar and on February 1, 2019 with [name redacted] and [name redacted] of Glass Lewis. These discussions occurred prior to the filing of our proxy statement. Even so, we thought it was important to clearly state our position to you regarding your choice of peer group once again.

**Pay and Performance**

In addition to the issue with our peer group, we wanted to point out the alignment between our pay and performance. Pages 36 and 37 of our proxy statement point out MRC Global’s performance. First, we
should note that it appears that Glass Lewis in its TSR calculations has utilized a closing stock price on a single start day and end day of a period to determine TSR rather than a 20-day volume weighted average price (VWAP). This single point to point calculation does not take into account the high level of volatility of prices in the market, particularly the more than 25% temporary drop in MRC Global’s stock price in December 2018 that quickly recovered by the second week of January 2019. Our performance share units use a 20-day VWAP to smooth out volatility. Utilizing the 20-day VWAP, MRC Global had the third highest TSR of all the companies in the PHLX Oil Service Sector (OSX) Index with a 3-year TSR of 5.0%. When annualized this TSR is positive 1.6% rather than the negative 1.8% annualized 3-year TSR noted in your report. See the following graph:

Likewise utilizing a 20-day VWAP, MRC Global had the 8th highest TSR of the companies in MRC Global’s selected peer group, which was above the median for the group at the 56th percentile. After the end of 2018, this performance has continued. From January 1, 2019 until April 8, 2019, MRC Global’s stock price increased 47%, outperforming most of the companies in MRC Global’s peer group. See the following graph:
MRC Global’s 2018 short-term incentive payout was aligned with sales and adjusted EBITDA performance in 2018. MRC Global’s sales increased 14% in 2018 compared to 2017. MRC Global’s 2018 adjusted EBITDA increased 56% from 2017. This produced a 113.5% of target payout given these increases.

MRC Global’s long-term performance share units were aligned with 3-year TSR (discussed above) and return on average net capital employed (RANCE). MRC Global’s RANCE increased for the fourth year in a row. This produced a 99.7% payout of target given this performance.

Finally, we note from page 53 of the proxy statement that the CEO’s average annual realized compensation was 70% of the compensation described in the summary compensation table for the three-year period 2016-18, well below the grant date values. Realized pay recognizes payouts based upon performance rather than the grant date values of the equity included in the summary compensation table. During the impact of the oil and gas market downturn of 2014-17 and the subsequent recovery in 2017-19, company performance was impacted by, among other things, the market for our products and services. Realized pay reflected this performance both during the downturn and the subsequent recovery.

As noted on page 60 of the Proxy Statement, based on average annual realized pay for the three-year period 2016-18, the ratio of CEO pay to median employee pay would have been 56:1. MRC Global’s 2018 CEO pay ratio of 79:1 ranks favourably against the CEO pay ratios of the 2017 MRC Global peer group median (80:1), the energy industry average (80:1*), the industrials average (123:1*) and all-industry average (144:1*).


MRC Global believes that its compensation is very much aligned with its performance.

**Report Feedback Statement**

As stated above, we would like you to treat this as a Report Feedback Statement (RFS). We believe we meet all the requirements, except one: we did not meet the deadline for enrolling in your IDR program because we simply were not aware that this would be a requirement and you announced the RFS program four days before we filed our Proxy Statement. We are willing to pay you your required fees if this Report Feedback Statement is accepted.

* * * * *

We appreciate your consideration of the foregoing. My contact information is contained on the letterhead above.

Very truly yours,

/s/ Daniel J. Churay

Daniel J. Churay