

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2023

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
(State or Other Jurisdiction of
Incorporation or Organization)

20-5956993
(I.R.S. Employer
Identification No.)

1301 McKinney Street, Suite 2300
Houston, Texas
(Address of Principal Executive Offices)

77010
(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 84,212,435 shares of the registrant's common stock (excluding 97,030 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of May 2, 2023.

	Page	
PART I – FINANCIAL INFORMATION		
ITEM 1.	FINANCIAL STATEMENTS (UNAUDITED)	3
	CONDENSED CONSOLIDATED BALANCE SHEETS – MARCH 31, 2023 AND DECEMBER 31, 2022	3
	CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2023 AND MARCH 31, 2022	4
	CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – THREE MONTHS ENDED MARCH 31, 2023 AND MARCH 31, 2022	5
	CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY – THREE MONTHS ENDED MARCH 31, 2023 AND MARCH 31, 2022	6
	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – THREE MONTHS ENDED MARCH 31, 2023 AND MARCH 31, 2022	7
	NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 2023	8
ITEM 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	17
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	26
ITEM 4.	CONTROLS AND PROCEDURES	27
PART II – OTHER INFORMATION		
ITEM 1.	LEGAL PROCEEDINGS	28
ITEM 1A.	RISK FACTORS	28
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	28
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	28
ITEM 4.	MINING SAFETY DISCLOSURES	29
ITEM 5.	OTHER INFORMATION	29
ITEM 6.	EXHIBITS	30

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except per share amounts)

	<u>March 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Assets		
Current assets:		
Cash	\$ 39	\$ 32
Accounts receivable, net	529	501
Inventories, net	672	578
Other current assets	30	31
Total current assets	<u>1,270</u>	<u>1,142</u>
Long-term assets:		
Operating lease assets	207	202
Property, plant and equipment, net	81	82
Other assets	21	22
Intangible assets:		
Goodwill, net	264	264
Other intangible assets, net	178	183
	<u>\$ 2,021</u>	<u>\$ 1,895</u>
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 467	\$ 410
Accrued expenses and other current liabilities	99	115
Operating lease liabilities	36	36
Current portion of long-term debt	3	3
Total current liabilities	<u>605</u>	<u>564</u>
Long-term liabilities:		
Long-term debt, net	387	337
Operating lease liabilities	187	182
Deferred income taxes	54	49
Other liabilities	21	22
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, 108,428,765 and 107,864,421 issued, respectively	1	1
Additional paid-in capital	1,757	1,758
Retained deficit	(740)	(768)
Less: Treasury stock at cost: 24,216,330 shares	(375)	(375)
Accumulated other comprehensive loss	(231)	(230)
	<u>412</u>	<u>386</u>
	<u>\$ 2,021</u>	<u>\$ 1,895</u>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except per share amounts)

	Three Months Ended	
	March 31, 2023	March 31, 2022
Sales	\$ 885	\$ 742
Cost of sales	706	606
Gross profit	179	136
Selling, general and administrative expenses	122	107
Operating income	57	29
Other expense:		
Interest expense	(7)	(6)
Other, net	(3)	-
Income before income taxes	47	23
Income tax expense	13	7
Net income	34	16
Series A preferred stock dividends	6	6
Net income attributable to common stockholders	\$ 28	\$ 10
<hr/>		
Basic earnings per common share	\$ 0.33	\$ 0.12
Diluted earnings per common share	\$ 0.33	\$ 0.12
Weighted-average common shares, basic	84.0	83.3
Weighted-average common shares, diluted	85.4	84.3

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net income	\$ 34	\$ 16
Other comprehensive (loss) income		
Foreign currency translation adjustments	(1)	2
Hedge accounting adjustments, net of tax	—	3
Total other comprehensive (loss) income, net of tax	(1)	5
Comprehensive income	\$ 33	\$ 21

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Common Stock		Additional Paid-in Capital	Retained (Deficit)	Treasury Stock		Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance at December 31, 2022	108	\$ 1	\$ 1,758	\$ (768)	(24)	\$ (375)	\$ (230)	\$ 386
Net income	-	-	-	34	-	-	-	34
Foreign currency translation	-	-	-	-	-	-	(1)	(1)
Shares withheld for taxes	-	-	(4)	-	-	-	-	(4)
Equity-based compensation expense	-	-	3	-	-	-	-	3
Dividends declared on preferred stock	-	-	-	(6)	-	-	-	(6)
Balance at March 31, 2023	<u>108</u>	<u>\$ 1</u>	<u>\$ 1,757</u>	<u>\$ (740)</u>	<u>(24)</u>	<u>\$ (375)</u>	<u>\$ (231)</u>	<u>\$ 412</u>

	Common Stock		Additional Paid-in Capital	Retained (Deficit)	Treasury Stock		Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Shares	Amount			Shares	Amount		
Balance at December 31, 2021	106	\$ 1	\$ 1,747	\$ (819)	(24)	\$ (375)	\$ (231)	\$ 323
Net income	-	-	-	16	-	-	-	16
Foreign currency translation	-	-	-	-	-	-	2	2
Hedge accounting adjustments	-	-	-	-	-	-	3	3
Shares withheld for taxes	-	-	(2)	-	-	-	-	(2)
Vesting of stock awards	2	-	-	-	-	-	-	-
Equity-based compensation expense	-	-	3	-	-	-	-	3
Dividends declared on preferred stock	-	-	-	(6)	-	-	-	(6)
Balance at March 31, 2022	<u>108</u>	<u>\$ 1</u>	<u>\$ 1,748</u>	<u>\$ (809)</u>	<u>(24)</u>	<u>\$ (375)</u>	<u>\$ (226)</u>	<u>\$ 339</u>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2023	March 31, 2022
Operating activities		
Net income	\$ 34	\$ 16
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	5	5
Amortization of intangibles	5	5
Equity-based compensation expense	3	3
Deferred income tax expense	5	1
(Decrease) increase in LIFO reserve	(1)	6
Other, net	5	-
Changes in operating assets and liabilities:		
Accounts receivable	(28)	(74)
Inventories	(96)	(52)
Other current assets	(1)	(9)
Accounts payable	54	78
Accrued expenses and other current liabilities	(15)	8
Net cash used in operations	<u>(30)</u>	<u>(13)</u>
Investing activities		
Purchases of property, plant and equipment	(3)	(2)
Net cash used in investing activities	<u>(3)</u>	<u>(2)</u>
Financing activities		
Payments on revolving credit facilities	(211)	(107)
Proceeds from revolving credit facilities	262	113
Payments on long-term obligations	(1)	-
Dividends paid on preferred stock	(6)	(6)
Repurchases of shares to satisfy tax withholdings	(4)	(2)
Net cash provided by (used in) financing activities	<u>40</u>	<u>(2)</u>
Increase (decrease) in cash	7	(17)
Cash -- beginning of period	32	48
Cash -- end of period	<u>\$ 39</u>	<u>\$ 31</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 7	\$ 5
Cash paid for income taxes	\$ 13	\$ 1

See notes to condensed consolidated financial statements.

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 infrastructure products and services across each of the following sectors:

- Gas Utilities (storage and distribution of natural gas)
- Downstream, Industrial and Energy Transition (crude oil refining, petrochemical and chemical processing, general industrials and energy transition projects)
- Production and Transmission Infrastructure (exploration, production and extraction, gathering, processing and transmission of oil and gas)

We have service centers in industrial, chemical, gas distribution and hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia and the Middle East. 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 (“GAAP”) 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 months ended March 31, 2023, are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2023. We have derived our condensed consolidated balance sheet as of December 31, 2022, from the audited consolidated financial statements for the year ended December 31, 2022. 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, 2022. Certain prior year amounts have been reclassified to conform to the current year presentation.

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 terms such as “we”, “our” or “us”). All material intercompany balances and transactions have been eliminated in consolidation.

Adoption of New Accounting Standards: In the fourth quarter 2022, we early adopted Accounting Standards Update (“ASU”) No. 2020-04, *Reference Rate Reform (Topic 848)*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that the discontinuation of certain reference rates, including the London Interbank Offered Rate (“LIBOR”), impacts. The adoption of this ASU did not have a material impact on our consolidated financial statements.

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, we exclude these taxes 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 of intangible assets. In some cases, particularly with third-party pipe shipments, we consider shipping and handling costs to be separate performance obligations, and as such, we record the revenue and cost of sales 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, we delay invoicing 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 March 31, 2023, and December 31, 2022, was \$16 million and \$24 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 that are refundable. The deferred revenue balance at March 31, 2023 and December 31, 2022 was \$12 million and \$9 million, respectively. During the three months ended March 31, 2023, we recognized \$2 million of revenue that was deferred as of December 31, 2022. During the three months ended March 31, 2022, we recognized \$2 million of revenue that was deferred as of December 31, 2021. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Disaggregated Revenue:

This quarter, the Company combined the sectors formerly known as Upstream Production and Midstream Pipeline into one sector, Production and Transmission Infrastructure. The similarity of market drivers, the overlap of customers and the combined management structure of both sectors was the primary basis for the change.

Our disaggregated revenue represents our business of selling PVF to the energy and industrial sectors across each of the Gas Utilities (storage and distribution of natural gas), Downstream, Industrial and Energy Transition (crude oil refining, petrochemical and chemical processing, general industrials and energy transition projects), and Production and Transmission Infrastructure (exploration, production and extraction, gathering, processing and transmission of oil and gas) sectors, in each of our reportable segments. Varying factors, including macroeconomic environment, commodity prices, maintenance and capital spending and exploration and production activity influence each of our end market sectors and geographical reportable segments. 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
March 31,**

	U.S.	Canada	International	Total
2023:				
Gas Utilities	\$ 306	\$ 1	\$ —	\$ 307
Downstream, Industrial & Energy Transition	210	5	63	278
Production & Transmission Infrastructure	224	36	40	300
	<u>\$ 740</u>	<u>\$ 42</u>	<u>\$ 103</u>	<u>\$ 885</u>
2022:				
Gas Utilities	\$ 268	\$ 3	\$ —	\$ 271
Downstream, Industrial & Energy Transition	169	7	50	226
Production & Transmission Infrastructure	181	33	31	245
	<u>\$ 618</u>	<u>\$ 43</u>	<u>\$ 81</u>	<u>\$ 742</u>

NOTE 3 – INVENTORIES

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

	March 31, 2023	December 31, 2022
Finished goods inventory at average cost:		
Valves, automation, measurement and instrumentation	\$ 299	\$ 271
Carbon steel pipe, fittings and flanges	235	201
Gas products	291	257
All other products	146	147
	<u>971</u>	<u>876</u>
Less: Excess of average cost over LIFO cost (LIFO reserve)	(278)	(279)
Less: Other inventory reserves	(21)	(19)
	<u>\$ 672</u>	<u>\$ 578</u>

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, we base interim LIFO calculations on management’s estimates of expected year-end inventory levels and costs and these estimates are subject to the final year-end LIFO inventory determination.

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. Leasehold improvements are depreciated over 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 for the three months ended March 31, 2023, and \$10 million for the three months ended March 31, 2022, which we have classified in selling, general and administrative expenses. Cash paid for leases recognized as liabilities was \$10 million for the three months ended March 31, 2023, and \$10 million for the three months ended March 31, 2022.

The maturity of lease liabilities is as follows (in millions):

Maturity of Operating Lease Liabilities

Remainder of 2023	\$ 33
2024	40
2025	34
2026	29
2027	26
After 2027	<u>181</u>
Total lease payments	343
Less: Interest	(120)
Present value of lease liabilities	<u>\$ 223</u>

The term and discount rate associated with leases are as follows:

	March 31, 2023
Operating Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	12
Weighted-average discount rate	6.6%

Amounts maturing after 2027 include expected renewals for leases of regional distribution centers and certain corporate offices through dates up to 2048. Excluding these optional renewals, our weighted-average remaining lease term is 7 years.

NOTE 5 – LONG-TERM DEBT

The components of our long-term debt are as follows (in millions):

	March 31, 2023	December 31, 2022
Senior Secured Term Loan B, net of discount and issuance costs of \$1	\$ 295	\$ 295
Global ABL Facility	95	45
	<u>390</u>	<u>340</u>
Less: current portion	3	3
	<u>\$ 387</u>	<u>\$ 337</u>

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 MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries guarantees. In addition, the Term Loan 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. In addition, the Term Loan contains a number of customary restrictive covenants. We are required to repay the Term Loan with the proceeds from certain asset sales and certain 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. The amount of cash used in the determination of the senior secured leverage ratio is limited to \$75 million.

Global ABL Facility: The Company is a party to a multi-currency, global asset-based lending facility (the “Global ABL Facility”), including certain of its subsidiaries, its lenders and Bank of America, N.A. as administrative agent, security trustee and collateral agent. The Global ABL Facility is a revolving credit facility of \$750 million, which matures in September 2026. The Global ABL Facility is comprised of \$705 million in revolver commitments in the United States, which includes a \$30 million sub-limit for Canada, \$12 million in Norway, \$10 million in Australia, \$10.5 million in the Netherlands, \$7.5 million in the United Kingdom and \$5 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 \$250 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, inventory and related assets. In December 2022, the Company and Administrative Agent entered into an amendment to the Global ABL Facility to replace the London Interbank Offered Rate with a new prevailing benchmark interest rate known as Term SOFR for all U.S. dollar borrowings. “Term SOFR” is the forward-looking, per annum secured overnight financing rate administered by CME Group Benchmark Administration Limited and published on the applicable Thompson Reuters Corporation website page for each of 1-month, 3-month, and 6-month maturities. U.S. borrowings under the amended facility bear interest at the Term SOFR plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Canadian borrowings under the facility bear interest at the Canadian Dollar Bankers’ Acceptances Rate (“BA Rate”) plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Borrowings under our foreign borrower subsidiaries bear interest at a benchmark rate, which varies based on the currency in which such borrowings are made, plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. 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 \$601 million as of March 31, 2023.

Interest on Borrowings: The interest rates on our outstanding borrowings at March 31, 2023, including a floating to fixed interest rate swap at December 31, 2022, are set forth below:

	March 31, 2023	December 31, 2022
Senior Secured Term Loan B	7.97%	6.05%
Global ABL Facility	6.09%	5.20%
Weighted average interest rate	7.51%	5.94%

NOTE 6 – 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 law requires a separate class vote of the common stockholders. 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. The Company currently has the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock at 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 the holders 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 7 – STOCKHOLDERS’ EQUITY**Equity Compensation Plans**

The Company’s Omnibus Incentive 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 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 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, and in any event, no less than one year. Vesting for directors generally occurs on the one-year anniversary of the grant date. 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. In 2023, 169,020 performance share unit awards and 709,874 shares of restricted stock units have been granted to executive management, members of our Board of Directors and employees.

Accumulated Other Comprehensive Loss

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

	March 31, 2023	December 31, 2022
Currency translation adjustments	\$ (231)	\$ (230)
Hedge accounting adjustments	1	1
Other adjustments	(1)	(1)
Accumulated other comprehensive loss	<u>\$ (231)</u>	<u>\$ (230)</u>

Earnings per Share

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net income	\$ 34	\$ 16
Less: Dividends on Series A Preferred Stock	6	6
Net income attributable to common stockholders	<u>\$ 28</u>	<u>\$ 10</u>
Weighted average basic shares outstanding	84.0	83.3
Effect of dilutive securities	1.4	1.0
Weighted average diluted shares outstanding	<u>85.4</u>	<u>84.3</u>
Net income per share:		
Basic	\$ 0.33	\$ 0.12
Diluted	\$ 0.33	\$ 0.12

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 months ended March 31, 2023 and 2022, all of the shares of the Preferred Stock were anti-dilutive. For the three months ended March 31, 2023, we had approximately 1.3 million anti-dilutive stock options, restricted stock units, and performance units. For the three months ended March 31, 2022, we had approximately 2.2 million anti-dilutive stock options, restricted stock units, and performance units.

NOTE 8 – 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, Downstream, Industrial and Energy Transition, and Production and Transmission Infrastructure sectors.

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
Sales		
U.S.	\$ 740	\$ 618
Canada	42	43
International	103	81
Consolidated sales	<u>\$ 885</u>	<u>\$ 742</u>
Operating income (loss)		
U.S.	\$ 53	\$ 29
Canada	(2)	-
International	6	-
Total operating income	57	29
Interest expense	(7)	(6)
Other, net	(3)	-
Income before income taxes	<u>\$ 47</u>	<u>\$ 23</u>
	March 31, 2023	December 31, 2022
Total assets		
U.S.	\$ 1,625	\$ 1,518
Canada	105	101
International	291	276
Total assets	<u>\$ 2,021</u>	<u>\$ 1,895</u>

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

	Type	Three Months Ended	
		March 31, 2023	March 31, 2022
Line Pipe		\$ 141	\$ 112
Carbon Fittings and Flanges		117	100
Total Carbon Pipe, Fittings and Flanges		258	212
Valves, Automation, Measurement and Instrumentation		315	251
Gas Products		207	184
Stainless Steel and Alloy Pipe and Fittings		32	36
General Products		73	59
		<u>\$ 885</u>	<u>\$ 742</u>

NOTE 9 – 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 receives payments at 1-month LIBOR and makes 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 (loss). 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 an asset of \$1 million as of December 31, 2022.

On March 31, 2023, the interest rate swap agreement expired and was not extended with any new agreements or amendments. An immaterial net gain recorded as a component of other comprehensive income (loss) was reclassified to interest expense as of March 31, 2023.

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, and we have not designated them as hedges; accordingly, we have recorded changes in their fair market value in earnings. The total notional amount of our forward foreign exchange contracts and options was approximately \$0 million and \$3 million at March 31, 2023 and December 31, 2022, respectively. We had approximately \$0 million recorded as liabilities on our consolidated balance sheets as of March 31, 2023 and December 31, 2022.

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 \$390 million and \$340 million at March 31, 2023 and December 31, 2022, 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 \$389 million and \$337 million at March 31, 2023 and December 31, 2022, respectively.

NOTE 10 – 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 March 31, 2023, we are named a defendant in approximately 536 lawsuits involving approximately 1,101 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.

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.

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 capital and other expenditure levels in the industries that we serve;
- U.S. and international general economic conditions;
- global geopolitical events;
- decreases in oil and natural gas prices;
- unexpected supply shortages;
- loss of third-party transportation providers;
- cost increases by our suppliers and transportation providers;
- 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 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;
- a decline in demand for certain of the products we distribute if tariffs and duties on these products are imposed or lifted;
- holding more inventory than can be sold in a commercial time frame;
- significant substitution of renewables and low-carbon fuels for oil and gas, impacting demand for our products;
- risks related to adverse weather events or natural disasters;
- environmental, health and safety laws and regulations and the interpretation or implementation thereof;
- changes in our customer and product mix;
- 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;
- failure to operate our business in an efficient or optimized manner;
- our ability to compete successfully with other companies in our industry;
- our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;

- inability to attract and retain our employees or 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;
- 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;
- impairment of our goodwill or other intangible assets;
- adverse changes in political or economic conditions in the countries in which we operate;
- our significant indebtedness;
- the dependence on our subsidiaries for cash to meet our parent company's obligations;
- changes in our credit profile;
- potential inability to obtain necessary capital;
- 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;
- exposure to U.S. and international laws and regulations, regulating corruption, limiting imports or exports or imposing economic sanctions;
- risks relating to ongoing evaluations of internal controls required by Section 404 of the Sarbanes-Oxley Act; 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 leading global distributor of pipe, valves, fittings ("PVF") and other infrastructure products and services to diversified energy, industrial and gas utility end-markets. We provide innovative supply chain solutions, technical product expertise and a robust digital platform to customers globally through our leading position across each of our diversified end-markets including the following sectors:

- Gas Utilities (storage and distribution of natural gas)
- Downstream, Industrial and Energy Transition (crude oil refining, petrochemical and chemical processing, general industrials and energy transition projects)
- Production and Transmission Infrastructure (exploration, production and extraction, gathering, processing and transmission of oil and gas)

We offer over 250,000 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 9,000 suppliers. With over 100 years of experience, our over 2,800 employees serve approximately 10,000 customers through 216 service locations including regional distribution centers, branches, corporate offices and third-party pipe yards, where we often deploy pipe near customer locations.

Key Drivers of Our Business

We derive our revenue predominantly from the sale of PVF and other supplies to energy, industrial and gas utility customers globally. Our business is dependent upon both the current conditions and future prospects in these industries and, in particular, our customers' maintenance and expansionary operating and capital expenditures. The outlook for PVF spending is influenced by numerous factors, including the following:

- *Gas Utility and Energy Infrastructure Integrity and Modernization.* Ongoing maintenance and upgrading of existing energy facilities, pipelines and other infrastructure equipment is a meaningful driver for business across the sectors we serve. This is particularly true for Gas Utilities, which is currently our largest sector by sales. Activity with customers in this sector is driven by upgrades and replacement of existing infrastructure as well as new residential and commercial development. Continual maintenance of an aging network of pipelines and local distribution networks is a critical requirement for these customers irrespective of broader economic conditions. As a result, this business tends to be more stable over time than our traditional oilfield-dependent businesses and moves independently of commodity prices.
- *Oil and Natural Gas Demand and Prices.* Sales of PVF and infrastructure products to the oil and natural gas industry constitute a significant portion of our sales. As a result, we depend upon the maintenance and capital expenditures of oil and natural gas companies to explore for, produce and process oil, natural gas and refined products. Demand for oil and natural gas, current and projected commodity prices and the costs necessary to produce oil and gas impact customer capital spending, additions to and maintenance of pipelines, refinery utilization and petrochemical processing activity. Additionally, as these participants rebalance their capital investment away from traditional, carbon-based energy toward alternative sources, we expect to continue to supply them and enhance our product and service offerings to support their changing requirements, including in areas such as carbon capture utilization and storage, biofuels, offshore wind and hydrogen processing.
- *Economic Conditions.* Changes in the general economy or in the energy sector (domestically or internationally) can cause demand for fuels, feedstocks and petroleum-derived products to vary, thereby causing 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 often result in increased revenue, higher PVF pricing and improved 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 and other steel products that we do not supply, impact the pricing and availability of our products and, ultimately, our sales and operating profitability. Additionally, supply chain disruptions with key manufacturers or in markets in which we source products can impact the availability of inventory we require to support our customers. Furthermore, logistical challenges, including inflation and availability of freight providers and containers for shipping can also significantly impact our profitability and inventory lead-times. These constraints can also present an opportunity, as our supply chain expertise allows us to meet customer expectations when the competition may not.

Recent Trends and Outlook

During the three months ended March 31, 2023, revenue increased 2% sequentially from the three months ended December 31, 2022 and 19% from the three months ended March 31, 2022, supporting our growth outlook for 2023. Despite near-term risk related to a potential global economic slowdown, market fundamentals in the industries we support remain strong, as evidenced by the 14% improvement in our backlog position as compared to March 31, 2022.

Gas Utilities

Our gas utility business continues to be our largest sector, making up 35% of our total company revenue with a 13% increase in sales compared to the three months ended March 31, 2022. This sector is expected to have continued strong growth in 2023 due to long-term market drivers including distribution integrity upgrade programs as well as new home construction. The majority of the work we perform with our gas utility customers are multi-year programs where they continually evaluate, monitor and implement measures to improve their pipeline distribution networks, ensuring the safety and the integrity of their system. As of 2022, which is the most recently available information, the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) estimates approximately 35% of the gas distribution main and service line miles are over 40 years old or of unknown origin. This infrastructure requires continuous replacement and maintenance as these gas distribution networks continue to age. We supply many of the replacement products including valves, line pipe, smart meters, risers and other gas products. A large percentage of the line pipe we sell is sold to our gas utilities customers for line replacement and new sections of their distribution network. Additionally, as our gas utility customers connect new homes and businesses to their gas distribution network, the growth in the housing market creates new revenue opportunities for our business to supply the related infrastructure products. While new housing market starts have started to decline with interest rate increases, we do not anticipate this to have a significant impact, as customers will generally reallocate their budgets towards integrity upgrade projects. The compound annual growth rate since 2010 for this sector is 11% and based on market fundamentals and new market share opportunities, we expect this area of our business to continue to have steady growth. Additionally, this sector has proven historically to be less sensitive to a scenario of economic slowdown due to its reduced dependency on energy demand and commodity prices.

Downstream, Industrial and Energy Transition (DIET)

DIET generated 31% of our total company revenue and grew 23% from the first three months of 2022. We continue to expect this sector to deliver strong growth in 2023 driven by increased customer activity levels related to new energy transition related projects, liquefied natural gas ("LNG") projects, maintenance, repair and operations ("MRO") activities, and project turnaround activity in refineries and chemical plants.

The energy transition portion of our business is growing rapidly, particularly for biofuel refinery projects. The outlook for energy transition projects in the coming years is robust as pressure to decarbonize the economy rises and government incentives and policy such as those in the Inflation Reduction Act of 2022 begin to support the development of carbon energy alternatives. Also, many of our customers have made commitments to net zero emissions to address climate change. Our customer base represents many of the primary leaders in the energy transition movement and is positioned to lead the effort to decarbonize through nearer-term efforts such as renewable or biodiesel refineries and offshore wind electric generation as well as longer-term efforts such as carbon capture and storage and hydrogen. These types of projects require similar products that we currently provide today to these customers. We also sell low-emission valves, which represent 96% of the valves we currently sell. Low-emission valves restrict the release of methane and other greenhouse gases into the environment. We are well positioned to grow our energy transition business as we supply products for these projects through our long-standing customer relationships and our product and global supply chain expertise.

Production and Transmission Infrastructure (PTI)

The PTI sector of our business is the most cyclical, and in the first three months of 2023 this sector represented about one-third of our company revenues with a 22% increase from the three months ended March 31, 2022. Sell-side equity research analysts currently estimate upstream spending in 2023 to increase by a double-digit percentage. During the first quarter of 2023, Brent crude oil price averaged over \$80 per barrel and West Texas Intermediate ("WTI") oil prices averaged approximately \$75 per barrel. Although, oil prices have recently declined from earlier highs, recent OPEC+ production cuts have maintained prices at levels that support continued growth in drilling and completion activity by our customers. Natural gas prices also drive customer activity and have experienced recent volatility and declines, which if this remains sustainably low, could negatively impact our business.

To the extent completion activity and related production increases, this could improve our revenue opportunities in our PTI sector. New well completions and higher production levels drive the need for additional surface equipment and gathering and processing infrastructure, benefitting this sector's revenue. The majority of the revenue in this sector is driven by large public and major exploration and production companies, which are expected to strongly influence the increase in capital spending this year and the coming years for this sector.

Russia-Ukraine War

On February 24, 2022, Russia invaded Ukraine, which has had several consequences to the broader economy, global attitudes toward energy security and the pace of the energy transition. Government actions to reduce dependency on Russian fuels through embargoes and encourage an end to the conflict through sanctions on Russia have spurred a commodity price spike, supply constraints and various policy changes to address energy security. While we have no operations or sales in Ukraine, Belarus or Russia, the conflict has impacted several macro energy trends.

As Europe looks to replace Russian natural gas with more stable sources, LNG with its related infrastructure is being considered as an alternative to Russian gas supplies, with new projects being considered in the U.S. and Europe. To the extent new LNG infrastructure is built, our PTI and DIET sectors are well-positioned to benefit from this growth.

Supply Chain and Labor

We continue to closely monitor 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. Lead-times for purchases of certain products remain extended, and we expect continued disruptions related to both lead-times and logistics for the foreseeable future. Our strong inventory position has allowed us to continue to supply most customers with little interruption despite the delays from transportation providers. In those instances where there is interruption, we work with our customers to limit the impacts on their business and maintain an ongoing dialogue regarding the status of impacted orders. Transportation costs are generally in-line with pre-pandemic rates except for fuel costs, which remain elevated.

We continue to experience inflation for certain product categories. Although inflation causes the prices we pay for products to increase, we are generally able to leverage long-standing relationships with our suppliers and the high volume of our purchases to achieve market competitive pricing and preferential allocations of limited supplies. In addition, our contracts with customers generally allow us to pass price increases along to customers within a reasonable time after they occur. To the extent further pricing fluctuations impact our products, the impact on our revenue and cost of goods sold, which is determined using the last-in, first-out ("LIFO") inventory costing methodology, remains subject to uncertainty and volatility. However, our supply chain expertise, relationships with our key suppliers and inventory position has allowed us to manage the supply chain for both inflationary and deflationary pressures.

There has been little impact to our supply chain directly from the conflict in Ukraine. However, despite the relaxed COVID-19 restrictions in China, recent geopolitical conflicts could have the potential to further constrain the global supply chain and impact the availability of component parts, particularly for valves and meters.

Globally, we are being impacted by labor constraints as the post-pandemic recovery has lowered unemployment rates and created increased competition among companies to attract and retain personnel, which has increased our selling, general and administrative expense. We proactively monitor market trends in the areas where we have operations and, due to our efficient sourcing practices, we have experienced little to no disruption supporting our customers.

Backlog

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

	March 31, 2023	December 31, 2022	March 31, 2022
U.S.	\$ 537	\$ 539	\$ 463
Canada	37	45	39
International	184	158	165
	<u>\$ 758</u>	<u>\$ 742</u>	<u>\$ 667</u>

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 within twelve months.

Key Industry Indicators

The following table shows key industry indicators for the three months ended March 31, 2023 and 2022:

	Three Months Ended	
	March 31, 2023	March 31, 2022
Average Rig Count (1):		
United States	760	633
Canada	221	198
Total North America	981	831
International	915	823
Total	<u>1,896</u>	<u>1,654</u>
Average Commodity Prices (2):		
WTI crude oil (per barrel)	\$ 75.93	\$ 95.18
Brent crude oil (per barrel)	\$ 81.07	\$ 100.87
Henry Hub natural gas (\$/MMBtu)	\$ 2.64	\$ 4.67
Average Monthly U.S. Well Permits (3)		
	3,362	2,631
U.S. Wells Completed (2)		
	3,004	2,421
3:2:1 Crack Spread (4)		
	\$ 35.52	\$ 26.44

(1) Source-Baker Hughes (www.bakerhughes.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

Results of Operations

Three Months Ended March 31, 2023 Compared to the Three Months Ended March 31, 2022

The breakdown of our sales by sector for the three months ended March 31, 2023 and 2022 was as follows (in millions):

	Three Months Ended					
	March 31, 2023		March 31, 2022			
Gas Utilities	\$	307	35%	\$	271	37%
Downstream, Industrial and Energy Transition		278	31%		226	30%
Production & Transmission Infrastructure		300	34%		245	33%
	\$	885	100%	\$	742	100%

For the three months ended March 31, 2023 and 2022, the following table summarizes our results of operations (in millions):

	Three Months Ended						
	March 31, 2023	March 31, 2022	\$ Change	% Change			
<i>Sales:</i>							
U.S.	\$	740	\$	618	\$	122	20%
Canada		42		43		(1)	(2)%
International		103		81		22	27%
Consolidated	\$	885	\$	742	\$	143	19%
<i>Operating income (loss):</i>							
U.S.	\$	53	\$	29	\$	24	83%
Canada		(2)		-		(2)	N/M
International		6		-		6	N/M
Consolidated		57		29		28	97%
Interest expense		(7)		(6)		(1)	17%
Other, net		(3)		-		(3)	N/M
Income tax expense		(13)		(7)		(6)	86%
Net income		34		16		18	N/M
Series A preferred stock dividends		6		6		-	0%
Net income attributable to common stockholders	\$	28	\$	10	\$	18	N/M
Gross profit	\$	179	\$	136	\$	43	32%
Adjusted Gross Profit (1)	\$	188	\$	152	\$	36	24%
Adjusted EBITDA (1)	\$	69	\$	48	\$	21	44%

(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 23-24 herein.

Sales. Our sales were \$885 million for the three months ended March 31, 2023, as compared to \$742 million for the three months ended March 31, 2022, an increase of \$143 million, or 19%.

U.S. Segment—Our U.S. sales increased to \$740 million for the three months ended March 31, 2023, from \$618 million for the three months ended March 31, 2022. This \$122 million, or 20%, increase reflected an improvement in the Production and Transmission Infrastructure sector of \$43 million primarily due to a higher volume of product sales in the Permian Basin. Downstream, Industrial and Energy Transition sales increased \$41 million from LNG projects, increased turnaround and maintenance spending for refining, chemicals and mining customers. Gas Utilities sales improved \$38 million driven by increased activity levels related to our customers' integrity upgrade and smart meter replacement programs.

Canada Segment—Our Canada sales decreased to \$42 million for the three months ended March 31, 2023, from \$43 million for the three months ended March 31, 2022. In local currency, sales increased \$2 million and was primarily driven by an improvement in the Production and Transmission Infrastructure sector offset by declines in the Downstream, Industrial and Energy Transition and Gas Utilities sectors. The increase was offset by the weakening of the Canadian dollar relative to the U.S. dollar unfavorably impacting sales by \$3 million, or 7%.

International Segment—Our International sales increased to \$103 million for the three months ended March 31, 2023, from \$81 million for the same period in 2022. In local currency, sales increased \$30 million and was primarily driven by the Downstream, Industrial and Energy Transition sector followed by the Production and Transmission Infrastructure sector. The increase was offset by the weakening of foreign currencies in areas where we operate relative to the U.S. dollar, unfavorably impacting sales by \$8 million, or 8%.

Gross Profit. Our gross profit was \$179 million (20.2% of sales) for the three months ended March 31, 2023, as compared to \$136 million (18.3% of sales) for the three months ended March 31, 2022, an increase of \$43 million primarily attributable to improved margins on our general products, carbon fittings and flanges, and valves, automation, measurement and instrumentation sales. As compared to average cost, our LIFO inventory costing methodology decreased cost of sales by \$1 million for the first quarter of 2023 compared to a \$6 million increase in cost of sales in the three months ended March 31, 2022.

Adjusted Gross Profit. Adjusted Gross Profit increased to \$188 million (21.2% of sales) for the three months ended March 31, 2023, from \$152 million (20.5% of sales) for the three months ended March 31, 2022, an increase of \$36 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 incremental to normal operations 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			
	March 31, 2023	Percentage of Revenue*	March 31, 2022	Percentage of Revenue
Gross profit, as reported	\$ 179	20.2%	\$ 136	18.3%
Depreciation and amortization	5	0.6%	5	0.7%
Amortization of intangibles	5	0.6%	5	0.7%
(Decrease) increase in LIFO reserve	(1)	(0.1)%	6	0.8%
Adjusted Gross Profit	\$ 188	21.2%	\$ 152	20.5%

*Does not foot due to rounding

Selling, General and Administrative (“SG&A”) Expenses. Our SG&A expenses were \$122 million (13.8% of sales) for the three months ended March 31, 2023, as compared to \$107 million (14.4% of sales) for the three months ended March 31, 2022. The \$15 million increase in SG&A was driven by higher employee-related costs resulting from an overall improvement in business activity, as well as hiring additional resources to support the growth in our business.

Operating Income. Operating income was \$57 million for the three months ended March 31, 2023, as compared to an operating income of \$29 million for the three months ended March 31, 2022, an increase of \$28 million.

U.S. Segment—Operating income for our U.S. segment was \$53 million for the three months ended March 31, 2023, compared to an operating income of \$29 million for the three months ended March 31, 2022, a \$24 million increase. The \$24 million increase was primarily attributable to higher revenues.

Canada Segment—Operating loss for our Canada segment was \$2 million for the three months ended March 31, 2023, as compared to breakeven for the three months ended March 31, 2022, primarily due to unfavorable foreign exchange impacts.

International Segment—Operating income for our International segment was \$6 million for the three months ended March 31, 2023, as compared to operating income of \$0 million for the three months ended March 31, 2022. The \$6 million increase was primarily due to higher revenues.

Interest Expense. Our interest expense was \$7 million and \$6 million for the three months ended March 31, 2023 and 2022, respectively.

Other, net. Other, net was \$3 million expense for the three months ended March 31, 2023 compared to \$0 million for the three months ended March 31, 2022. The increase in other expense was primarily related to unfavorable foreign exchange rate impacts.

Income Tax Expense. Our income tax expense was \$13 million for the three months ended March 31, 2023, as compared to \$7 million expense for the three months ended March 31, 2022, primarily due to increased profitability. Our effective tax rates were 28% and 30% for the three months ended March 31, 2023 and 2022, respectively. Our rates generally differ from the U.S. federal statutory rate of 21% as a result of state income taxes, non-deductible expenses and differing foreign income tax rates. The effective tax rate for the three months ended March 31, 2023 was higher than the U.S. federal statutory rate primarily due to foreign losses with no tax benefit.

Net Income. Our net income was \$34 million for the three months ended March 31, 2023, as compared to a net income of \$16 million for the three months ended March 31, 2022.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure, was \$69 million (7.8% of sales) for the three months ended March 31, 2023, as compared to \$48 million (6.5% of sales) for the three months ended March 31, 2022.

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, long-lived asset impairments (including goodwill and intangible assets), inventory-related charges incremental to normal operations 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	
	March 31, 2023	March 31, 2022
Net income	\$ 34	\$ 16
Income tax expense	13	7
Interest expense	7	6
Depreciation and amortization	5	5
Amortization of intangibles	5	5
(Decrease) increase in LIFO reserve	(1)	6
Equity-based compensation expense	3	3
Foreign currency losses	3	-
Adjusted EBITDA	\$ 69	\$ 48

Liquidity and Capital Resources

Our primary credit facilities consist of a Term Loan maturing in September 2024 with an original principal amount of \$400 million and a \$750 million Global ABL Facility.

As of March 31, 2023, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was \$295 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. Under the terms of the Term Loan, the amount of cash used in the determination of the senior secured leverage ratio is limited to \$75 million. Based on our senior secured leverage ratio at the end of 2022, we are not required to make an excess cash flow payment for 2022 in 2023.

Our Global ABL Facility matures in September 2026 and provides \$705 million in revolver commitments in the United States (with a \$30 million sublimit in Canada), \$12 million in Norway, \$10 million in Australia, \$10.5 million in the Netherlands, \$7.5 million in the United Kingdom and \$5 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 \$250 million, subject to securing additional lender commitments. On December 6, 2022, the Company amended the Global ABL Facility to replace LIBOR with a new prevailing benchmark interest rate known as Term SOFR for all U.S. dollar borrowings. U.S. borrowings now bear interest at Term SOFR plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Canadian borrowings under the facility bear interest at the Canadian Dollar Bankers' Acceptances Rate ("BA Rate") plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Borrowings under our foreign borrower subsidiaries bear interest at a benchmark rate, which varies based on the currency in which such borrowings are made, plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. 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 March 31, 2023, we had \$95 million borrowings outstanding and \$601 million of Excess Availability, as defined under our Global ABL Facility.

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. At March 31, 2023, our total liquidity, consisting of cash on hand and amounts available under our Global ABL Facility, was \$640 million. As of March 31, 2023 and December 31, 2022, we had cash of \$39 million and \$32 million, respectively, a significant portion 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 first quarter of 2023, our Moody's Investor Services corporate family rating was B2 with a stable outlook. Additionally, on April 24, 2023, Standard & Poor's (S&P) Global Ratings upgraded our issuer credit rating from B- to B, with a stable outlook. However, on May 3, 2023, S&P Global Ratings placed us on CreditWatch Negative following the postponement of the Term Loan refinancing. 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 three months ended March 31, 2023, and based on our current forecasts, we expect to remain in compliance.

In April 2023, we launched an effort to amend, extend and refinance in full \$295 million in outstanding principal under our existing Term Loan. MRC Global sought to refinance the Term Loan long before its maturity in September 2024 to take advantage of relatively favorable market conditions. Shortly after the launch of the refinancing, but before closing, our preferred stockholder brought an action in the Delaware Court of Chancery seeking a temporary restraining order to prevent the refinancing from closing. The preferred stockholder claimed that it had a right to consent to the refinancing, a claim that the Company disputes. Although we do not believe that the preferred stockholder's claim had merit, the lawsuit complicated the execution of the refinancing on favorable terms. Therefore, we postponed the refinancing efforts before their conclusion. The lawsuit was then dismissed without prejudice. We expect to discuss with our preferred stockholder certain proposals that the stockholder has made, but there is no assurance that the parties will find agreement regarding these or alternative proposals. Even if MRC Global does not enter into a refinancing transaction in the future, we are confident that we could repay the Term Loan debt utilizing our Global ABL Facility and cash generated from our operations.

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.

Cash Flows

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net cash (used in) provided by:		
Operating activities	\$ (30)	\$ (13)
Investing activities	(3)	(2)
Financing activities	40	(2)
Net increase (decrease) in cash and cash equivalents	<u>\$ 7</u>	<u>\$ (17)</u>

Operating Activities

Net cash used in operating activities was \$30 million during the three months ended March 31, 2023, compared to \$13 million used during the three months ended March 31, 2022. The change in operating cash flows was primarily the result of an increase in working capital as a result of inventory purchases to support growing market activity offset by improved profitability.

Investing Activities

Net cash used in investing activities comprised of capital expenditures totaling \$3 million and \$2 million for the three months ended March 31, 2023 and 2022, respectively.

Financing Activities

Net cash provided by financing activities was \$40 million for the three months ended March 31, 2023, compared to \$2 million used in financing activities for the three months ended March 31, 2022, primarily due to net proceeds from revolving credit facilities of \$51 million in the first three months of 2023 compared to \$6 million in the first three months of 2022. We used \$6 million to pay dividends on preferred stock for the three months ended March 31, 2023 and 2022.

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, 2022.

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, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As of March 31, 2023, 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 first quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 10-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, 2022 under “Risk Factors”.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINING SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Number	Description
3.1	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).
3.2	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).
3.3	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).
31.1*	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.
31.2*	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 March 31, 2023, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at March 31, 2023 and December 31, 2022, (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2023 and 2022, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2023 and 2022, (iv) the Condensed Statements of Stockholders' Equity for the three months ended March 31, 2023 and 2022, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2023 and 2022 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 March 31, 2023 formatted in Inline XBRL.

* Filed herewith.

** Furnished herewith.

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: May 9, 2023

MRC GLOBAL INC.

By: /s/ Kelly Youngblood
Kelly Youngblood
Executive Vice President and Chief
Financial Officer

CERTIFICATION

I, Robert J. Saltiel, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2023 of MRC Global Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to 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;
 - b. 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;
 - c. 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
 - d. 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
5. 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):
 - a. 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
 - b. 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: May 9, 2023

/s/ Robert J. Saltiel, Jr.

Name: Robert J. Saltiel, Jr.

Title: President and Chief Executive Officer

CERTIFICATION

I, Kelly Youngblood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2023 of MRC Global Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to 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;
 - b. 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;
 - c. 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
 - d. 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
5. 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):
 - a. 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
 - b. 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: May 9, 2023

/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 March 31, 2023 (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: May 9, 2023

/s/ Robert J. Saltiel, Jr.

Name: Robert J. Saltiel, Jr.
Title: President and Chief Executive Officer

/s/ Kelly Youngblood

Name: Kelly Youngblood
Title: Executive Vice President and Chief Financial Officer