

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 SEPTEMBER 30, 2022

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)

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

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

**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 83,608,579 shares of the registrant's common stock (excluding 119,782 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of November 2, 2022.

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## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

*(in millions, except per share amounts)*

|   | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Current assets:   |                       |                      |
| Cash  | \$ 29                 | \$ 48                |
| Accounts receivable, net  | 526                   | 379                  |
| Inventories, net  | 584                   | 453                  |
| Other current assets  | 30                    | 19                   |
| Total current assets  | <u>1,169</u>          | <u>899</u>           |
| Long-term assets:   |                       |                      |
| Operating lease assets  | 194                   | 191                  |
| Property, plant and equipment, net  | 83                    | 91                   |
| Other assets  | 23                    | 22                   |
| Intangible assets:  |                       |                      |
| Goodwill, net   | 264                   | 264                  |
| Other intangible assets, net  | 189                   | 204                  |
|   | <u>\$ 1,922</u>       | <u>\$ 1,671</u>      |
| <b>Liabilities and stockholders' equity</b>   |                       |                      |
| Current liabilities:  |                       |                      |
| Trade accounts payable  | \$ 479                | \$ 321               |
| Accrued expenses and other current liabilities  | 96                    | 80                   |
| Operating lease liabilities   | 34                    | 33                   |
| Current portion of long-term debt   | 3                     | 2                    |
| Total current liabilities   | <u>612</u>            | <u>436</u>           |
| Long-term liabilities:  |                       |                      |
| Long-term debt, net   | 338                   | 295                  |
| Operating lease liabilities   | 177                   | 177                  |
| Deferred income taxes   | 55                    | 53                   |
| Other liabilities   | 22                    | 32                   |
| 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, 107,819,492 and 107,284,171 issued, respectively               | 1                     | 1                    |
| Additional paid-in capital  | 1,754                 | 1,747                |
| Retained deficit  | (783)                 | (819)                |
| Less: Treasury stock at cost: 24,216,330 shares   | (375)                 | (375)                |
| Accumulated other comprehensive loss  | (234)                 | (231)                |
|   | <u>363</u>            | <u>323</u>           |
|   | <u>\$ 1,922</u>       | <u>\$ 1,671</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    |                       | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Sales   | \$ 904                | \$ 685                | \$ 2,494              | \$ 1,980              |
| Cost of sales   | 739                   | 590                   | 2,042                 | 1,670                 |
| Gross profit  | 165                   | 95                    | 452                   | 310                   |
| Selling, general and administrative expenses          | 120                   | 102                   | 347                   | 304                   |
| Operating income (loss)                               | 45                    | (7)                   | 105                   | 6                     |
| Other (expense) income:                               |                       |                       |                       |                       |
| Interest expense                                      | (6)                   | (6)                   | (17)                  | (18)                  |
| Other, net  | (5)                   | -                     | (11)                  | 1                     |
| Income (loss) before income taxes                     | 34                    | (13)                  | 77                    | (11)                  |
| Income tax expense (benefit)                          | 10                    | (2)                   | 23                    | (1)                   |
| Net income (loss)                                     | 24                    | (11)                  | 54                    | (10)                  |
| Series A preferred stock dividends                    | 6                     | 6                     | 18                    | 18                    |
| Net income (loss) attributable to common stockholders | \$ 18                 | \$ (17)               | \$ 36                 | \$ (28)               |
| Basic earnings (loss) per common share                | \$ 0.22               | \$ (0.21)             | \$ 0.43               | \$ (0.34)             |
| Diluted earnings (loss) per common share              | \$ 0.21               | \$ (0.21)             | \$ 0.42               | \$ (0.34)             |
| Weighted-average common shares, basic                 | 83.6                  | 82.7                  | 83.5                  | 82.5                  |
| Weighted-average common shares, diluted               | 85.0                  | 82.7                  | 84.8                  | 82.5                  |

*See notes to condensed consolidated financial statements.*

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

MRC GLOBAL INC.

*(in millions)*

|   | <b>Three Months Ended</b>     |                               | <b>Nine Months Ended</b>      |                               |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | <b>September 30,<br/>2022</b> | <b>September 30,<br/>2021</b> | <b>September 30,<br/>2022</b> | <b>September 30,<br/>2021</b> |
| Net income (loss)                                   | \$ 24                         | \$ (11)                       | \$ 54                         | \$ (10)                       |
| Other comprehensive (loss) income                   |                               |                               |                               |                               |
| Foreign currency translation adjustments            | (5)                           | (3)                           | (9)                           | (3)                           |
| Hedge accounting adjustments, net of tax            | —                             | 1                             | 6                             | 4                             |
| Total other comprehensive (loss) income, net of tax | (5)                           | (2)                           | (3)                           | 1                             |
| Comprehensive income (loss)                         | <u>\$ 19</u>                  | <u>\$ (13)</u>                | <u>\$ 51</u>                  | <u>\$ (9)</u>                 |

*See notes to condensed consolidated financial statements.*

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## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

MRC GLOBAL INC.

(in millions)

|                                       | Common Stock |             | Additional<br>Paid-in<br>Capital | Retained<br>(Deficit) | Treasury Stock |                 | Accumulated<br>Other<br>Comprehensive<br>(Loss) | Total<br>Stockholders'<br>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>                    |
| Net income                            | -            | -           | -                                | 14                    | -              | -               | -   | 14                               |
| Foreign currency translation          | -            | -           | -                                | -                     | -              | -               | (6)   | (6)                              |
| Hedge accounting adjustments          | -            | -           | -                                | -                     | -              | -               | 3   | 3                                |
| Equity-based compensation expense     | -            | -           | 3                                | -                     | -              | -               | -   | 3                                |
| Dividends declared on preferred stock | -            | -           | -                                | (6)                   | -              | -               | -   | (6)                              |
| Balance at June 30, 2022              | <u>108</u>   | <u>\$ 1</u> | <u>\$ 1,751</u>                  | <u>\$ (801)</u>       | <u>(24)</u>    | <u>\$ (375)</u> | <u>\$ (229)</u>                                 | <u>\$ 347</u>                    |
| Net income                            | -            | -           | -                                | 24                    | -              | -               | -   | 24                               |
| Foreign currency translation          | -            | -           | -                                | -                     | -              | -               | (5)   | (5)                              |
| Equity-based compensation expense     | -            | -           | 3                                | -                     | -              | -               | -   | 3                                |
| Dividends declared on preferred stock | -            | -           | -                                | (6)                   | -              | -               | -   | (6)                              |
| Balance at September 30, 2022         | <u>108</u>   | <u>\$ 1</u> | <u>\$ 1,754</u>                  | <u>\$ (783)</u>       | <u>(24)</u>    | <u>\$ (375)</u> | <u>\$ (234)</u>                                 | <u>\$ 363</u>                    |
|                                       |              |             |                                  |                       |                |                 |   |                                  |
|                                       | Common Stock |             | Additional<br>Paid-in<br>Capital | Retained<br>(Deficit) | Treasury Stock |                 | Accumulated<br>Other<br>Comprehensive<br>(Loss) | Total<br>Stockholders'<br>Equity |
|                                       | Shares       | Amount      |                                  |                       | Shares         | Amount          |   |                                  |
| Balance at December 31, 2020          | 106          | \$ 1        | \$ 1,739                         | \$ (781)              | (24)           | \$ (375)        | \$ (234)  | \$ 350                           |
| Net loss                              | -            | -           | -                                | (3)                   | -              | -               | -   | (3)                              |
| Foreign currency translation          | -            | -           | -                                | -                     | -              | -               | (1)   | (1)                              |
| Hedge accounting adjustments          | -            | -           | -                                | -                     | -              | -               | 1   | 1                                |
| Shares withheld for taxes             | -            | -           | (2)                              | -                     | -              | -               | -   | (2)                              |
| Vesting of stock awards               | 1            | -           | -                                | -                     | -              | -               | -   | -                                |
| Equity-based compensation expense     | -            | -           | 5                                | -                     | -              | -               | -   | 5                                |
| Dividends declared on preferred stock | -            | -           | -                                | (6)                   | -              | -               | -   | (6)                              |
| Balance at March 31, 2021             | <u>107</u>   | <u>\$ 1</u> | <u>\$ 1,742</u>                  | <u>\$ (790)</u>       | <u>(24)</u>    | <u>\$ (375)</u> | <u>\$ (234)</u>                                 | <u>\$ 344</u>                    |
| Net income                            | -            | -           | -                                | 4                     | -              | -               | -   | 4                                |
| Foreign currency translation          | -            | -           | -                                | -                     | -              | -               | 1   | 1                                |
| Hedge accounting adjustments          | -            | -           | -                                | -                     | -              | -               | 2   | 2                                |
| Equity-based compensation expense     | -            | -           | 2                                | -                     | -              | -               | -   | 2                                |
| Dividends declared on preferred stock | -            | -           | -                                | (6)                   | -              | -               | -   | (6)                              |
| Balance at June 30, 2021              | <u>107</u>   | <u>\$ 1</u> | <u>\$ 1,744</u>                  | <u>\$ (792)</u>       | <u>(24)</u>    | <u>\$ (375)</u> | <u>\$ (231)</u>                                 | <u>\$ 347</u>                    |
| Net loss                              | -            | -           | -                                | (11)                  | -              | -               | -   | (11)                             |
| Foreign currency translation          | -            | -           | -                                | -                     | -              | -               | (3)   | (3)                              |

|                                       |            |             |                 |                 |             |                 |                 |               |     |
|---------------------------------------|------------|-------------|-----------------|-----------------|-------------|-----------------|-----------------|---------------|-----|
| translation                           |            |             |                 |                 |             |                 |                 |               |     |
| Hedge accounting adjustments          | -          | -           | -               | -               | -           | -               | -               | 1             | 1   |
| Equity-based compensation expense     | -          | -           | 3               | -               | -           | -               | -               | -             | 3   |
| Dividends declared on preferred stock | -          | -           | -               | (6)             | -           | -               | -               | -             | (6) |
| Balance at September 30, 2021         | <u>107</u> | <u>\$ 1</u> | <u>\$ 1,747</u> | <u>\$ (809)</u> | <u>(24)</u> | <u>\$ (375)</u> | <u>\$ (233)</u> | <u>\$ 331</u> |     |

See notes to condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

*(in millions)*

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2022 | September 30,<br>2021 |
| <b>Operating activities</b>  |                       |                       |
| Net income (loss)  | \$ 54                 | \$ (10)               |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operations: |                       |                       |
| Depreciation and amortization  | 14                    | 14                    |
| Amortization of intangibles  | 15                    | 18                    |
| Equity-based compensation expense  | 9                     | 10                    |
| Deferred income tax benefit  | (1)                   | (7)                   |
| Amortization of debt issuance costs  | 1                     | 1                     |
| Increase in LIFO reserve   | 50                    | 47                    |
| Other  | 12                    | 3                     |
| Changes in operating assets and liabilities:   |                       |                       |
| Accounts receivable  | (159)                 | (81)                  |
| Inventories  | (197)                 | (15)                  |
| Other current assets   | (11)                  | (11)                  |
| Accounts payable   | 165                   | 68                    |
| Accrued expenses and other current liabilities   | 18                    | (21)                  |
| Net cash (used in) provided by operations  | <u>(30)</u>           | <u>16</u>             |
| <b>Investing activities</b>  |                       |                       |
| Purchases of property, plant and equipment   | (8)                   | (6)                   |
| Other investing activities   | (2)                   | 2                     |
| Net cash used in investing activities  | <u>(10)</u>           | <u>(4)</u>            |
| <b>Financing activities</b>  |                       |                       |
| Payments on revolving credit facilities  | (523)                 | (262)                 |
| Proceeds from revolving credit facilities  | 569                   | 290                   |
| Payments on long-term obligations  | (2)                   | (87)                  |
| Debt issuance costs paid   | -                     | (3)                   |
| Dividends paid on preferred stock  | (18)                  | (18)                  |
| Repurchases of shares to satisfy tax withholdings  | (2)                   | (2)                   |
| Net cash provided by (used in) financing activities                                      | <u>24</u>             | <u>(82)</u>           |
| Decrease in cash   | (16)                  | (70)                  |
| Effect of foreign exchange rate on cash  | (3)                   | (2)                   |
| Cash -- beginning of period  | 48                    | 119                   |
| Cash -- end of period  | <u>\$ 29</u>          | <u>\$ 47</u>          |
| Supplemental disclosures of cash flow information:                                       |                       |                       |
| Cash paid for interest   | \$ 16                 | \$ 16                 |
| Cash paid for income taxes   | \$ 25                 | \$ 16                 |

*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)
- upstream production (exploration, production and extraction of underground oil and gas)
- midstream pipeline (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 and nine months ended September 30, 2022, are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2022. We have derived our condensed consolidated balance sheet as of December 31, 2021, from the audited consolidated financial statements for the year ended December 31, 2021. 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, 2021.

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.

**Recently Issued Accounting Pronouncements:** In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ASU 2020-04, *Reference Rate Reform (Topic 848)* (“ASU 2020-04”), which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that the discontinuation of certain reference rates, including the London Interbank Offered Rate (“LIBOR”), impacts. The update was effective upon issuance and the expedients and exceptions may be applied prospectively to contract modifications and hedging relationships entered into or evaluated through December 31, 2022. We are currently evaluating the impacts of the provisions of ASU 2020-04 on our consolidated financial statements; however, with respect to existing transactions, we do not believe the update will have a material impact.

**Adoption of New Accounting Standards:** In August 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-06, *Debt – Debt with Conversion and Other Options and Derivative Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40)* (“ASU 2020-06”), which simplifies guidance on the topics of convertible instruments, derivative contracts and earnings per share calculations. This accounting standard update, which we adopted as of January 1, 2022, 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 September 30, 2022, and December 31, 2021, was \$17 million and \$12 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 September 30, 2022 and December 31, 2021 was \$5 million and \$4 million, respectively. During the three and nine months ended September 30, 2022, we recognized \$0 million and \$3 million of revenue that was deferred as of December 31, 2021. During the three and nine months ended September 30, 2021, we recognized \$1 million and \$6 million of revenue that was deferred as of December 31, 2020. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

**Disaggregated Revenue:**

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), upstream production (exploration, production and extraction of underground oil and gas) and midstream pipeline (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  
September 30,**

|  | U.S.          | Canada       | International | Total         |
|--|---------------|--------------|---------------|---------------|
| <b>2022:</b>                               |               |              |               |               |
| Gas utilities                              | \$ 355        | \$ 3         | \$ 1          | \$ 359        |
| Downstream, industrial & energy transition | 209           | 6            | 61            | 276           |
| Upstream production                        | 118           | 25           | 33            | 176           |
| Midstream pipeline                         | 86            | 3            | 4             | 93            |
|  | <u>\$ 768</u> | <u>\$ 37</u> | <u>\$ 99</u>  | <u>\$ 904</u> |
| <b>2021:</b>                               |               |              |               |               |
| Gas utilities                              | \$ 269        | \$ 2         | \$ —          | \$ 271        |
| Downstream, industrial & energy transition | 143           | 6            | 48            | 197           |
| Upstream production                        | 82            | 18           | 32            | 132           |
| Midstream pipeline                         | 76            | 4            | 5             | 85            |
|  | <u>\$ 570</u> | <u>\$ 30</u> | <u>\$ 85</u>  | <u>\$ 685</u> |

**Nine Months Ended  
September 30,**

|  | U.S.            | Canada        | International | Total           |
|--|-----------------|---------------|---------------|-----------------|
| <b>2022:</b>                               |                 |               |               |                 |
| Gas utilities                              | \$ 934          | \$ 9          | \$ 1          | \$ 944          |
| Downstream, industrial & energy transition | 576             | 20            | 165           | 761             |
| Upstream production                        | 336             | 83            | 93            | 512             |
| Midstream pipeline                         | 257             | 8             | 12            | 277             |
|  | <u>\$ 2,103</u> | <u>\$ 120</u> | <u>\$ 271</u> | <u>\$ 2,494</u> |
| <b>2021:</b>                               |                 |               |               |                 |
| Gas utilities                              | \$ 745          | \$ 5          | \$ —          | \$ 750          |
| Downstream, industrial & energy transition | 417             | 15            | 150           | 582             |
| Upstream production                        | 231             | 62            | 109           | 402             |
| Midstream pipeline                         | 219             | 10            | 17            | 246             |
|  | <u>\$ 1,612</u> | <u>\$ 92</u>  | <u>\$ 276</u> | <u>\$ 1,980</u> |

**NOTE 3 – INVENTORIES**

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

|  | September 30,<br>2022 | December 31,<br>2021 |
|--|-----------------------|----------------------|
| Finished goods inventory at average cost:                  |                       |                      |
| Valves, automation, measurement and instrumentation        | \$ 272                | \$ 240               |
| Carbon steel pipe, fittings and flanges                    | 216                   | 151                  |
| Gas products   | 234                   | 184                  |
| All other products   | 147                   | 110                  |
|  | <u>869</u>            | <u>685</u>           |
| Less: Excess of average cost over LIFO cost (LIFO reserve) | (263)                 | (213)                |
| Less: Other inventory reserves                             | (22)                  | (19)                 |
|  | <u>\$ 584</u>         | <u>\$ 453</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 and \$30 million for the three and nine months ended September 30, 2022, and \$9 million and \$28 million for the three and nine months ended September 30, 2021, which we have classified in selling, general and administrative expenses. Cash paid for leases recognized as liabilities was \$10 million and \$31 million for the three and nine months ended September 30, 2022, and \$8 million and \$27 million for the three and nine months ended September 30, 2021.

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

**Maturity of Operating Lease Liabilities**

|                                    |               |
|------------------------------------|---------------|
| Remainder of 2022                  | \$ 10         |
| 2023                               | 38            |
| 2024                               | 34            |
| 2025                               | 28            |
| 2026                               | 23            |
| After 2026                         | 191           |
| Total lease payments               | <u>324</u>    |
| Less: Interest                     | (113)         |
| Present value of lease liabilities | <u>\$ 211</u> |

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

| Operating Lease Term and Discount Rate        | September 30,<br>2022 |
|---|-----------------------|
| Weighted-average remaining lease term (years) | 13                    |
| Weighted-average discount rate                | 6.7%                  |

Amounts maturing after 2026 include expected renewals for leases of regional distribution centers and certain corporate offices through dates up to 2048. Excluding 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):

|   | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
| Senior Secured Term Loan B, net of discount and issuance costs of \$1 | \$ 296                | \$ 297               |
| Global ABL Facility   | 45                    | —                    |
|   | <u>341</u>            | <u>297</u>           |
| Less: current portion   | 3                     | 2                    |
|   | <u>\$ 338</u>         | <u>\$ 295</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:** In September 2021, the Company entered into a Fourth Amended and Restated Loan, Security and Guarantee Agreement (the “Global ABL Facility”) by and among the Company, certain of its subsidiaries, its lenders and Bank of America, N.A. as administrative agent, security trustee and collateral agent. As part of the amendment, the multi-currency global asset-based revolving credit facility was reduced to \$750 million from \$800 million and the maturity was extended to September 2026 from September 2022. 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. U.S. borrowings under the facility bear interest at LIBOR 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 \$612 million as of September 30, 2022.

**Interest on Borrowings:** The interest rates on our outstanding borrowings at September 30, 2022 and December 31, 2021, including a floating to fixed interest rate swap, are set forth below:

|                                | September 30,<br>2022 | December 31,<br>2021 |
|--------------------------------|-----------------------|----------------------|
| Senior Secured Term Loan B     | 5.90%                 | 5.41%                |
| Global ABL Facility            | 4.87%                 | -                    |
| Weighted average interest rate | 5.77%                 | 5.41%                |

**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. In 2022, 90,015 shares of restricted stock, 423,896 performance share unit awards and 1,014,213 shares of restricted stock units have been granted to executive management, members of our Board of Directors and employees. To date, 12,582,372 shares have been granted under this plan. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price performance component. We expense the fair value of all equity grants, including performance share unit awards, on a straight-line basis over the vesting period.

**Accumulated Other Comprehensive Loss**

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

|                                      | <b>September 30,<br/>2022</b> | <b>December 31,<br/>2021</b> |
|--------------------------------------|-------------------------------|------------------------------|
| Currency translation adjustments     | \$ (234)                      | \$ (225)                     |
| Hedge accounting adjustments         | 1                             | (5)                          |
| Other adjustments                    | (1)                           | (1)                          |
| Accumulated other comprehensive loss | <u>\$ (234)</u>               | <u>\$ (231)</u>              |

## Earnings per Share

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

|   | Three Months Ended    |                       | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Net income (loss)                                     | \$ 24                 | \$ (11)               | \$ 54                 | \$ (10)               |
| Less: Dividends on Series A Preferred Stock           | 6                     | 6                     | 18                    | 18                    |
| Net income (loss) attributable to common stockholders | \$ 18                 | \$ (17)               | \$ 36                 | \$ (28)               |
| Weighted average basic shares outstanding             | 83.6                  | 82.7                  | 83.5                  | 82.5                  |
| Effect of dilutive securities                         | 1.4                   | -                     | 1.3                   | -                     |
| Weighted average diluted shares outstanding           | 85.0                  | 82.7                  | 84.8                  | 82.5                  |
| Net income (loss) per share:                          |                       |                       |                       |                       |
| Basic   | \$ 0.22               | \$ (0.21)             | \$ 0.43               | \$ (0.34)             |
| Diluted   | \$ 0.21               | \$ (0.21)             | \$ 0.42               | \$ (0.34)             |

Equity awards and shares of Preferred Stock are disregarded in the calculation of diluted earnings per share if they are determined to be anti-dilutive. For the three and nine months ended September 30, 2022 and 2021, all of the shares of the Preferred Stock were anti-dilutive. For the three and nine months ended September 30, 2022, we had approximately 1 million and 1.3 million anti-dilutive stock options, restricted stock units, and performance units. For the three and nine months ended September 30, 2021, we had approximately 4.2 million and 4.1 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, upstream production and midstream pipeline sectors.

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

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| <b>Sales</b>                             |                       |                       |                       |                       |
| U.S.                                     | \$ 768                | \$ 570                | \$ 2,103              | \$ 1,612              |
| Canada                                   | 37                    | 30                    | 120                   | 92                    |
| International                            | 99                    | 85                    | 271                   | 276                   |
| Consolidated sales                       | \$ 904                | \$ 685                | \$ 2,494              | \$ 1,980              |
| <b>Operating income (loss)</b>           |                       |                       |                       |                       |
| U.S.                                     | \$ 40                 | \$ (7)                | \$ 99                 | \$ (1)                |
| Canada                                   | -                     | (1)                   | (1)                   | (1)                   |
| International                            | 5                     | 1                     | 7                     | 8                     |
| Total operating income (loss)            | 45                    | (7)                   | 105                   | 6                     |
| Interest expense                         | (6)                   | (6)                   | (17)                  | (18)                  |
| Other, net                               | (5)                   | -                     | (11)                  | 1                     |
| <b>Income (loss) before income taxes</b> | \$ 34                 | \$ (13)               | \$ 77                 | \$ (11)               |
| <b>Total assets</b>                      |                       |                       |                       |                       |
| U.S.                                     |                       |                       | \$ 1,596              | \$ 1,427              |
| Canada                                   |                       |                       | 90                    | 53                    |
| International                            |                       |                       | 236                   | 191                   |
| Total assets                             |                       |                       | \$ 1,922              | \$ 1,671              |

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

| Type  | Three Months Ended    |                       | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Line pipe   | \$ 173                | \$ 103                | \$ 417                | \$ 268                |
| Carbon fittings and flanges                         | 119                   | 96                    | 335                   | 269                   |
| Total carbon pipe, fittings and flanges             | 292                   | 199                   | 752                   | 537                   |
| Valves, automation, measurement and instrumentation | 290                   | 230                   | 821                   | 714                   |
| Gas products  | 205                   | 169                   | 587                   | 465                   |
| Stainless steel and alloy pipe and fittings         | 53                    | 35                    | 147                   | 100                   |
| General products                                    | 64                    | 52                    | 187                   | 164                   |
|   | <u>\$ 904</u>         | <u>\$ 685</u>         | <u>\$ 2,494</u>       | <u>\$ 1,980</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 \$2 million and a liability of \$7 million as of September 30, 2022, and December 31, 2021, respectively.

**Foreign Exchange Forward Contracts:** Foreign exchange forward contracts are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments. Our foreign exchange derivative instruments are freestanding, 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 \$4 million and \$0 million at September 30, 2022 and December 31, 2021, respectively. We had approximately \$0 million recorded as liabilities on our consolidated balance sheets as of September 30, 2022 and December 31, 2021.

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 \$341 million and \$297 million at September 30, 2022 and December 31, 2021, 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 \$331 million and \$296 million at September 30, 2022 and December 31, 2021, 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 September 30, 2022, we are named a defendant in approximately 571 lawsuits involving approximately 1,136 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;
- 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)
- upstream production (exploration, production and extraction of underground oil and gas)
- midstream pipeline (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 10,000 suppliers. With over 100 years of experience, our over 2,700 employees serve approximately 10,000 customers through 206 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:

- *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 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 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, 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.

## Recent Trends and Outlook

During the three months ended September 30, 2022, revenue increased 7% sequentially from the three months ended June 30, 2022, supporting our strong growth outlook for 2022. Despite near-term risk related to a potential global economic slowdown, market fundamentals in the industries we support remain strong. As a result, our customers have increased their spending levels, as evidenced by our 49% growth in backlog from December 31, 2021 to September 30, 2022. We expect revenue growth in 2022 compared to 2021 to exceed 25%, which assumes a seasonal decline in revenues of approximately 5% in the fourth quarter of 2022.

### Gas Utilities

Our gas utility business continues to be our largest sector, making up 38% of our total company revenue with a 26% increase in sales compared to the nine months ended September 30, 2021. This sector is expected to have continued strong growth in 2022 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 2021, which is the most recently available information, the Pipeline and Hazardous Materials Safety Administration (PHMSA) estimates approximately 37% 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, our second largest sector, generated 30% of our total company revenue and grew 31% from the first nine months of 2021. We continue to expect this sector to deliver strong growth in 2022 driven by increased customer activity levels related to new energy transition related projects, maintenance, repair and operations ("MRO") activities, and project turnaround activity in refineries and chemical plants.

Industrial Info Resources (IIR) estimates for US petroleum refining spending, updated August 2022, continue to project a double-digit increase for both MRO activities and projects in 2022 over 2021. The energy transition portion of our business is growing rapidly, particularly for biofuels 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. We are well-positioned to grow our energy transition business through our long-standing customer relationships as well as our product and global supply chain expertise.

### ***Upstream Production and Midstream Pipeline***

The upstream production and midstream pipeline sectors of our business are the most cyclical, and in the first nine months of 2022 these sectors represented about one-third of our company revenues. The upstream production sector revenue increased 27% from the nine months ended September 30, 2021, to the nine months ended September 30, 2022, while the midstream pipeline sector increased 13% over the same period. Sell-side equity research analysts currently estimate upstream spending in 2022 to increase approximately 30%, and initial estimates for 2023 suggest an additional double-digit level of growth. During the third quarter of 2022, Brent crude oil price averaged over \$100 per barrel and West Texas Intermediate ("WTI") oil prices averaged approximately \$93 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 despite recent volatility in various parts of the world, current prices remain significantly elevated compared to prior year.

There is the expectation that shale producers in the U.S. could increase drilling and production above levels already planned leading into 2023 to offset the reduced supply from Russia. Many customers have expressed a desire to remain consistent with their commitments to their budgets, maintaining returns to their shareholders and operating within their cash flow requirements. However, given supportive commodity prices and growing public pressure, there is the potential for this posture to shift.

To the extent completion activity and related production increases, this could have the impact of improving our revenue opportunities in our upstream production and midstream pipeline sectors. Higher production levels are driving the need for additional gathering and processing infrastructure benefitting our midstream business. New well completions are correlated more closely to our upstream revenue rather than rig count. Furthermore, since the U.S. rig count reached a low in the second quarter of 2020, private operators, who historically have represented a smaller portion of our upstream revenue, have driven the majority of the rig count increases. As such, our company upstream revenue may trend lower compared to projected market improvements in the U.S. upstream spending estimates.

### ***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, liquified natural gas ("LNG") with its related infrastructure is being considered as an alternative to Russian gas supplies, with projects being considered in the U.S. and Europe. To the extent new LNG infrastructure is built, our midstream pipeline and our 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 have extended substantially 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. We have experienced significant increases in transportation costs as the economies of the U.S. and other countries recover from the COVID-19 pandemic, although sequentially, transportation costs have begun to decline.

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, the COVID-19 lockdowns in China are constraining the global supply chain and has the potential to 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.

### ***COVID-19 Pandemic***

We continue to monitor the COVID-19 pandemic as the number of cases and hospitalizations have recently increased. If we were to develop a COVID-19 outbreak at one of our facilities, we have plans to isolate those in contact with potentially infected employees and to either staff the facility with employees from other facilities or supply product to customers from other facilities. We monitor guidelines of the U.S. Centers for Disease Control ("CDC") and other authorities on an ongoing basis. As various governmental isolation orders evolve, we continue to review our operational plans to continue operating our business while addressing the health and safety of our employees and those with whom our business comes into contact.



### 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):

|               | September 30,<br>2022 | December 31,<br>2021 | September 30,<br>2021 |
|---------------|-----------------------|----------------------|-----------------------|
| U.S.          | \$ 576                | \$ 350               | \$ 297                |
| Canada        | 47                    | 35                   | 30                    |
| International | 150                   | 135                  | 113                   |
|               | <u>\$ 773</u>         | <u>\$ 520</u>        | <u>\$ 440</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 and nine months ended September 30, 2022 and 2021:

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| <i>Average Rig Count (1):</i>                        |                       |                       |                       |                       |
| United States  | 761                   | 496                   | 706                   | 448                   |
| Canada   | 199                   | 151                   | 170                   | 122                   |
| Total North America                                  | 960                   | 647                   | 876                   | 570                   |
| International  | 857                   | 772                   | 832                   | 735                   |
| Total  | <u>1,817</u>          | <u>1,419</u>          | <u>1,708</u>          | <u>1,305</u>          |
| <i>Average Commodity Prices (2):</i>                 |                       |                       |                       |                       |
| WTI crude oil (per barrel)                           | \$ 93.06              | \$ 70.58              | \$ 98.96              | \$ 65.05              |
| Brent crude oil (per barrel)                         | \$ 100.71             | \$ 73.51              | \$ 105.00             | \$ 67.89              |
| Natural gas (\$/MMBtu)                               | \$ 8.03               | \$ 4.35               | \$ 6.74               | \$ 3.61               |
| <i>New Privately-Owned Housing Units Started(3):</i> |                       |                       |                       |                       |
| Total units (in thousands)                           |                       |                       | 1,439                 | 1,559                 |
| <i>Average Monthly U.S. Well Permits (4)</i>         |                       |                       |                       |                       |
| U.S. Wells Completed (2)                             | 3,605                 | 2,620                 | 3,336                 | 2,115                 |
| 3:2:1 Crack Spread (5)                               | \$ 37.17              | \$ 20.78              | \$ 37.54              | \$ 19.38              |

(1) Source-Baker Hughes ([www.bakerhughes.com](http://www.bakerhughes.com)) (Total rig count includes oil, natural gas and other rigs.)

(2) Source-Department of Energy, EIA ([www.eia.gov](http://www.eia.gov)) (As revised)

(3) Source-U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Residential Construction

(4) Source-Evercore ISI Research

(5) Source-Bloomberg

## Results of Operations

### Three Months Ended September 30, 2022 Compared to the Three Months Ended September 30, 2021

The breakdown of our sales by sector for the three months ended September 30, 2022 and 2021 was as follows (in millions):

|  | Three Months Ended |             |                    |             |
|--|--------------------|-------------|--------------------|-------------|
|  | September 30, 2022 |             | September 30, 2021 |             |
| Gas utilities                                | \$ 359             | 40%         | \$ 271             | 40%         |
| Downstream, industrial and energy transition | 276                | 31%         | 197                | 29%         |
| Upstream production                          | 176                | 19%         | 132                | 19%         |
| Midstream pipeline                           | 93                 | 10%         | 85                 | 12%         |
|  | <u>\$ 904</u>      | <u>100%</u> | <u>\$ 685</u>      | <u>100%</u> |

For the three months ended September 30, 2022 and 2021, the following table summarizes our results of operations (in millions):

|   | Three Months Ended |                    |               |            |
|---|--------------------|--------------------|---------------|------------|
|   | September 30, 2022 | September 30, 2021 | \$ Change     | % Change   |
| <i>Sales:</i>   |                    |                    |               |            |
| U.S.  | \$ 768             | \$ 570             | \$ 198        | 35%        |
| Canada  | 37                 | 30                 | 7             | 23%        |
| International   | 99                 | 85                 | 14            | 16%        |
| Consolidated  | <u>\$ 904</u>      | <u>\$ 685</u>      | <u>\$ 219</u> | <u>32%</u> |
| <i>Operating income (loss):</i>                       |                    |                    |               |            |
| U.S.  | \$ 40              | \$ (7)             | \$ 47         | N/M        |
| Canada  | -                  | (1)                | 1             | (100)%     |
| International   | 5                  | 1                  | 4             | N/M        |
| Consolidated  | <u>45</u>          | <u>(7)</u>         | <u>52</u>     | <u>N/M</u> |
| Interest expense                                      | (6)                | (6)                | -             | N/M        |
| Other, net  | (5)                | -                  | (5)           | N/M        |
| Income tax (expense) benefit                          | (10)               | 2                  | (12)          | N/M        |
| Net income (loss)                                     | 24                 | (11)               | 35            | N/M        |
| Series A preferred stock dividends                    | 6                  | 6                  | -             | N/M        |
| Net income (loss) attributable to common stockholders | <u>\$ 18</u>       | <u>\$ (17)</u>     | <u>\$ 35</u>  | <u>N/M</u> |
| Gross profit  | \$ 165             | \$ 95              | \$ 70         | 74%        |
| Adjusted Gross Profit (1)                             | <u>\$ 198</u>      | <u>\$ 137</u>      | <u>\$ 61</u>  | <u>45%</u> |
| Adjusted EBITDA (1)                                   | \$ 82              | \$ 39              | \$ 43         | N/M        |

(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 \$904 million for the three months ended September 30, 2022, as compared to \$685 million for the three months ended September 30, 2021, an increase of \$219 million, or 32%.

**U.S. Segment**—Our U.S. sales increased to \$768 million for the three months ended September 30, 2022, from \$570 million for the three months ended September 30, 2021. This \$198 million, or 35%, increase reflected an \$86 million improvement in the gas utilities sector driven by increased activity levels related to our customers' integrity upgrade programs, smart meter programs and seasonal demand. Downstream, industrial and energy transition sales increased \$66 million due to increased renewable biofuel projects and additional turnaround project and maintenance spending for refining, mining and chemical customers. Upstream production sales increased \$36 million primarily due to increased customer spending for well completions. Midstream pipeline sales improved \$10 million driven by new gathering and processing infrastructure as a result of increased production levels.

**Canada Segment**—Our Canada sales increased to \$37 million for the three months ended September 30, 2022, from \$30 million for the three months ended September 30, 2021. The \$7 million, or 23%, increase was primarily driven by the upstream production sector as customers increased capital budgets.

**International Segment**—Our International sales increased to \$99 million for the three months ended September 30, 2022, from \$85 million for the same period in 2021. In local currency, sales increased \$27 million, or 16%, and was primarily driven by the downstream, industrial and energy transition 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 \$13 million, or 13%.

**Gross Profit.** Our gross profit was \$165 million (18.3% of sales) for the three months ended September 30, 2022, as compared to \$95 million (13.9% of sales) for the three months ended September 30, 2021, an increase of \$70 million. The inflationary impact, especially in our line pipe products, has been a significant driver of the higher gross margins reported this quarter. As compared to average cost, our LIFO inventory costing methodology increased cost of sales by \$24 million for the third quarter of 2022 compared to a \$32 million increase in cost of sales in the three months ended September 30, 2021.

**Adjusted Gross Profit.** Adjusted Gross Profit increased to \$198 million (21.9% of sales) for the three months ended September 30, 2022, from \$137 million (20.0% of sales) for the three months ended September 30, 2021, an increase of \$61 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    |                           |                       |                           |
|-------------------------------|-----------------------|---------------------------|-----------------------|---------------------------|
|                               | September 30,<br>2022 | Percentage<br>of Revenue* | September 30,<br>2021 | Percentage<br>of Revenue* |
| Gross profit, as reported     | \$ 165                | 18.3%                     | \$ 95                 | 13.9%                     |
| Depreciation and amortization | 5                     | 0.6%                      | 4                     | 0.6%                      |
| Amortization of intangibles   | 4                     | 0.4%                      | 6                     | 0.9%                      |
| Increase in LIFO reserve      | 24                    | 2.7%                      | 32                    | 4.7%                      |
| Adjusted Gross Profit         | <u>\$ 198</u>         | <u>21.9%</u>              | <u>\$ 137</u>         | <u>20.0%</u>              |

\*Does not foot due to rounding

**Selling, General and Administrative (“SG&A”) Expenses.** Our SG&A expenses were \$120 million (13.3% of sales) for the three months ended September 30, 2022, as compared to \$102 (14.9% of sales) million for the three months ended September 30, 2021. The \$18 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 (Loss).** Operating income was \$45 million for the three months ended September 30, 2022, as compared to an operating loss of \$7 million for the three months ended September 30, 2021, an increase of \$52 million.

**U.S. Segment**—Operating income for our U.S. segment was \$40 million for the three months ended September 30, 2022, compared to an operating loss of \$7 million for the three months ended September 30, 2021, a \$47 million increase. The \$47 million increase was attributable to higher revenues and improved gross profit percentage due to product mix.

**Canada Segment**—Operating loss for our Canada segment was \$0 million for the three months ended September 30, 2022, as compared to operating loss of \$1 million for the three months ended September 30, 2021.

**International Segment**—Operating income for our International segment was \$5 million for the three months ended September 30, 2022, as compared to operating income of \$1 million for the three months ended September 30, 2021. The \$4 million increase was primarily due to higher revenues.

**Interest Expense.** Our interest expense was \$6 million and \$6 million for the three months ended September 30, 2022 and 2021, respectively.

**Other, net.** Other, net was \$5 million expense for the three months ended September 30, 2022 compared to \$0 million for the three months ended September 30, 2021. The increase in other expense was primarily related to unfavorable foreign exchange rate impacts.

**Income Tax Expense (Benefit).** Our income tax expense was \$10 million for the three months ended September 30, 2022 as compared to \$2 million benefit for the three months ended September 30, 2021 primarily due to increased profitability. Our effective tax rates were 29% and 15% for the three months ended September 30, 2022 and 2021, 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 September 30, 2022 was higher primarily due to unbenefited foreign losses.

**Net Income (Loss).** Our net income was \$24 million for the three months ended September 30, 2022, as compared to a net loss of \$11 million for the three months ended September 30, 2021.

**Adjusted EBITDA.** Adjusted EBITDA, a non-GAAP financial measure, was \$82 million (9.1% of sales) for the three months ended September 30, 2022, as compared to \$39 million (5.7% of sales) for the three months ended September 30, 2021.

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):

|                                   | <b>Three Months Ended</b>     |                               |
|-----------------------------------|-------------------------------|-------------------------------|
|                                   | <b>September 30,<br/>2022</b> | <b>September 30,<br/>2021</b> |
| Net income (loss)                 | \$ 24                         | \$ (11)                       |
| Income tax expense (benefit)      | 10                            | (2)                           |
| Interest expense                  | 6                             | 6                             |
| Depreciation and amortization     | 5                             | 4                             |
| Amortization of intangibles       | 4                             | 6                             |
| Increase in LIFO reserve          | 24                            | 32                            |
| Equity-based compensation expense | 3                             | 3                             |
| Foreign currency losses           | 6                             | 1                             |
| Adjusted EBITDA                   | <u>\$ 82</u>                  | <u>\$ 39</u>                  |

**Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021**

The breakdown of our sales by sector for the nine months ended September 30, 2022 and 2021 was as follows (in millions):

|  | Nine Months Ended  |             |                    |             |
|--|--------------------|-------------|--------------------|-------------|
|  | September 30, 2022 |             | September 30, 2021 |             |
| Gas utilities                                | \$ 944             | 38%         | \$ 750             | 38%         |
| Downstream, industrial and energy transition | 761                | 30%         | 582                | 29%         |
| Upstream production                          | 512                | 21%         | 402                | 20%         |
| Midstream pipeline                           | 277                | 11%         | 246                | 13%         |
|  | <u>\$ 2,494</u>    | <u>100%</u> | <u>\$ 1,980</u>    | <u>100%</u> |

For the nine months ended September 30, 2022 and 2021, the following table summarizes our results of operations (in millions):

|   | Nine Months Ended  |                    | \$ Change     | % Change   |
|---|--------------------|--------------------|---------------|------------|
|   | September 30, 2022 | September 30, 2021 |               |            |
| <i>Sales:</i>   |                    |                    |               |            |
| U.S.  | \$ 2,103           | \$ 1,612           | \$ 491        | 30%        |
| Canada  | 120                | 92                 | 28            | 30%        |
| International   | 271                | 276                | (5)           | (2)%       |
| Consolidated  | <u>\$ 2,494</u>    | <u>\$ 1,980</u>    | <u>\$ 514</u> | <u>26%</u> |
| <i>Operating income (loss):</i>                       |                    |                    |               |            |
| U.S.  | \$ 99              | \$ (1)             | \$ 100        | N/M        |
| Canada  | (1)                | (1)                | -             | 0%         |
| International   | 7                  | 8                  | (1)           | (13)%      |
| Consolidated  | <u>105</u>         | <u>6</u>           | <u>99</u>     | <u>N/M</u> |
| Interest expense                                      | (17)               | (18)               | 1             | (6)%       |
| Other, net  | (11)               | 1                  | (12)          | N/M        |
| Income tax (expense) benefit                          | (23)               | 1                  | (24)          | N/M        |
| Net income (loss)                                     | <u>54</u>          | <u>(10)</u>        | <u>64</u>     | <u>N/M</u> |
| Series A preferred stock dividends                    | 18                 | 18                 | -             | 0%         |
| Net income (loss) attributable to common stockholders | <u>\$ 36</u>       | <u>\$ (28)</u>     | <u>\$ 64</u>  | <u>N/M</u> |
| Gross profit  | <u>\$ 452</u>      | <u>\$ 310</u>      | <u>\$ 142</u> | <u>46%</u> |
| Adjusted Gross Profit (1)                             | <u>\$ 531</u>      | <u>\$ 389</u>      | <u>\$ 142</u> | <u>37%</u> |
| Adjusted EBITDA (1)                                   | <u>\$ 195</u>      | <u>\$ 99</u>       | <u>\$ 96</u>  | <u>97%</u> |

(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 26-27 herein.

**Sales.** Our sales were \$2,494 million for the nine months ended September 30, 2022, as compared to \$1,980 million for the nine months ended September 30, 2021, an increase of \$514 million, or 26%.

**U.S. Segment**—Our U.S. sales increased to \$2,103 million for the nine months ended September 30, 2022, from \$1,612 million for the nine months ended September 30, 2021. This \$491 million, or 30%, increase reflected a \$189 million increase in the gas utilities sector driven by the full implementation of a new customer contract, increased activity levels and continued execution of our customers' integrity upgrade programs, smart meter programs and seasonal demand. Downstream, industrial and energy transition sector sales increased \$159 million due to increased renewable biofuels projects and additional turnaround project and maintenance spending for both refining and chemicals customers. Upstream production sales increased \$105 million primarily due to increased customer spending for well completions. Midstream pipeline sales improved \$38 million driven by new gathering and processing infrastructure as a result of increased well completion activity.

**Canada Segment**—Our Canada sales increased to \$120 million for the nine months ended September 30, 2022, from \$92 million for the nine months ended September 30, 2021. The \$28 million, or 30%, increase was primarily driven by the upstream production sector from increased customer capital budgets based on improved commodity prices.

**International Segment**—Our International sales decreased to \$271 million for the nine months ended September 30, 2022, from \$276 million for the same period in 2021. The \$5 million, or 2%, decrease was primarily due to the weakening of foreign currencies in areas where we operate relative to the U.S. dollar, unfavorably impacting sales by \$28 million, or 10%.

**Gross Profit.** Our gross profit was \$452 million (18.1% of sales) for the nine months ended September 30, 2022, as compared to \$310 million (15.7% of sales) for the nine months ended September 30, 2021. The inflationary impact, especially in our line pipe products, has been a significant driver of the higher gross margins reported this year. As compared to average cost, our LIFO inventory costing methodology increased cost of sales by \$50 million for the first nine months of 2022 compared to a \$47 million increase in cost of sales in the first nine months of 2021.

**Adjusted Gross Profit.** Adjusted Gross Profit increased to \$531 million (21.3% of sales) for the nine months ended September 30, 2022, from \$389 million (19.6% of sales) for the nine months ended September 30, 2021, an increase of \$142 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):

|                               | Nine Months Ended     |                          |                       |                           |
|-------------------------------|-----------------------|--------------------------|-----------------------|---------------------------|
|                               | September 30,<br>2022 | Percentage<br>of Revenue | September 30,<br>2021 | Percentage<br>of Revenue* |
| Gross profit, as reported     | \$ 452                | 18.1%                    | \$ 310                | 15.7%                     |
| Depreciation and amortization | 14                    | 0.6%                     | 14                    | 0.7%                      |
| Amortization of intangibles   | 15                    | 0.6%                     | 18                    | 0.9%                      |
| Increase in LIFO reserve      | 50                    | 2.0%                     | 47                    | 2.4%                      |
| Adjusted Gross Profit         | <u>\$ 531</u>         | <u>21.3%</u>             | <u>\$ 389</u>         | <u>19.6%</u>              |

\*Does not foot due to rounding

**Selling, General and Administrative (“SG&A”) Expenses.** Our SG&A expenses were \$347 million (13.9% of sales) for the nine months ended September 30, 2022, as compared to \$304 million (15.4% of sales) for the nine months ended September 30, 2021. The \$43 million increase in SG&A was driven by higher employee-related costs resulting from an overall improvement in business activity offset by a \$2 million payroll tax benefit from the Employee Retention Credit in the Coronavirus Aid, Relief, and Economic Security Act and the Taxpayer Certainty and Disaster Relief Act. For the nine months ended September 30, 2021, personnel costs included \$2 million of employee separation costs.

**Operating Income (Loss).** Operating income was \$105 million for the nine months ended September 30, 2022, as compared to an operating income of \$6 million for the nine months ended September 30, 2021, an increase of \$99 million.

**U.S. Segment**—Operating income for our U.S. segment was \$99 million for the nine months ended September 30, 2022, compared to an operating loss of \$1 million for the nine months ended September 30, 2021, a \$100 million increase. The \$100 million increase was attributable to higher revenues and improved gross profit percentage due to product mix.

**Canada Segment**—Operating loss for our Canada segment was \$1 million and \$1 million for the nine months ended September 30, 2022 and 2021, respectively.

**International Segment**—Operating income for our international segment was \$7 million for the nine months ended September 30, 2022, as compared to operating income of \$8 million for the nine months ended September 30, 2021.

**Interest Expense.** Our interest expense was \$17 million and \$18 million for the nine months ended September 30, 2022 and 2021.

**Other, net.** Other, net was \$11 million expense for the nine months ended September 30, 2022 compared to \$1 million income for the nine months ended September 30, 2021. The change was primarily related to unfavorable foreign exchange rate impacts.

**Income Tax Expense (Benefit).** Our income tax expense was \$23 million for the nine months ended September 30, 2022 as compared to \$1 million benefit for the nine months ended September 30, 2021 primarily due to increased profitability. Our effective tax rates were 30% and 9% for the nine months ended September 30, 2022 and 2021, 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 30% tax rate for the nine months ended September 30, 2022 was higher primarily due to unbenefited foreign losses.

**Net Income (Loss).** Our net income was \$54 million for the nine months ended September 30, 2022, as compared to a net loss of \$10 million for the nine months ended September 30, 2021.

**Adjusted EBITDA.** Adjusted EBITDA, a non-GAAP financial measure, was \$195 million (7.8% of sales) for the nine months ended September 30, 2022, as compared to \$99 million (5.0% of sales) for the nine months ended September 30, 2021.

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):

|                                   | Nine Months Ended     |                       |
|-----------------------------------|-----------------------|-----------------------|
|                                   | September 30,<br>2022 | September 30,<br>2021 |
| Net income (loss)                 | \$ 54                 | \$ (10)               |
| Income tax expense (benefit)      | 23                    | (1)                   |
| Interest expense                  | 17                    | 18                    |
| Depreciation and amortization     | 14                    | 14                    |
| Amortization of intangibles       | 15                    | 18                    |
| Employee separation               | -                     | 1                     |
| Increase in LIFO reserve          | 50                    | 47                    |
| Equity-based compensation expense | 9                     | 10                    |
| Foreign currency losses           | 13                    | 2                     |
| Adjusted EBITDA                   | <u>\$ 195</u>         | <u>\$ 99</u>          |

## 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 September 30, 2022, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was \$296 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 2021, we are not required to make an excess cash flow payment for 2021 in 2022.

In September 2021, we amended and renewed our Global ABL Facility. The Global ABL Facility now 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. U.S. borrowings under the facility bear interest at LIBOR 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 September 30, 2022, we had \$45 million borrowings outstanding and \$612 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 September 30, 2022, our total liquidity, consisting of cash on hand and amounts available under our Global ABL Facility, was \$641 million. As of September 30, 2022 and December 31, 2021, we had cash of \$29 million and \$48 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 2021, Moody's Investor Services changed our ratings outlook from negative to stable and, in the second quarter of 2021, Standard & Poor's Global Ratings revised the Company's outlook to stable. Our existing obligations restrict our ability to incur additional debt. We were in compliance with the covenants contained in our various credit facilities as of and during the nine months ended September 30, 2022, and based on our current forecasts, we expect to remain in compliance. We plan to transition from a LIBOR-based borrowing rate to a rate based on the Secured Overnight Financing Rate (SOFR) on the Global ABL Facility by the end of the year. We do not believe this transition will result in a material impact to the financial statements.

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):

|   | Nine Months Ended     |                       |
|---|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 |
| Net cash (used in) provided by:           |                       |                       |
| Operating activities                      | \$ (30)               | \$ 16                 |
| Investing activities                      | (10)                  | (4)                   |
| Financing activities                      | 24                    | (82)                  |
| Net decrease in cash and cash equivalents | <u>\$ (16)</u>        | <u>\$ (70)</u>        |

**Operating Activities**

Net cash used in operating activities was \$30 million during the nine months ended September 30, 2022, compared to \$16 million provided during the nine months ended September 30, 2021. The change in operating cash flows was primarily the result of an increase in working capital as a result of inventory purchases and other expenses to support growing market activity offset by improved profitability.

**Investing Activities**

Net cash used in investing activities was primarily comprised of capital expenditures totaling \$8 million and \$6 million for the nine months ended September 30, 2022 and 2021, respectively.

**Financing Activities**

Net cash provided by financing activities was \$24 million for the nine months ended September 30, 2022, compared to \$82 million used in financing activities for the nine months ended September 30, 2021, primarily due to net proceeds from revolving credit facilities of \$46 million in the first nine months of 2022 compared to \$28 million in the first nine months of 2021. In the first nine months of 2021, we made a payment of \$86 million on our Term Loan as a result of excess cash flow generation in 2020. We used \$18 million to pay dividends on preferred stock for the nine months ended September 30, 2022 and 2021.

**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, 2021.

**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, 2021.

#### ITEM 4. CONTROLS AND PROCEDURES

##### *Evaluation of disclosure controls and procedures.*

As of September 30, 2022, we have reviewed, under the direction of our Chief Executive Officer and Chief Financial Officer, the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

##### *Changes in internal control over financial reporting.*

There were no changes in our internal control over financial reporting that occurred during the third quarter of 2022 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, 2021 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    | <a href="#">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).</a>  |
| 3.2    | <a href="#">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).</a>   |
| 3.3    | <a href="#">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).</a>  |
| 31.1*  | <a href="#">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.</a>  |
| 31.2*  | <a href="#">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.</a>  |
| 32**   | <a href="#">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.</a>  |
| 101*   | The following financial information from MRC Global Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2022, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at September 30, 2022 and December 31, 2021, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and 2021, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2022 and 2021, (iv) the Condensed Statements of Stockholders' Equity for the nine months ended September 30, 2022 and 2021, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021 and (vi) Notes to Condensed Consolidated Financial Statements. |
| 104*   | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 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: November 9, 2022

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 September 30, 2022 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: November 9, 2022

/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 September 30, 2022 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: November 9, 2022

/s/ Kelly Youngblood

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

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of MRC Global Inc., a Delaware corporation (the "Company"), for the period ended September 30, 2022 (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: November 9, 2022

/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