

MRC GLOBAL INC.
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 001-35479

MRC Global Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

Fulbright Tower

1301 McKinney Street, Suite 2300

Houston, Texas 77010
(Address of Principal Executive Offices) (Zip Code)

(877) 294-7574
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (do not check if a smaller reporting company) []

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 []

The Company's common stock is traded on the New York Stock Exchange under the symbol "MRC". There were 89,682,844 shares of the registrant's common stock (excluding 167,416 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of April 27, 2018.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except shares)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	\$ 45	\$ 48
Accounts receivable, net	621	522
Inventories, net	811	701
Other current assets	49	47
Total current assets	1,526	1,318
Other assets	21	21
Property, plant and equipment, net	146	147
Intangible assets:		
Goodwill, net	488	486
Other intangible assets, net	357	368
	\$ 2,538	\$ 2,340
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 523	\$ 415
Accrued expenses and other current liabilities	136	143
Current portion of long-term debt	4	4
Total current liabilities	663	562
Long-term obligations:		
Long-term debt, net	635	522
Deferred income taxes	106	106
Other liabilities	36	36
Commitments and contingencies		

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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, 104,006,870 and 103,099,692 issued, respectively	1	1
Additional paid-in capital	1,695	1,691
Retained deficit	(536)	(548)
Less: Treasury stock at cost: 13,478,551 and 11,751,726 shares, respectively	(205)	(175)
Accumulated other comprehensive loss	(212)	(210)
	743	759
	\$ 2,538	\$ 2,340

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except per share amounts)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Sales	\$ 1,010	\$ 862
Cost of sales	841	722
Gross profit	169	140
Selling, general and administrative expenses	138	126
Operating income	31	14
Other expense:		
Interest expense	(8)	(7)
Other, net	2	-
Income before income taxes	25	7
Income tax expense	7	1
Net income	18	6
Series A preferred stock dividends	6	6
Net income attributable to common stockholders	\$ 12	\$ -
Basic income per common share	\$ 0.13	\$ -
Diluted income per common share	\$ 0.13	\$ -
Weighted-average common shares, basic	91.4	94.8
Weighted-average common shares, diluted	92.5	94.8

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	\$ 18	\$ 6
Other comprehensive (loss) income		
Foreign currency translation adjustments	(1)	6
Hedge accounting adjustments	(1)	-
Total other comprehensive (loss) income, net of tax	(2)	6
Comprehensive income	\$ 16	\$ 12

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Operating activities		
Net income	\$ 18	\$ 6
Adjustments to reconcile net income to net cash (used in) provided by operations:		
Depreciation and amortization	6	5
Amortization of intangibles	11	11
Equity-based compensation expense	4	4
Amortization of debt issuance costs	-	1
Increase in LIFO reserve	7	1
Other	2	2
Changes in operating assets and liabilities:		
Accounts receivable	(98)	(75)
Inventories	(117)	(6)
Other current assets	(4)	(1)
Accounts payable	106	74
Accrued expenses and other current liabilities	(9)	-
Net cash (used in) provided by operations	(74)	22
Investing activities		
Purchases of property, plant and equipment	(5)	(11)
Net cash used in investing activities	(5)	(11)
Financing activities		
Payments on revolving credit facilities	(194)	(14)
Proceeds from revolving credit facilities	307	14
Payments on long-term obligations	(1)	(2)
Purchase of common stock	(30)	(18)
Dividends paid on preferred stock	(6)	(6)
Repurchases of shares to satisfy tax withholdings	(5)	(3)
Proceeds from exercise of stock options	5	-
Net cash provided by (used in) financing activities	76	(29)

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Decrease in cash	(3)	(18)
Effect of foreign exchange rate on cash	-	2
Cash -- beginning of period	48	109
Cash -- end of period	\$ 45	\$ 93

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 8	\$ 7
Cash paid for income taxes	\$ 1	\$ -

See notes to condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MRC GLOBAL INC.

NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

Business Operations: MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings (“PVF”) and related products and services across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical and chemical processing and general industrials) sectors. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and Caspian. Our products are obtained from a broad range of suppliers.

Basis of Presentation: We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2018. We have derived our condensed consolidated balance sheet as of December 31, 2017 from the audited consolidated financial statements for the year ended December 31, 2017. 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, 2017.

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

Recent Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases, which will replace the existing guidance in ASC 870, Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a

right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2018. We are in the process of evaluating the effect of the adoption of ASU 2016-02 on our consolidated financial statements.

Adoption of New Accounting Standards: ASU 2014-09, Revenue - Revenue from Contracts with Customers. On January 1, 2018, we adopted accounting standard ASC 606, Revenue from Contracts with Customers (“new revenue standard”) using the modified retrospective method. Under this method, a cumulative effect of initially applying the new revenue standard requires an adjustment to the opening balance of retained earnings, and the comparative information continues to be reported under the accounting standards in effect for those periods prior to adoption. The cumulative effect of initially applying the new standard was immaterial to our consolidated financial statements.

Under the new revenue standard, revenue is recognized when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Substantially all of our revenue is recognized 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. Returns are estimated and recorded as a reduction of revenue. Amounts received in advance of shipment are deferred and recognized when the performance obligations are satisfied. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from sales in the accompanying consolidated statements of operations.

Cost of sales includes the cost of inventory sold and related items, such as vendor rebates, inventory allowances and reserves, and shipping and handling costs associated with inbound and outbound freight, as well as depreciation and amortization of intangible assets. In some cases, particularly with third party pipe shipments, shipping and handling costs are considered separate performance obligations, and as such, the revenue and cost of sales are recorded when the performance obligation is fulfilled.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MRC GLOBAL INC.

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

ASU 2017-12, Accounting for Derivatives and Hedging Transactions (Topic 815) Targeted Improvements to Accounting for Hedging Activities. In March 2018, we early adopted ASU 2017-12. The new standard amends the hedge accounting model to better portray an organization's risk management activities in the financial statements, as well as simplifies the applications of certain hedge accounting guidance. The implementation of ASU 2017-12 did not have a material impact on our consolidated financial statements.

NOTE 2 – CONTRACT BALANCES

Contract Balances: Variations in the timing of revenue recognition, invoicing and receipt of cash result in categories of assets and liabilities that include invoiced accounts receivable, uninvoiced accounts receivable, contract assets, and customer advances (contract liabilities) on the consolidated balance sheets. Generally, revenue recognition and invoicing occur simultaneously as we fulfill our performance obligations resulting in contract assets. Payment is typically due from our customers within 30 days of invoicing. We consider contract assets to be accounts receivable when only the passage of time is required before payment is due. In certain cases, particularly those involving customer-specific documentation requirements, receipt of payment is not assured unless and until we 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. Further, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities, or deferred revenue.

Contract Assets: We record contract assets, including accounts receivable, when control of the promised goods or services is transferred to our customers. In situations where we have uninvoiced contract assets due to customer-specific documentation requirements, as discussed above, we recognize these amounts distinct from accounts receivable. Our contract asset balance associated with these requirements, as of March 31, 2018 and December 31, 2017, was \$34 million and \$31 million, respectively. These contract asset balances are included within accounts receivable in the accompanying consolidated balance sheets.

Contract Liabilities: We record deferred revenue when cash payments are received in advance of our performance, including amounts which are refundable. The deferred revenue balance at March 31, 2018 and December 31, 2017 was \$32 million and \$30 million, respectively. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

NOTE 3 – INVENTORIES

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

	March 31, 2018	December 31, 2017
Finished goods inventory at average cost:		
Valves, automation, measurement and instrumentation	\$ 314	\$ 292
Carbon steel pipe, fittings and flanges	335	268
All other products	300	270
	949	830
Less: Excess of average cost over LIFO cost (LIFO reserve)	(102)	(95)
Less: Other inventory reserves	(36)	(34)
	\$ 811	\$ 701

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NOTE 4 – LONG-TERM DEBT

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

	March 31, 2018	December 31, 2017
Senior Secured Term Loan B, net of discount and issuance costs of \$3	\$ 396	\$ 397
Global ABL Facility	243	129
	639	526
Less: current portion	4	4
	\$ 635	\$ 522

Senior Secured Term Loan B: In September 2017, the Company entered into a Refinancing Amendment and Successor Administrative Agent Agreement relating to the Term Loan Credit Agreement, dated as of November 9, 2012, by and among the Company, MRC Global (US) Inc., as the borrower, the other subsidiaries of the Company from time to time party thereto as guarantors, the several lenders from time to time party thereto, Bank of America, N.A., as administrative agent, and U.S. Bank National Association, as collateral trustee. Pursuant to the amendment, the parties agreed to appoint JPMorgan Chase Bank, N.A. as the new administrative agent for the lenders. As amended, the Term Loan Credit Agreement provides for a \$400 million seven-year Term Loan B (the “Term Loan”) which matures in September 2024. The Term Loan allows for incremental increases in facility size by up to an aggregate of \$200 million, plus an additional amount such that the Company’s first lien leverage ratio (as defined under the Term Loan) would not exceed 4.00 to 1.00. MRC Global (US) Inc. is the borrower under this facility, which is guaranteed by MRC Global Inc. as well as all of its wholly owned U.S. subsidiaries. In addition, it is secured by a second lien on the assets securing our Global ABL Facility, defined below, (which includes accounts receivable, inventory and related assets) and a first lien on substantially all of the other assets of MRC Global Inc. and those of its U.S. subsidiaries, as well as a pledge of all of the capital stock of our domestic subsidiaries and 65% of the capital stock of first tier, non-U.S. subsidiaries. We are required to repay the Term Loan with certain asset sales and insurance proceeds, certain debt proceeds and 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 and 0% if our first lien leverage ratio is no more than 2.50 to 1.00). In addition, the Term Loan contains a number of customary restrictive covenants.

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

We have designated the interest rate swap as an effective cash flow hedge utilizing the guidance under ASU 2017-12. As such, the valuation of the interest rate swap is recorded as an asset or liability, and the gain or loss on the derivative is recorded as a component of other comprehensive income. 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. We recognize interest rate swaps on the accompanying

balance sheet at fair value using observable inputs. We recorded a liability of \$1 million at March 31, 2018.

Global ABL Facility: In September 2017, the Company entered into a Third Amended and Restated Loan, Security and Guarantee Agreement (the “Global ABL Facility”) by and among the Company, the subsidiaries of the Company from time to time party thereto as borrowers and guarantors, the several lenders from time to time party thereto 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 re-sized to \$800 million from \$1.05 billion and the maturity was extended to September 2022 from July 2019. This facility is comprised of \$675 million in revolver commitments in the United States, \$65 million in Canada, \$18 million in Norway, \$15 million in Australia, \$13 million in the Netherlands, \$7 million in the United Kingdom and \$7 million in Belgium. It contains an accordion feature that allows us to increase the principal amount of the facility by up to \$200 million, subject to securing additional lender commitments. MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable, inventory and related assets. Excess Availability, as defined under our Global ABL Facility, was \$409 million as of March 31, 2018.

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Interest on Borrowings: The interest rates on our borrowings outstanding at March 31, 2018 and December 31, 2017, including the interest rate swap and amortization of debt issuance costs, were as follows:

	March 31, 2018	December 31, 2017
Senior Secured Term Loan B	6.02%	5.18%
Global ABL Facility	3.74%	3.19%
Weighted average interest rate	5.15%	4.69%

NOTE 5 – INCOME TAXES

For interim periods, our income tax expense is computed based upon our estimated annual effective tax rate and any discrete items that impact the interim periods. Our effective tax rates for the three months ended March 31, 2018 and 2017 were 28% and 14%, respectively. Our rates generally differ from the U.S. federal statutory rates of 21% and 35% for the three months ended March 31, 2018 and 2017, respectively, as a result of state income taxes and differing foreign income tax rates. The 2018 effective tax rate exceeds the U.S. statutory rate primarily as a result of pre-tax losses in certain foreign jurisdictions with no corresponding tax benefit. The 2017 effective tax rate was significantly below the U.S. statutory rate as a result of the adoption of ASU 2016-09, Compensation – Stock Compensation, which resulted in a discrete tax benefit of \$2 million related to the vesting of stock awards.

As of December 31, 2017, we recorded provisional tax estimates associated with the passage of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”). These provisional amounts included a \$57 million benefit for the re-measurement of deferred tax assets and liabilities and a \$7 million transition tax expense related to undistributed foreign earnings. In accordance with the Securities and Exchange Commission’s Staff Accounting Bulletin No. 118 (“SAB 118”), these provisional amounts will be finalized during 2018. Any adjustments required to the provisional amounts will be reflected in income tax expense in the period the adjustment is identified.

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 proceeds of \$355 million, net of transaction fees. 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. Holders of Preferred Stock are entitled to vote together with the holders of the common stock as a single class, in each case, on an as-converted basis, except where a separate class vote of the common stockholders is required by law. Holders of Preferred Stock have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

The Preferred Stock is convertible at the option of the holders into shares of common stock at an initial conversion rate of 55.9284 shares of common stock for each share of Preferred Stock, which represents an initial conversion price of \$17.88 per share of common stock, subject to adjustment. On or after the fifth anniversary of the initial issuance of the Preferred Stock, the Company will have the option to redeem, in whole but not in part, all the outstanding shares of Preferred Stock at 105% of par value, subject to certain redemption price adjustments on the basis of the date of the conversion. After the seventh anniversary of the initial issuance of Preferred Stock, the Company will have the option to redeem all of the outstanding shares of Preferred Stock at par value. We may elect to convert the Preferred Stock, in whole but not in part, into the relevant number of shares of common stock on or after the 54th month after the initial issuance of the Preferred Stock if the last reported sale price of the common stock has been at least 150% of the conversion price then in effect for a specified period. The conversion rate is subject to customary anti-dilution and other adjustments.

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

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NOTE 7 – STOCKHOLDERS’ EQUITY

Share Repurchase Program

In November 2015, the Company’s board of directors authorized a share repurchase program for common stock up to \$100 million, which was increased in November 2016 to \$125 million. In the first quarter of 2017, the Company completed the repurchase of all shares authorized under the program.

In October 2017, the Company’s board of directors authorized a new share repurchase program for common stock of up to \$100 million. The program is scheduled to expire December 31, 2018. The shares may be repurchased at management’s discretion in the open market. Depending on market conditions and other factors, these repurchases may be commenced or suspended from time to time without prior notice. There were 90,528,319 shares of common stock outstanding as of March 31, 2018.

Summary of share repurchase activity under the repurchase programs:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Number of shares acquired on the open market	1,726,825	859,830
Average price per share	\$ 17.39	\$ 20.54
Total cost of acquired shares (in millions)	\$ 30	\$ 18

Subsequent to quarter end, we purchased an additional 1,144,379 shares for \$20 million completing the repurchase of all shares authorized under the October 2017 program. In total, under both programs, we have acquired 14,622,930 shares at an average price per share of \$15.38 for a total cost of \$225 million. As of April 27, 2018, we had 89,682,844 shares of common stock outstanding.

Equity Compensation Plans

Our 2011 Omnibus Incentive Plan originally had 3,250,000 shares reserved for issuance under the plan. In April 2015, our shareholders approved an additional 4,250,000 shares for reservation for issuance under the plan. The plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the 2011 Omnibus Incentive Plan, the Company’s Board of Directors has periodically granted stock options, restricted stock awards,

restricted stock units and performance share units to directors and employees. 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 to five year period on the anniversaries of the date specified in the employees' respective stock option, restricted stock award, restricted stock unit and performance share unit award agreements, subject to accelerated vesting under certain circumstances set forth in the agreements. Vesting for directors generally occurs on the one-year anniversary of the grant date. In the quarter ended March 31, 2018, 222,435 performance share unit awards and 502,582 shares of restricted stock units have been granted to employees and members of our board of directors. To date, since the plan's inception in 2011, before consideration of forfeitures, 6,595,947 shares have been granted to management, members of our board of directors and key employees under this plan. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price performance component. We expense the fair value of all equity grants, including performance share unit awards, on a straight-line basis over the vesting period.

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Accumulated Other Comprehensive Loss

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

	March 31, 2018	December 31, 2017
Currency translation adjustments	\$ (210)	\$ (209)
Pension related adjustments	(1)	(1)
Hedge accounting adjustments	(1)	-
Accumulated other comprehensive loss	\$ (212)	\$ (210)
Earnings per Share		

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	\$ 18	\$ 6
Less: Dividends on Series A Preferred Stock	6	6
Net income attributable to common stockholders	\$ 12	\$ -
Weighted average basic shares outstanding	91.4	94.8
Effect of dilutive securities	1.1	-
Weighted average diluted shares outstanding	92.5	94.8
Net income per share:		
Basic	\$ 0.13	\$ -
Diluted	\$ 0.13	\$ -

Equity awards and shares of Preferred Stock are disregarded in the calculation of diluted earnings per share if they are determined to be anti-dilutive. For the three months ended March 31, 2018 and 2017, all of the shares of the Preferred Stock were anti-dilutive. For the three months ended March 31, 2018 and 2017, we had approximately 3.4 million and 2.1 million anti-dilutive stock options, respectively. There were no anti-dilutive restricted stock, restricted units or performance stock unit awards for the three months ended March 31, 2018. There were 1.4 million

anti-dilutive restricted stock, restricted units or performance stock unit awards for the three months ended March 31, 2017.

NOTE 8 – SEGMENT INFORMATION

Our business is comprised of four operating segments: U.S. Eastern Region and Gulf Coast, U.S. Western Region, 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 upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical and chemical processing and general industrials) markets. Our two U.S. operating segments have been aggregated into a single reportable segment based on their economic similarities. As a result, we report segment information for the U.S., Canada and International.

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Sales		
U.S.	\$ 806	\$ 666
Canada	78	77
International	126	119
Consolidated sales	\$ 1,010	\$ 862
Operating income		
U.S.	\$ 28	\$ 11
Canada	2	3
International	1	-
Total operating income	31	14
Interest expense	(8)	(7)
Other, net	2	-
Income before income taxes	\$ 25	\$ 7
	March 31, 2018	December 31, 2017
Total assets		
U.S.	\$ 2,184	\$ 1,970
Canada	141	162
International	213	208
Total assets	\$ 2,538	\$ 2,340

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

Type	Three Months	
	Ended March 31, 2018	March 31, 2017 (1)
Line pipe	\$ 158	\$ 146
Carbon steel fittings and flanges	171	123
Total carbon steel pipe, fittings and flanges	329	269
Valves, automation, measurement and instrumentation	378	322
Gas products	124	116
Stainless steel and alloy pipe and fittings	53	41
General oilfield products	126	114
	\$ 1,010	\$ 862

- (1) \$18 million of sales for the three months ended March 31, 2017 have been reclassified from gas products to general oilfield products to conform with the current year presentation.

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NOTE 9 - REVENUE

Adoption of ASC 606, "Revenue from Contracts with Customers"

On January 1, 2018, we adopted ASC 606 using the modified retrospective method applied to those performance obligations which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Our disaggregated revenue represents our business of selling PVF to the energy sector across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical and chemical processing and general industrials) markets in each of our reportable segments. Each of our end markets and geographical reportable segments are impacted and influenced by varying factors, including macroeconomic environment, commodity prices, maintenance and capital spending, and exploration and production activity. As such, we believe that this information is important in depicting the nature, amount, timing and uncertainty of our contracts with customers.

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

Three Months Ended
March 31,

	U.S.	Canada	International	Total
2018:				
Upstream	\$ 178	\$ 57	\$ 67	\$ 302

Midstream	393	14	3	410
Downstream	235	7	56	298
	\$ 806	\$ 78	\$ 126	\$ 1,010

2017:

Upstream	\$ 140	\$ 61	\$ 44	\$ 245
Midstream	346	11	14	371
Downstream	180	5	61	246
	\$ 666	\$ 77	\$ 119	\$ 862

NOTE 10 – FAIR VALUE MEASUREMENTS

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

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

We have designated the interest rate swap as an effective cash flow hedge utilizing the guidance under ASU 2017-12. As such, the valuation of the interest rate swap is recorded as an asset or liability, and the gain or loss on the derivative is recorded as a component of other comprehensive income. Interest rate swap agreements are reported at fair value utilizing Level 2 inputs. 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. We recognize interest rate swaps on the accompanying balance sheet at fair value using observable inputs such as yield curves and other market-based factors. We recorded a liability of \$1 million at March 31, 2018.

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Foreign Exchange Forward and Option 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, accordingly, changes in their fair market value are recorded in earnings. The total notional amount of our forward foreign exchange contracts and options was approximately \$41 million and \$60 million at March 31, 2018 and December 31, 2017, respectively. We had approximately \$0 million recorded as liabilities on our consolidated balance sheets as of March 31, 2018 and December 31, 2017.

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 \$639 million and \$526 million at March 31, 2018 and December 31, 2017, 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 \$645 million and \$533 million at March 31, 2018 and December 31, 2017, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Litigation

Asbestos Claims. We are one of many defendants in lawsuits that plaintiffs have brought seeking damages for personal injuries that exposure to asbestos allegedly caused. Plaintiffs and their family members have brought these lawsuits against a large volume of defendant entities as a result of the defendants' manufacture, distribution, supply or other involvement with asbestos, asbestos containing-products or equipment or activities that allegedly caused plaintiffs to be exposed to asbestos. These plaintiffs typically assert exposure to asbestos as a consequence of third-party manufactured products that our MRC Global (US) Inc. subsidiary purportedly distributed. As of March 31, 2018, we are named a defendant in approximately 533 lawsuits involving approximately 1,143 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.

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

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

Cautionary Note Regarding Forward-Looking Statements

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

- decreases in oil and natural gas prices;
- decreases in oil and natural gas industry expenditure levels, which may result from decreased oil and natural gas prices or other factors;
- increased usage of alternative fuels, which may negatively affect oil and natural gas industry expenditure levels;
- U.S. and international general economic conditions;
- our ability to compete successfully with other companies in our industry;
- the risk that manufacturers of the products we distribute will sell a substantial amount of goods directly to end users in the industry sectors we serve;
- unexpected supply shortages;

- cost increases by our suppliers;
- our lack of long-term contracts with most of our suppliers;
- suppliers' price reductions of products that we sell, which could cause the value of our inventory to decline;
- decreases in steel prices, which could significantly lower our profit;
- increases in steel prices, which we may be unable to pass along to our customers which could significantly lower our profit;
- our lack of long-term contracts with many of our customers and our lack of contracts with customers that require minimum purchase volumes;
- changes in our customer and product mix;
- risks related to our customers' creditworthiness;
- the success of our acquisition strategies;
- the potential adverse effects associated with integrating acquisitions into our business and whether these acquisitions will yield their intended benefits;
- our significant indebtedness;
- the dependence on our subsidiaries for cash to meet our obligations;
- changes in our credit profile;
- a decline in demand for certain of the products we distribute if import restrictions on these products are lifted;
- environmental, health and safety laws and regulations and the interpretation or implementation thereof;

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

Undue reliance should not be placed on our forward-looking statements. Although forward-looking statements reflect our good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except to the extent law requires.

Overview

We are the largest global industrial distributor, based on sales, of pipe, valves, and fittings (“PVF”) and related products and services to the energy industry and hold a leading position in our industry across each of the upstream

(exploration, production and extraction of underground oil and natural gas), midstream (gathering and transmission of oil and natural gas, natural gas utilities and the storage and distribution of oil and natural gas) and downstream (crude oil refining, petrochemical and chemical processing and general industrials) sectors. Our business is segregated into three geographic reportable segments, consisting of our U.S., Canada and International operations. We serve our customers from approximately 300 service locations. We offer a wide array of PVF and oilfield supplies encompassing a complete line of products from our global network of approximately 12,000 suppliers to our more than 16,000 customers. We are diversified by geography, the industry sectors we serve and the products we sell. We seek to provide best-in-class service to our customers by satisfying the most complex, multi-site needs of many of the largest companies in the energy sector as their primary PVF supplier. We believe the critical role we play in our customers' supply chain, together with our extensive product offering, broad global presence, customer-linked scalable information systems and efficient distribution capabilities, serve to solidify our long-standing customer relationships and drive our growth. As a result, we have an average relationship of over 25 years with our 25 largest customers.

Key Drivers of Our Business

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

- Oil and Natural Gas Prices. Sales of PVF and related products to the oil and natural gas industry constitute over 90% of our sales. As a result, we depend upon the oil and natural gas industry and its ability and willingness to make maintenance and capital expenditures to explore for, produce and process oil, natural gas and refined products. Oil and natural gas prices, both current and projected, along with the costs necessary to produce oil and

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gas, impact other drivers of our business, including capital spending by customers, additions to and maintenance of pipelines, refinery utilization and petrochemical processing activity.

- Economic Conditions. The demand for the products we distribute is dependent on the general economy, the energy sector and other factors. Changes in the general economy or in the energy sector (domestically or internationally) can cause demand for the products we distribute to materially change.

- Manufacturer and Distributor Inventory Levels of PVF and Related Products. Manufacturer and distributor inventory levels of PVF and related products can change significantly from period to period. Increased inventory levels by manufacturers or other distributors can cause an oversupply of PVF and related products in the industry sectors we serve and reduce the prices that we are able to charge for the products we distribute. Reduced prices, in turn, would likely reduce our profitability. Conversely, decreased manufacturer inventory levels may ultimately lead to increased demand for our products and would likely result in increased sales volumes and overall profitability.

- Steel Prices, Availability and Supply and Demand. Fluctuations in steel prices can lead to volatility in the pricing of the products we distribute, especially carbon steel line pipe products, which can influence the buying patterns of our customers. A majority of the products we distribute contain various types of steel. The worldwide supply and demand for these products, or other steel products that we do not supply, impacts the pricing and availability of our products and, ultimately, our sales and operating profitability.

Recent Trends and Outlook

During the first three months of 2018, the average oil price of West Texas Intermediate (“WTI”) increased to \$62.91 per barrel from \$51.62 per barrel in the first three months of 2017. Natural gas prices increased slightly to an average price of \$3.08/Mcf (Henry Hub) for the first three months of 2018 compared to \$3.02/Mcf (Henry Hub) for the first three months of 2017. North American drilling rig activity increased 19% in the first three months of 2018 as compared to the first three months of 2017. U.S. well completions were up 52% in the first three months of 2018 compared to the same period in 2017.

Following a dramatic two-year decline in E&P capital spending by our customers in 2015 and 2016, our business rebounded with 20% sales growth in 2017. We remain encouraged by stability in oil prices and sustained growth in drilling and completion activity. Prominent E&P spending surveys, which include many of our customers, indicate that 2018 spending will increase by a high single digit percentage globally including double digit growth in North America combined with more modest growth internationally. These positive macroeconomic variables combined with other favorable influences directly impact each of our business sectors. Healthy commodity prices and an emphasis on completing drilled but uncompleted wells (“DUCs”) benefits our upstream business. In addition, a more favorable regulatory environment in the United States has benefited our business, particularly in the midstream sector where we also continue to see modernization and integrity projects in the gas utility space. Our domestic downstream sector has benefitted from the improved access to and stability in pricing of the necessary feedstocks available from increased, and in some cases, new upstream production. We expect these favorable business trends to continue throughout 2018 and into 2019.

In March 2018, the President of the United States signed a proclamation (“Section 232”) imposing a 25% tariff on all steel imports and 10% on all aluminum imports into the U.S. Section 232 impacts all carbon products, including pipe, fittings and flanges. Certain countries have been exempted from the provisions of Section 232, and in certain cases, a quota system rather than tariffs has been implemented. These actions generally cause the price we pay for products to increase. We are well-positioned with both our suppliers and customers to react to any inflation resulting on the products we sell. We expect to see higher revenue due to our customer contract positions and higher LIFO expense for the products that we sell to the extent they are impacted by higher prices caused by the tariffs and quotas.

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

	March 31, 2018	December 31, 2017	March 31, 2017
U.S.	\$ 589	\$ 559	\$ 544
Canada	45	40	40
International	254	233	249
	\$ 888	\$ 832	\$ 833

Approximately 10%, 14% and 24% of our March 31, 2018, December 31, 2017 and March 31, 2017 ending backlog, respectively, was associated with one customer in our U.S. segment. In addition, approximately 14% of our ending backlog for March 31, 2018 and December 31, 2017 was associated with one customer in our International segment. In each case, these are related to significant ongoing customer projects. There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that substantially all of the sales in our backlog will be realized in the next twelve months.

The following table shows key industry indicators for the three months ended March 31, 2018 and 2017:

Three
Months
Ended