

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, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 001-35479

MRC GLOBAL INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

20-5956993

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

**1301 McKinney Street, Suite 2300
Houston, Texas**

(Address of Principal Executive Offices)

77010

(Zip Code)

(877) 294-7574

(Registrant's Telephone Number, including Area Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 85,076,144 shares of the registrant's common stock (excluding 147,433 unvested restricted shares), par value \$0.01 per share, issued and outstanding as of May 2, 2024.

INDEX TO QUARTERLY REPORT ON FORM 10-Q

		Page
PART I – FINANCIAL INFORMATION		
ITEM 1.	<u>FINANCIAL STATEMENTS (UNAUDITED)</u>	3
	<u>CONDENSED CONSOLIDATED BALANCE SHEETS – MARCH 31, 2024 AND DECEMBER 31, 2023</u>	3
	<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023</u>	4
	<u>CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023</u>	5
	<u>CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY – THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023</u>	6
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023</u>	7
	<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 2024</u>	8
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	17
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	26
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	27
PART II – OTHER INFORMATION		
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	28
ITEM 1A.	<u>RISK FACTORS</u>	28
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	28
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	28
ITEM 4.	<u>MINING SAFETY DISCLOSURES</u>	29
ITEM 5.	<u>OTHER INFORMATION</u>	29
ITEM 6.	<u>EXHIBITS</u>	30

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

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash	\$ 146	\$ 131
Accounts receivable, net	478	430
Inventories, net	546	560
Other current assets	34	34
Total current assets	1,204	1,155
Long-term assets:		
Operating lease assets	196	205
Property, plant and equipment, net	78	78
Other assets	20	21
Intangible assets:		
Goodwill, net	264	264
Other intangible assets, net	158	163
	<u>\$ 1,920</u>	<u>\$ 1,886</u>
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 402	\$ 355
Accrued expenses and other current liabilities	95	102
Operating lease liabilities	25	34
Current portion of debt obligations	292	292
Total current liabilities	814	783
Long-term liabilities:		
Long-term debt	3	9
Operating lease liabilities	186	186
Deferred income taxes	47	45
Other liabilities	20	20
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, 109,287,979 and 108,531,564 issued, respectively	1	1
Additional paid-in capital	1,767	1,768
Retained deficit	(665)	(678)
Less: Treasury stock at cost: 24,216,330 shares	(375)	(375)
Accumulated other comprehensive loss	(233)	(228)
	<u>495</u>	<u>488</u>
	<u>\$ 1,920</u>	<u>\$ 1,886</u>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
MRC GLOBAL INC.
(in millions, except per share amounts)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Sales	\$ 806	\$ 885
Cost of sales	643	706
Gross profit	163	179
Selling, general and administrative expenses	125	122
Operating income	38	57
Other expense:		
Interest expense	(8)	(7)
Other, net	(3)	(3)
Income before income taxes	27	47
Income tax expense	8	13
Net income	19	34
Series A preferred stock dividends	6	6
Net income attributable to common stockholders	\$ 13	\$ 28
Basic earnings per common share	\$ 0.15	\$ 0.33
Diluted earnings per common share	\$ 0.15	\$ 0.33
Weighted-average common shares, basic	84.7	84.0
Weighted-average common shares, diluted	86.1	85.4

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
MRC GLOBAL INC.
(in millions)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net income	\$ 19	\$ 34
Other comprehensive loss		
Foreign currency translation adjustments	(5)	(1)
Total other comprehensive loss, net of tax	(5)	(1)
Comprehensive income	<u>\$ 14</u>	<u>\$ 33</u>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
MRC GLOBAL INC.
(in millions)

	Common Stock		Additional	Retained	Treasury Stock		Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Shares	Amount	Other Comprehensive Loss	Stockholders' Equity
Balance at December 31, 2023	109	\$ 1	\$ 1,768	\$ (678)	(24)	\$ (375)	\$ (228)	\$ 488
Net income	-	-	-	19	-	-	-	19
Foreign currency translation	-	-	-	-	-	-	(5)	(5)
Shares withheld for taxes	-	-	(5)	-	-	-	-	(5)
Equity-based compensation expense	-	-	4	-	-	-	-	4
Dividends declared on preferred stock	-	-	-	(6)	-	-	-	(6)
Balance at March 31, 2024	<u>109</u>	<u>\$ 1</u>	<u>\$ 1,767</u>	<u>\$ (665)</u>	<u>(24)</u>	<u>\$ (375)</u>	<u>\$ (233)</u>	<u>\$ 495</u>

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

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Operating activities		
Net income	\$ 19	\$ 34
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	5	5
Amortization of intangibles	5	5
Equity-based compensation expense	4	3
Deferred income tax expense	2	5
Other non-cash items	3	4
Changes in operating assets and liabilities:		
Accounts receivable	(51)	(28)
Inventories	8	(96)
Other current assets	1	(1)
Accounts payable	49	54
Accrued expenses and other current liabilities	(7)	(15)
Net cash provided by (used in) operations	<u>38</u>	<u>(30)</u>
Investing activities		
Purchases of property, plant and equipment	(6)	(3)
Other investing activities	1	-
Net cash used in investing activities	<u>(5)</u>	<u>(3)</u>
Financing activities		
Payments on revolving credit facilities	(14)	(211)
Proceeds from revolving credit facilities	9	262
Payments on debt obligations	(1)	(1)
Dividends paid on preferred stock	(6)	(6)
Repurchases of shares to satisfy tax withholdings	(5)	(4)
Net cash (used in) provided by financing activities	<u>(17)</u>	<u>40</u>
Increase in cash	16	7
Effect of foreign exchange rate on cash	(1)	-
Cash -- beginning of period	131	32
Cash -- end of period	<u>\$ 146</u>	<u>\$ 39</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 7	\$ 7
Cash paid for income taxes	\$ 13	\$ 13

See notes to condensed consolidated financial statements.

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

NOTE 1 – BACKGROUND AND BASIS OF PRESENTATION

Business Operations: MRC Global Inc. is a holding company headquartered in Houston, Texas. Our wholly owned subsidiaries are global distributors of pipe, valves, fittings ("PVF") and infrastructure products and services across each of the following sectors:

- **Gas Utilities:** gas utilities (storage and distribution of natural gas)
- **DIET:** downstream, industrial and energy transition (crude oil refining, petrochemical and chemical processing, general industrials and energy transition projects)
- **PTI:** production and transmission infrastructure (exploration, production and extraction, gathering, processing and transmission of oil and gas)

We have service centers in industrial, chemical, gas distribution and hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia and the Middle East. We obtain products from a broad range of suppliers.

Basis of Presentation: We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles ("GAAP") require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments that 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, 2024, are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2024. We have derived our condensed consolidated balance sheet as of December 31, 2023, from the audited consolidated financial statements for the year ended December 31, 2023. 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, 2023.

The condensed 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 intercompany balances and transactions have been eliminated in consolidation.

Recently Issued Accounting Standards: In December 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09, Income Taxes (Topic 740) ("ASU 2023-09"), which aims to enhance the transparency and decision usefulness of income tax disclosures through requiring improvements in those disclosures primarily related to the rate reconciliation and income taxes paid information. This update will be effective for annual periods beginning after December 15, 2024. We are currently evaluating the impacts of the provisions of ASU 2023-09 on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280) ("ASU 2023-07"), which improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses regularly provided to the chief operating decision maker ("CODM"). This update will be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. We are currently evaluating the impacts of the provisions of ASU 2023-07 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 generally recognize 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 condensed consolidated statements of operations. 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. While a small proportion of our sales, we occasionally recognize revenue under a bill and hold arrangement. Recognition of revenue on bill and hold arrangements occurs when control transfers to the customer provided that the reason for the bill and hold arrangement is substantive, the product is separately identified as belonging to the customer, ready for physical transfer and unavailable to be used or directed to another customer. 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.

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 condensed consolidated balance sheets.

Generally, revenue recognition and invoicing occur simultaneously as we transfer control of promised goods or services to our customers. We consider contract assets to be accounts receivable when we have an unconditional right to consideration and only the passage of time is required before payment is due. In certain cases, particularly those involving customer-specific documentation requirements, invoicing is delayed until we are able to meet the documentation requirements. In these cases, we recognize a contract asset separate from accounts receivable until those requirements are met, and we are able to invoice the customer. Our contract asset balance associated with these requirements as of March 31, 2024, and December 31, 2023, was \$10 million and \$9 million, respectively. These contract asset balances are included within accounts receivable in the accompanying condensed consolidated balance sheets.

We record contract liabilities, or deferred revenue, when cash payments are received from customers in advance of our performance, including amounts which are refundable. The deferred revenue balance at March 31, 2024 and December 31, 2023 was \$12 million and \$7 million, respectively. During the three months ended March 31, 2024, we recognized \$3 million of the revenue that was deferred as of December 31, 2023. During the three months ended March 31, 2023, we recognized \$2 million of the revenue that was deferred as of December 31, 2022. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheets.

Disaggregated Revenue: Our disaggregated revenue represents our business of selling PVF to energy and industrial end users across each of the Gas Utilities, DIET, and PTI sectors in each of our reportable segments. Each of our end markets and geographical reportable segments are impacted and influenced by varying factors, including macroeconomic environment, commodity prices, maintenance and capital spending and exploration and production activity. As such, we believe that this information is important in depicting the nature, amount, timing and uncertainty of our revenue from 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
2024:				
Gas Utilities	\$ 265	\$ 1	\$ —	\$ 266
DIET	202	9	65	276
PTI	200	19	45	264
	<u>\$ 667</u>	<u>\$ 29</u>	<u>\$ 110</u>	<u>\$ 806</u>
2023:				
Gas Utilities	\$ 306	\$ 1	\$ —	\$ 307
DIET	210	5	63	278
PTI	224	36	40	300
	<u>\$ 740</u>	<u>\$ 42</u>	<u>\$ 103</u>	<u>\$ 885</u>

NOTE 3 – INVENTORIES

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

	March 31, 2024	December 31, 2023
Finished goods inventory at average cost:		
Valves, automation, measurement and instrumentation	\$ 258	\$ 274
Carbon steel pipe, fittings and flanges	182	193
Gas products	273	266
All other products	131	126
	844	859
Less: Excess of average cost over LIFO cost (LIFO reserve)	(283)	(282)
Less: Other inventory reserves	(15)	(17)
	\$ 546	\$ 560

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 \$11 million for the three months ended March 31, 2024, and \$10 million for the three months ended March 31, 2023, which we have classified in selling, general and administrative expenses. Cash paid for leases recognized as liabilities was \$11 million for the three months ended March 31, 2024, and \$10 million for the three months ended March 31, 2023.

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

Maturity of Operating Lease Liabilities

Remainder of 2024	\$ 35
2025	41
2026	35
2027	30
2028	26
After 2028	136
Total lease payments	303
Less: Interest	(92)
Present value of lease liabilities	\$ 211

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

	March 31, 2024
Operating Lease Term and Discount Rate	
Weighted-average remaining lease term (years)	11
Weighted-average discount rate	6.6%

Amounts maturing after 2028 include expected renewals for leases of regional distribution centers and certain corporate offices through dates up to 2048. Excluding these optional renewals, our weighted-average remaining lease term is 6 years.

NOTE 5 – DEBT

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

	March 31, 2024	December 31, 2023
Senior Secured Term Loan B, net of discount and issuance costs of \$ 1	\$ 292	\$ 292
Global ABL Facility	3	9
	<u>295</u>	<u>301</u>
Less: current portion	292	292
	<u>\$ 3</u>	<u>\$ 9</u>

Senior Secured Term Loan B: The Company has 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. In accordance with ASC 470, the Term Loan is classified as a current liability as of March 31, 2024, as the Company anticipates repaying its Term Loan on or before its maturity in September 2024 using a combination of excess cash and the Global ABL Facility. 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. Beginning July 1, 2023, the LIBOR interest rate is now calculated as the aggregate Chicago Mercantile Exchange ("CME") Term SOFR plus the International Swaps and Derivatives Association (ISDA) credit adjustment spread. "Term SOFR" is the forward-looking, per annum secured overnight financing rate administered by CME Group Benchmark Administration Limited and published on the applicable Thompson Reuters Corporation website page for each of 1-month, 3-month, and 6-month maturities. 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. The Company is required to repay the Term Loan with the proceeds from certain asset sales and certain insurance proceeds. In addition, on an annual basis, the Company is required to repay an amount equal to 50% of excess cash flow, as defined in the Term Loan, reducing to 25% if the first lien leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if the first lien leverage ratio is less than or equal 2.50 to 1.00. The amount of cash used in the determination of the senior secured leverage ratio is limited to \$ 75 million.

Global ABL Facility: The Company is a party to a multi-currency, global asset-based lending facility (the "Global ABL Facility"), including certain of its subsidiaries, its lenders and Bank of America, N.A. as administrative agent, security trustee and collateral agent. The Global ABL Facility is a revolving credit facility of \$750 million, which matures in September 2026. The Global ABL Facility is comprised of \$ 705 million in revolver commitments in the United States, which includes a \$30 million sub-limit for Canada, \$12 million in Norway, \$10 million in Australia, \$10.5 million in the Netherlands, \$7.5 million in the United Kingdom and \$5 million in Belgium. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$250 million, subject to securing additional lender commitments. MRC Global Inc. and each of its current and future wholly owned material U.S. subsidiaries guarantee the obligations of our borrower subsidiaries under the Global ABL Facility. Additionally, each of our non-U.S. borrower subsidiaries guarantees the obligations of our other non-U.S. borrower subsidiaries under the Global ABL Facility. Outstanding obligations are generally secured by a first priority security interest in accounts receivable, inventory and related assets. U.S. borrowings under the amended facility bear interest at Term SOFR (as defined in the Global ABL Facility, which varies from the Term SOFR rate used to calculate LIBOR under the Term Loan) 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 \$645 million as of March 31, 2024.

Interest on Borrowings: The interest rates on our outstanding borrowings at March 31, 2024 and December 31, 2023, include a floating to fixed interest rate swap and amortization of debt issuance costs, were as follows:

	March 31, 2024	December 31, 2023
Senior Secured Term Loan B	8.60%	9.08%
Global ABL Facility	6.11%	5.82%
Weighted average interest rate	8.57%	8.98%

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.

MRC Global Inc. may not enter into any new, or amend, or modify any existing agreement or arrangement that by its terms restricts, limits, prohibits or prevents the Company from paying dividends on the Preferred Stock, redeeming or repurchasing the Preferred Stock or effecting the conversion of the Preferred Stock. Any such agreement, amendment or modification would require the consent of the holder of the Preferred Stock.

NOTE 7 – STOCKHOLDERS' EQUITY

Equity Compensation Plans

The Company's Omnibus Incentive Plan permits the issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based and cash-based awards. Since the adoption of the Plan, the Company's board of directors has periodically granted stock options, restricted stock awards, restricted stock units and performance share units to directors and employees, but no other types of awards have been granted under the plan. Options and stock appreciation rights may not be granted at prices less than the fair market value of our common stock on the date of the grant, nor for a term exceeding ten years. For employees, vesting generally occurs over a three-year period on the anniversaries of the date specified in the employees' respective agreements, subject to accelerated vesting under certain circumstances set forth in the agreements, and in any event, no less than one year. Vesting for directors generally occurs on the one-year anniversary of the grant date. A Black-Scholes option-pricing model is used to estimate the fair value of the stock options. A Monte Carlo simulation is completed to estimate the fair value of performance share unit awards with a stock price performance component. We expense the fair value of all equity grants, including performance share unit awards, on a straight-line basis over the vesting period. In 2024, 457,138 performance share unit awards, 12,414 restricted stock awards, 959,287 shares of restricted stock units have been granted to executive management, members of our Board of Directors and employees.

Accumulated Other Comprehensive Loss

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

	March 31, 2024	December 31, 2023
Currency translation adjustments	\$ (232)	\$ (227)
Other adjustments	(1)	(1)
Accumulated other comprehensive loss	<u>\$ (233)</u>	<u>\$ (228)</u>

Earnings per Share

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net income	\$ 19	\$ 34
Less: Dividends on Series A Preferred Stock	6	6
Net income attributable to common stockholders	<u>\$ 13</u>	<u>\$ 28</u>
Weighted average basic shares outstanding	84.7	84.0
Effect of dilutive securities	1.4	1.4
Weighted average diluted shares outstanding	<u>86.1</u>	<u>85.4</u>
Net income per share:		
Basic	\$ 0.15	\$ 0.33
Diluted	\$ 0.15	\$ 0.33

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, 2024, all of the shares of the Preferred Stock were anti-dilutive. For the three months ended March 31, 2023, all of the shares of the Preferred Stock were anti-dilutive. For the three months ended March 31, 2024, we had approximately 0.9 million dilutive stock options, restricted stock units, and performance units. For the three months ended March 31, 2023, we had approximately 1.3 million 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, DIET, and PTI sectors.

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Sales		
U.S.	\$ 667	\$ 740
Canada	29	42
International	110	103
Consolidated sales	<u>\$ 806</u>	<u>\$ 885</u>
Operating income (loss)		
U.S.	\$ 34	\$ 53
Canada	(2)	(2)
International	6	6
Total operating income	38	57
Interest expense	(8)	(7)
Other, net	(3)	(3)
Income before income taxes	<u>\$ 27</u>	<u>\$ 47</u>
	March 31, 2024	December 31, 2023
Total assets		
U.S.	\$ 1,550	\$ 1,499
Canada	87	87
International	283	300
Total assets	<u>\$ 1,920</u>	<u>\$ 1,886</u>

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

Type	Three Months Ended	
	March 31, 2024	March 31, 2023
Line Pipe	\$ 117	\$ 141
Carbon Fittings and Flanges	100	117
Total Carbon Pipe, Fittings and Flanges	217	258
Valves, Automation, Measurement and Instrumentation	291	315
Gas Products	187	207
Stainless Steel and Alloy Pipe and Fittings	41	32
General Products	70	73
	<u>\$ 806</u>	<u>\$ 885</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 received payments at 1-month LIBOR and made 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 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 was recorded as an asset or liability, and the gain or loss on the derivative was 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 was 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.

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

Foreign Exchange Forward Contracts:

Foreign exchange forward contracts are reported at fair value utilizing Level 2 inputs, as the fair value is based on broker quotes for the same or similar derivative instruments. Our foreign exchange derivative instruments are freestanding, and we have not designated them as hedges; accordingly, we have recorded changes in their fair market value in earnings. There were no outstanding forward foreign exchange contracts as of March 31, 2024 and December 31, 2023.

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 \$295 million and \$301 million at March 31, 2024 and December 31, 2023, 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 \$295 million and \$302 million at March 31, 2024 and December 31, 2023, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation

Asbestos Claims. We are one of many defendants in lawsuits that plaintiffs have brought seeking damages for personal injuries that exposure to asbestos allegedly caused. Plaintiffs and their family members have brought these lawsuits against a large volume of defendant entities as a result of the defendants' manufacture, distribution, supply or other involvement with asbestos, asbestos containing-products or equipment or activities that allegedly caused plaintiffs to be exposed to asbestos. These plaintiffs typically assert exposure to asbestos as a consequence of third-party manufactured products that our MRC Global (US) Inc. subsidiary purportedly distributed. As of March 31, 2024, we are named a defendant in approximately 503 lawsuits involving approximately 1,068 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 condensed 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 condensed consolidated financial statements is remote.

Unclaimed Property Audit. The Company is subject to state laws relating to abandoned and unclaimed property. States routinely audit the records of companies to assess compliance with such laws. The Company is currently undergoing a multi-state unclaimed property audit. The timing and outcome of the multi-state unclaimed property audit cannot be predicted. We have reserved all of our rights, claims, and defenses. Given the nature of these matters, we are unable to reasonably estimate the total possible loss or ranges of loss, if any. If the Company is found to be in noncompliance with applicable unclaimed property laws or the manner in which those laws are interpreted or applied, states may determine that they are entitled to the Company's remittance of unclaimed or abandoned property and further may seek to impose other costs on the Company, including penalties and interest. We intend to vigorously contest the above matter; however, an adverse decision in this matter could have an adverse impact on us, our financial condition, results of operations and cash flows.

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 condensed consolidated financial statements is remote.

In Re: July 27 Chemical Release Litigation. In 2019, the Company's customer, Lyondell Chemical, a subsidiary of LyondellBassell Industries Holdings B.V. (collectively with its subsidiaries, "Lyondell"), entered into an order with the Company's subsidiary, MRC Global (US) Inc., for MRC Global (US) to facilitate a refurbishment of a Lyondell-owned valve by the valve manufacturer, Xomax Corporation, a subsidiary of Crane Co. (collectively with its subsidiaries, "Crane"), and thereafter for MRC Global (US) to affix a new bracket and actuator to the refurbished Crane Valve. When Crane completed the refurbishment, it shipped the valve to MRC Global (US), which, in turn, procured a bracket from a third-party fabricator and installed the bracket and an actuator on the valve and redelivered the valve back to Lyondell. Almost two years later, in 2021, Lyondell contracted with Turn2 Specialty Companies, LLC ("Turn2") to remove the actuator as part of a maintenance and repair job that was being performed on a Lyondell pipe. While performing the actuator removal job, representatives of Turn2 removed more than the necessary bolts required to remove the actuator, which caused a release from a "live", pressurized line of chemicals. Two fatalities occurred from the release along with injuries to others at or near the site. 57 plaintiffs, including the estates of the two fatalities, sued Lyondell, Turn2 and others in Texas State Court pursuant to multiple lawsuits. These cases were consolidated into a multi-district litigation assigned to the 190th Judicial Court of Harris County, Texas. Lyondell and Turn2 have either settled with the plaintiffs or were dismissed based on payments that they made to plaintiffs for workers' compensation, thus, availing themselves of the workers' compensation bar.

On July 24, 2023, just days prior to the expiration of the statute of limitations, the plaintiffs added MRC Global (US), Crane and others to their lawsuits.

Plaintiffs claim that MRC Global (US) failed to warn Turn2 of the dangers of removing the wrong bolts and failed to properly instruct Lyondell and Turn2 on how to remove the actuator. The plaintiffs also allege that MRC Global (US) is responsible as an assembler or seller of the final valve package distributed to Lyondell. MRC Global (US) disagrees that it has any liability and expects to vigorously defend these claims. Plaintiffs have asserted various claims for damages, including for bodily injury, past and future medical expenses, lost wages, mental anguish, pain and suffering and punitive damages. Plaintiffs' have indicated that they will be seeking damages from all defendants that would be in excess of the Company's insurance for these suits. Thus, adverse outcomes in these suits could have a material effect on us, our financial condition, results of operations and cash flows. The first of these suits involving nine plaintiffs (the "bellwether" trial) is set for September 9, 2024, a trial for eight plaintiffs is set for January 25, 2025, and the trial for the alleged wrongful death of the two deceased Turn2 representatives is set for May 25, 2025. Any additional trials may follow after the resolution of these initial cases. At this time, we are unable to predict the outcome of these proceedings.

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 condensed consolidated financial statements.

Purchase Commitments

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

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

[Table of Contents](#)

- 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 potential share price volatility and costs incurred in response to any shareholder activism campaigns;
- 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:** gas utilities (storage and distribution of natural gas)
- **DIET:** downstream, industrial and energy transition (crude oil refining, petrochemical and chemical processing, general industrials and energy transition projects)
- **PTI:** production and transmission infrastructure (exploration, production and extraction, gathering, processing and transmission of oil and gas)

We offer over 300,000 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 8,500 suppliers. With over 100 years of experience, our over 2,800 employees serve approximately 10,000 customers through 214 service locations including regional distribution centers, service centers, corporate offices and third-party pipe yards, where we often store and deploy pipe near customer locations.

Key Drivers of Our Business

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

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

Recent Trends and Outlook

During the three months ended March 31, 2024, revenue increased 5% sequentially from the three months ended December 31, 2023, and decreased 9% from the three months ended March 31, 2023. We continue to support our customers in the Gas Utilities sector and traditional energy markets along with other industrial end markets and the rapidly evolving energy transition. For the quarter ended March 31, 2024, 67% of our revenue was derived from our Gas Utilities and DIET sectors, with the remainder in the PTI sector.

Gas Utilities

Our Gas Utility business makes up 33% of our total company revenue for the first three months of 2024, with a 13% decrease in revenue compared to the three months ended March 31, 2023. Although the long-term growth fundamentals of this sector remain intact, several key gas utilities customers are currently focused on reducing their own product inventory levels due to more certainty in the supply chain and associated lead times. Higher interest rates and inflation in construction costs are causing customers to delay project activity. Although we have experienced lower sales activity in this sector compared to prior year and believe this trend will continue into at least the second half of 2024, the long-term market drivers remain positive due to distribution integrity upgrade programs as well as new home construction in certain U.S. states. The majority of the work we perform with our gas utility customers are multi-year programs where they continually evaluate, monitor and implement measures to improve their pipeline distribution networks, ensuring the safety and the integrity of their system. As of 2022, which is the most recently available information, the Pipeline and Hazardous Materials Safety Administration (PHMSA) estimates approximately 35% of the gas distribution main and service line miles are over 40 years old or of unknown origin. This infrastructure requires continuous replacement and maintenance as these gas distribution networks continue to age. We supply many of the replacement products including valves, line pipe, smart meters, risers and other gas products. A large percentage of the line pipe we sell is sold to our gas utilities customers for line replacement and new sections of their distribution network. 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. Some of our customers in this sector support both gas and electric distribution, and certain customers have announced allocating a higher proportion of their capital budget to electric distribution. However, based on market fundamentals and new market share opportunities, we expect the Gas Utilities sector to continue to have steady growth in the coming years. Additionally, due to its reduced dependency on energy demand and commodity prices this sector is less volatile than the others.

Downstream, Industrial and Energy Transition (DIET)

DIET generated 34% of our total company revenue and declined 1% from the first three months of 2023. We continue to expect this sector to deliver strong growth in the coming years 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. This sector has a significant amount of project activity, which can create substantial variability between quarters.

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

Production and Transmission Infrastructure (PTI)

The PTI sector of our business is the most cyclical, and in the first three months of 2024 this sector represented 33% of our company revenues with a 12% decrease from the three months ended March 31, 2023. During the first three months of 2024, Brent crude oil price averaged approximately \$83 per barrel and West Texas Intermediate ("WTI") oil prices averaged approximately \$78 per barrel. Although, oil prices have recently declined from earlier highs in 2022, recent OPEC+ production cuts have maintained prices at levels that support continued growth in drilling and completion activity by our customers. Natural gas prices also drive customer activity, and have experienced recent volatility and declines, which if this remains substantially low, could negatively impact our business.

Recent industry reports have signaled potential risk in oil prices and projected customer spending levels in 2024. However, larger public exploration and production companies are expected to drive a higher percentage of the activity in 2024, which bodes well for us as our revenue for these sectors is driven predominantly from this customer base. We also expect our larger public customers will remain disciplined and consistent with their commitments to their budgets, maintaining returns to their shareholders and operating within their cash flow requirements. Additionally, we believe the recent announcements by several of our large customers related to acquisitions of smaller peers could benefit us in the coming years due to our current relationships with the acquiring companies.

To the extent completion activity and related production increase, this could have the impact of improving our revenue opportunities in our PTI sector. New well completions and higher production levels drive the need for additional surface equipment and gathering and processing infrastructure, benefitting this sector's revenue.

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 sanctions on Russia initially 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 certain 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 PTI and DIET sectors are well positioned to benefit from this growth.

Israel-Hamas War

On October 7, 2023, Hamas-led Palestinian militant groups launched a surprise attack on Israel. Although the Middle East holds much of the global petroleum resources, Gaza produces no oil and Israel only produces an insignificant amount, so there is no expected impact to regional production or exports from the Gulf. Despite the war, energy markets have not seen a significant impact. Robust oil production in the U.S. has also reassured markets that the economic and market implications of this war are currently mild, but if we see escalation within the region, it could have a meaningful impact to our business.

Supply Chain and Labor

For the majority of our products, lead times have returned to pre-pandemic levels. Transportation costs are also generally in line with pre-pandemic rates, but disruptions around the Suez Canal and the Red Sea are placing increased pressure on costs.

Inflation for the majority of our products have eased and we do not expect to see significant increases in 2024. To the extent further pricing fluctuations impact our products, the effect 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. In addition, our contracts with customers generally allow us to pass price increases along to customers within a reasonable time after they occur.

Many customers are focused on reducing their own product inventory levels due to more certainty in the supply chain and associated lead times. We have also been able to reduce our inventory levels due to this normalization in supply chain.

There has been little impact to our supply chain directly from the conflict in Ukraine. However, recent geopolitical conflicts or potential conflicts in Southeast Asia and the Middle East could have the potential to further constrain the global supply chain and impact the availability of component parts, particularly valves, regulators, and other various other components.

Although improving, 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, have experienced little to no disruption supporting our customers.

Backlog

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

	March 31, 2024	December 31, 2023	March 31, 2023
U.S.	\$ 412	\$ 418	\$ 537
Canada	39	31	37
International	253	245	184
	<u>\$ 704</u>	<u>\$ 694</u>	<u>\$ 758</u>

There can be no assurance that the backlog amounts will ultimately be realized as revenue or that we will earn a profit on the backlog of orders, but we expect that substantially all of the sales in our backlog will be realized within twelve months.

Key Industry Indicators

The following table shows key industry indicators for the three months ended March 31, 2024 and 2023:

	Three Months Ended	
	March 31, 2024	March 31, 2023
<i>Average Rig Count (1):</i>		
United States	623	760
Canada	208	221
Total North America	831	981
International	965	915
Total	<u>1,796</u>	<u>1,896</u>
<i>Average Commodity Prices (2):</i>		
WTI crude oil (per barrel)	\$ 77.50	\$ 75.93
Brent crude oil (per barrel)	\$ 82.92	\$ 81.07
Henry Hub natural gas (\$/MMBtu)	\$ 2.15	\$ 2.64
<i>Average Monthly U.S. Well Permits (3)</i>	2,820	3,362
<i>U.S. Wells Completed (2)</i>	2,597	3,004
<i>3:2:1 Crack Spread (4)</i>	\$ 23.79	\$ 35.52

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

(2) Source-Department of Energy, EIA (www.eia.gov) (As revised)

(3) Source-Evercore ISI Research

(4) Source-Bloomberg

Results of Operations

Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023

The breakdown of our sales by sector for the three months ended March 31, 2024 and 2023 was as follows (in millions):

	Three Months Ended			
	March 31, 2024		March 31, 2023	
Gas Utilities	\$	266	33%	\$ 307 35%
DIET		276	34%	278 31%
PTI		264	33%	300 34%
	\$	806	100%	\$ 885 100%

For the three months ended March 31, 2024 and 2023, the following table summarizes our results of operations (in millions):

	Three Months Ended		\$ Change	% Change
	March 31, 2024	March 31, 2023		
Sales:				
U.S.	\$ 667	\$ 740	\$ (73)	(10)%
Canada	29	42	(13)	(31)%
International	110	103	7	7%
Consolidated	\$ 806	\$ 885	\$ (79)	(9)%
Operating income (loss):				
U.S.	\$ 34	\$ 53	\$ (19)	(36)%
Canada	(2)	(2)	-	0%
International	6	6	-	0%
Consolidated	38	57	(19)	(33)%
Interest expense	(8)	(7)	(1)	14%
Other, net	(3)	(3)	-	0%
Income tax expense	(8)	(13)	5	(38)%
Net income	19	34	(15)	(44)%
Series A preferred stock dividends	6	6	-	0%
Net income attributable to common stockholders	\$ 13	\$ 28	\$ (15)	(54)%
Gross profit	\$ 163	\$ 179	\$ (16)	(9)%
Adjusted Gross Profit (1)	\$ 174	\$ 188	\$ (14)	(7)%
Adjusted EBITDA (1)	\$ 57	\$ 69	\$ (12)	(17)%

(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.

[Table of Contents](#)

Sales. Our sales were \$806 million for the three months ended March 31, 2024, as compared to \$885 million for the three months ended March 31, 2023, a decrease of \$79 million, or 9%.

U.S. Segment—Our U.S. sales decreased to \$667 million for the three months ended March 31, 2024, from \$740 million for the three months ended March 31, 2023. This \$73 million, or 10%, decrease reflected a decline in the Gas Utilities sector of \$41 million driven by non-recurring projects and capital expenditures returning to more normalized levels as customers reduce their own product inventory levels. PTI sales decreased \$24 million due to decreased customer facility infrastructure activity. DIET sales decreased \$8 million due to non-recurring project activity.

Canada Segment—Our Canada sales decreased to \$29 million for the three months ended March 31, 2024, from \$42 million for the three months ended March 31, 2023 primarily as a result of a decrease of \$17 million in the PTI sector due to reduced customer activity, partially offset by an increase in the DIET sector.

International Segment—Our International sales increased to \$110 million for the three months ended March 31, 2024, from \$103 million for the same period in 2023. Sales increased \$7 million and was primarily driven by the PTI sector followed by the DIET sector.

Gross Profit. Our gross profit was \$163 million (20.2% of sales) for the three months ended March 31, 2024, as compared to \$179 million (20.2% of sales) for the three months ended March 31, 2023, a decrease of \$16 million due to the decrease in sales. As compared to average cost, our LIFO inventory costing methodology increased cost of sales by \$1 million for the first quarter of 2024 compared to a \$1 million decrease in cost of sales in the three months ended March 31, 2023.

Adjusted Gross Profit. Adjusted Gross Profit decreased to \$174 million (21.6% of sales) for the three months ended March 31, 2024, from \$188 million (21.2% of sales) for the three months ended March 31, 2023, a decrease of \$14 million due to the decrease in sales. Adjusted Gross Profit is a non-GAAP financial measure. We define Adjusted Gross Profit as sales, less cost of sales, plus depreciation and amortization, plus amortization of intangibles, plus inventory-related charges incremental to normal operations and plus or minus the impact of our LIFO inventory costing methodology. We present Adjusted Gross Profit because we believe it is a useful indicator of our operating performance without regard to items, such as amortization of intangibles that can vary substantially from company to company depending upon the nature and extent of acquisitions. Similarly, the impact of the LIFO inventory costing method can cause results to vary substantially from company to company depending upon whether they elect to utilize LIFO and depending upon which method they may elect. We use Adjusted Gross Profit as a key performance indicator in managing our business. We believe that gross profit is the financial measure calculated and presented in accordance with U.S. generally accepted accounting principles that is most directly comparable to Adjusted Gross Profit.

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

	Three Months Ended			
	March 31, 2024	Percentage of Revenue*	March 31, 2023	Percentage of Revenue*
Gross profit, as reported	\$ 163	20.2%	\$ 179	20.2%
Depreciation and amortization	5	0.6%	5	0.6%
Amortization of intangibles	5	0.6%	5	0.6%
Increase (decrease) in LIFO reserve	1	0.1%	(1)	(0.1)%
Adjusted Gross Profit	\$ 174	21.6%	\$ 188	21.2%

*Does not foot due to rounding

Selling, General and Administrative ("SG&A") Expenses. Our SG&A expenses were \$125 million (15.5% of sales) for the three months ended March 31, 2024, as compared to \$122 million (13.8% of sales) for the three months ended March 31, 2023. The \$3 million increase in SG&A was driven by legal and consulting costs associated with shareholder activism.

Operating Income. Operating income was \$38 million for the three months ended March 31, 2024, as compared to operating income of \$57 million for the three months ended March 31, 2023, a decrease of \$19 million.

U.S. Segment—Operating income for our U.S. segment was \$34 million for the three months ended March 31, 2024, compared to operating income of \$53 million for the three months ended March 31, 2023, a \$19 million decrease. The \$19 million decrease was primarily attributable to decreased sales.

Canada Segment—Operating loss for our Canada segment was \$2 million for the three months ended March 31, 2024, as compared to an operating loss of \$2 million for the three months ended March 31, 2023.

International Segment—Operating income for our International segment was \$6 million for the three months ended March 31, 2024, as compared to operating income of \$6 million for the three months ended March 31, 2023.

Interest Expense. Our interest expense was \$8 million and \$7 million for the three months ended March 31, 2024 and 2023, respectively. The increase of \$1 million was primarily due to higher benchmark interest rates.

Other, net. Other, net was \$3 million expense for the three months ended March 31, 2024 compared to \$3 million expense for the three months ended March 31, 2023 consisting primarily of foreign exchange losses.

Income Tax Expense. Our income tax expense was \$8 million for the three months ended March 31, 2024, as compared to \$13 million expense for the three months ended March 31, 2023, primarily due to decreased profitability. Our effective tax rates were 30% and 28% for the three months ended March 31, 2024 and 2023, respectively. Our rates 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. In addition, the effective tax rate for the three months ended March 31, 2024 was higher than the U.S. federal statutory rate due to foreign losses with no tax benefit.

Pillar Two. The Organization for Economic Co-operation and Development has enacted model rules for a new global minimum tax framework, also known as Pillar Two, and continues to release additional guidance on how Pillar Two rules should be interpreted and applied by jurisdictions as they adopt Pillar Two. A number of countries have utilized the administrative guidance as a starting point for legislation that went into effect January 1, 2024. These rules did not have a material impact on our taxes for the three months ended March 31, 2024.

Net Income. Our net income was \$19 million for the three months ended March 31, 2024, as compared to net income of \$34 million for the three months ended March 31, 2023.

Adjusted EBITDA. Adjusted EBITDA, a non-GAAP financial measure, was \$57 million (7.1% of sales) for the three months ended March 31, 2024, as compared to \$69 million (7.8% of sales) for the three months ended March 31, 2023.

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

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

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net income	\$ 19	\$ 34
Income tax expense	8	13
Interest expense	8	7
Depreciation and amortization	5	5
Amortization of intangibles	5	5
Increase (decrease) in LIFO reserve	1	(1)
Equity-based compensation expense	4	3
Activism response legal and consulting costs	3	-
Write off of debt issuance costs	1	-
Asset disposal	1	-
Foreign currency losses	2	3
Adjusted EBITDA	<u>\$ 57</u>	<u>\$ 69</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 March 31, 2024, the outstanding balance on our Term Loan, net of original issue discount and issuance costs, was \$292 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 our senior secured leverage ratio is no more than 2.75 to 1.00. No payment of excess cash flow is required if our 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 2023, we are not required to make an excess cash flow payment for 2023 in 2024. 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. Beginning July 1, 2023, the LIBOR interest rate is now calculated as the aggregate Chicago Mercantile Exchange ("CME") Term SOFR plus the International Swaps and Derivatives Association (ISDA) credit adjustment spread.

Our Global ABL Facility matures in September 2026 and provides \$705 million in revolver commitments in the United States (with a \$30 million sublimit in Canada), \$12 million in Norway, \$10 million in Australia, \$10.5 million in the Netherlands, \$7.5 million in the United Kingdom and \$5 million in Belgium. The Global ABL Facility contains an accordion feature that allows us to increase the principal amount of the facility by up to \$250 million, subject to securing additional lender commitments. On December 6, 2022, the Company amended the Global ABL Facility to replace LIBOR with a new prevailing benchmark interest rate known as Term SOFR for all U.S. dollar borrowings. U.S. borrowings now bear interest at Term SOFR plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Canadian borrowings under the facility bear interest at the Canadian Dollar Bankers' Acceptances Rate ("BA Rate") plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Borrowings under our foreign borrower subsidiaries bear interest at a benchmark rate, which varies based on the currency in which such borrowings are made, plus a margin varying between 1.25% and 1.75% based on our fixed charge coverage ratio. Availability is dependent on a borrowing base comprised of a percentage of eligible accounts receivable and inventory which is subject to redetermination from time to time. As of March 31, 2024, we had \$3 million borrowings outstanding and \$645 million of Excess Availability, as defined under our Global ABL Facility.

In April 2023, we began the process to refinance the Term Loan long before its maturity to take advantage of relatively favorable market conditions at that time. The holder of the Preferred Stock filed a lawsuit with the Delaware Court of Chancery to obtain a temporary restraining order to prevent this refinancing. The holder claimed that the holder has a right to consent to the terms of the refinancing transaction. Pursuant to an amendment that the holder filed on its Schedule 13D, the holder suggested that "a resolution [with the Company] could...involve the [Company] repurchasing the preferred stock." Although we were prepared to defend the lawsuit, the lawsuit complicated the execution of the refinancing on favorable terms. Therefore, we postponed the refinancing efforts before their conclusion, and the lawsuit dismissed without prejudice. The holder of the Preferred Stock is controlled by Henry Cornell, one of the Company's directors that the holder of the Preferred Stock has designated as a director pursuant to the terms of the Preferred Stock transaction.

Due to our strengthening balance sheet and cash position, we intend to repay our Term Loan in its entirety during the second quarter using a combination of our asset-based lending facility and cash, before its maturity in September 2024.

Our primary sources of liquidity consist of cash generated from our operating activities, existing cash balances and borrowings under our Global ABL Facility. Our ability to generate sufficient cash flows from our operating activities will continue to be primarily dependent on our sales of products and services to our customers at margins sufficient to cover our fixed and variable expenses. At March 31, 2024, our total liquidity, consisting of cash on hand and amounts available under our Global ABL Facility, was \$791 million. As of March 31, 2024 and December 31, 2023, we had cash of \$146 million and \$131 million, respectively, a significant portion of which was maintained in the accounts of our various foreign subsidiaries and, if transferred among countries or repatriated to the U.S., may be subject to additional tax liabilities, which would be recognized in our financial statements in the period during which the transfer decision was made.

Our credit ratings are below "investment grade" and, as such, could impact both our ability to raise new funds as well as the interest rates on our future borrowings. In the first quarter of 2023, our Moody's Investor Services corporate family rating was B2 with a stable outlook. On September 21, 2023, Standard & Poor's (S&P) Global Ratings downgraded our issuer credit rating from B to B-, with a developing outlook. On April 22, 2024, our Moody's Investor Services corporate family rating of B2 was affirmed and our outlook was changed from stable to positive. Our existing obligations restrict our ability to incur additional debt. We were in compliance with the covenants contained in our various credit facilities as of and during the three months ended March 31, 2024, and based on our current forecasts, we expect to remain in compliance.

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

Cash Flows

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

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net cash provided by (used in):		
Operating activities	\$ 38	\$ (30)
Investing activities	(5)	(3)
Financing activities	(17)	40
Net increase in cash and cash equivalents	<u>\$ 16</u>	<u>\$ 7</u>

Operating Activities

Net cash provided by operating activities was \$38 million during the three months ended March 31, 2024, compared to \$30 million used during the three months ended March 31, 2023. The change in operating cash flows was primarily the result of a more efficient use of our working capital as we improved collections on our receivables, reduced inventory purchasing and managed our payables.

Investing Activities

Net cash used in investing activities comprised of capital expenditures totaling \$6 million, primarily related to the replacement of our North American enterprise resource planning system, and \$3 million for the three months ended March 31, 2024 and 2023, respectively.

Financing Activities

Net cash used in financing activities was \$17 million for the three months ended March 31, 2024, compared to \$40 million provided by financing activities for the three months ended March 31, 2023, primarily due to net payments on revolving credit facilities of \$5 million in the first three months of 2024 compared to \$51 million net proceeds from revolving credit facilities in the first three months of 2023. We used \$6 million to pay dividends on preferred stock for the three months ended March 31, 2024 and 2023.

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, 2023.

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, 2023.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures .

As of March 31, 2024, we have reviewed, under the direction of our Chief Executive Officer and Chief Financial Officer, the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting .

There were no changes in our internal control over financial reporting that occurred during the first quarter of 2024 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, 2023 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

ITEM 5.03 AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS.

None.

ITEM 6. EXHIBITS

Number	Description
3.1	<u>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).</u>
3.2	<u>Amended and Restated Bylaws of MRC Global Inc. dated November 3, 2023.</u>
3.3	<u>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).</u>
31.1*	<u>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.</u>
31.2*	<u>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.</u>
32**	<u>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.</u>
101*	The following financial information from MRC Global Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at March 31, 2024 and December 31, 2023, (ii) the Condensed Consolidated Statements of Operations for the three months ended March 31, 2024 and 2023, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2024 and 2023, (iv) the Condensed Statements of Stockholders' Equity for the three months ended March 31, 2024 and 2023, (v) the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023 and (vi) Notes to Condensed Consolidated Financial Statements.
104*	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 formatted in Inline XBRL.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Date: May 9, 2024

MRC GLOBAL INC.

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

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2024 of MRC Global Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ Robert J. Saltiel, Jr.

Name: Robert J. Saltiel, Jr.

Title: President and Chief Executive Officer

CERTIFICATION

I, Kelly Youngblood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2024 of MRC Global Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2024

/s/ Kelly Youngblood

Name: Kelly Youngblood

Title: Executive Vice President and Chief Financial Officer

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

In connection with the filing of the Quarterly Report on Form 10-Q of MRC Global Inc., a Delaware corporation (the "Company"), for the period ended March 31, 2024 (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: May 9, 2024

/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