MRC GLOBAL INC.
Form 10-Q
August 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _______ TO _______

Commission file number: 001-35479

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	20-5956993 (I.R.S. Employer Identification No.)

Fulbright Tower

1301 McKinney Street, Suite 2300

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] 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 [X] Accelerated filer [ ] Non-accelerated filer (do not check if a smaller reporting company) [ ]

Smaller reporting company [ ] Emerging growth company [ ]

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

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

The Company’s common stock is traded on the New York Stock Exchange under the symbol “MRC”. There were 90,315,224 shares of the registrant’s common stock (excluding 87,247 unvested restricted shares), par value $0.01 per share, issued and outstanding as of July 27, 2018.

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except shares)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$ 31	$ 48
Accounts receivable, net	676	522
Inventories, net	872	701
Other current assets	39	47
Total current assets	1,618	1,318
Other assets	21	21
Property, plant and equipment, net	147	147
Intangible assets:		
Goodwill, net	485	486
Other intangible assets, net	345	368
	$ 2,616	$ 2,340
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 527	$ 415
Accrued expenses and other current liabilities	136	143
Current portion of long-term debt	4	4
Total current liabilities	667	562
Long-term obligations:		
Long-term debt, net	704	522
Deferred income taxes	102	106
Other liabilities	38	36
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, 104,923,720 and 103,099,692 issued, respectively	1	1
Additional paid-in capital	1,714	1,691
Retained deficit	(520)	(548)
Less: Treasury stock at cost: 14,622,930 and 11,751,726 shares, respectively	(225)	(175)
Accumulated other comprehensive loss	(220)	(210)
	750	759
	$ 2,616	$ 2,340

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

MRC GLOBAL INC.

(in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Sales	$ 1,082	$ 922	$ 2,092	$ 1,784
Cost of sales	905	773	1,746	1,495
Gross profit	177	149	346	289
Selling, general and administrative expenses	136	132	274	258
Operating income	41	17	72	31
Other expense:				
Interest expense	(10)	(8)	(18)	(15)
Write off of debt issuance costs	(1)	-	(1)	-
Other, net	-	-	2	-
Income before income taxes	30	9	55	16
Income tax expense	8	3	15	4
Net income	22	6	40	12
Series A preferred stock dividends	6	6	12	12
Net income attributable to common stockholders	$ 16	$ -	$ 28	$ -
Basic income per common share	$ 0.18	$ -	$ 0.31	$ -
Diluted income per common share	$ 0.17	$ -	$ 0.30	$ -
Weighted-average common shares, basic	90.1	94.5	90.7	94.6
Weighted-average common shares, diluted	91.6	95.6	92.7	96.0

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$ 22	$ 6	$ 40	$ 12
Other comprehensive (loss) income				
Foreign currency translation adjustments	(9)	8	(10)	14
Hedge accounting adjustments	1	-	-	-
Total other comprehensive (loss) income, net of tax	(8)	8	(10)	14
Comprehensive income	$ 14	$ 14	$ 30	$ 26

See notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

MRC GLOBAL INC.

(in millions)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Operating activities		
Net income	$ 40	$ 12
Adjustments to reconcile net income to net cash used in operations:		
Depreciation and amortization	12	11
Amortization of intangibles	22	22
Equity-based compensation expense	7	9
Deferred income tax benefit	(4)	(7)
Amortization of debt issuance costs	1	2
Write off of debt issuance costs	1	-
Increase in LIFO reserve	22	6
Foreign currency losses (gains)	1	(2)
Other	(1)	4
Changes in operating assets and liabilities:		
Accounts receivable	(157)	(117)
Inventories	(201)	(33)
Other current assets	12	7
Accounts payable	116	68
Accrued expenses and other current liabilities	(10)	(6)
Net cash used in operations	(139)	(24)
Investing activities		
Purchases of property, plant and equipment	(9)	(14)
Net cash used in investing activities	(9)	(14)
Financing activities		
Payments on revolving credit facilities	(475)	(223)
Proceeds from revolving credit facilities	659	223
Payments on long-term obligations	(2)	(4)

Debt issuance costs paid	(1)	-
Purchase of common stock	(50)	(18)
Dividends paid on preferred stock	(12)	(12)
Repurchases of shares to satisfy tax withholdings	(5)	(3)
Proceeds from exercise of stock options	20	-
Net cash provided by (used in) financing activities	134	(37)
Decrease in cash	(14)	(75)
Effect of foreign exchange rate on cash	(3)	3
Cash -- beginning of period	48	109
Cash -- end of period	$ 31	$ 37
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 18	$ 13
Cash paid for income taxes	$ 22	$ 22

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 related products and services across each of the upstream (exploration, production and extraction of underground oil and gas), midstream (gathering and transmission of oil and gas, gas utilities, and the storage and distribution of oil and gas) and downstream (crude oil refining and petrochemical and chemical processing and general industrials) sectors. We have branches in principal industrial, hydrocarbon producing and refining areas throughout the United States, Canada, Europe, Asia, Australasia, the Middle East and Caspian. Our products are obtained from a broad range of suppliers.

Basis of Presentation: We have prepared our unaudited condensed consolidated financial statements in accordance with Rule 10-01 of Regulation S-X for interim financial statements. These statements do not include all information and footnotes that generally accepted accounting principles require for complete annual financial statements. However, the information in these statements reflects all normal recurring adjustments which are, in our opinion, necessary for a fair presentation of the results for the interim periods. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that will be realized for the fiscal year ending December 31, 2018. We have derived our condensed consolidated balance sheet as of December 31, 2017 from the audited consolidated financial statements for the year ended December 31, 2017. You should read these condensed consolidated financial statements in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

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

Recent Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases, which will replace the existing guidance in ASC 870, Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2018. Therefore, we will adopt the standard in the first quarter of 2019. We are in the process of evaluating the effect of the adoption of ASU 2016-02 on our consolidated financial statements. We believe the recognition of right-of-use assets and lease liabilities will result in material increases in assets and liabilities reflected on our consolidated balance sheets. We do not expect the adoption of ASU 2016-02 to have a material impact on our consolidated statements of operations and cash flows.

Adoption of New Accounting Standards: ASU 2014-09, Revenue - Revenue from Contracts with Customers. On January 1, 2018, we adopted ASU 2014-09 and all the related amendments, (collectively, "ASC 606") using the modified retrospective method. Under this method, a cumulative effect of initially applying the new revenue standard requires an adjustment to the opening balance of retained earnings, and the comparative information continues to be reported under the accounting standards in effect for those periods prior to adoption. The cumulative effect of initially applying the new standard was not material to our consolidated financial statements. We do not expect the adoption of this guidance to have a material effect on our results of operations in future periods.

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

NOTE 2 – REVENUE RECOGNITION

Revenue is recognized when control of promised goods or services is transferred to our customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Substantially all of our revenue is recognized when products are shipped or delivered to our customers, and payment is due from our customers at the time of billing with a majority of our customers having 30-day terms. Returns are estimated and recorded as a reduction of revenue. Amounts received in advance of shipment are deferred and recognized when the performance obligations are satisfied. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are

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

Our contracts with customers ordinarily involve performance obligations that are one year or less. Therefore, we have applied ASC 606’s optional exemption that permits the omission of information about our unfulfilled performance obligations as of the balance sheet dates.

Contract Balances: Variations in the timing of revenue recognition, invoicing and receipt of payment result in categories of assets and liabilities that include invoiced accounts receivable, uninvoiced accounts receivable, contract assets and deferred revenue (contract liabilities) on the consolidated balance sheets.

Generally, revenue recognition and invoicing occur simultaneously as we transfer control of promised goods or services to our customers. We consider contract assets to be accounts receivable when we have an unconditional right to consideration and only the passage of time is required before payment is due. In certain cases, particularly those involving customer-specific documentation requirements, 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 June 30, 2018 and December 31, 2017, was $36 million and $31 million, respectively. These contract asset balances are included within accounts receivable in the accompanying consolidated balance sheets.

We record contract liabilities, or deferred revenue, when cash payments are received from customers in advance of our performance, including amounts which are refundable. The deferred revenue balance at June 30, 2018 and December 31, 2017 was $31 million and $30 million, respectively. During the six months ended June 30, 2018, we recognized $1 million of revenue that was deferred as of December 31, 2017. Deferred revenue balances are included within accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

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

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

Three Months Ended
June 30,

	U.S.	Canada	International	Total
2018:				
Upstream	$ 189	$ 64	$ 54	$ 307
Midstream	454	8	10	472
Downstream	235	8	60	303
	$ 878	$ 80	$ 124	$ 1,082
2017:				
Upstream	$ 159	$ 50	$ 49	$ 258
Midstream	379	14	27	420
Downstream	182	5	57	244
	$ 720	$ 69	$ 133	$ 922

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Six Months Ended
June 30,

	U.S.	Canada	International	Total
2018:				
Upstream	$ 367	$ 121		