

MRC Global Inc. (MRC)

Agreement to Acquire Flow Control Products

BAIRD

No change in outlook. MRC announced an agreement to acquire Flow Control Products, an Odessa, TX-based distributor of valve automation packages with \$28 million in 2012 sales. This bolt-on acquisition comes on the heels of yesterday's announcement of a global supply agreement with Celanese Corporation. While both on the smaller side, the announcements nonetheless underscore two key components of our favorable secular thesis on MRC.

- **MRC announced an agreement to acquire Flow Control Products**, a privately held distributor of pneumatic, electric and electro-hydraulic valve automation packages and provider of related field support for the energy industry. Headquartered in Odessa, TX, the company primarily serves the Permian Basin. In connection with the acquisition, MRC also announced plans to expand its existing facility in Odessa into a regional distribution center, which upon completion in 2014 will house Flow Control Products' operations as a valve automation center.
- **Annual sales are approximately \$28 million**, similar in size to other recent bolt-on acquisitions (including Chaparral Supply and VSC). Terms were not disclosed, and the acquisition is expected to close in early 3Q13.
- **Further strengthens Permian Basin footprint.** The acquisition nicely complements MRC's recent acquisition of Production Speciality Services (~\$130 million in 2012 sales), a PVF and oilfield supply distributor serving both the Permian Basin and Eagle Ford shale play. Prior to PSS, the company had fewer than 10 locations in the region.
- **(Small) global supply contract also recently announced.** Yesterday, MRC announced a new five-year global supply agreement with Celanese Corporation, which is similar in scope to the existing Shell contract (although smaller in size). Recall, management recently outlined expectations that a second large agreement (similar in size to Shell) would be announced in 2H13.
- **Consistent with our favorable secular thesis on MRC.** Both the Flow Control acquisition and Celanese global supply contract are consistent with our favorable secular view of MRC, namely that the company should benefit from additional accretive acquisitions and future global supply contract wins, while we believe increasing domestic energy production should also drive infrastructure additions.

Valuation Synopsis

Our \$30 price target is based on 8.5x EV/2014E EBITDA, a slight premium to the 8.4x NTM average since MRC's IPO

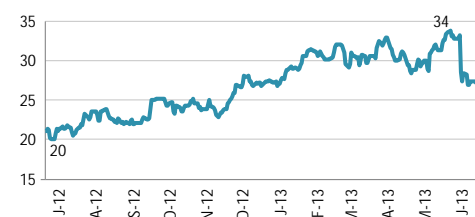
Risk Synopsis

Energy industry cyclicality, overall economic sensitivity, commodity exposure, significant customer/supplier concentration, international operations, above-average leverage.

MRC Global is the largest PVF distributor serving the global energy industry.

FLASH REPORT

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target:	\$30
Price (6/18/13):	\$27.68
Market Cap (mil):	\$2,834
Shares Out (mil):	102.4
Average Daily Vol (mil):	0.88
Dividend Yield:	0%

Estimates

FY Dec	2012A	2013E	2014E
Q1	0.46 A	0.45 A	
Q2	0.39 A	0.36 E	
Q3	0.61 A	0.48 E	
Q4	0.55 A	0.45 E	
Fiscal EPS	2.02 A	1.74 E	2.08 E
Fiscal P/E	13.7x	15.9x	13.3x

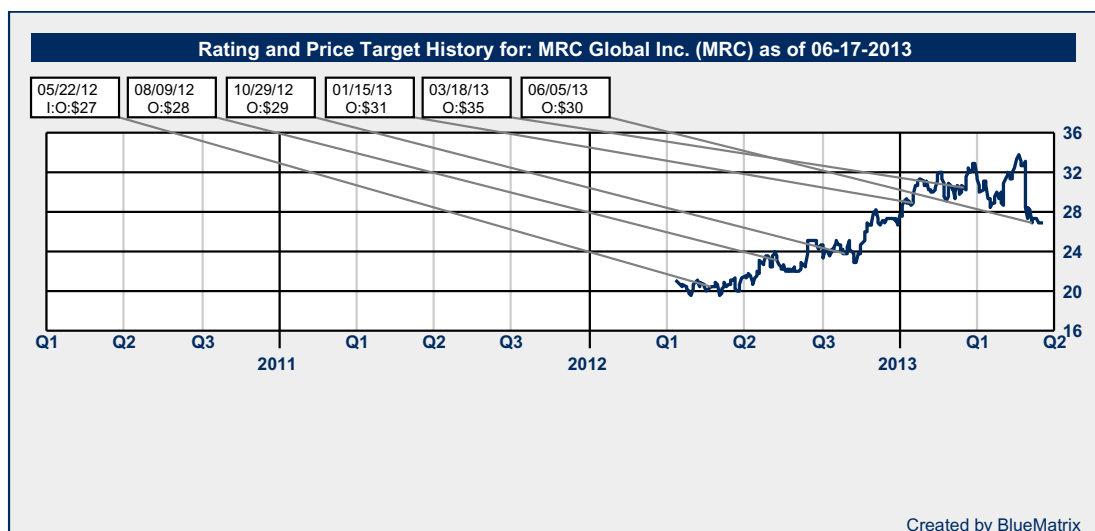
Chart/Table Sources: Baird and Bloomberg

[PDF version of our most recent model](#)

See recent research notes for more information.

Please refer to Appendix - Important Disclosures and Analyst Certification

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