

Murphy USA Inc. NYSE:MUSA

FQ3 2019 Earnings Call Transcripts

Thursday, October 31, 2019 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.46	2.55	▲74.66	1.53	4.24	5.01
Revenue (mm)	3634.58	3657.60	▲0.63	3613.22	14426.82	15652.91

Currency: USD

Consensus as of Oct-30-2019 9:53 AM GMT

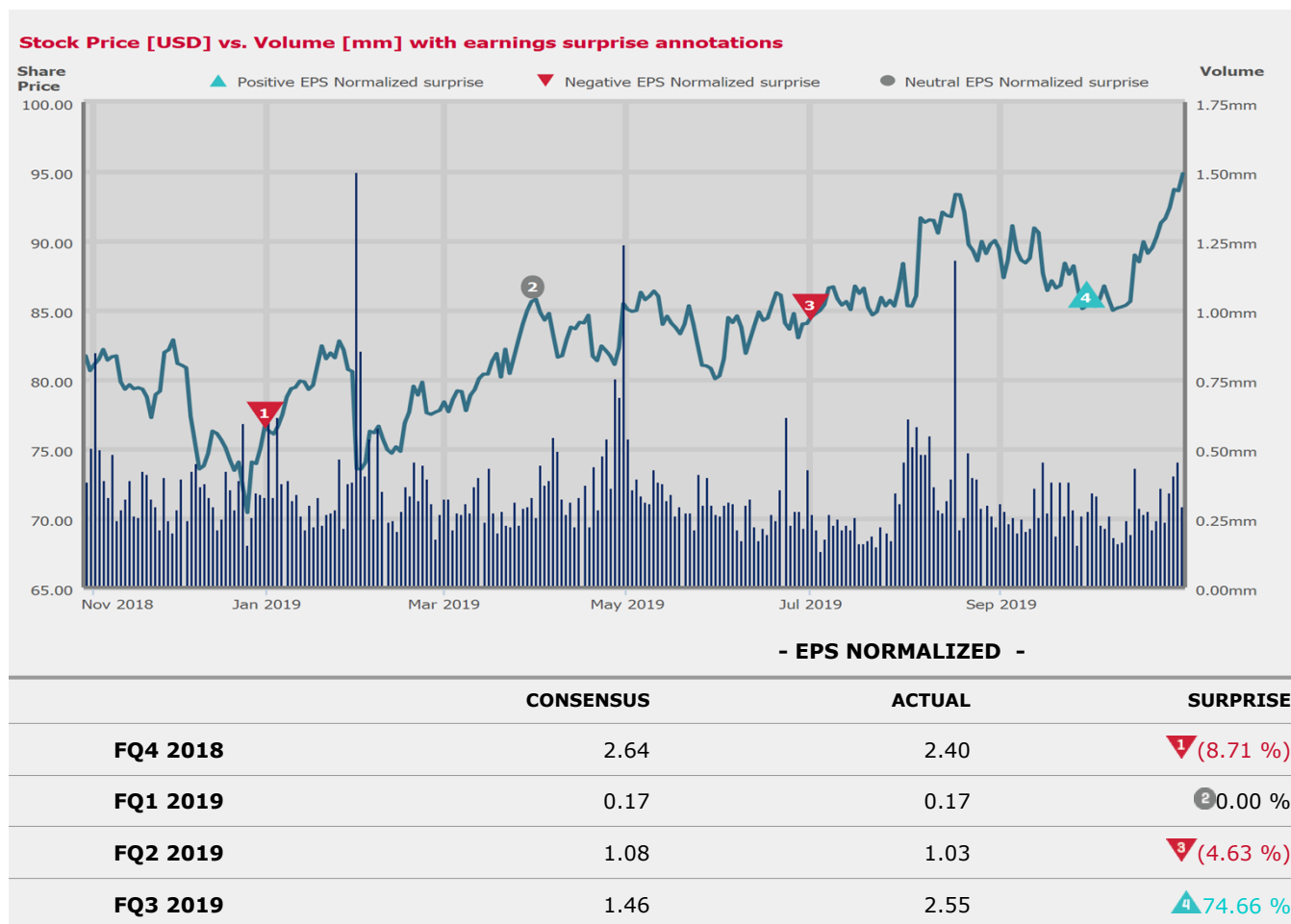


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Senior Director of Investor Relations & Financial Planning and Analysis

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

R. Andrew Clyde

President, CEO & Director

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Benjamin Shelton Bienvenu

Stephens Inc., Research Division

Christopher Mandeville

Jefferies LLC, Research Division

John Macalister Royall

JP Morgan Chase & Co, Research Division

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Sarah Clark

JP Morgan Chase & Co, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Murphy USA Third Quarter Earnings Call. [Operator Instructions] I would now like to turn the call over to your speaker today, Senior Director of Investor Relations, Christian Pikul. Please go ahead, sir.

Christian Pikul

Senior Director of Investor Relations & Financial Planning and Analysis

Great. Thank you. Good morning, everyone. Thanks for joining us today. With me, as usual, are Mr. Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donnie Smith, Vice President and Controller.

After some opening coming comments from Andrew, Mindy will provide an overview of the financial results. Andrew will close with a little discussion on our guidance, and then we'll open up the call to Q&A.

Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ.

For further discussion of risk factors, please see the latest Murphy USA forms 10-K, 10-Q, 8-K and other recent SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements.

During today's call, we may also provide certain performance measures that do not conform to generally accepted accounting principles or GAAP. We have provided schedules to reconcile these non-GAAP measures with the reported results on a GAAP basis as part of our earnings press release, which can be found in the Investors section of our website.

With that, I'll turn it over to Andrew.

R. Andrew Clyde

President, CEO & Director

Thanks, Christian. Good morning, and thank you to everyone for joining us today.

Murphy USA delivered, in my view, one of its best quarter since our 2013 spin as we demonstrated continued progress toward our longer-term goal of maximizing shareholder value through productivity improvements, high-performing new store growth and balanced capital allocation.

Q3 was rewarding and fulfilling both financially and strategically. Financially, with third quarter adjusted EBITDA of \$159 million, the company fired on all cylinders and October results suggest the strength will continue into the fourth quarter.

Strategically, the results are underpinned by the hard work of our teams and investments we have been making in our business to build capabilities that position Murphy USA for success over the long term.

While these capability-building investments will continue to generate benefits over time, their impact was very evident in the third quarter as we once again saw strong year-over-year comps in fuel and merchandise.

Q3 fuel volumes grew 2.7% year-over-year on a same store basis and 3.6% on an average per store month basis, representing the fifth straight quarter of same-store growth. Total fuel contribution dollars showed a 31% increase to \$225.6 million as we successfully achieved both volume and unit margin growth through our retail pricing excellence tactics.

While the fourth quarter will be a difficult comp from a larger perspective given the roughly \$0.75 per gallon fall off in Q4 last year, we continue to see year-over-year volume improvements in October at good margins.

Merchandise improvement were just as impressive as total contribution dollars grew 6.4% to just over \$111 million, with strength in both tobacco and nontobacco category. We continue to take share in all tobacco categories with higher unit volumes driving increases in both sales and margin dollars, which were up 10.3% and 11.3% respectively.

Total margin dollars were up 3.1% in nontobacco categories with strength in general merchandise, snacks and beers.

Murphy Drive Rewards enrollment continues decline, reaching 2.6 million enrolled members at the end of the third quarter, with another 8 million participants who could still access value on certain tobacco programs. As we said in prior calls, customers continue to engage with the program, and we are seeing early signs of behavior changes including more frequent trips, more gallons purchased and higher merchandise sales.

As projected in our last call, operating expenses on a per-store basis moderated significantly from the 7.6% increase we saw in the second quarter to a more normal 1.7% increase this quarter. We continue to see benefits from various maintenance initiatives and processes resulting in less frequent dispatches and a lower cost per dispatch on average.

As a result of higher fuel volumes and higher merchandise contribution, partially offset by higher operating expenses, we improved our fuel breakeven metric 35 basis points to \$0.18 per gallon, the lowest quarter on record and a significant milestone on our way to our 0 breakeven goal.

We added 5 new stores in the third quarter bringing the annual total to 7 and the network total to 1,479 stores. We currently have 7 stores down for raze-and-rebuild that will return to 1,400 square-foot stores prior to year-end.

If you look at the same-store figures, which include all stores in service as of December 31, 2017, versus the average per store-month figures on Page 8 of our earnings press release, you will see that the newer class of stores built in 2018 and 2019 are providing higher gallons and merchandise sales, meaning they are accretive to the network averages. This reflects the benefits from improving our site selection capabilities and is a positive early indicator of the strength of our 2,800-foot format which will represent the bulk of our new stores going forward.

As a management team, we are more confident than ever of our ability and potential to improve profitability and drive shareholder value. As a result, we have continue to invest in ourselves as we see the benefits of the new capabilities we are building for the future. To facilitate these investments, we flex the balance sheet and stepped up our repurchase activity deploying \$109 million in the third quarter, reducing the share count by roughly 1.2 million shares. Mindy will share more on this on our highly successful debt restructurings.

As you can see, on the income statement and balance sheet, every part of the business strengthened in the quarter. What made the quarter even more fulfilling was that it didn't result from some event or externality like a hurricane or an oil shock, highlighting the earnings power and cash generation ability of our business. This quarter also set us up well to finish 2019 in good shape and I'll provide an update on our 2019 guidance after Mindy takes us through the quarterly financial review.

And with that, I will turn it over to Mindy.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

Thank you, Andrew, and good morning, everyone. Revenue for the third quarter was a \$3.7 billion versus \$3.8 billion in the year-ago period. The slight revenue decline is attributable to lower retail gasoline prices,

partially offset by higher fuel gallons sold and higher merchandise sales. Average retail gasoline prices per gallon during the quarter were \$2.38 versus \$2.61 in 2018.

Adjusted earnings before interest, taxes, depreciation and amortization or EBITDA, was \$158.7 million versus \$105.2 million in 2018. Adjusted EBITDA for the third quarter was higher than the year-ago period, primarily due to higher fuel and merchandise contribution, partially offset by higher total operating expenses and higher SG&A. The effective tax rate for the quarter was 24.2% versus 21.1% in the year-ago quarter. And as stated in the press release, the lower rate in the year-ago quarter was due to a discrete tax item related to excess tax benefits from share-based payments.

During the quarter, we did take advantage of favorable market conditions and executed several transactions to further strengthen our balance sheet. First, we called our \$500 million, 6% coupon notes due 2023 and reissued \$500 million of new notes with a 4.75% coupon due 2029. Additionally, we renewed our ABL facility for 5 years and lowered the facility capacity to \$325 million, which is advantageous to us since we rarely access this line and dropping the facility side allows us to lower our overall fees.

We also took the opportunity to renew and top up our term loan, extending the maturity from March of 2020 to August of 2023. Given our approved financial performance and strength of our balance sheet, we felt comfortable increasing the term loan facility from \$200 million to \$250 million. And at the current time, \$200 million is drawn on that facility.

In connection with the term loan, we also implemented a LIBOR hedge by entering into an interest rate swap on \$150 million of principal over 4 years. This transaction effectively locks standard rate lower than the current LIBOR rate and also locks in an all-in cost lower than our high yield issuances.

The bond reissuance did result in a loss on early debt extinguishment of \$14.8 million, but will result in annual interest savings of \$6.25 million. Additionally, bundling the term loan in ABL transactions resulted in transaction fee savings while also locking in more favorable rates while we linked in our maturities. The intent behind this transaction is to add appropriate leverage to the balance sheet, increase covenant flexibility and minimize interest expense in order to provide adequate liquidity for our general corporate purposes, including share repurchase.

As a result of these transactions, total debt on the balance sheet as of September 30 was \$988 million and was broken out as follows: long-term debt of \$966.4 million primarily consisting of \$493 million carrying value of our 4.75% notes due 2029; \$296 million carrying value of 5.58% notes due 2027; and \$180 million remaining on our \$200 million term loan; and in addition, we are carrying \$20 million of expected amortization under that term loan in current liabilities on the balance sheet.

These figures result in an adjusted leverage ratio which we report to our lenders of approximately 2.1x.

Our new ABL facility is in place with a \$325 million cap subject to periodic borrowing base determinations which currently limits us to approximately \$258 million as of September 30. At the present time that facility is undrawn.

Cash and cash equivalents totaled \$248 million as of September 30, resulting in net debt of approximately \$740 million. And there were 30.8 million common shares outstanding at the end of the second quarter.

Capital expenditures for the quarter were approximately \$69 million, about \$45 million of which was for retail growth. The remaining \$24 million consisted of maintenance, general corporate and strategic initiatives, including our EMV programs, where we expect to spend about \$50 million this year.

Our year-to-date capital spend is roughly \$159 million, suggesting that we will still execute a total capital budget between \$225 million and \$275 million for the full year, and we are likely to end up closer to the midpoint of that range.

That concludes the financial update, so I will now turn it back to Andrew.

R. Andrew Clyde
President, CEO & Director

Thanks, Mindy. As is our custom on this call, I'd like to wrap up with a quick update on where we expect to end the year relative to our guidance as announced in January.

Starting with organic growth. You look to close out 2019 with 15 new stores in likely 27 raze-and-rebuild, putting us within our guided range of total store projects for the year.

From fuel volume perspective, we have averaged a little over 250,000 gallons per store month through the third quarter, putting us on track to exceed our guided range of 240,000 to 245,000 gallons per month.

Merchandise contribution dollars totaled \$314 million through the third quarter, putting us on track to exceed our guided range of \$410 million to \$415 million. Due to a spike in the second quarter as we implemented some new maintenance transformation initiatives and other costs, retail station OpEx excluding credit cards for the full year will come in closer to a 3% increase, above the guided range of 0% to 2% increase.

SG&A will likely be towards the lower end of the guided range of \$145 million to \$150 million. We believe that effective tax rate will also be toward the lower end of the guided range of 24% to 26%, and our capital spend will also come in between the low end and midpoint of our guided range of \$225 million to \$275 million.

We specifically did not provide guidance around anticipated fuel margins or any financial metrics, including net income or adjusted EBITDA. However, when we first discussed our 2019 guidance in January of this year, we said that at a \$0.16 per gallon all-in fuel margin in the midpoint of all other guided metrics, we would expect to generate about \$405 million of EBITDA.

Given that we are performing better than our guided range in several key categories, it would be prudent to conclude that if fuel margins maintain current levels around \$0.16 per gallon through year-end, there would be a better-than-average chance that adjusted EBITDA would come in above \$405 million.

A key takeaway from 2019 is that we don't need a major natural, geopolitical or macro event to generate a \$0.16 per gallon fuel margin and the associated level of financial performance from the business. And certainly, while anything can happen in the next 2 months to change the current trends, long-term investors only need to look at our rolling 12-month EBITDA to gain comfort about the earnings of this business.

I will remind everyone the intent of revising our guidance this year and excluding a fuel margin forecast was to refocus investor conversation on elements that are more important for long-term value creation than short-term margin focus, and we believe we have had better discussions with investors as a result.

But going forward, we expect to continue this practice.

The success of our business is not dependent on consistently higher and higher and higher fuel margins, but rather our ability to continue to generate sustainable top and bottom line productivity gains across our operations, increasing contribution dollars from both fuel and merchandise and to build economically viable, high-performing stores that are accretive to our network average.

Given our belief that we can do those things, we have the confidence to continue to invest in both growth initiatives and share repurchases to create future value for our shareholders today and in the years to come.

And on that note, operator, I think we can open up the call to Q&A.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Ben Bienvenu from Stephens.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

I want to ask kind of a multipart question. One, if you can elaborate at all, give us an update on MDR and its contribution in the quarter. In particular, the strength that we saw in tobacco in the quarter was MDR contributed to that.

And along the same lines, I know there's been a lot of headlines around vape. To what degree does that play into the result in the quarter and kind of help frame up the exposure that you guys have in that business.

R. Andrew Clyde

President, CEO & Director

Sure. So on MDR, I would say it benefits in a number of ways. Certainly on the tobacco side, we have begun well over a year ago to participate and manufacture loyalty programs by which having a unique identifier number allowed us to gain those benefits. And that was a really strong contributor. And so MDR builds on top of that program with that same number. And if you think about those 8 million participants that aren't fully enrolled members, you can argue that, that is that program continuing without having to give them additional MDR-related benefits. Meaning earning on the tobacco, burning on fuel.

I think the real upside in the tobacco categories is gaining that stickiness from those participants -- those members when those programs roll off as they do from time-to-time, because they're not going for the full 12 months. And then the demonstrated ability we've shown ourselves, the manufacturers that we can target very discrete customer behaviors and focus marketing dollars only on behaviors that we want to change and not over reward other changes. And there's a lot more upside to come from that as we learn how to do that better and better and with scale and more automation. So I hope that addresses the question on that front.

I think on the fuel side, there's clearly benefits there. And we talked about our path to purchase. And so with higher fuels volume, some of that attributed MDR, a lot of it attributed to our retail pricing excellence initiatives as well. That then supports more customers going to the pump and then going into the stores as well.

As it relates to vapor, we certainly haven't seen any headwinds yet from the announcements that have come out. In fact, as part of some of our mitigating efforts around one of the brands, in particular, we introduced a third manufacturer product line that had a lot of promotional dollars associated with that. And it sold through very well, but it was an end to the increases that we were already seeing. So this is something we're watching very, very closely. We're big supporter of Tobacco 21. We have already had well above industry average in terms of ACE compliance and further raise the bar on what we do in terms of compliance in our stores. So we want to be one of those responsible retailers with respect to this product category.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

Okay. And then Mindy a question for you. I know in the past we talked about kind of hone in on achieving this optimal balance between fuel gross profit on the cents per gallon line in gallons. Where do you think you are in that journey and what does 3Q say about how you manage that balance?

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

That's a great question, Ben, and we have been evolving our fuel's pricing capabilities for, I guess, really a year now. So the last 4 quarters, every single successive quarter, we have done more and learn more about what we're doing, which is allowing us to price every store optimally. I think what we saw in the first 6 months of the year, we were certainly emphasizing volumes, because quite frankly, we have been giving out volumes for the past several years, and we needed to make a stand and take that back.

I think what you saw in the third quarter is our continued emphasis on volume, but also trying to do it in a very smart way so that we can also optimize the margin impact at the store as well. Because obviously, at the kind of volumes that were regenerating, if we can just make a \$0.01 to \$0.02 improvement in the quarter and the margin that we're getting, it makes a meaningful impact to the result. So I would say that we're not all the way where we want to be yet. We realized that this is a marathon and not a sprint. And so we are working to really create an enduring capability in fuel's pricing that we can apply consistently across the network. So I would say optimistically we're maybe just halfway there. So I think that we have still not yet uncovered all that we can do. And then there's also things that we can do not just with regular unleaded but with diesel and other products that we sell to continue to refine those capabilities too. So the improvement is certainly not over from my point of view.

R. Andrew Clyde

President, CEO & Director

If I can add one other thing as well. I mean people use the word strategic pricing and price optimization very, very loosely. Our pricing strategy has and continues to be -- we are going to be the everyday low-price retailer in the eyes of our consumers. And others have abandoned that position for higher margins or they're making different trade-offs associated with that. There's no lack of clarity into what our consumer-facing strategy is. But the price optimization is very critical in terms of store-by-store and every type of environment, what is the right price point and differential to achieve that in the eyes of the customers that then optimize the volume and the margin we're getting. And I think what we're able to find is that we're able to get both volume and margin doing that effectively across every store in the marketplace. And my hats off to Mindy and Lester Tran and the team that have put this magnificent capability in place.

Operator

Your next question comes from the line of Bobby Griffin with Raymond James.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Congrats on a great quarter. First I just want to go back to the commentary around tobacco and the strong comps for the quarter. Do you have a sense of what the industry did from a dollar's basis in the tobacco category over 3Q or we can get a sense of how much market share you guys were able to take in the quarter? And then secondly, on top of that, what was the biggest driver of the strong comp? Was it MDR, traditional combustible tobacco, e-cigarettes? Can you maybe help us parse out some of the drivers of the comps itself?

R. Andrew Clyde

President, CEO & Director

I think certainly on the cigarette side, I think our numbers suggest the industry is down in that 6% to 7% range on volume, and that's kind of in the trend for the last couple of quarters. So it's definitely a share gain on our side. Look, we really started arresting this trend of declines on our side back when we introduced, we call it our [quick cat] program in 2017 towards the end of that year. And we saw -- started seeing a reversal. So being able to participate in those programs get the sense of per pack and carton were critical. And we started getting back shares at that point. And I think our timing and packets we've chosen about what months to be in, that's been a big part of it.

MDR allows you to just do that within the app. And as I mentioned 48 million participants were largely doing that, but they're also building up points that one day they could burn. MDR creates additional stickiness for those customers doing that, as well as they're getting targeted at. So I think that's an important end to that program, especially when it rolls off. We -- like our fuel pricing, we have enhanced

tobacco pricing capabilities as well. And we do this on a store-by-store basis. And the team's gotten really smart about when their price increases, where we invest, what states. And as you probably all know, there are certain states that have state minimum prices where you think about the tactics differently in those states versus states that don't have the same regulations or certain brands within our portfolio of products that we've made, specific choices around investing in with our manufacturing partners. And those have been really significant.

And certainly, don't underestimate 3% fuel volume growth driving traffic to the store for 5 quarters as well. As we mentioned on the vapor side, we did introduce a third manufacturer. And it was in addition -- so we had significant sales and margin contribution from that, on top of the continued growth we saw in the existing vapor products that we had. So really, Bobby, I'd say it's no one thing. It's a combination of all those things playing together. We're certainly watching some of the legislation that's been introduced in the house, that's been discussed, that has implications for vaping products, menthol bans on cigarettes, et cetera, as we lay out our 2020 plan, knowing that we've got leverage to offset that in parts of our business as well. So paying a lot of attention to the current environment.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

I appreciate that detail. And on the unit margin side of things, are you're starting to see the drag from MDR starting to dissipate a little bit, I believe, it was at 40 basis point drag in 2Q. Was it a little less in 3Q?

R. Andrew Clyde

President, CEO & Director

It's about the same. And I think as we continue to get smarter and more efficient in terms of how we reward customers, we'll be able to do that. There's transactional points and there's nontransactional points. So as we think about year 1 in terms of promoting MDR and getting customers to sign up and go through full enrollment, et cetera, there's, I would say, probably a higher level in non-transactional points in there. So we'll be able to find ways to continue to optimize that while maintaining the benefits in the front of the program we got for our customers.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Okay. And then lastly, kind of a high level question. On the tobacco category itself, as we walked through some of these entry levels sell-ins and MDR, some of the work you guys have been doing, participating in more the manufacturer programs. When we get into a more of a steady cadence of that business with down 6% volumes and then price increases, what is a normal comp look like? Is it a low single-digit comping environment because you're taking market share? Is it a flattish comping environment? Anything to help us frame up that once were in a more normalized state.

R. Andrew Clyde

President, CEO & Director

Yes. I think it's too early to tell, to be honest with you. There's just too much noise out there in terms of what the regulatory legislative environment is on this, this particular category and the sub-categories. We continue to see innovations, especially around the safer side of the continuum of risk as the manufacturers described it. We've been a big part of the iQOS rollout in Atlantic. And we will know more about an iQOS customer buying the small cigarette components, the refills than any other retailer out there and what they were buying before, what else they're buying in addition to on a longitudinal basis.

And so I think we're going to continue to see innovation in those products, and I believe we're going to continue to see more support in marketing towards retailers that can provide the level of insights that help the manufacturers navigate through the current environment as well. I think we're certainly differentiated, if not uniquely positioned to help on that front.

Operator

Your next question comes from the line of Christopher Mandeville from Jeffries.

Christopher Mandeville

Jefferies LLC, Research Division

Andrew, I apologize for the confusion in my end here. But everything you stated thus far this morning would suggest that MDR has been a pretty notable contributor to the overall performance of the business model. But yet in the press release itself, you introduced a comment stating specifically that same stores sales metric do not reflect the loyalty program. I guess I'm just hoping to get some clarity there on how to compare those two.

R. Andrew Clyde

President, CEO & Director

Yes. So sorry for the confusion on that. So here is the way I would describe it. The discount -- you have a discount and a deferral. The discount of the customers is reflected in all the numbers. The totals, the same-store sales, the average per store month, \$6 million this quarter, and it was like 40 basis points for merch and \$0.03 per gallon for fuel. The deferral, it shows up in the total and it's not in the same-store and average per store month metric. And that deferral number has been fairly constant in total as members are now earning and burning points at similar rates which is a sign of effective programs. So from an accounting standpoint, those were the various selections and accounting treatment that we chose to take. So the discount is absolutely in the numbers, it's reducing contribution margin for both fuel and merchandise and it's supporting higher sales volumes and total sales, and ultimately total contribution dollars from that.

And I guess one other point, while the deferrals are fairly constant, we will make adjustments to it from time to time, up or down based on the kind of actuarial evaluations that are done when we look at the value of the points breakage, et cetera. So I hope that cleared up some confusion. We'll do a better job clarifying our footnotes in the future. So sorry about that.

Christopher Mandeville

Jefferies LLC, Research Division

That's fairly fine. I appreciate the color there. And then just kind of building off of that in terms of MDR. I think in the past, correct me if I'm wrong here, but you may have referenced that at the very least to contributed maybe 2% to gallons. So, I guess, I'm still trying to frame up how much it contributed to in-store dynamics.

R. Andrew Clyde

President, CEO & Director

Yes. Look, we are working now with a longer, better data set. And so I would expect kind of the beginning of the year we give our 2020 guidance, we'll have much better insights from an attribution standpoint on both fuel and merch. I still believe the fuel volume improvements are in that 1% to 2% range, knowing that the retail pricing excellence, tactics and initiatives are supporting that as well. And then we have new stores that are coming in at higher levels and raze-and-rebuild coming back online.

On the merchandise side, at some point, our customers entering their phone number, the distinction between is it MDR or was it the former program becomes, frankly, less relevant. And so I think that's part of that ongoing trend that we see that's supporting the tobacco numbers that we have, and we'll be able to continue to do that.

What's incredibly valuable also is the data and insights that we can get. So if you can imagine a world where you've got longitudinal data across members and products, the ability to do consumer surveys that then you can attach to specific member behaviors, link back to category specific, vendor specific, SKU specific, financial performance. You've got a wealth of insights to work with your manufacturing consumer packaged goods partners on how to stir the customers to create the most value for them, for us and them. And so significant value coming from that.

But I'd say, look, this is an end to a lot of the things that we are already doing on the tobacco side. We're certainly seeing a lot of stickiness on that front, and we'll have a lot deeper insights on that in our next call given the body of work we've got going on.

Christopher Mandeville

Jefferies LLC, Research Division

Okay. And then just a last one for me. I do hate to nitpick, because results are so strong overall. But the nontobacco comps, it did slow just to touch on the two-year basis, the margin contribution actually turned slightly negative. And then on a percentage basis, it appears as though we are still seeing some pretty notable pressure in the categories. So can you just provide some additional color there and what's going on, is it a strategic decision on your part to maybe push greater value and hope to drive a larger basket overall or greater traffic in general or is that some type of competitive or cost pressure?

R. Andrew Clyde

President, CEO & Director

I'd say there's quite two categories that really stand out on the nontobacco side. Candy is one of those where we just -- I'll be honest with you, we haven't had the same amount of promotional intensity on that given at some point, you can only ask your store associates to focus the customer on so many things. And having them focused on MDR was the top priority, and they knocked it out of the park. Over 90% of MDR members say they learned about the program through their engagement with the sales associate. We've been doing some campaigns to drive participants to members without paying any additional points to do that, but just running contest with our store managers and associates because they can see when a customer comes in whose a participant, they get 1000 points, let's encourage them to become a member, and they've been able to move that.

In October, we decided, hey, let's go back and put some emphasis behind candy. We said we'll have a contest to sell over 1 million candy bars. We blew that number out of the water. And so I think it's getting back to focusing on that, given there's really only so many things you can put back level of intense focus on. And so I would expect in Q4 that number to improve.

The other category, it only represents the stores that have the ability to sell distinct beverages, but we have been investing in that to grow that category. A lot of our customers when you raze-and-rebuild the store, we got to get them in the store. They need to see that we've got a much larger center store selection, dispensed beverages, coffee, iced teas, et cetera. And so we did make some promotional investments in those categories. So I think those 2 things explain a big chunk of it, and we should see some improvements in those.

Operator

[Operator Instructions] Your next question come spend the line of John Royall from JPMorgan.

John Macalister Royall

JP Morgan Chase & Co, Research Division

Really impressed with the quarter. So on the fuel margin, you previously talked about a \$0.14 to \$0.16 long term range. And as you mentioned this quarter, you didn't have any big external event that drove the \$0.20-plus margin, albeit in kind of a seasonally strong quarter. But just wondered if you think that long-term range has moved structurally higher at this point, given the initiatives you got there in place.

R. Andrew Clyde

President, CEO & Director

Yes. I guess the first thing is we're not providing that long kind of term range. But if you think about what we see in the environments, with higher credit card fees. Certainly this year if you look at the fuel breakeven requirements of the second, third and fourth quartile retailers from an [ACT] survey, their costs going up specifically. If you look at some of the comments made by some of the grocery and cost club retailers around this, there's certainly a lot of kind of anecdotal evidence that would suggest there's going to be future upside pressure to move margins up in that kind of environment. So look as

an everyday low price retailer, we're a price taker in the marketplace, and we'll defend that position. But certainly, if those factors were able to capture more margin, maintain that position and maintain or grow volume, we are going to do that. And so I look back to say what are the structural factors that underpin that, and there's a lot more structural factors pushing towards higher margins than lower margins.

John Macalister Royall

JP Morgan Chase & Co, Research Division

Okay. And then on the buyback, just thinking about the frontloading of the \$400 million program, the buy back in the quarter was a big number but it seems relatively in-line with the net cash you took out from debt refinancing. So I guess my question is if you put aside how the equation might change from the movement of stock today, with the idea always to slow the pace after 3Q, or would you be drawing down cash and maintaining [indiscernible]

R. Andrew Clyde

President, CEO & Director

I'm sorry, can you repeat the last part of the question, it kind of broke up?

John Macalister Royall

JP Morgan Chase & Co, Research Division

The last part was if you put aside the fact that the stock is up 15%-plus today, the idea always to slow the pace after 3Q of the buyback or would you be -- potentially drawing down cash to maintain the same pace?

R. Andrew Clyde

President, CEO & Director

So we're not going to provide guidance on the timing of any share repurchase. I think over the course of the year, we've talked about what do we have to do to maintain the 14% compounded annual return on our share price, to maintain what we've done in our first 5 years. And we talked about what we need to do that for the next 5 years. And if we're able to do that, even at this level, that looks attractive over the long run. We're going to be as savvy as we can and try not to get too cute or too smart about our buyback. But certainly, wanted to get out in front of the \$400 million program, the Board authorized. And we'll come back in February and report on what we did in Q4. But balance sheet -- the capacity on the balance sheet allows to do as much as we want whenever we want to do that. That's not a limiting factor.

Operator

Your next question comes from the line of Carla Casella with JPMorgan.

Sarah Clark

JP Morgan Chase & Co, Research Division

This is Sarah Clark on for Carla. I was wondering if you could give some more color on the sequencing from month-to-month of gas prices and fuel margins. And then I have a follow-up.

R. Andrew Clyde

President, CEO & Director

Yes. I would just say, I'm not going to get into every single month, but fuel prices and gas margins work conversely. So prices go down or margins are wider, and when prices go up our margins are smaller. So if you track since the beginning of time, fuel prices you will see that pretty good correlation with margins. So I don't really know what else to say. This is a good quarter in the sense that we had kind of more seasonally normal downside movements in prices than upside like you typically see in Q1 or Q2.

Sarah Clark

JP Morgan Chase & Co, Research Division

Got it. And then do you see any impact of the storms on you or competitors?

R. Andrew Clyde

President, CEO & Director

In what particular region? We've got a lot of storms all over the place.

Sarah Clark

JP Morgan Chase & Co, Research Division

Right, such as Texas.

R. Andrew Clyde

President, CEO & Director

Yes. I mean look, nothing abnormal. When you have a network of almost 1,500 stores. We've had flooding in a couple of stores and they're back up and running pretty quickly. But it's too small a number to really move the needle. It really didn't affect the supply environment. So unless you're going to have something like a Harvey or Michael or an Irma or something like that, it's really going to get lost in all the other things that are going on.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

And also Sarah, as we saw similar to last year with the peak of hurricane season, we didn't really see any storms which inflicted major damage on infrastructure. So that would have been the case which you would have seen a more meaningful detriment to our results.

R. Andrew Clyde

President, CEO & Director

Yes, we just saw the normal pre-buying and then the slowdown during the storm and then it gets back to normal pretty quick.

Operator

And with that, there are no more questions. I'd like to turn it back over to Andrew for some final comments.

R. Andrew Clyde

President, CEO & Director

Great. Well thank you for joining today's call. As I said, this was a very rewarding and fulfilling quarter for us. And I really want to thank our team. This has been an investment that they've been working hard on for the last 2 to 3 years to really position Murphy for the long-term. So well done to the team, and thank you all for joining.

Operator

Ladies and gentlemen, this does conclude today's conference call. We do thank you for your participation. You may now disconnect.

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