Murphy USA Inc. NYSE:MUSA
FQ2 2019 Earnings Call Transcripts
Thursday, August 01, 2019 3:00 PM GMT
S&P Global Market Intelligence Estimates

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Currency: USD
Consensus as of Jul-31-2019 10:35 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations

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Call Participants

EXECUTIVES

Christian Pikul  
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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Christopher Mandeville  
Jefferies LLC, Research Division

John Macalister Royall  
JP Morgan Chase & Co, Research Division

Patrice Harumi Kanada  
Wells Fargo Securities, LLC, Research Division

Robert Kenneth Griffin  
Raymond James & Associates, Inc., Research Division
Presentation

Operator

Good morning. My name is Kelly, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Murphy USA Second Quarter 2019 Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Christian Pikul, Senior Director of Investor Relations. Please go ahead.

Christian Pikul
Senior Director of Investor Relations & Financial Planning and Analysis

Thank you, Kelly. Good morning, everyone, and thanks for joining us today. As usual, with me are 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 comments from Andrew, Mindy will provide an overview of the financial results, 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 for results to differ. For further discussion on risks' factors, please see the latest Murphy USA Form 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 will 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 had a solid second quarter from an earnings perspective delivering $93 million in adjusted EBITDA, but an even better quarter in terms of execution of initiatives that led to strong underlying fundamentals that set us up for the future. I would like to highlight several of the key things that illustrate our long-term view of the business and how the investments we are making are driving performance. First, the investments we are making in the core business to drive customer traffic and gain market share are paying off with topline growth as evidenced by fuel and merchandise costs. Second, as with any investment, there is a near-term cost. But these investments are in an efficient and effective way to acquire customers and share of wallet for the long-term. Third, these investments further improve already strong raze-and-rebuild and new-to-industry store returns paving the way for higher rate of sustainable organic unit growth and accretive long-term earnings growth. Fourth, based on the results we're seeing and expect to see, we remain committed to our balanced and disciplined capital allocation strategy. And we are taking the opportunity to frontload an investment in our own shares with an up to $400 million share repurchase program. Taken together, these investments differentiate and position Murphy USA very well for continued shareholder returns.

So let's start with the investments to drive customer traffic and gain market share. Same-store fuel gallons grew 3.7% for the quarter on solid margins as we continue to deliver our low price value proposition across markets. Aided by falling prices in April through early June, we realized higher year-over-year contribution from retail even with the sharp price run up at the end of the quarter. Total fuel contribution fell below prior year due to inventory and timing variances associated with falling prices. The exact opposite of what we witnessed in Q1, and thus fuel -- total fuel contribution was flat year-to-date versus 2018. Our retail pricing excellence initiative are adding greater precision and speed to our practices, and we are confident that with each quarter further benefits will flow to the bottom line. While
June’s per store gallons were the highest in 5 years. We know some tough comps lie ahead as we cycled the large price fall off in the fourth quarter 2018. Yet July volumes are already showing a 2% increase year-over-year at about $0.04 higher margins so we remain confident we will continue to see benefits from the sharpened tactics through our retail pricing excellence initiative. Same-store merchandise sales grew 5.7% for the quarter, with same-store merchandise contribution dollars up 3.8%. The tobacco was the strongest category as same-store sales were up 6.5% and margin dollars were up 6.6% leading to share increases across subcategories and bucking industry trends. Higher traffic along with strong lotto and lottery demands supported same-store sales and margin growth in our other merchandise categories.

Our tobacco pricing initiatives and merchandise resets contributed to the strong results. Building on top of our core category growth initiatives is our investment in Murphy Drive Rewards or MDR, which is both growing and sustaining customer traffic in our key categories as we have fully enrolled 2.2 million members. About 1 in 6 fuel transactions are with members and in the original pilot markets members are purchasing roughly 8 gallons more per month now versus a year ago. Looking at cigarettes, members are purchasing nearly 3 packs per month more, and for other categories we are seeing a basket size increase of nearly $1. These statistics are remarkable for a number of reasons. First, this is just a start. We have only rolled out the most basic offer and functionality of MDR. We haven't even begun targeted consumer offers at scale or turned on any of the bells and whistles the program. So we are not only far from reaching the potential of the program, we are probably equally as far from defining the potential. If asked what inning we are in with MDR, we would say we have just finished warming up and are about to take the field. Second, at the launch of any loyalty program you are obviously going to sign up your most loyal members first and at a cost. But our most loyal customers are already exhibiting behavior changes that are highly additive to our business. This is the group we thought we would have to subsidize by gaining a larger share of wallet from less frequent customers and attracting new customers. I would never want to compare a gas station to Amazon, but the behavior we are seeing from our loyal customers is quite similar. Third, the program is healthy. We continue to attract more than 0.5 million participants per month now 4 months after the national launch. These customers are earning and burning points at similar rates and getting the immediate satisfaction they seek. In fact, 90% of the members who joined in June of 2018 remained active in the program compared to other loyalty programs that experienced 40% attrition within the first three months.

Additionally, there is still huge opportunity to convert over 7 million non-member participants to members. Many of these non-member participants are gaining value by accessing tobacco programs, and we believe there are significant upside as we gradually convert them to members and engage them. Growing our existing customer share wallet and acquiring new customers has some costs, but we still believe it is still more efficient than acquiring customers by buying someone else's old stores.

So let’s look at some costs we have incurred to support our investment in the business. MDR cost impacted fuel margins by approximately $0.004 per gallon or about $4 million and merchandise unit margins by 40 basis points or about $3.2 million. As members burn through non-transactional points from sign up, we are quickly reaching the stage where the monthly earn and burn are in sync, one of the best signs of a healthy program and these costs will decrease. We also have initiatives that will enable us to deliver these benefits more efficiently over time as well. While everyday low prices drive customers to the stores and MDR helps keep them loyal and sticky, you still need to have great-looking stores and to ensure the best customer experience, we launched our new maintenance management system earlier this year, and that has led to a decrease in the service calls dispatched per incident and a lower cost per dispatch. But the effectiveness of the capability has led to more incidents being called in by our stores who appreciate the better service and responsiveness. And with -- coupled with efforts to proactively address dispenser uptime and prepare for the MDR launch, we incurred higher-than-planned maintenance cost in the quarter. Water related environmental costs were also elevated due to storms leading to higher unplanned costs, and we do expect these costs to normalize in the second half of 2019. Outside of these transitory cost increases, ongoing initiatives to sustain our cost leadership position and drive towards a 0 breakeven margin requirement saw good progress in the quarter. There are 3 ways to drive the breakeven metrics toward 0. We can increase merchandise contribution, which we have done; we can decrease cost, which were temporarily higher than planned; and you can increase fuel gallons in the denominator, which we are also doing. This quarter, despite very strong merchandise performance in higher gallons, our fuel
breakeven metric was $0.0081 per gallon versus $0.0058 per gallon in the prior quarter -- prior year quarter. However, on a year-to-date basis, we are about flat with prior year, and we remain committed to driving the fuel breakeven lower on a full year basis. While year-to-date labor costs are up 1.1% reflecting in part more larger-format stores, this is well below inflation and better than our planned target where cohort optimization has yielded better-than-expected results. Year-to-date reductions and shrank from new loss prevention initiatives also highlight that the opportunity set to further drive productivity from our cost base remains robust. Investments driving top and bottom line performance create more opportunities to build and rebuild our network for the long-term. We opened 3 new stores since April 1 and returned 10 raise-and-rebuilds back into service as 1,400 square-foot stores. These new stores are performing at a higher level out of the gate building on the improvements we have seen in the 2018 build class. Better store opening, procedures and sharper new store pricing tactics have been key. For example, the 2018 and 2019 build class are currently delivering fuel volumes about 25% higher than the network average, and raise-and-rebuilds are showing a 15% lift in fuel volumes and 30% higher merchandise sales. Also key to our future success is the ability to target stores in key markets versus limiting our focus to the halo around the Walmart Supercenter, and this is partly responsible for the improved performance I just mentioned.

Looking at returns on capital from our express locations prior to 2017, we see material improvements within our independent growth plan. Similarly, as shown in our most recent investor deck, the larger 2,800 square-foot format also showcases better returns. Going forward, we will be adding square footage at a higher rate and at higher returns when compared to the [post-pin] period where we built 60 to 70 stores per year. Over the past 2 years, we have built a quality pipeline of locations for the 2,800 square-foot format stores, and that will support growth at 30 stores in 2020 and 30 to 50 stores thereafter. If you think back to 2016 when we built 70 new 1,200 square-foot stores and began our raze-and-rebuild activity with 10 locations, we added about 95,000 square feet of retail space. At our projected 2021 forecast of about 50 locations with 25 raise-and-rebuilds, we will be adding about 165,000 square feet of retail space per year. And we will be using our cash flow to grow the company at a higher square footage rate then you have historically seen and based on the performance of our 2018 build class and target markets, we're increasingly confident that the returns will also be higher.

Last of our investments, but certainly not least is our commitment to repurchase our own shares. Historically, buying back shares in advance of getting full credit for our performance improvement initiatives has generated superior returns, providing balance to our overall capital allocation strategy. This has been and remains a core element of our value proposition to investors. In our latest investor presentation, we noted that continuing our track record of shareholder value growth would require buybacks of around 1 million shares per year. Given our view of Murphy USA's future potential, the ability to fund future capital projects from operating cash flow, our current liquidity and debt capacity, we have opted to front-end load that requirement and pursuant to that view, the Board of Directors approved a share repurchase program of up to $400 million through July of 2021. We have the flexibility to execute any time during this period based on available cash, market conditions and covenant compliance. This will be incremental over our most recent repurchases where we bought back approximately $17 million worth of shares in Q2 and another $9 million since quarter-end prior to receiving the new authorization. As noted in our earnings release, our debt structure provides ample flexibility to facilitate this program. Our term loan matures in March 2020, and our original $500 million notes are callable at a reasonable premium given current rates. This quarter reinforces the key messages we have been communicating to investors, there remain significant potential to improve the productivity of our existing stores, both top and bottom line. Second, there is a growing inventory locations with attractive economics to build and rebuild stores in markets where we have the right to win with our customers. And last, we will remain balanced and disciplined in our capital allocation strategy. This quarter provides another proof point of what we aim to accomplish over the next 3 to 5 years.

And with that, I will turn it over to Mindy for a financial review.

**Malynda K. West**  
*Executive VP of Fuels, CFO & Treasurer*
Thanks, Andrew, and good morning, everyone. Revenue for the second quarter was $3.8 billion versus $3.8 billion in the year ago period. The flat revenue is attributable to lower retail gasoline prices offset by higher fuel gallons and higher merchandise sales. Average retail gasoline prices per gallon during the quarter were $2.48 versus $2.61 in 2018. Adjusted earnings before interest, taxes, depreciation and amortization or EBITDA was $92.7 million versus $112.7 million in 2018.

Adjusted EBITDA for the second quarter was lower than the year ago period due to lower product supply and wholesale contribution, higher station and other operating expenses, partially offset by higher retail fuel contribution. The effective tax rate for the quarter was 24.5% versus 25% in the year ago quarter. Total debt on the balance sheet as of June 30, 2019, was $854 million, which includes long-term debt of $834 million and in addition, we are carrying $20 million of expected amortization under the term loan in current liabilities on the balance sheet. These figures result in the adjusted leverage ratio, which we report to our lenders of approximately 2x.

Our ABL facility remains in place with a $450 million cap and subject to periodic borrowing-based determination, currently limiting us to proximally $280 million as of June 30. At the present time, that facility is undrawn. Cash and cash equivalents totaled $179 million as of June 30 resulting in net debt of approximately $675 million. There were 31.9 million common shares outstanding at the end of the second quarter. Capital expenditures for the quarter were approximately $60 million, about $36 million of which was for retail growth and the remaining $24 million consisting of maintenance, general corporate and strategic initiatives, including our EMV program, where we expect to spend about $50 million in total for the year. We still plan to execute a total capital budget between $225 million and $275 million for the full year 2019.

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

R. Andrew Clyde
President, CEO & Director

Thank you, Mindy. Operator, I think we can open up the call for Q&A now.
Question and Answer

Operator

[Operator Instructions] Your first question come from the line of Bobby Griffin from Raymond James.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Congrats on a good, strong comparable sales quarter. So my first lesson here is around station OpEx. A little bit higher than previous trends and you gave us some color in the prepaid remark, but can you maybe attach any numbers to how big some of the transition costs was -- were during the quarter? And how much of the year-over-year growth was driven by some of these one-time costs?

R. Andrew Clyde
President, CEO & Director

Sure, Bobby, and first of all, welcome to the coverage group as well with Raymond James. Maintenance and environmental were the 2 biggest numbers and as we talked about this new maintenance management system that we implement it led to some noticeable improvements in terms of having fewer dispatches per incident and a lower cost per dispatch, but the reality is that the improved service level of the store we almost became a victim of our success as the stores realized higher service levels, et cetera. And so that drove some higher cost there. In addition, we've really been focused on our fuel metrics and a couple of maintenance related issues. Those have to do with slow flow and dispenser up time. And with MDR being launched, et cetera, frankly we just got very proactive on those fronts, and those drove to some higher costs, and we expect both of those to normalize over the period. As we mentioned, also the environmental related cost for water and [indiscernible], et cetera was usually high due to storm water. We also implemented a new alert system there, and -- so we expect those to normalize in the second half of the year and normalize next year as well. We also saw some higher employee benefit costs around workmen's compensation. Some of these related to claims from several years ago that are now coming through so there were some higher cost there, and that will be something to look at from an ongoing accrual standpoint. That will probably edge up a little bit higher. What we were excited about, though, were the areas where we had very conscious initiatives installed for results. So the cohort optimization that determines how many assistant managers, lead cashiers, the right mix of labor cohorts at the store generate the results better than expected and that helped keep our labor cost in line. Shrink had been an area where we'd seen successive increases for a couple of years in a row and now with new leadership and capability in that area we are seeing improvement as we focus on that. And -- so I hope that provides a little bit more color on that front. Certainly it was a higher number than we would have liked to have seen but we believe that certainly on the maintenance side we'll see those numbers normalize again in the second half of the year.

Robert Kenneth Griffin
Raymond James & Associates, Inc., Research Division

Okay. Yes. That's very helpful. I appreciate it, Andrew. And I guess just as a follow-up, I understand it's still early for Murphy Drive Rewards but clearly having a nice impact with the strong comp sales growth in a couple of categories. I guess when you look at the data, what are you seeing in there that surprises you the most that you think is the most upside if you look out over 2- or 3-year period?

R. Andrew Clyde
President, CEO & Director

Well. As I mentioned in the call, I mean when we went into this, our hypothesis was that we already had extremely loyal customers, and that we would just be rewarding them, and we're going to have to make that up by attracting a lot more brand-new customers and getting a lot more out of our low share wallet customers. And what we found is these loyal customers are giving us an extra trip on the fuel side about 8 gallons more per month that we were seeing other higher purchases in both tobacco and the
overall basket size going up. But that loyal customer base is already immediately additive and accretive
to the business. So that was kind of the first surprise that we're seeing from them. Certainly just the
sheer number of customers signing up was significant and if you look at the number of members per
store, that density in orders of magnitude higher than others. And we looked at some public comps of
other companies where we could see the data and our numbers on a member participant per store were
higher than the next 4 or 5 combined. And that's going to allow us to then go back to our manufacturer,
supplier partners, et cetera, and say look, we've got the opportunity of engaging customers in a more
efficient and effective way than any other program that you'll have. And -- so that allows us to further
differentiate ourselves as a high-volume retailer in a high marketing ROI investment partner for those
providers. We're pretty pumped that we've got over 9 million participants, but only 2.2 million of those are
fully enrolled. There is another 7 million that are still actively engaged in the program, and there is over to
2 million of those that have never bought fuel from us, right? So we have the opportunity to continue to
convert non-member participants into full members and continue to engage them. And I guess last -- and
I made this comment, we are not even in the first inning, I mean, we basically just turned on the basic
features and functionality, and we have been able to get this response. And -- so when we start doing
targeted consumer offers at scale. We've done a lot on a smaller scale basis to demonstrate the capability,
improved ourselves and our supplier partners that these are highly-accretive marketing investments for
us. And then, when we add some of the other bells and whistles, et cetera, we just believe there is more
and more potential. And there is also potential to get the cost down. So we talked about the 40 basis
points on a cent per gallon on fuel and the 40 basis points on unit margin, if you compare to prior year at
16.6% versus our 16.0% unit margin, 40 bps of that was MDR, another 20 bps of it was just higher mix
of tobacco and lottery. Those costs are also influenced by the high level of non-transactional points, and
so those burn off, and then we expect the program to be more and more efficient over time from a cost
standpoint. So we'll be able to get the upside at a lower cost, but still believe these are very early days for
the program.

Operator

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

Christopher Mandeville
Jefferies LLC, Research Division

Andrew, could we start off just on the tobacco momentum that you are seeing here. Really strong result
obviously. Is there an ability to maybe break that down with respect to just the various initiatives that
you've got going forward between strategic pricing and outside vendor support as well as MDR, obviously,
and to what extent does jewel and vapor plays to the comps as well?

R. Andrew Clyde
President, CEO & Director

Sure. On the cigarette subcategory, this is one where I believe MDR played a significant role. So the
manufacturer programs that we had in place I believe rolled off in March. And -- so we would have
expected to see more significant kind of fall off in April and May, but we didn't, right? The loyalty program
created that stickiness where especially in those states where we can earn on tobacco and burn on fuel.
And -- so that allowed us to retain customers that we attracted during more intense periods of the loyalty
program, and then when that rolled back on, I believe, in June those numbers picked back up again. So
we are excited about that. The timing of the price increases was a little bit different this year. And -- so
that probably didn't help as much on the unit margin standpoint. Smokeless, we were up both in sales and
margins, and we had some good promotional programs that were going on there. On jewel and vapor, we
didn't rollout jewel at our stores nationally until July of 2018. And so Q2 still represents a good year-over-
year comp from that standpoint certainly as we get into Q3, and Q4 will be facing those stronger comps
there. But overall, I would say look this is a category that we have been a leader in. We've focused our
pricing precision with some new capabilities on that front. Certainly the store resets have helped as well,
and I think when you look at MDR and our ability to concentrate and focus investment dollars, that gives
us a leg up certainly over retailers that can't participate in certain programs.

Christopher Mandeville
Jefferies LLC, Research Division

Great. And then I guess just as my follow-up, in light of all the success you're having on the top line both in-store and at the pump. I'm just curious what the competitive response has been thus far? And maybe if you could, I'd enjoy hearing a little about if it's at all different from chain and independent?

R. Andrew Clyde  
President, CEO & Director

Yes. So I'm always a little hesitant to talk about competitive response to pricing tactics and the like. Certainly from the tobacco side, I mean, where we gained significant market share, I mean, some of that is through means that are difficult to imitate certainly with MDR. And I think certain competitors when they think about the programs they are on, having to make decisions, do they get off some of the everyday low price programs, and I believe some of them are likely doing that. So the major competitive shift on the tobacco side is, what kind of program you're on, and if you can't get the volume associated with pricing at certain levels you're much better off pricing up going to a program that will award you for pricing up and penalize you for pricing down. So I think that's probably the most noticeable shift there. Yes, I would say on the fuel side, in many ways we're just going back and taking customer traffic that was ours to begin with that we atrophied over the last couple of years. And those customers have now come back, and they're back to stay with Murphy Drive Awards. And I think you get to a similar situation, and you can read the public press releases of others, but if you're going to be a low price high-volume retailer, you need to be generating the kind of volumes we do with 250,000 gallons per month or higher. That's 3 -- 2.5x the industry average. If you're getting 1x the industry average, you should probably think about a different pricing strategy and price up. And -- so I suspect that as we get sharper, others have to face certain independent decisions they make on their own. But I would say largely we're going and getting customer traffic that was originally ours and getting it back and keeping it.

Operator

The next question come from the line of Ben Bienvenu from Stephens.

Benjamin Shelton Bienvenu  
Stephens Inc., Research Division

I want to ask Mindy in particular. Just I'd love to hear more about the fuel strategy. What has changed under your leadership? I always think of you guys as being best-in-class, but Murphy USA is also not typically associated with complacency in their operations. So I know there is opportunity that you are uncovering, I know you guys are working hard to make that business even more efficient than it is. And -- so to the extent that you can talk about it, I'd love to hear, kind of, the some of the things that you guys are working on strategically and operationally.

Malynda K. West  
Executive VP of Fuels, CFO & Treasurer

Sure, Ben, and I appreciate the question. We believe that we have one of the most attractive market positions out there being a high-volume ratable store in the market in an otherwise market that long on product. So our emphasis has been on how do we create the most value, how do we leverage our relationships and those asset positions that we have. We're doing work around how we optimize our carrier mix and our optimal supply pull point. We continue to show ratable supply to our stores and avoid the outages and also reported and as we talked about a lot, how do we become sharper on our retail pricing capability at a store-by-store level. So it's after all, we are known to our customers based on price. So we need to be very good at pricing execution. So all those things really together formed the assortment of opportunities that me and my team are looking at as we are calibrating, prioritizing and sequencing property all the initiatives that we have in our business, that's what we are really focused on.

Benjamin Shelton Bienvenu  
Stephens Inc., Research Division
That’s great. And this could be a question for both Mindy and Andrew, but on the capital allocation front and specifically the share repurchase program beside the cap expand. You’ve allocated $400 million for a multi-year buyback which at today’s -- prices are approaching kind of mid-teens percentage of the float. Over that timeframe, that you’ve committed to the buyback stock over, that is a pretty consistent with the historical buyback pattern. So clearly signals your bullish view on the business. I’d be curious, and you might have mentioned this in the prepared remarks, but your thoughts there on why now was the right time to activate a program like that? Or reactivate a program? And also just the outlook for CapEx, it sounds like there is going to be accelerated unit growth with really good returns so understandably accelerating. Could you talk about the CapEx and ultimately the free cash flow trajectory over the next couple of years?

**R. Andrew Clyde**
**President, CEO & Director**

Sure, Ben. One of the pages in our investor presentation and sort of the public comments we made on one of the last investor conferences spoke to our historical track record. And it’s really about driving shareholder value over time and we kind of look -- will look back and said look, we’ve gone from $300 million to $400 million of EBITDA, we’ve bought back almost 1/3 of our shares, that has led to an improvement in the multiple of 6 to 9, and that allowed for a 14% CAGR on our share price since our spin. And we posited the question of what would you have to do to maintain sort of double-digit shareholder value growth. And we said we have to continue to grow earnings, and we have to break out of this $400 million period we have been in to move to something that starts with the buy. We could probably buyback 1 million shares a year and doing all that would both draw the confidence that would probably give us an extra turn of the multiple. That's all we need to do. And -- so we sit back and say, well, how are we going to do that? We say we're going to keep doing what we've been doing. We're going to grow productivity improvements from our stores, and those take time, and there is ups and downs, and there is a fuel pricing cycle that goes with that, and there is investments that go with that. But historically, we've generated more productivity out of our existing assets than other retailers, and we believe there's more opportunities to do that. We're going to build and rebuild where we have the right to win. I mean if you think about 50 2,800 square-foot stores a year at a 14% return on investment, you're going to be adding $20 million of EBITDA per year when those hit their run rate, right? So you've coupled a trajectory in a pipeline along those lines, coupled with our productivity initiatives you can check off the first box, right? 1 million shares a year within our operating cash flow, that doesn't seem like a big number, right? The reality is, right now we're sitting on $175 million of cash, and we have plenty of liquidity and coverage to be able to do that. So why not front-end load that, and you are going to be able to buy better prices than if you drag it out over a 5-year period. Ultimately, the market is going to reward us with the multiple, right? And -- but we believe those things all taken together allow us to continue our track record of driving double-digit shareholder value growth, and so were committed to that. The CapEx, if you think about the operating cash flow from this business, we've called it a free cash flow machine in the past, the current free cash flow coupled with the improvements, et cetera, generate plenty of cash flow to cover our CapEx in the future even if our growth CapEx gets closer to $300 million, right? So we believe this is an and not an instead of. Is just a matter of timing, we can afford to buyback shares in the near-term, and our pipeline suggests we are only going to be able to do 30 NTAs next year, but as we ramp up to 30, 40, 50 in the following years, we'll have a free cash flow to do it. We think it remains a very attractive investment proposition from that standpoint, which is why we are investing in our own shares.

**Operator**

Your next question come from the line of Bonnie Herzog from Wells Fargo.

**Patrice Harumi Kanada**
**Wells Fargo Securities, LLC, Research Division**

It's Patty Kanada on for Bonnie Herzog. I just wanted to ask on a couple of questions, 1 on tobacco pricing. Just curious if you are seeing any pushback from consumers on the February and now June list price increased on cig. Are you seeing evidence of increased smoker migration away from the cig category? And are you finding yourself needing to adjust shelf allocations to follow that migration?
R. Andrew Clyde  
President, CEO & Director

I would say given our performance in the last few quarters, which have been bucking in the industry trends, we're not really changing our shelf allocation because we are frankly taking share. And -- so the consumer migration we are seeing from our competitors stores to our stores, not so much to other products. So as we're growing sales and margins, units and market share across the categories, we're certainly not seeing that. I think the entire category continues to face trends that when you start breaking that out across different states and the regulations in those states, I think we are generally a more attractive markets in general. I don't think we noted anything particular from these more recent price increases versus prior ones. Certainly on some of the flavors, we were late to rollout jewel nationally in the first place, and we haven't really seen a fall off related to flavors as the menthol products are still available. So really nothing noteworthy on that side other than sort of the market share gains that we've gotten.

Patrice Harumi Kanada  
Wells Fargo Securities, LLC, Research Division

Okay, thanks a lot. And just in terms of cash flow and getting to that next level of EBITDA in the $500 million range. Can you talk a bit more about what you're doing on the price optimization side in fuel and tobacco to help you get there? And at the same time you're building customers, you're gaining share, how do you think about balancing these margin versus market share priorities?

R. Andrew Clyde  
President, CEO & Director

Sure. Well. I would say on the retail pricing excellence initiatives around the fuel's pricing. It's one thing to implement a system, it's another thing to build the playbook store by store, build the capabilities within the team, have all the data and analytics and insight you need to price with precision every day every product, every store in flat up and down markets. And that's a capability that we have been seeking to build for a while, that Mindy and Lester Tran and their teams have now really begun to put in place in the last 12 months, and you see it in the result. Have we made some trade-offs emphasizing volume over margin the last couple of quarters? Absolutely yes. Right, first thing we wanted to do is demonstrate, can we get those customers back that we lost when we were being a little sloppy on the margin. So now it's -- we have the ability to get both volume and margin as we were seeing in July. And I think just a precision by which we can do things store by store in any kind of environment is going to allow us to continue to grow fuel contribution. Are we're going to have a fourth quarter second half like we had in '17 or '18? I don't know, right? We had a major hurricane that impacted supply in '17. We had the crude fall off in the last year. In '16, we had OPEC come together, and we saw prices rise in the third quarter. And -- so I would just urge everyone to continue to look over this category over any rolling 12-month period. Our focus is get sharper on our pricing to be able to gain both volume and margin and do that in a responsible way. But we've certainly emphasized regaining customers' share of wallet in the first half of the year, especially, as we are rolling out Murphy Drive Awards and that initiative.

Malynda K. West  
Executive VP of Fuels, CFO & Treasurer

And Bonnie, I can provide some additional color on retail pricing excellence because we've really been emphasizing 3 main areas there. One is just around refining our strategy. So reaffirming who we are, which is a bottom of market prices and in doing so, we have optimized the tactics of our network on a store-by-store basis then we've also improved our execution at the same time. So making sure our competitors' sets are up to date. Selectively using automation features within our system and also reducing the time it takes for us to initiate a price change here and how that take affect out the store. And then lastly, implementing a tighter performance management. So tools to improve decision-making and our consistency in our accountability. So it's really been tight coordination between all 3 of those areas, which is helping us to ensure that every site is priced optimally every day, and I think we can see those improvements are showing in the results.
Operator

Your next question come from the line of John Royall from J.P. Morgan.

John Macalister Royall
JP Morgan Chase & Co, Research Division

Both of mine were answered, I just have one quick one. Are you guys seeing any uplift from the outage of the Philadelphia energy refinery in terms of your position on colonial? Just any benefit there from price arbitrage as those gallons coming off the market?

Malynda K. West
Executive VP of Fuels, CFO & Treasurer

Not really. What we saw was pipelines' face turn positive very briefly in that first week following that refinery outage, but since then imports have been filling up that gap as weak demand in Europe is displacing a lot of product supply over there. And -- so actually the [arp] have been open to contract those supplies globally, and they have been filling that gap. So really there hasn't been any significant impact on our business.

Operator

[Operator Instructions] Your next question come from the line of Christopher Mandeville from Jeffries.

Christopher Mandeville
Jefferies LLC, Research Division

Andrew, I just wanted to make sure that I'm understanding you clearly for the back half of the year with how you pursued MDR in the first half and more so for market share and volume. Should we expect a better balance with respect to the top line in margin profile in store in the back half? Or do we need to maybe wait for that as we approach more so 2020?

R. Andrew Clyde
President, CEO & Director

Yes. So I think there’s a number of factors that will influence the back half. The most significant 1 I mentioned is, what kind of market environment are we going to find ourselves in and as you know, Chris, that is going to dwarf pretty much anything, right? But given that environment, I would say the following. We are going to be sharper on our pricing that will get both volume and margin, right? So if you’re going to err on one side, I’d say we would probably err on the volume side on the first half. The goal here is to reduce the errors or any sort of unforced errors to use our baseball analogies. The MDR member behavior, we’ve got some really cool data analytics where you can see the customers that sign up any given month, how their behavior changes over time. We’re seeing every new group that signs up behaving like the group before them. So we’re not signing up 1 million a month, we’re still signing up 0.5 billion a month. So as we add new customers, and they exhibit the same type of behaviors than the existing customers maintain or improve their behaviors, we expect to see that. But as we mentioned, the non-transactional points as they get burned off, we expect our cost will eventually be lower on a merge and fuel basis from that standpoint. And I think some of the other programs that we have should be supportive as well, but as we mentioned around jewel and some of the other things we’ll be comping some challenges there given the timing of rollouts. So we’re looking forward to the second half of the year. The biggest biggest comp challenge will be, as you know, Q4 where we had the precipitous fall off last year, and we’re unable to see something similar to that. You’d have a difficult time comping against that without some help from the market.

Christopher Mandeville
Jefferies LLC, Research Division

Right, that all makes sense. And then just a follow-up for Mindy. It was mentioned in the press release that you might potentially contemplate refinancing. So just as relates to the senior notes, what you envision could be the potential interest rate that you would be able to receive? And then just in that
practice, is there any ability to actually adjust your current covenants especially on the buyback where maybe you can get some greater leeway on a go-forward basis?

**Malynda K. West**  
*Executive VP of Fuels, CFO & Treasurer*

Yes. I'm glad that you picked up on the language that we might perhaps think about one day refinancing. As most of you guys know and obviously, 2018, those original notes became callable at a premium of [103]. In August of this year, that premium declines to 2%. Obviously, we have no requirement to act with 4 years of the 10 are left. But we still may elect to do that for a couple of reasons; to lengthen our maturities and also to take advantage of lower rates, which I think at a 6% coupon currently if we even carve that back to 5.5%, that would save on an annual basis $2.5 million of interest expense. So I think that that's kind of in the range that we're in. So we would be able to take advantage of the current low rate market structure and also take advantage of our track record of strong execution that we've built in these 6 years since that original issuance, which I think would allow us to settle over rate than the 6% current one. Both of the current ones have very high demand at issuance. Both trade above premium so we think that the new issuance would have strong demand. And with regard to the covenant, the 2017 issuance actually has a 3x leverage covenant before we start restricting our ability to do share repurchase. And -- so we would expect that on any new reissuance, we would mirror the covenant which we receive in 2017. So that would give us additional freeboard above and beyond what we currently enjoy.

**Operator**

And there are no further questions at this time. I will now turn the call back to Andrew Clyde for closing remarks.

**R. Andrew Clyde**  
*President, CEO & Director*

Great. Thank you, everyone, for joining the call. As you can tell, we're pretty enthusiastic about our Murphy Drive Award program, the capabilities that we're building and the initiatives and the future that we see before us here at Murphy USA. Thank you again. Bye-bye.

**Operator**

This conclude today's conference call. You may now disconnect.