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<<Christopher Mandeville, Analyst, Jefferies LLC>>

Okay, well, good morning, everyone. My name is Chris Mandeville. I'm the Staples Retail & Distribution Analyst at Jefferies. Its privileged to have folks of Murphy USA with us today. Today's presentation format will be a slide deck. And I will turn this over to President and CEO, Andrew Clyde.

<<Andrew Clyde, President and Chief Executive Officer>>

Great. Thanks, Chris, and thanks for Jefferies for hosting again this year. We are webcasting today. So there'll be a transcript of this presentation as well. We have usual cautionary statements. And joining me today also is Mindy West, our Chief Financial Officer and Executive Vice President of Fuels; and Christian Pikul, our Senior Director of Investor Relations.

Since we spun off in 2013, Murphy USA has been playing a little bit of a different game in the gasoline convenience retailing space versus many of the competitors out there. And we've been really focusing on winning at our game. We laid out at the spin set of strategies based on capabilities that were unique to our company and we've continued to build those capabilities and reaffirm those strategies each and every year since our spinoff.

But if we evolve these five strategies down into what are we really trying to do to drive shareholder value, it's pretty simple. When we spun off, we had about 1200 stores and we saw there were significantly more value opportunities in driving productivity gains from those stores across all the categories of merchandise and fuel as well as our cost categories and growing that EBITDA per store in many of our other core metrics. And we've done that and we continue to do that.

Second, now that we've grown to almost 1500 stores, we've been building or rebuilding in the case of our raze-and-rebuild stores at locations where we have the right to win. And early on we had the right to win with our super high volume, low cost formats in front of Walmart Supercenters and we extended that with the halo around the Supercenter. We've now evolved that into some of our most attractive markets with an infill strategy where we still have the right to win with the customers without trying to be me too in large categories like prepared food while we don't have the capabilities.

And last, but certainly not least in terms of importance is we've been focused on maintaining a very disciplined approach to capital allocation, stewarding our financial resources, including the sale of non-core assets since the spin, and being savvy about how we thought about share repurchases as a key part of our capital allocation strategy. And over this time period as well, we

built some differentiated capabilities and one of the strongest leadership teams I think that exist in the small box retailing space.

So that's how we've been going about winning at our game. Ultimately, it's about the proof points. We use our value creation formula to demonstrate how we think about growing earnings per share. This balance between organic growth at the top and shares outstanding at the bottom really reflects how we think about capital allocation. Looking at organic growth, we've grown the store count 21% since the spin, adding 271 new stores, but we also began razing and rebuilding the small kiosks at our highest performing locations and have done about 60 of those since spin.

On shares outstanding, we've repurchased 15 million shares, almost a third of our float since the spin. And so you'll see later a pretty balanced capital allocation, about $1 billion in share repurchase about $1 billion in growth. And then these three components in the middle are the ones that are really about driving the productivity of the store, we have grown our total fuel contribution by 10%. Fuel breakeven, this is the metric we use to talk about the difference between the merchandise profits and the operating costs divided by the volume.

We've improved that metric from 3.2 cents per gallon to 0.8 cents per gallon since the spin, or about 2.4 cents per gallon on 4 billion gallons a year, that's about $100 million of improvement from productivity and then scaling our SG&A per store. One of the questions we get more – most often as we've done a great job in improving productivity of your store since the spin, are there more opportunities out there? And we'll be talking about fuel leadership where we are focused on recapturing volume and market share, which we've done for the last three quarters and seeing a very strong performance in the current quarter. We had this journey to Zero Breakeven metric where we continue to focus on optimizing our labor and other costs and in leveraging G&A, we spent significant time and resources in building a loyalty program, Murphy Drive Rewards, which we rolled out nationally this year, so a lot more excitement.

This has translated into shareholder value, the chart simply shows the average share price annually since the spin as well as the min and the max. And so real simple story, the average has gone up every year. The minimum has gone up every year. And the maximum has gone up every year. And its still early days in 2019, but if someone wants to take the under, I'll take the over on where we're going to land in 2019, whether we get a new high above $86. But the important thing here is we've been able to generate double-digit CAGR on our share price over the last five years to six years. And we've done it simply by growing EBITDA 21%, buying back 31% of the shares. And despite some of the questions and cynicism about a fuel focused retailer at the spin where we spun off at six multiple, we've improved our multiple by 50%. So that's what's really driven the share price.

And so the question is "What do you have to believe to continue to drive double-digit CAGR and your share price?" It's really simple. You need to put a five in front of that EBITDA number at some point. You can continue to buy back shares, but you don't have to buy a third of them back another million shares a year would do it. And if you do those things consistently, you would earn a higher multiple and one more turn will allow to do that. So kind of one more digit on each

one of those variables can do the trick. The question is how do you go about doing that in a business like this that's very competitive.

Let's talk about EBITDA. We believe there's a runway well beyond $400 million. We've identified a number of key sources of growth. We have a lot of proof points in the recent quarters. And I'll give a little insight as what we're seeing in the current quarter as well. First is around retail price optimization, specifically around fuel, but also around tobacco as well. After having several quarters of declining fuel volume comps, we've now had three successive quarters of fuel volume increases and the current quarter is showing attractive volume growth as well.

One of the things we found was 80% of our volume losses were happening in about 20% in the markets and only about 40% of that was due to competitive entry. The balance was around pricing optimization and not getting it right store by store. I'd express a lot of frustration about that in some earnings calls about a year and a half ago. We made some changes in leadership. We've got store by store optimization down. We're taking full advantage of the system we'd implemented, but not really implemented effectively to build that capability. We're now seeing the results of that.

Q1 was a great example where we had a massive run up in price. We gained both volume and margin in that quarter. We will be investing margin from time to time to regain customers to grow customers back and to build market share, but we're committed to reestablishing that position. As I mentioned, we're seeing the same in tobacco and part of that is through the loyalty program and the tobacco pricing tools that we have. So in the last quarter, we grew market share in every single tobacco category. So despite being declining categories, they're very, very large. And with the price increases, we see we'll be around for long time.

One of the reasons we're being more aggressive on gaining customers as we've now built what we believe is an exceptional loyalty program through Murphy Drive Rewards to allow them to remain sticky to us. And I'll share some insights on that on the next slide, but that's been important. We also continue to focus on our fuel breakeven metric and we've made good progress continuing the progress in labor, but we had been spending more recently in maintenance in part to prepare the stores for the Murphy Drive Rewards launch, but also in rebuilding our customer service capabilities.

We've now gone from a poor job of supporting the stores and dispatching and getting maintenance out there to an exceptional job, so that actual dispatches are up, but our uptime is up and that's all contributing to higher customer transactions as well. So, we'll see some higher costs in certain cost categories in the short-term. And then the capital drivers as well, the new stores that we're building are ramping up at a higher rate, higher volumes, higher merchandise sales in part because of the pricing strategies, the real estate strategies as well.

So we believe all of these efforts over the medium-term and the long-term will continue to grow our EBITDA. One of the questions we always get as I mentioned before, while you've been doing a lot in the past, why do we believe there are still opportunities in future? And we really pulled it down to three things. We're doing things differently. And if you think about store labor,

it's a great example. We took a lot of costs out of the business from optimizing the labor. We're now doing wage cohort optimization where you don't need two assistant managers at every store. And then there's other opportunities like daily pay for our cashiers. And we just did an engagement survey and 53% of our cashiers who had been with us less than years responded to it. And they talked about daily pay and things like that that are important to them.

And if you can do that, then you minimize turnover and the training cost associated with that. That's an example of that. In terms of doing different things, we'd never gone through the major raze-and-rebuild program in the past. We've done that. Now we're doing the market infills with the larger stores and then there are some new formats that we're considering in the future as well.

And then last is around changing customer behaviors. We never really had a loyalty program. We had summer discount programs with Walmart in the past. Those worked until they didn't. And we've really invested now in this capability around Murphy Drive Rewards and proven that you can make everyday low-price loyalty work. The trick now is to be able to scale that up, link it with other partners and networks and affiliates to get the full value out of that. Between doing things differently, doing different things and changing customer behavior, we believe we have a long runway ahead of us in our business.

Murphy Drive Rewards is pretty foundational. So we did a pilot in North Texas and Tennessee back in June of last year. And over the period that pilot, we gained 1 million participants into that program. We rolled out nationally that program beginning in March. And so since March of this year, we've gained 7 million participants to this program. So as of today, we have almost 2 million enrolled members and 1.1 million to 1.2 million members have been completely age verified.

So, with our age restricted products, manufacturers will have the ability to communicate with them in a meaningful way that they've opted into and over 95% of our participants have opted in. That's pretty remarkable when you think about a gasoline convenience store loyalty program gaining 8 million participants in such a short period of time, 84,000 reviews on the App Store in a rating of 4.8. I think at 1 point, we are the number 10 shopping app on the App Store.

So it's really gaining traction with our customers. And what's different versus the typical approach you see is, we are giving additional value to our everyday low price offer. Many of the competitors will have a price, but raise the price to everyone and lower to some. You buy six proprietary products that are really high margin, you get a seven for free. We're doing something different. It's about changing customer behavior.

We can see if you've only bought a one pack of our product and never bought a two-pack, three-pack or carton. We can then use manufacturer promotion dollars to be able to incentivize you to buy a three-pack instead of a one pack and we can follow-up that journey with repeated offers. And when you do that across categories, you can gain significant value and you become the highest return on investment for marketing dollars for the manufacturers.

So more to come from this, but we've established in a record amount of time, several million engaged customers behind this. One of the reasons we've gotten customers so engaged behind it

is, we are serving, versus our competitors, a pretty unique, distinctive and growing customer segment. This chart from some of our consumer research shows the proportion of individual customers who make over or under 75,000 a year and those that have higher or lower than a high school educational attainment.

And we're kind of alone up in that right hand corner, right. It's a customer segment that seeks value, that's growing, and their economic outlook may or may not be getting better. And as a result of that we're able to serve them with an everyday low price offer. And then when we did provide additional value on top of that, they really appreciate that and give us their loyalty and return.

So that's about growing EBITDA on the runway there on the tools and the capabilities that we have to continue that runway. If you think about the portfolio, we've had a pretty static portfolio for a number of years. It's all been centered around the Walmart Supercenter Halo. And the reality is, that worked until it didn't, where there wasn't enough great locations in front of Supercenters that we didn't already have.

And we continue to find locations here and there or if a third-party location closes, we're able to pick that up because we had the relationships and we're a good partner for developers. But you can't build a scalable organic growth program around that. And so we step back, we've looked at our most attractive markets where our offer and our customers give us the right to win and we were implementing at 2,800 square foot store in those markets is still modular in nature. So it's low cost to build and we can get those up and running very quickly.

We mentioned on the last earnings call that 2019 is the trough year for that format as we will build 15, but we've built up the land pipeline for 2020, 2021, 2022 to build 30 to 50 new stores a year as we go forward with that format. And I'll show you some of the economics on that format on the next slide and why we're confident around that. We also have the opportunity in some of our non-urban markets and we're still about 70% rural, where we have high volume stores. You could build something on the other side of town away from the Walmart Supercenter. It would have to attract different customers on different destinations or occasions. We know that 50% of our customers today that are coming to the stores in front of the supercenters are coming to or from a trip to Walmart.

So we're doing some of the strategic work to figure out, what type of format might work best in those types of markets, but we believe that we can take both of those, both the in-fill and the sister store and grow those at scale. We continue to do the raze-and-rebuild stores and it's really kind of unique to Murphy USA, many of the competitive formats that are out there that have small formats don't have the reinvestment economics to tear it down and rebuild something new – are to do. And we're continuing to drive high returns from those raze-and-rebuild stores.

And now that our older store is north of 20 years, we're going to be the point in time. We're going to have to think about do we invest more capital into the marginal store in a marginal market, we'll have some end of life exits. And we've had those in ones and twos in the past, but we'll have to start thinking about that in the future stores reached in their useful life.

This slide shows the performance across all of our formats and I will tell you what the return on invested capital that has our book values on there. So some of the old kiosk are 10, 15, 20 years old that had the highest returns. But if I draw your attention, the 2,800 square foot stores, we've actually built 36 of those in recent years and then some in prior years with this modular format. It's our highest volume store, both from fuel and merch, the EBITDA per store before corporate G&A is $44,000 per store month and it generates a after-tax unlevered return of just under 15%. And actually has a negative fuel breakeven, meaning that we're already one cent ahead. So we can be more aggressive on our fuel pricing at those stores.

And so we believe that's a great model for going forward. We don't have to go build a 7,000 square foot, $7 million all in store that has prepared food and kitchens and commissaries, that we can generate returns. Then we've got a long runway here as well. One of the questions we get often is, why aren't we involved in the M&A activity. The first response is, I'd much rather roll our customers to our low price offer and Murphy drive rewards than rollup stores. But we see deals from time-to-time and many of the deals that we're seeing have EBITDA per store month in the $12,000 to $15,000 range. So why would we pay a higher multiple than we've been awarded to buy something that's generating EBITDAs per store significantly lower than our base or the new stores then we can build.

This slide shows some of the raze-and-rebuild performance improvement. So we're growing gallons at these stores and we're growing merchandise at these stores. These are high performing stores that were just over under pumped and under nozzled, when they were built and they had small kiosks at the end of the useful life, we're going to build a 1,400 square foot store, expand the offering and get exceptional returns on those. The cost of those as essentially the same as the new build, you're just not having to pay for the land again.

So when you add up the things we're doing to drive productivity and the quality of the new stores that we're building. We've actually got a pretty high class problem. This business is a free cash flow machine and if you see the operating cash flows over the last several years, it's averaging well north of $300 million a year, that is above the CapEx that we have for growth, for corporate, for maintenance capital.

And so we're able to take that remaining free cash flow plus our existing cash balances and maintain our commitment to share buybacks. The net debt position on the right remains conservative. The bank covenants and our oldest bonds have a 2.5 times restriction for a share repurchases, we've maintained a ratio well below that. So that we can be in the market at all times.

This last chart just shows the capital allocations. I mentioned, since the spin, we've allocated over $1 billion to share repurchases, but that's balanced with $1 billion in CapEx for growth and the sustaining capital that our business needs. And so having the free cash flow that we have enables us to do both of these in a very balanced and disciplined manner.

So we're all about driving our future EBITDA through productivity of the stores, good capital investments, we're committed to balance and disciplined capital allocation, share buybacks as our primary means. If you do those, what might that do to your multiple? We think it should earn

at least another turn, this shows kind of our history going from a 6x multiple of the spin to a nine. We built credibility, since the spin. This was a space that people didn't know or they didn't like the fuel side of it, having the consistent, reliable, free cash flow through all types of market volatility has paid off.

And I think our disciplined capital allocation has awarded us some credibility with investors as well. On the far right hand side, you see the QSR, it's a quick serve restaurants. They're earning a higher multiple at greater exposure to food. They don't have exposure to fuel and tobacco. And some of our public peers are a little closer to them, because I do have a food offer.

I think for us, having a clear line of sight to visible growth both through the productivity initiatives, as well as the new stores demonstrating a higher level of performance in fuel and tobacco and some of the categories that, yes, we have higher level of exposure to, but if we can grow market share in those categories that attracted margins that'll be rewarded as well.

So take all that together, we think our way of playing our game and winning at our game sets us apart. We're not trying to play the other guy's game. We want to win at our game. And we think it allows all our stakeholders to win. Specifically addressing, the investors what you count on from us is a commitment to grow earnings and earnings per share over time and continue to say extremely disciplined and balanced in our capital allocation.

So that concludes our presentation. We won't have time for Q&A, but we all appreciate your participation today. Thank you.