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Ben Bienvenu: Okay, thanks everybody for joining us this afternoon. We're going to go ahead and get started. I'm Ben Bienvenu. I cover the Grocery and Convenience Store Sector here at Stephens. Murphy USA is here with us today to talk about their business. As many of you will know, Murphy is one of the largest convenience store chains in the US. And I'm delighted to introduce from the team, Andrew Clyde, CEO, as well as Christian Pikul from Investor Relations. This will be a fireside chat format and I'll be leading the Q&A session today, but for listeners, please feel free to submit questions if you have them and I'd be happy to ask them on your behalf. Andrew, Christian, thanks so much for being here today. We appreciate your time.

Andrew Clyde: Great. Well, thanks for hosting Ben. It's good to get together in this format and it's been good to see a lot of familiar faces in the one-on-one so far, so let's get going.

Ben Bienvenu: Good. Good. Well, maybe since we've got fresh news, you guys did put out an update this morning, just any commentary or color that you can offer on that would be helpful. Numbers, I thought was great, but yeah, I'd be curious to get your perspective on them.

Andrew Clyde: Yeah, look, we're really pleased with the numbers. One thing I'll say from the start is we started doing this at the beginning of COVID. We just felt the importance to show one transparency around our earnings in this period of uncertainty. And I think it just goes with our track record of trying to be as transparent as we can as a company. We are planning to have this as our last one, unless the world goes upside down and changes. It's not our normal behavioral report, monthly numbers and month to date numbers, but we certainly hope investors have benefited from this, but we believe that we're getting back into the more normal territory.

Look, the last time I think we spoke, we said, look, we'd like to be going from 85% to 90% towards 95% by the end of the year. And I think as October and November today suggest, we're about 95% on fuel volume. There's some positive news in the detail below that, Florida is well over 100%. So the snowbirds have left the Northeast and they've traveled in mass to warmer and more regulation-friendly places to spend Thanksgiving and Christmas. I don't blame them for that. There are places like Texas that are now above 90%, but we're struggling because of the border closing. And so we've seen just the traffic pick up.

So at 95%, if we maintain that through November and December, we'll be starting 2021 about where we thought. And certainly, we'd like to see some improvement on that between now and the end of the year. Kind of unattached

to fuel is tobacco, and those numbers continue to remain strong. Cartons started pre-COVID below 50%, in the 40% range, peaked at around 62%. I think October was close to 56% cartons. Consumers have changed their buying behaviors. They continue to seek purchases in bulk where they can to minimize their trip and exposure. And I think that's just one of those new normals for consumers and most of our competitors aren't selling cartons. The industry's about 10%. A lot of the mom and pops don't sell them at all.

Even those that would want to go back to their original retailer and buy a single pack are walking away from significant value on a cost per pack basis. And so they recognize, "Wow, there is such a great value buying it from Murphy USA." And by the way, we continue to see Murphy drive awards numbers. Members and participants grow, and that virtuous cycle between that, the knowledge, the insight to be able to give the manufacturers, which they value that and then can disproportionately target spending towards those customers, maintains that stickiness with the customers.

And we just continue to invest in the categories where I think others have just chosen to say, "Hey, it's just not that important. We'll focus on other things and we're fine with that." And I think as fuel volume picks up, the more attached categories, the packaged beverage, some of the snacks, et cetera, have grown. There are some trends like people were buying larger family-size packs of salty snacks, that hurt us, they didn't want to buy three packs from us. Now, you're starting to see more normal behaviors and those have improved, candy promotions are turned back on and our staff are doing a great job. So we're very pleased with the momentum, the continued acceleration, the sustained games, and the just continues our commitment and outlook towards what we ought to achieve next year.

Ben Bienvenu: You've had such a great year this year, financially, that I think there hasn't been much focus on what we think of as really a fundamental change in the long-term growth of your business as a result of your acceleration on new store growth in 2021 and beyond. Can you talk a little bit about this shift, Andrew, and what did it take to establish that plan? And can you con convey to us just the level of confidence that you have in the plan and why?

Andrew Clyde: Yeah, so look, I mean, the work really started back in 2013 and 14 when we started the spin with up to 200 stores from Walmart. They were in front of super centers. We'd looked at the entire universe of locations we might be able to get. And when Walmart in 2016 said, "You're not getting more stores," we had already anticipated you might have a binary decision like that and had built up a portfolio of locations in what we'd call the Walmart halo. But we quickly realized that that wasn't going to be able to sustain the level of growth that we would want to achieve.

And so we began to focus on what's the right format? What are the most attractive markets? We looked at our existing, larger format stores and we found that for our offer, the 2,800 modular delivered everything the 3,500 stick-

built did, but at a lower cost, less real estate. We identified to a market attract in this assessment that we did the five core market areas that we've been growing in. And we committed to build a team to build the pipeline to be able to do that. And you need about 125 stores in the pipeline at any time to be able to commit to 50 stores a year on a rolling basis. And we did that.

And so initially, if you go back two or three years, when we first highlighted we'd be doing 15, 30, we were anticipating doing 40 in 2021, but the team did a great job building the pipeline for 50. And so we're able to continue to do that. We were already looking at how we would further optimize the layout of those stores with our new food and beverage leadership, things that we could do on that front as we build that capability to deliver what we have the right to win with with our customers and our formats and our markets. And so that will continue to evolve as well.

But I think as you and I have talked about before and other investors, there hasn't been a lot of attention or focus on that. 50 stores a year at 2x a square footage of the 1,400 square foot we're raising and rebuilding stores with, I mean that square footage addition is comparable to when we were doing 100, 200 square foot kiosk way back in the day as we were building out in front of the super centers. And so that is our primary focus for strategic allocation of capital and we remain committed to do that and confident in the results. And I think everything that we've been doing over the last year further reassures our commitment, because it's just adding positive benefits to every element, the PNL proforma.

Ben Bienvenu: Yeah. Another notable development headline is your updated capital allocation strategy that you highlighted, concurrent with your most recent earnings results. Can you talk about why you felt you needed to communicate that update? Why you updated it? And I think when we look at it, we saw it as another set of options within the same paradigm of capital allocation discipline. So, I don't think it's markedly different, but I'd be curious to hear why you did add those additional options to your strategy.

Andrew Clyde: Yeah. So our framework for how we thought about it hasn't changed from the spin at all, in terms of the levers. Historically, we've been about 50% organic growth, 50% share repurchase, and that's served us well and I think we've been fairly savvy buyers of our own stock. We didn't always get it right, but I think we got it close to right most of the time.

The key thing is, we laid out a set of goals for ourselves. We actually communicated those when we had that set the bar, raise the bar chart, and we said we needed to get to 500 million in EBITDA by 2023, buy back 1,000,000 shares a year and get another turn on our multiple in order to maintain the same 14%, 15% CAGR on an annual basis. And the reality is, through our strategic initiatives that we've talked about, whether it's Murphy Drop Rewards or Zero Break Even Initiative or Retail Pricing Excellence, some of our functional excellence, we delivered on those initiatives earlier, and then when you add the

benefit of the new fuel volume margin equilibrium that we're seeing in COVID and seeing sustained through every possible lens we could look through, we've got a strong view and a commitment and our guidance and January or February for 2021 officially, we'll have 2021 EBITDA that starts with a five in it.

So we achieved that early. And by the way, with all the free cash flow we generated, we completed the $400 million share repurchase early. So checked that one off and look, I don't expect us to get another turn on the multiple right away. I mean, if you think about our business, it's a, what you see is what you get. We just keep rerating because people keep seeing the next get, which is a higher earnings amount when we've delivered something. But when we have three years of 50 stores a year under our belt, that earnings profile will look different, but the future earnings profile at that point in time will look different and the market will have a greater confidence in that.

And so when you wrap all that together, we stepped back and basically told the board, "We're ahead of schedule. We also think it's appropriate to challenge ourselves. Is the 50/50 growth share repurchase capital allocation the most appropriate?" And the first thing we did was just look at the business over the next three to four years and ran our outlooks and our numbers. And we had a really high class problem. We're going to end 2024 with 800 million in cash and 800 million in debt. And having a net zero debt position, not very attractive, right? It begs fundamental questions.

And we said, "What can we do with that?" And we ask ourselves, "Could we accelerate organic growth further?" And the answer was, we're already accelerating it at the 50 stores this year to go to 75, building the pipeline. We wouldn't have marketable impact on that by 2024. "Could we accelerate raise and rebuilds?" Well, we could double, it's not going to have that much impact, but we've got a sustained number. There is some negative impact on EBITDA when you take it out for that period. So we thought that was a good approach.

We ask ourselves about share repurchase, are we still committed to that at that level? And the answer is, yes, especially given the market has not awarded us yet for the EBITDA associated with 50 stores doing 400,000 of EBITDA per year built into the earnings and the multiple. So we know we're going to want to do some of that. And then we ask ourselves about organic growth and other shareholder distribution mechanisms. And on organic growth, we've always said we weren't going to participate in acquiring below average chains whose EBITDAs were per store, were a fraction of ours, and paying a big multiple, and we understand why others do it because they have different motivations and different strategies and plans and they may make sense for them, but not for us.

But we did recognize that, look, to get the most out of our new to industry stores, we need to do a better job in our food and dispense beverage category. And frankly, our optimization machine has been focused on tobacco, labor, fuels pricing, and if you think about where we were in 2015 on tobacco, Ben, I think we were really good, one of the best in the industry. I think we're great now.

But if you think about the things we did over the last five years, a fundamentally different type of contract relationship with Core-Mark, a new tobacco pricing tool that has customer store level elasticities, Murphy Drive Rewards designed around an EDLP program to build that loyalty stickiness and support from the manufacturers, inventory management capabilities in the systems and store operating practices.

We didn't have that. So it took five years to go from good to great in that category. We recognize in food and beverage, despite recent investments in people, a new Core-Mark contract, being able to leverage MDR, we need to be open to at least thinking about an acquisition that would just significantly allow us to leap frog from a capability standpoint, and so we wanted to communicate that we're open to that. And by communicating that we're open to it, it also clears an FD issue, given that we've never done M&A before. And given that our second priority behind organic growth is share repurchases. If we found ourselves having discussions, whether they went anywhere or not, we wouldn't have to stop what we were doing.

And then last but not least is the dividend. And if I've got a bunch of growth investors listening in, it probably doesn't move the needle for you. And from the value investors, you like it, and if you've got a dividend, check the box, if it's 1% or more, it doesn't matter either. But in this ultra low interest rate environment, given the maturity of the company, given we're talking about less than 30 million a year when we always have 300 million in the bank, it's a way to recognize shareholders who are on the road with us over the next three to five years and demonstrate a commitment to sustainable returns, regardless of what the ins and outs of the share repurchase program look like.

I think it's also a symbol that, hey, we have grown and matured as a retail company, our retail peers, even beyond the C-store chains, have a dividend and the rate that we opened with is on the low end. And it gives us plenty of room to grow that over time. So that's the essence of how we thought about it, and I agree, it's more of an extension of what we've been doing with a couple of levers that reward shareholders and could accelerate a capability-building effort that we believe is critical.

Ben Bienvenu: Great overview of the thought process. I want to drill down a little bit into components of your business. You alluded to this earlier in your comments on carton sale trends. We've obviously seen really strong tobacco sales growth for more than a year now. I think the market's grappling with how to think about the sustainability of these trends, given that it bucks the longterm trend of consumption for carton consumption.

Can you talk again about what you've done to deliver the growth and maybe talk about it pre-COVID? Because you saw some notable growth acceleration pre-COVID. In the midst of COVID, how do you think about it post-COVID? And what's going to be required of you to sustain some of this growth?

Andrew Clyde: Sure. And I think it's good the way you frame the time periods. I think discontinuites like COVID mask underlying changes in businesses and industries. And in our particular case, the tobacco improvements that we've seen have been happening continuously for the last five years as we did the things I talked about in investing from good to great, we've gotten sharper on our pricing, we have a world-class fit for purpose EDLP, promotional capability that extracts more value from the manufacturers and gives it to the consumer. We can execute better at the store, et cetera.

What happened during COVID? While everyone else was worried about, "How do I get toilet paper resupplied?" We were talking to Altria, Reynolds, and Core-Mark about how to stay in stock on cigarettes. We made significant investments in our working capital and inventory, even to the point of helping Core-Mark with their driver shortages by going to once a week deliveries and investing in cycle stock there. And we invested further in the category. From a pricing standpoint, given the customer attractive... The ability to attract new customers in from the carton side and the competitors in many cases were taking their promotional dollars and putting them in their pocket. Right?

And so when times got tough, we double down on a category and because we had all the strengths that we had built over time, it showed up in the results and we're sustaining them now, even though many of the customers are now back to normal behaviors, they could be going back to their old retailer, but they're not. They're seeing the value and the convenience of shopping from us. So I think that's one of those trends that was probably going to get there anyway. And frankly, the opposite side is the declines that you were seeing at some of the firms, they got accelerated in COVID. That was a trend, a negative trend that was going to happen to them anyway as well.

So I wish I could tell you how much of it we're going to sustain next year, but I firmly believe we're going to continue to keep it for all the same reasons we've been growing it over the last three, four, or five years. Also with some of the new alternative products that have come out, we've become a leader in those because of Murphy Drive Rewards or access to the customer, we can do more and more efficiently to market and promote, create trial and awareness of these new lower risk products than most of our competitors. And that gives us a further leg up.

Ben Bienvenu: Yeah. Okay. Similar line of questioning on the non-tobacco categories. Pre-COVID, you were making good gains there. COVID, initially you saw a little bit of a dip and that kind of re-accelerated, and we saw that on your update this morning. What's working there? What's the underlying infrastructure that has yet to be tapped around MDR and some of the strategies and capabilities that you guys have? And what's the intermediate term opportunity as it relates to the non-tobacco category?

Andrew Clyde: Yeah. So you've got a few unattached to fuel, non-tobacco categories like lottery that did really well. And look, most of our consumers, frankly, had a windfall

with some of the stimulus money. And so we saw beer, wine, alcohol, the stores that can sell that, lottery, number of those purchases going up and doing well. On the attached categories, packaged beverage slowed with the fuel volume. It's picked back up with the fuel volume. Salty snacks slowed as people wanting to buy larger family size packs in the grocery stores, or frankly, maybe the bigger convenience stores. And we changed our SKU size and some of the places where we could, but we couldn't do that everywhere. As traffic normalizes, some of that's coming back.

I think food and dispense beverage is the one where frankly, we weren't doing that much before and so when we had to turn it off from a restriction standpoint, we didn't lose anything. And it really forced us to get clear about, how can we emerge from COVID stronger in this area? And so some key talent that's hired, the Core-Mark contracts going to have, improved markups on food and beverage items. Murphy Drive Rewards is the perfect marketing tool for that to communicate, create awareness, drive trial, build stickiness.

We knew we couldn't build Murphy Drive Rewards as a cup counter, or a me too type product to make it work, but there's no reason we can't take a page out of some other playbooks and start counting things and giving benefits there. And then doing some cross promotional... Cross category promotion on food and beverage. So we think that's probably the biggest upside. Candy is one where, depending on whether our world-class upselling machine was focused on it or not or had other priorities, when that's kicked back in and to be honest with you, that category wants to be up sold and promoted right there at the point of sale by our associates. MDR is not the effective marketing tool for that.

Ben Bienvenu: Gotcha. Okay. I want to ask about fuel margins. I'm a little bit surprised myself that we haven't even asked about it yet, but it's been such a notable change in the midst of COVID and I think we've been surprised, frankly, by the level of rationality we've seen in the industry. I suspect a lot of it's forced rationality, given a shortage of other options. But I'd be curious to get your perspective on it. As we think about coming out of COVID and potentially some demand recovery on gasoline, maybe not all the way there, but some recovery.

I think about the cross-currents, tobacco has benefited across the industry in the midst of COVID, maybe that reverts to historical trends. There's a push and pull on some of these breakeven dynamics, I think, as we come out of COVID. But I think we think maybe we don't see the fuel margins we have now in the industry, but maybe they're higher than they were pre-COVID. What do you think about that? How realistic is that? And what are the things that you're paying attention to as we transition into 2021?

Andrew Clyde: Yeah. Well look, I think history does have a way of repeating itself. And so if you think about coming out of 2009, the great recession, the demand fall off there, there's a similar challenge taking place where margin requirements went up as volumes demand fell by 10%. And it took a while to build that back up.

At the same time, you go from like 2010 to, call it '18, what else happened? Well, some integrated players got spun off, ourselves, CST. Where we more focused on volume at both of those companies? Probably. Were we more rational at being independent companies? I think so. The majors divested a bunch of stores and so those dynamics changed as well. So you've got today's demand destruction coupled with other restrictions on other categories, which you probably didn't see to the same extent before, but it does have the same breakeven effect.

And if you go back to the '09 to '19 period, the prior decade, you didn't see it ever go back down to lower levels, right? It sustained at a new normal because the industry was being rational, but the marginal players stayed more marginal, right? They never quite got back to the same economic position they were in.

What else is repeating itself today? Well, you've got one of the largest players in the industry who's noted for being pretty good at retail fuel that had a refinery parent that's now going to be in the hands of a firm where the majority of their stores don't have fuel and their overseas parent is not a big fan of fuel. And so, you can imagine those dynamics changing as well. And so I think we're going to find history is more likely to repeat itself where the marginal players don't fully recover, the rationality remains. We didn't see a period in the last decade where any firm got irrational.

We did see market entry by some firms. We've called out, certainly, Walmart and their neighborhood market entry is having a cannibalization effect on their super centers and our stores in front of those super centers. But they've essentially ground new store growth to a halt, right? So other than seeing that in regional pockets, I would expect to not see even a whole lot of that kind of incursion have such a widespread impact as we saw in the last decade.

So we remain very positive, just from a industry structure, what the expected competitive behavior and dynamics would be. And these marginal players are, frankly, able to do that because look, we change gasoline prices every day of every year in this industry. And over any month or two month period, it's by a lot more than the three to five to seven to 10 cents we're talking about. Seasonally with crude oil price changes, it's moving anywhere from 20 to 50 cents a gallon. So as long as prices are staying low and you're seeing some marginal increase in relative prices that translates to higher margins, I don't think you're going to see a consumer impact or backlash either.

Ben Bienvenu: Yeah. Can we revisit Murphy Drive Rewards? What have you seen in terms of customer engagement there? You talked about the enrollment numbers. How are your customers interacting with the platform? And what elements or capabilities within MDR have you not fully tapped that's down the road for us?

Andrew Clyde: Yeah. So customers continue to sign up. I think it's in part because we're getting new customers and whether it's a new cart and smoker, maybe it's a Walmart customer because of Walmart Plus that, while still early days, having some new

customers come on board, we're still seeing new customers. And I think tobacco is close to 60% engagement, fuel is closer to 20%. So we still think there's opportunities to increase engagement on the fuel side.

It's a great tool for finding out what's on our customer's minds. We've done a number of surveys. I've mentioned one before where we got 400,000 respondents to tell us everything about their current car and their next car and their interest in electric vehicles, for which there was basically no interest because they all drive 2008 and older vehicles with 125,000 miles they bought used for $15,000 or less. And so there's a different story for a different day about that, but tobacco surveys and other things, we're able to get insight on.

Well, now that we've done that successfully with such great hit rates, that's a value to manufacturers because you can append the survey data to the historical longitudinal data of those customer's buying behaviors. So customers who behave like this and have been introduced these products, promotions, et cetera, when they tell you something, you can link it to that. And if they've opted into certain things, then we can share that in an appropriate way. That has a value to it. If somebody wants to promote something and says, "Well, can you give me 100 000 names of people that have behaved this way? All right? I want to target them with an offer." Look, we may not be the only retailer that benefits from that offer, but we may be the only ones have the ability to provide the kind of information that's valuable. So it's still very early days in terms of what we can do, but it's meeting all of our expectations and we still think there's a lot more we can do with it.

Ben Bienvenu: Yeah. Okay. You talked about Walmart Plus. Can you just talk about the merits of that relationship? Why was the deal attractive to you? And does it have the potential to be meaningful for you guys?

Andrew Clyde: Yeah. From a potential standpoint, I mean, there's some ridiculous numbers in the sense that we think we get about one out of seven cars that pulls into a Walmart parking lot. We know half of our customers on average are going to or from a trip to Walmart when they see us. So if you say, "Well, God, what if we got another one out of seven? What if we only got half of their visits?" Right? I mean, I see you're smiling, I am too. It's like, that'd be a 50% volume increase if you could do that.

But there's a reason we're not getting that. I mean, customer fuel buying behaviors become ingrained over time. I buy in the basis of price, right? Someone else might buy in the basis of convenience, right? If I join this program, if I'm already buying on the basis of price and I was already buying at Walmart, chances are, we're already your fuel provider.

And on the other hand, if you buy on the basis of convenience or you have another set of routines, or you don't like our coffee or our bad lids on our coffee and that's part of your routine, five cents a gallon may not be the thing that gets you to move. And so what I'd say is, it's very, very, very early days. I mean, just

about all of our stores have seen some Walmart Plus related customer transactions, probably two thirds of the stores are seeing the most of it because it's not offered everywhere, it's only were delivery is available. There's a few parts of the country, kind of north and west of where you're at that there's probably a little bit more on a per store basis than some other places.

But we also recognize a lot of the customers. And so, that doesn't surprise us in the sense that their fuel purchase buying behaviors are fairly ingrained. And so I think this is going to take some amount of time before we actually see fuel purchase buying behaviors change, so that you could see truly incremental customer gains on a material level. In theory, if you could get one out of seven and only half of their purchases or only 20% of their purchases, I mean, those would be the most meaningful numbers and levers one could ever pull, but it would take significant amount of time and customer behavior changes to do that.

But if the program overall is successful, it meets a need for the customers, it's executed well across all the stores in terms of delivery and other things, we're glad to be a part of it. It was clear, we got on board very quickly for the launch. Sam's Club is just now getting on board with it. So I think it speaks volumes of our relationship and ability to work well together to make things happen.

So, if it's this, some variation of this, or something else, we feel very good about the relationship with Walmart. And we want to keep trying and experimenting with things because, fuel is important to the grocery store customer and this is an opportunity that should be a big win-win-win for us, Walmart, and the customer.

Ben Bienvenu: I want to touch on operating expenses. We haven't talked about that yet. That's, I think, been one of your strong suits historically as a public company is your ability to at least beat cost inflation. And that's been an important element of your ability to lower your breakeven since spinning off. You're going to have a little bit more growth than you historically have over the next several years. So how should we think about the OpEx, SG&A to support that? And CapEx maybe too, if you want to touch on that?

Andrew Clyde: Yeah. So fuel break even continues to trend close to zero. So we feel good about that initiative being ahead of schedule. The OpEx expense increase is what we call around here, a positive negative variance. The fact that we were paying higher commissions in Q3 to our employees because of the additional commission program that kept them engaged and focused on the business that drove to those sales numbers that continued in October and November is a positive. And so if we're growing our merchandise margin significantly faster than OpEx-related items like that, we will do that all day long and you should expect the same from the new larger stores and the raise and rebuild, they're going to have a larger compliment of labor to serve a larger set of customers with a broader set of offers at those stores.

So the break even will continue to get better, even though the OpEx on a average per store month basis will trend up. And at some point, I don't know how we think about reporting externally versus what we do internally, but carve out the same store, same format numbers, versus the same store, different format numbers, and then the new store numbers. Because what I really care about, and as I've talked to Renee and her team, is I want to see what we're doing to sustain our cost excellence at our small format stores in the kiosk and I don't want any noise in that to get in the way of prudent judicious decisions where we want to invest cost appropriately in our larger format stores to deliver an offer.

It's the same with our metrics around food and beverage. If you think about controlling waste, versus driving sales, and then hitting a waste or spoilage count to number of items placed out there, I want that number to go up a little bit, but I want it to be optimized. I want the sales number to be a lot higher. And so we'll need to, as we evolve the business, certainly internally, we've got our heads around any of the disincentives that could get away from bad reporting and are reporting those things in the right categories.

And we'll think about the best way to communicate those externally so we don't send any incorrect signals to the marketplace around cost increases. We know we're going to have cost increases given the growth in formats and the categories we're getting in, but if we can show on a same store, same format basis that we're maintaining, beating inflation, it'll send the message that we haven't lost our edge on that front. I believe that's the case.

Ben Bienvenu: Okay. Great. Andrew, thanks so much for your time today. Appreciate being able to hear about your business. Thanks to everybody for listening. Wish everybody a good rest of the week and a happy Thanksgiving next week.

Andrew Clyde: Great. Thank you. Glad to be here.

Ben Bienvenu: Yeah.