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<<Ben Bienvenu, Analyst, Stephens Inc.>>

All right. Thanks so much for everybody being here today. We'll go ahead and get started. I'm Ben Bienvenu with Stephens. I cover the grocery convenience store and food and agri business sector for the firm.

We've got with us today, Murphy USA, one of the largest convenience stores in the country, and I'm pleased to have with us from the company, Andrew Clyde, CEO, who'll take our questions and talk a little bit about the business today.

I'll kick off the Q&A session, but I'll check in periodically for questions. And if you want to interject with questions, feel free to raise your hand, and we'll make it a lively discussion.

Andrew, thanks for being here. I think maybe a good place to start would just be reflecting on what we saw in the second quarter, which, when we look at it, it was a fairly unremarkable fuel price backdrop, yet, you had another period of strong fuel margins relative to kind of the expectations we had set coming into the year. You were lapping pretty stout comparisons from the year prior. You held on to a lot of the share that you gained when we saw some of the kind of underlying demand data may be a little bit weaker.

So maybe talk about why you think Murphy is performing well right now, how you think the business is positioned in this operating backdrop and kind of how you feel about the business prospectively?

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

Great. Well, thanks, Ben, and it's glad to be here in Nashville with Stephens. Look, we knew Q3 was going to be a difficult comp. Last year, Q3 was the absolute perfect environment for our business. Prices had been running up, but the prices had been running up in an unusual way. With the Ukraine volatility, the marginal retailers were getting price movements up faster than we'd ever seen. And we got back above that $4 mark, and we got above the $4.50 mark. And it was kind of reminiscent of the 2008 period where consumers just got ultra-price sensitive.

And then prices came crashing down on the commodity side and The Street price lags on the way, and that's our opportunity, the lag, to be more aggressive on the way down and take share. And we had a 9% same-store gallon growth last year as we hit that peak without really losing volume on the way up, and we just kept taking share on the way down at exceptional margins. And I think we attributed about 3% of our full year margin or $0.34 just to the extraordinary earnings there in Q3.

What was different this year in Q3? Prices were going up in the first part of the quarter, which, again, generally isn't good for our business, and they certainly weren't going up with the same kind of volatility that we'd seen in the past. But I think the memories, the pain, the lessons from the marginal retailers seeing prices going up, we're just seeing a more responsive price movement on the way up that helps us. And it – it helps us not shed volume on the way up that we used to see going back pre-2019.

Prices certainly aren't as high today as they were a year ago and in Q3. And so we gave back some of the volume. We were down 4.7%, but on a two-year comp, up 4.3%. That's right in the ballpark that we said would represent a really good quarter because we know when prices are extremely high, we gain from all customer segments as they trade down, even those that usually don't go out of their way for low prices. And so in a lower price environment, we know some of those customers will go back to maybe a more locational convenient location.

So we held on to share gains. Plus 4.3% on a two-year stack, I think it looks really good compared to the other public peers, the broader industry data, et cetera. We did that at very healthy margins. And I think part of that is the result of prices moving up and our ability to maintain margin and volume on the way up. That is probably the biggest change since 2021.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Okay. Maybe if we could, kind of in the same vein, talk a little bit about how your customer is faring. Notwithstanding the data we got today on inflation, consumers are still grappling with higher prices. You are a low-price destination. What are you seeing from consumer behavior? Are there any notable trend changes? And what are you all doing to be proactive around delivering a message that resonates with consumers?

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

Yes. Our core customer is behaving pretty much the same that they've been behaving with us. We have a panel of 100,000 that have shopped with us every month since 2019. And so even in the peak pricing of last year, their fuel demand was just off less than 5%. They view fuel as nondiscretionary to get to work. They view tobacco and other expenses really as nondiscretionary. It's one of the few things they want to buy and they'll continue to buy from us.

But what we saw last year was more customers that look like our core customers join us, right, as more and more folks are seeking value. We work with a firm that provides data on the American consumer, their spending, their spending over the month, the amount of credit card debt they have, financing charges. And they've updated their numbers and it used to be about 50-something percent of Americans live paycheck-to-paycheck. Now it's 61%.

So our core customer is behaving the same way. They view our products in our stores as kind of nondiscretionary purchases. There's just more and more consumers who look like that, unfortunately, in today's economic times. And for them, they have an opportunity to trade down to the Murphy USA store, whether it's their fuel, whether it's their premium tobacco products, et cetera. And that's allowed us to grow share in those core categories while others are losing share.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

One of those categories, tobacco, which you touched on, obviously, nondiscretionary for your consumer. Your results have been incredibly strong there. I think we had another quarter this quarter where your percentage merchandise margins were lower than we expected because tobacco just continues to grow. So it's great for gross profit dollars. How are you sustaining share there? Is there anything different that you all are doing around pricing or promotions? And how are the vendors responding to kind of the share you continue to gain?

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

Sure. So again, on two-year stack, we're up 5%. The industry was down 8%, two years in a row, so down 16%. So a 21% delta versus the industry. A couple of things there. I mean, at some point, it becomes a self-fulfilling prophecy for other retailers who say, "Oh, tobacco is a dying category." I mean it's been in structural decline for 40 years. But in every one of those years, the retailers, the distributors and the manufacturers are generating more contribution dollars, which, at the end of the day, what matters. So it's still a very important category for us.

We over-index about five times to the industry average on the core products. We also, because of our promotional upselling ability, have four times the promotional effectiveness as our competitors, meaning if one of the manufacturers wants to introduce a noncombustible nicotine pouch and have a special promotion on that, we'll get about an 80% conversion rate. The typical retailer who has that same opportunity has about a 20% conversion rate. So five times the volume, four times the conversion rate, 20 times the promotional effectiveness. So at 1,500 stores, that's like 30,000 industry average stores promoting those items.

And so you asked the question, how do the manufacturers think about it. It's like, well, I can go through 1,500 Murphy stores and through Core-Mark, and we know they're going to be in stock and deliver on this important noncombustible risk – lower-risk product for them or I can go through 30,000 industry average stores. And so we continue to just think of it as an important category for our adult customers. We're going to be the most responsible retailer selling those products. We're not selling the illicit vapor products that so many out there are. And I think it just establishes goodwill with both the manufacturers, the distributors and the consumers.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

And what about the nontobacco category? Are you guys gaining share in those categories? What are some of the things you're doing to continue to drive margins there in gross profit dollars? And similarly, are vendors responding to momentum that you have?

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

Absolutely. So if we're growing share in tobacco and fuel, a lot of the center of the store items are those impulse items that come along with that. So that's really good opportunities. There's a big private label trend out there. And for our highly distributed rule format where we go through

Core-Mark and DSD, we don't have the concentration that some retailers have who have their own commissaries.

What does that mean? Well, that means we're going to stick with the best national brands and have the best value on that. And so we have a different conversation with the big national brands. We're not going private label. And therefore, let's think about creative ways to promote those items. Energy drinks are a real advantage for Murphy. I think it's one of the things we kind of declared a major in early on, and you definitely see that in our cooler sets. You see it in the sales, the comps, the innovation, the opportunities there.

One of the things that we're doing effectively as part of our digital transformation work is getting smarter about pricing the center of the store. As you know, we've got really sharp about fuel pricing, tobacco pricing. We're now doing a better job segmenting our stores across the network to see where could we take a little bit more price and earn a little bit more margin for certain types of stores? Where might we be a little bit more aggressive and leverage the elasticity on certain products?

The same from a promotional effectiveness standpoint, targeting customers based on how they want to be promoted through Murphy Drive Rewards. So a lot of opportunities in the center of the store, and that continues to be an area of growth. And I think with our larger stores, the 2,800s at Murphy, the raise-and-rebuild, 1,400 square foot stores, that's an opportunity.

Also at QuickChek, their loyalty program was really focused on their food and beverage. And it really didn't consider the whole box. And so as you think about building the basket, leveraging third-party spending, et cetera, there's a lot more opportunities at QuickChek as well to leverage the center of the store. So, I don't want to say it's been kind of the forgotten space. But given the food and beverage major there, the fuel and tobacco major at Murphy, I think we have the same sort of optimization, promotional pricing upside in the center of the store that you've seen so far on fuel and tobacco and then food and beverage at QuickChek.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Touching on QuickChek. Maybe talk a little bit about how that's fared relative to your initial expectations in terms of strategic enhancements it's brought to you, the same that you could bring to them, the financial performance of it. And then what opportunities are left to continue to cross-pollinate and continue to make each brand better?

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

Sure. Again, just to remind folks, this was kind of a – to use someone's term, kind of a unicorn acquisition. We wanted to buy a food and beverage capability because we knew it would be so difficult to build one. I mean we have case studies of others in the industry who are fuel-focused models that spent 15 years, and they've crossed the first chasm to be kind of a hybrid model, but they're really not a pure QSR, food-led convenience store like QuickChek and some of the best private competitors, Wawa and Sheetz being a couple with that same dairy background.

At 160 stores, it was of a right size. But as a smaller chain, they really didn't have the scale. They had made all the investments that one would think. So we thought it was going to be a great opportunity to learn from them, but similarly for them to learn from us. And there have been a lot of learnings both ways. I think some of the biggest innovation on the QuickChek side has been in their energy drinks. So if you leverage our Red Bull relationships, we're one of the fastest-growing accounts. They now have a Red Bull-infused drink, but they're the only retailer in the entire country that's selling a frozen Red Bull made-to-order slushie.

Leveraging that then, we go to PRIME, the fastest-growing social media influenced energy drink out there with a special sugar-free frozen promotional special with them. So a lot of innovation on that side. At the same side, we're learning from them to say, "Okay, well, how do we leverage national brand slushies at our stores and we can't do self-serve energy, but leveraging Sour Patch Jolly Rangers?" Flavors, we all know and love and our kids know and love, we're able to introduce those.

On food and beverage, Murphy is never going to be made to order. We're not even going to be private label made to stock like those with the commissaries. But we do have a large grab-and-go cooler area that we've optimized in our remodeled stores, which we're going to do 50 more next year and for the next few years as we re-envision that space in our 2,800 square foot stores. We've got a self-serve coffee fountain slushie area that we can do a much better job on. And so a lot of the lessons learned there are transferring over.

In terms of the other direction, Murphy was really good in the early years optimizing the business we had. We generated this $0.035 improvement on our breakeven, which was worth over $130 million of EBITDA on a base EBITDA we spun off of $280 million. Right? And we're applying that same optimization mindset to QuickChek. So if you think about their food and beverage business, we started by getting really good at demand forecasting, right, using all the big data, machine learning capabilities that we've built.

We now have that built into our production planning for all their made-to-stock items. And we're finding that profits are up 15%, even though spoilage is up 8% because we're putting out the right amount of items throughout the day and generating a lot more sales in margin as a result of that. That same demand forecasting is going to flow into the store labor modeling, which they haven't updated in a really long time. So kind of the sophistication of our analytical modeling optimization capabilities are being leveraged there.

In terms of overall financial performance, I'd say a couple of things. One, the Northeast market hasn't recovered to the same extent as the Murphy markets. You've seen more minimum wage increases in New Jersey and the regulations that you see up there. The good news is the fuel margin adjusts for those things because it impacts all the players up there as a result.

Tobacco has probably been more of a headwind than we thought. But as we think about going forward, leveraging the entire reach of Murphy's 25 states and how we get funding on, say, smokeless tobacco products where we can do promotional activity in New York and New Jersey, we can leverage that in a more thoughtful, precise way to gain back share there.

We talked about center-of-the-store promotional activity, loyalty. They launched a loyalty program kind of in the middle of COVID. It was kind of off-the-shelf expensive, not really as precise in the calculus and the value generation from that. So a lot of opportunities to continue to improve around that.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Great. Maybe I'll check and see if there are questions from the audience before we move on to the next topic. Okay. Fuel margins. I think back to this time last year at the conference, and it was a much more contentious subject matter...

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

When hasn't it been contentious?

<<Ben Bienvenu, Analyst, Stephens Inc.>>

It feels contentious at $0.16.

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

That's true.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

It feels like there's as much kind of market consensus around a new normal and equilibrium being meaningfully higher and the durability of that kind of structural change being highly durable than I've seen in the time covering the stock. Maybe if you reflect on what you've seen this year over the last several years, what are all of the – we talk a lot about the breakeven, but also other components around the competitive environments and otherwise, that result in what we've seen in the fuel margin backdrop.

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

Yes. So we are so fortunate being a retailer at the end of a value chain, right, versus being a distributor or a refiner in the middle of the value chain, because ultimately, we're the ones setting the price for the consumers. This notion of the industry cost structure has been around for a long time. We just had a relatively flatter supply curve where the differences in cost and performance wasn't as markedly different as it is today. And I think with COVID, when we saw a 50% drop in industry-wide volume, which followed the Saudi/Russian crude production that led to this falloff in price and these really high margins, I think everyone saw, oh, half the volume, your unit cost double.

And all of a sudden, these differences got magnified significantly. And then we saw, with very few geographical exceptions, rational behavior. Well, if my unit cost double, and I'm the marginal player, I've got to earn more margin. Well, thankfully, we had high margins before the

unit cost doubled, the volume fell in half. And so you saw rational behavior. And I think that started opening people's eyes, but there was still probably 90% skeptics at that point.

So what happened? Well, volumes started coming back a little bit, came back a lot for us, ours didn't fall as much. But their tobacco market share didn't come back. Their in-store traffic didn't come back. Now their costs started going up. They started having supply chain issues and inflation and labor shortages. And all of a sudden, these cost differences started magnifying and especially on a unit cost basis.

Then last year, you had really high fuel prices. So then payment fees almost doubled versus five, six years ago. Well, that all got passed through. And now you're seeing higher interest rates. So most of these single operators don't own their stores, they're paying rent, there's escalators, et cetera. And so you just keep building up this cost structure and you realize, wow, their costs now are quite a bit high. The supply curve's gotten really steep.

And then as every year goes by, they realize, well, I can just pass through a little bit more in price. And it starts that vicious cycle we talked about, right? Pass it up a little in price, maintain my profitability, but I'll lose a little gallons and I'll lose a little in-store traffic. Meanwhile, inflation's still affecting me in some ways and maybe it's getting a little bit better, but it's still not 2%. And by the way, whatever take-home profit I have, it's not going as far. So, I got to price up more for that. And so you've got this vicious cycle that just continues.

And where we took the approach since the spin, it is all about your cost structure. We got our breakeven down to zero. We have lower payment fees because of our scale, our ability to do smart routing, smart gateways, our credit card mix. We own most of our stores. We have a conservative balance sheet. We have a low interest balance sheet. We have newer stores. And so we're not immune to some of those cost challenges. It's just ours are just so much lower. And so with that price umbrella getting steeper, there's just more profit for us to enjoy. And then we can continue to be aggressive passing that on to customers to grow share.

So we're reinvesting it back in the customer. We're reinvesting it back into raise-and-rebuilds, reinvesting in new stores, and we're reinvesting it into share buybacks and dividends. So it's a very sustainable model for us. And I think as we talked about our range of margins, we kind of said, "Hey, that $0.26 was likely a floor, $0.30 was kind of a lock down from the high of $0.34." And we'll be thoughtful next February when we set a range that sets expectations for the following year. But I don't think this is a structural trend that's going to shift or go back unless you just saw 25% of the stores out there just disappear.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Yeah. You touched on the fuel margin range that you provided at the start this year, and I think you've built a framework that was thoughtful in how you got there. You kind of validated or fortified your view with a pretty thoughtful analysis. Will you go through that same analysis this year and update it?

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

Yeah.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Or how do you think about refreshing that as we go into next year?

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

Yes. So I mean the one thing we do is the analysis we give to all of you is the same analysis we give to our Board, and we give to ourselves that we set our plans on as well. So when we think about what that range looks like, I mean, $0.26 to $0.30 versus $0.16 in 2019 is quite a stark difference, right? So you've got to have a perspective on why it's that range versus something else. And we'll do the same.

I think one of the things that frankly surprised us this year, we didn't expect the same level of volatility with the Ukraine situation somewhat abated versus when it first erupted. But the surprise was the fact that retailers behaved more consistently in moving prices up despite not having that same level of volatility because they recognize there could be another surprise around the corner. The marginal costs have gone up for that player. So we'll come back with a range for next year. It won't be guidance, but it will be something you can all model.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Yeah. Perfect. On one of those points, we've had maybe less volatility than we saw last year, but we're still at pretty high absolute prices. And you talk about retailers when the cost curve steepens or the supply curve steepens, if you get 3% price move one day up and then down and back up at a higher cents per gallon price and a higher cost to run their business, they're probably more aware of their pricing and more agile than they would have been previously. Does that change if we go back to a low-price market? Or how do you think about that? Because we get asked that question a lot, do you make higher margins in higher-priced markets versus lower priced?

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

Yeah, that's a good question. I mean what I'd say is there are kind of three things that really support our advantage. One is the supply curve's gotten very steep. So you got those marginal player, you've got the low-cost player, and we capture that margin.

The second thing is the volatility. So if you got a steep supply curve, you've got a marginal player and you got high prices, the volatility, they've got to get the price up because that small move can really matter.

And then you've got the rational competitor behavior that we've seen. At low prices, they're still going to have the same cost structure. The payment fees will come down, but they will have come down for everybody and so that's just a pass-through.

Will the absolute level of volatility be as high? Probably not, but a $0.40 price movement is a $0.40 price movement whether it started at $2, or whether it started at $3 or $4. I think the factor that would impact us negatively the most is at $2, you're just not going to have as many customers who are going to go out of their way for the absolute lowest price. There are some consumers, maybe a few in this room, that will always shop for the lowest price. There'll be some when prices are really high and their pocket books are stretched.

They're going to go out of their way. But there'll be some that, hey, when I'm a little bit more flush, maybe I go to one trip or two or three that it's just going to be more convenient. I'll have to drive all the way to the Murphy and from the Walmart or wherever the Murphy is. So the low-price environment like we saw in 2015, 2016, 2017, absolute low prices probably hurts us the most because you just don't have as many sort of value-starved customers unless it's coupled with like a major recession right? So if you had a recession coupled with a low-price environment, then you'd probably still have those customers on the margin even with low prices.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Okay. Great. Panning out a little bit and thinking longer term. Earlier this year, you all provided a long-term EBITDA growth target and some of the key variables to get there. Why was this the right time to do that? You're well on your way to that already. I think that assumed a margin level that's looking pretty conservative relative to what we're seeing today. And how do you continue thinking about that sort of target you set for yourself and provide to your investors over the long term?

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

Yes. Look, I think we can always improve investor communication and certainly given folks a view beyond one year guidance, kind of five years out, where are you going is helpful, right? Everyone in this room or those reading or listening, you build a model, you want to know what to put in the model, right? And so I think just being clear about some of our commitments that you should set as your expectations is really helpful.

So how did you grow from the notional $900 million to $1.2 billion of EBITDA on a sustainable basis? It's about building new stores at a certain rate. It's about an incremental cents per gallon fuel margin creeping up, and it's about all the continuous improvement initiatives that we've talked about, both at QuickChek and at Murphy USA and that bridges that gap. And like I said, we may get there more quickly because of fuel margins. And part of that story around the new store builds is a little bit slower because of some of the delays, but it kind of sets an expectation. It also sets an expectation when we say, "Hey, you're going to buy back 1 million shares a year," right, because you guys can go model that, right? Okay, if you're going to generate this amount of free cash flow, here's how much goes into growth. Here's how much goes into share buybacks and dividends, right? We make that commitment. That's an expectation that you can go model, right?

So five years from now you can say, "Okay, well, they're at least 5 million shares lower. They're at least $300 million of EBITDA higher." Unless we do something with the balance sheet, the leverage is going to go from 1.7 to a lot lower. And at some point, the multiple may or may not change, right? I mean I think part of the multiple gap is a function of perhaps expectations around fuel and tobacco versus food. I would argue that some of the food-focused retailers, because of the higher costs associated with that, are actually more dependent on fuel margin to cover their returns on investments and breakevens than we are because of our high-velocity, lower-cost stores.

Some of it might be around growth, right? We've chosen an organic growth path with high returns, and we're pretty transparent about the returns, versus M&A. At some point, there's some great retailers like AutoZone out there that trade at two turns lower than say O'Reilly, some of it's due to a customer mix difference. And at the end of the day, if our EBITDA per store is higher for absolute EBITDA and fewer stores is higher and our EBITDA growth is higher, I mean at some point, you just become less bothered about the multiple and usually, the stock price catches up.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

There's two threads I want to pull on the answer you just gave. One is the buyback and the other is the new stores. So first on the buyback, we get asked a lot from new folks looking at Murphy USA, how is the company so good at buying back their stock over time? And I think part of it helps to have a good business that grows. It makes you look like a better buyer of your stock than perhaps others. How much – describe to us the mechanisms that are set up to buy back the stock in the short term? And then how that long-term view informs what you think is a fair value for your stock over the long term?

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

Yeah. Look, this is part art, part science. I think it all starts with conviction, and that's kind of the five year view, right? And it's almost because of those questions and say, well, are you going to keep buying back stock. And it's like, well, look, if you look five years out and the EBITDA is third higher and the share count is 20% lower, the share price is going to be higher. So even if you're paying $360, $370, $380 today, that's still cheaper than it's going to be five years from now, and that's a pretty good return. And that kind of balances returns from growth.

And this 50-50 capital allocation, given the returns we have, especially given the low multiple, right, which kind of sets a lower hurdle rate for the returns you need, right, provides, I think, a nice equilibrium there. So we've just got conviction that allocating 50% over a period of time to share repurchases makes sense.

In the short run, each quarter, we just do 10b5-1s. We try to look at what type of quarter are we in; how has the stock reacted over the quarter; how did it react on the day? There's a few typical archetypes that we've seen. If you look at our goal as a buyer of shares, it would be just like anyone else's. What's your volume weighted average price for the quarter relative to if you just the VWAP out there. I want to beat that, right? We're competitive, right?

So we just think about algorithms that are designed based on the statistics. How do you beat just buying the same amount every single day. And so there are just little simple things like, look, we're going to buy – we're going to fill a market basket that over the course of the year, gets us to the 1 million shares. But if we buy more when it's below a certain price, and if there's – and we can buy – given 25% of our moving average, we can buy a lot in a single day. So there are certain trigger points where we could fill an entire $100 million authorization in like five days, right? So there will be triggers along the way that says, look if it dips, we're going to be super aggressive on those days. And so people always talk about finding a good entry point. We know what those entry points look like statistically. And if we can be a standard deviation below the closing price on earnings day, we're just going to buy more on those kind of days, just like I would expect anyone in this room to do if they wanted to get in.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

Yes. Very good. The new stores. I'd say that's maybe been the one component of the business that's underperformed this year. It's not unique to you all. How do you take back control of your own destiny there? You've talked about raise-and-rebuilds. Maybe help us think about what your ability to deliver against those goals look like a year from now or two years from now? What's the runway or path to get back on to delivering against the goals you've given?

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

Yeah. So we had – when we set our expectations for kind of 40 to 50 stores, initially it was based on a view of the environment that reflected the great progress we've made with our general contractors. We've taken six months out of the kind of contract-to-completion cycle through carrots and sticks, right? We gave them incentives for finishing stores on time or early, and they would do things like work weekends, pay overtime, expedite materials to make that happen.

Probably starting maybe late 2021, 2022 they just lost their ability to control their upside on the carrots side, meaning there can always be something else. No matter how much overtime or weekend they worked or how much expediting did, there was always going to be something that would prevent them from earning the carrot. And when you give someone a set of incentives that they can't meet, they're just not going to do it, right? So we lost that six months. And what that effectively has done is just pushed out start times versus what we expected.

So if you think about what we do this year plus what will end the year in progress and do in Q1, it's probably more consistent with our annual target. And so you just keep pushing that out. At some point, you just have to start more in a current year so that, that expected value actually flows through. And so I don't think we'll achieve that in 2024. Our goal is to achieve that in 2025.

So you say, well, what do you do in the meantime? It's like, well, we don't run into an issue with utilities on raise-and-rebuilds because the utility is already there. The permitting is much simpler. The modular building firm is the same, and so we can keep them load level by just doing more raise-and-rebuilds. And honestly, it's our highest return if you think about, hey, that's a store at

the end of its life. Now I'm going to decide whether to rebuild it or not renew the lease or not? Well, we're the landlord. So we're going to renew the lease in front of Walmart. I mean those returns are better than anything else we do, maybe except for the share repurchase. So we'll just do more of those.

With the remodels on the 2,800, we did our nine pilots. We've learned from those. We're going to do 50 remodels next year. But I mean those were done in a weekend and over the course of a week. So it's not going to consume that much more capital.

The other thing we're going to invest capital in is our capabilities around the digital transformation work. And if you think back to Murphy Drive Reward, we've probably invested $25 million in that program. Our conservative estimates, based on the market share gains we've had in tobacco, the incremental contribution from that, the way we've been able to promote and price, we've probably generated a 10:1 payback on that $25 million investment in five years or less. And so those capability-building investments are something that don't often get as much attention as M&A or new stores, but they are often the highest-returning investments one can make.

And so we'll continue to make – continue the investments we've made on the SG&A side into next year as well on digital transformation, and we're already seeing returns above our expectations on that.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

I think one of the things that is appealing to many about Murphy USA is just the consistency of the shareholder value-creation strategy, but also kind of married with this relentless dissatisfaction from the team that just continues to kind of accrete over time.

When you think about continuing to do what you've done, but making it better, heading into next year or the next several years, what's the slate of things that you're really focused on to continue to make Murphy better and create returns for shareholders?

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

Yeah. So one, I think we know our customer so well. And part of it is because they tell us so much about themselves. We do these surveys whether it's around their vehicle, whether it's about their fuel share of wallet, whether it's about their tobacco share of wallet, whether it's how they take care of their vehicle, we get 300,000, 400,000, 500,000 responses from them, right?

And so when 1% says there's some interest in battery electric vehicles, that's probably even an overstatement. They tell us so much about their preferences, their needs, et cetera. And I'd like to say we're growing with the largest and fastest-growing customer segment in the country. It's people who can't afford to make ends meet. And we've just totally embraced that.

So as an everyday low-price retailer, the challenge we've set for ourselves is how can we create even more value for that growing customer segment? We're winning because we're growing with the fastest-growing customer segment, right? I mean that's a great position to be in. So how do you defend that?

Well, loyalty is one way and most loyalty programs are based on price discrimination. And so many of them like Shell's program or others, it's high-low pricing. I price up to everybody and then I discount to my loyal members. You can't do that as an everyday low-price retailer, right? You'd run them off and then you might not get the chance to get them back. So you got to stay everyday low price, but then you got to price discriminate.

And that's where our business intelligence, big data, machine learning, all the algorithms we're creating around promotional effectiveness, understanding different customer DNA strands, someone has five fill-ups a month, and we're only getting two of them, I mean that's a huge share of wallet opportunity. Someone's got four fill-ups a month, and we're getting all of them, but we're not seeing them going into the store, that's a huge in-store conversion opportunity, right?

If someone has four fill-ups, are going inside the store, and they're a great customer, that's a great just thank you, VIP customer. Here's something free on us. By the way, it's really not free on us. It's free on Red Bull or Monster or somebody who's has some promotional thing they're trying to drive them to because we're probably even going to give them something they're not already buying.

And so because we know so much about our customer, we have all this longitudinal data, we can append it to all the survey information about them. We can price discriminate, offer, promote discriminate to them in ways that drives behaviors we think they're going to enlist in that we can use to drive higher sales for ourselves and our CPG manufacturers using their money to do that.

And so that's one of the things that I think we're most excited about, but it just starts with this deep, passionate understanding of who our customer is.

And then on the flip side of that is knowing that our associates are the ones who are serving them. They look and represent our customers and how do we take care of them, how do we optimize our labor, how do we avoid undue complexity in the store that makes life difficult for them, how do we keep up with a total value proposition that keeps them engaged, et cetera. So I think it's really balancing those two things and never losing sight of those.

<<Ben Bienvenu, Analyst, Stephens Inc.>>

I think that's a good place to leave the discussion. Andrew, thanks for your time.

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

Thank you. Thanks, everyone.