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Murphy USA Inc. NYSE:MUSA

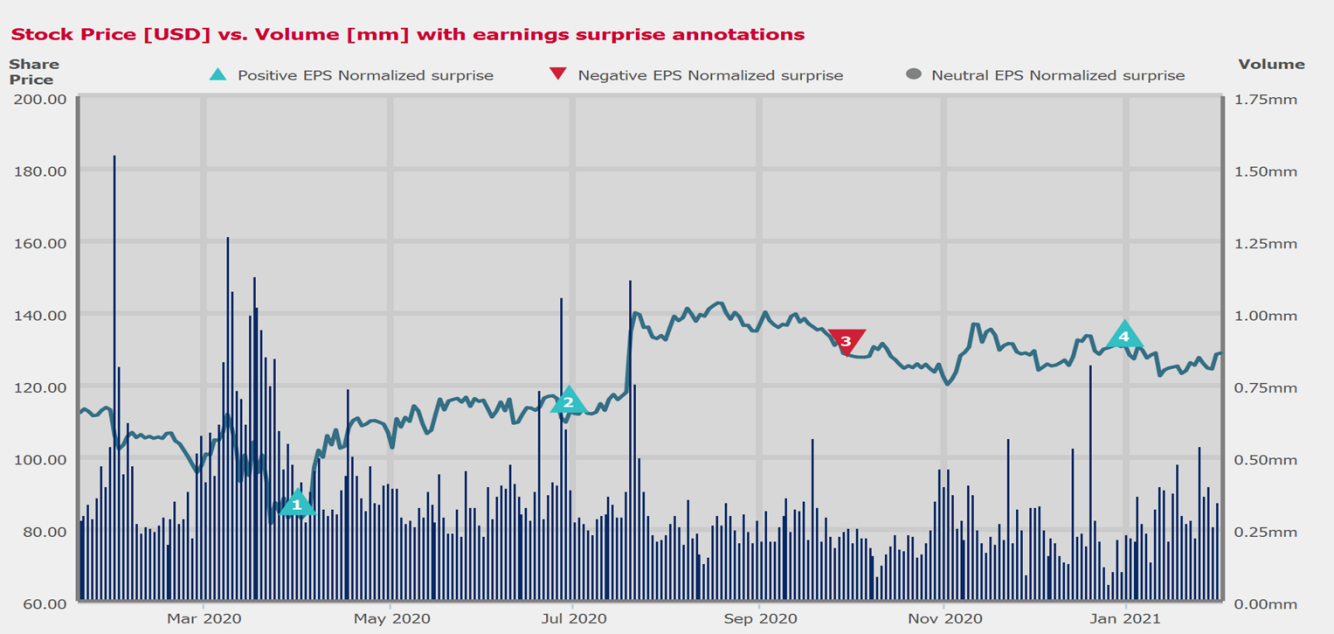
FQ4 2020 Earnings Call Transcripts

Thursday, February 04, 2021 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.17	2.22	▲2.30	1.59	13.28	13.15	▼(0.98 %)	7.69
Revenue (mm)	2966.92	2860.90	▼(3.57 %)	3034.17	11369.32	11264.30	▼(0.92 %)	13137.03

Currency: USD
Consensus as of Feb-04-2021 10:31 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	2.22	2.92	▲1 30.94 %
FQ2 2020	5.16	5.73	▲2 11.05 %
FQ3 2020	2.55	2.27	▼3 (10.98 %)
FQ4 2020	2.17	2.22	▲4 2.30 %

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Murphy USA Fourth Quarter 2020 Earnings Conference Call. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Christian Pikul. Thank you. Please go ahead, sir.

Christian Pikul
Vice President of Investor Relations & FP&A

Yes. Thank you, Daphne. Good morning, and thank you, everyone, for joining us. With me, as usual, are Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donnie Smith, Vice President and Controller. After some opening comments from Andrew, Mindy will provide an overview of the financial results. We will review our 2021 guidance and then open up the call to Q&A.

Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, please see the latest Murphy USA Forms 10-K, 10-Q, 8-K and other recent SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements.

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

With that, I'll turn the call over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thank you, Christian. Good morning, and welcome to everyone joining us today. As we close out the fourth quarter and the full year 2020 on today's call, we're certainly reminded of the many challenges faced by our customers, employees and communities in this unforgettable year and, in turn, what it took for retailers like Murphy USA to serve them and navigate throughout this period.

At this time last year, we foretold in our annual report that Murphy USA's efforts to build resilience and agile organization since its 2013 spin-off would propel us through whatever obstacles might be presented such that we could emerge even stronger on the other side. And with that confidence in the strength of our people and business model, we could afford to be bold in the face of grave uncertainty.

Certainly, our foresight was evidenced on many fronts, but ultimately, it was our insights around our customers' behaviors, the competitive dynamics in our sector and our own capabilities, including our own limitations, that drove the major decisions and investments that led to our 2020 results and success.

We continue to play our distinctive game and win and in the process, through the QuickChek acquisition, secure the winning capabilities to play a different game in the future. I could not be prouder of what our team accomplished last year and was excited to welcome the newest members of our team on Friday as we completed the QuickChek acquisition.

Like most publicly traded companies, 2020 will be a statistical blip that will have to be adjusted for when performing any historical analysis. Given that we have released or pre-released results virtually every

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month, I want to focus the bulk of today's call on the future and why we're so excited about our potential in 2021 and beyond.

Starting with QuickChek. We have added 157 stores, which brings the combined network to approximately 1,660 stores. As stated before, QuickChek operates a best-in-class food and beverage program with a strong brand in attractive markets, which nicely complement the Murphy USA business model and geographic footprint. QuickChek is a successful standalone enterprise with its own meaningful organic growth opportunities in the pipeline.

Our integration is not about the rapid extraction of cost synergies, rather we are being thoughtful on both what we can learn from QuickChek and what we can do to help improve their business. This will be a mutually inclusive process where the best practices of each firm are shared and implemented in an appropriate time frame. For example, we have much to learn and benefit from their best-in-class food and beverage offer and how it is delivered. Likewise, we intend to leverage our gasoline supply and retail pricing expertise to optimize their operations.

Food and beverage was already an internal priority for Murphy USA as we began to focus management attention on a part of the business where we felt there was both near-term low-hanging fruit and long-term opportunity. As we examined our options, we found that QuickChek would allow us to obtain the capabilities we needed immediately and accelerate our turning up our journey up the learning curve while leveraging a unique and distinctive brand in a new geography with a similar culture and aligned aspirations for future growth. We are excited to begin that journey after a very quick and efficient closing process that was very well received by the debt markets.

QuickChek size also enables us to maintain the capital discipline and shareholder-friendly practices Murphy USA has been noted for in the past. We paid our first dividend in December and set a record for share repurchases in 2020. Maintaining our conservative and flexible balance sheet ensures we will continue to allocate capital efficiently going forward.

Transitioning to a discussion of the business. Murphy USA's fourth quarter results highlight a continuation of the key trends we witnessed in the most recent quarters. As we enter 2021, those same trends remain largely intact, subject to the normal seasonal and cyclical variations that we were used to pre-COVID.

Fourth quarter fuel volume showed sequential improvement from the third quarter and represented only a 6% decrease from the prior year. January volumes remained strong, showing slight pressure at about 8% below prior year, which we believe is mostly attributable to the rising price environment, as this is historically a difficult time to profitably create price separation and take share.

We continue to see evidence that industry margins are higher than we might expect otherwise in a rising price environment, helping to maintain breakeven equilibrium for some less advantaged players. As noted and demonstrated throughout 2020, Murphy USA is well positioned to benefit from this dynamic. All-in margins in the fourth quarter were nearly $0.20 per gallon, which resulted in total fuel contribution that was nearly 10% above the fourth quarter of 2019 at 5.5% lower total volume. We expect higher-than-normal retail margins to persist in 2021 and beyond. And while we are not agnostic to lower volumes, we believe market forces will support higher retail margins, which will reward our advantaged business model at any volume level.

Lower customer traffic did not impact merchandise fourth quarter sales, as market share gains were sustained, new promotional activities were successful and categories more linked to traffic improved sequentially. Same-store sales were up nearly 10%, and same-store merchandise contribution was up nearly 11%, with meaningful contributions from both the tobacco and non-tobacco categories.

I would also point you to the same-store sales and APSM metrics table in the earnings release. The average per store month metrics, which include all new stores opened since January of 2019, are outperforming the same-store sales metrics in fuel volume, non-tobacco sales and non-tobacco margin, which further supports our confidence in the larger format 2,800-square-foot stores we have been adding to the network.

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With up to 50 new-to-industry 2,800-square-foot stores planned for 2021, we expect this new store outperformance trend to continue and the absolute EBITDA impact should become more apparent, all else being equal in 2022 and beyond as the impact of the larger build classes ramp up.

While these new Murphy Express stores continue to improve overall network performance, we expect existing QuickChek stores will add over $200 million per year of merchandise contribution dollars, over half of which will come from food and beverage categories, substantially improving both our margin structure and merchandise mix. Yet despite this mix shift, we will continue to be innovative with promotional capabilities in the tobacco category where we expect to both maintain and grow the market share gains achieved in 2020.

Operating expenses continued to be impacted by COVID-related factors, with fourth quarter per store cost up about 7%. For the full year, we have identified about $4 million of additional expenses in incremental commission programs, emergency sick pay and personal protective equipment and supplies, without which, we would have incurred per store increases of about 1.5%, in line with our plan.

While lower customer traffic understates true OpEx, all else being equal, the business is likely facing about a 2% increase going forward, reflecting both the larger store formats resulting from our new-to-industry and raze-and-rebuild activity and the inflationary pressures in employee cost.

Despite slightly higher cost in 2020, we saw another year of improvement in our fuel breakeven metric, improving to 24 basis points from 67 basis points the year before. This translates into 738 stores below 0 breakeven at year-end 2020, up from only 560 stores at year-end 2019. The fuel breakeven metric has shown remarkable improvements in spend as we have now added more than $0.03 of fuel margin equivalent to the business.

As we move closer to a network-wide 0 breakeven, add QuickChek stores without fuel and invest in food and beverage platforms appropriately, we will be tweaking our nomenclature slightly towards our coverage ratio as we talk about store profitability and growing merchandise margin economically above and beyond incremental cost to serve.

With that, let me turn it over to Mindy to detail our financial results and our recent financing activity. And then I will return with some additional comments around our 2021 guidance. Mindy?

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

Thank you, Andrew. Good morning, everyone. Thank you for listening in today. I want to first start off with some standard items and then briefly review the terms of our financing used to fund QuickChek while strengthening the balance sheet for future growth.

Turning to results first. Revenue for the fourth quarter and full year of 2020 was $2.9 billion and $11.3 billion, respectively. This compares to $3.5 billion and $14 billion in the year-ago period. Throughout the year and including the fourth quarter, this increase -- this decrease was attributable to lower retail gasoline prices and lower gallons sold due to the COVID-19 pandemic, partially offset by higher merchandise sales.

Average retail gasoline prices per gallon during the quarter were $1.87 versus $2.31 in 2019. And for the full year, retail gasoline prices averaged $1.91 per gallon versus $2.33 in 2019.

Adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, was $136.3 million in the fourth quarter versus the $112.4 million in 2019. For the full year, adjusted EBITDA was $722.7 million versus $422.6 million in 2019. Adjusted EBITDA for the fourth quarter and the full year was higher than the prior year period due to average -- higher average retail margins and higher merchandise contribution, partially offset by lower gallon volumes and higher total operating expense as a function of both new stores and COVID-related costs.

Accordingly, net income for the full year 2020 was also higher than the previous year at $386.1 million versus $154.8 million in 2019. The effective tax rate for the fourth quarter was 24.4% and 24.2% for

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the full year. Going forward, we are using a federal income tax rate between 24% and 26% for planning purposes, albeit slightly higher in the range due to the higher state tax rates in New York and New Jersey coming from the QuickChek acquisition.

Total debt on the balance sheet as of December 31, 2020, was just over $1 billion, broken out with long-term debt of $999 million consisting of our $297 million carrying value of notes due 2027, $493 million of carrying value of our notes due 2029 and $213 million of term debt less $50 million of expected amortization under the term loan and current liabilities, which is listed on the balance sheet.

These figures result in an adjusted leverage ratio that we report to our lenders of approximately 1.4x. And cash and cash equivalents totaled $163.6 million as of December 31.

As noted in our press release announcing the closing of QuickChek acquisition, we have issued $500 million in new 10-year notes at a very attractive coupon rate of 3.75%. We also secured a 7-year $400 million term loan B at LIBOR plus 1.75%, which is due in 2028. Amortization under that term loan is 1% per annum. And lastly, we have replaced our asset-backed lending facility with a 5-year revolving credit facility with $350 million of committed liquidity that does not fluctuate with commodity prices as our previous ABL facility did.

Taken together, these transactions strengthen our balance sheet and provide us the proper flexibility to prudently manage our debt levels and ensure we have enough capital to support organic growth initiatives for our combined company.

Total debt outstanding is currently $1.7 billion on a gross basis and $1.54 billion on a net basis. There were 27.2 million common shares outstanding at the end of the fourth quarter 2020. Also mentioned in the earnings release, we declared and paid our first quarterly dividend of $0.25 per share in December for a total cash payment of around $7 million.

Capital expenditures for the fourth quarter were approximately $55 million and $227 million for the full year. Of the $227 million spent in 2020, $178 million was growth capital, including 24 new stores, 33 raze-and-rebuild projects and some upgrades to our terminals. $22 million was spent on maintenance, with the remaining $27 million on corporate capital, including IT projects and strategic initiatives, including the completion of our EMV rollout. Total spending was below the guided range of 2020, primarily stemming from savings we were able to extract from the EMV project and the timing of certain other projects.

I will go ahead and provide the spending breakdown for our 2021 capital guidance. With a higher rate of organic growth expected in 2021, including up to 55 new-to-industry stores between Murphy and QuickChek and the normal pace of our 25 raze-and-rebuilds, we are forecasting a higher total capital spend of between $325 million and $375 million broken out as follows. The majority is earmarked for growth capital, and that's going to be between $275 million and $300 million. We also expect a range of $20 million to $30 million for maintenance capital and between $30 million to $45 million for ongoing technology initiatives and potential investments in the food and beverage offer.

Thank you, everyone. I will now turn it back over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thanks, Mindy, and congratulations to you and your team for such a successful debt raise to finance the QuickChek acquisition.

Let me close with a review of our guidance for 2021. We've previously communicated our view of the potential of the Murphy USA standalone business in 2021, signaling to investors that we believe we are capable of generating approximately $500 million of adjusted EBITDA for the standalone business 2 years earlier than we had previously planned.

This is primarily due to 3 factors: first, our belief that fuel margins will remain elevated as disadvantaged retailers will require a higher fuel margin to offset lower customer traffic, resulting in higher margins

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for the industry which will disproportionately benefit Murphy USA as one of the low-cost, high-volume retailers.

Second, we have taken a meaningful share of the tobacco market from our competitors, and we are focused on not only keeping it, but growing it. Third, while early results from our 2,800-square-foot stores, they are meeting our heightened expectations and as we ramp up our pace of organic growth, we are increasingly confident in the impact we believe our new stores will have on our financial results in 2021 and beyond.

With the QuickChek acquisition, we see the potential for both direct synergies and reverse synergies that we expect will help us improve our food and beverage offer. As we begin our work to integrate the 2 companies in 2021, we expect limited synergy capture in year 1. However, we are highly confident in our ability to drive up to $28 million of synergies on an exit rate basis by year 3, meaning we expect to see the full $28 million incremental impact in year 4 or calendar year 2024.

With that being said, we are providing calendar year 2021 guidance metrics that include an expected 11 months of QuickChek contribution. There should be a few surprises in these metrics, but let's discuss them briefly before opening up the call to Q&A.

Starting with organic growth. We remain committed to building up to 50 Murphy Express stores, nearly all of which would be the high-performing 2,800-square-foot stores. We expect to continue to grow the QuickChek footprint and continue to build new stores in prime locations already identified in their existing markets. As we assess, review and high grade our new site opportunities across our combined network, we will be able to flex our capital budget as needed to ensure we are allocating capital toward our highest return opportunities, some of which may result from internal efforts to accelerate synergy capture.

Nevertheless, as a free cash flow positive business, this provides us with ample flexibility to maintain consistent and meaningful organic unit growth through any economic cycle. As such, we are providing guidance with up to 55 new-to-industry stores across our combined network. We also remain committed to upgrading the Murphy network with up to 25 raze-and-rebuilds planned in 2021, which continues our format evolution from kiosk to 1,400-square-foot small-format stores where we had the opportunity and the economics to do so.

Moving on to guidance on fuel contribution. We are providing per store fuel volume guidance of 245,000 to 255,000 gallons on an APSM basis. For reference, the midpoint of this range is close to our 2019 average of 248,000 gallons per store month, which we are inching back towards and add the QuickChek stores that sell fuel.

As noted in an earlier investor presentation, QuickChek complements Murphy USA's industry-leading fuel position. QuickChek has 89 stores that sell fuel at an average rate of over 315,000 gallons per store month. In total, this will comprise less than 10% of our total expected fuel volumes for the year, adding about 4,000 APSM to the total. And to be clear, our APSM and same-store sales metrics on fuel going forward will only reflect the stores that sell fuel.

In keeping with 2019 and 2020 guidance conversations, we are not including a range of cents per gallon fuel mar guidance, as we believe this promotes short-term thinking and is not indicative of the way we believe investors should be viewing our business.

Our ranges for in-store profitability metrics consisting of merchandise margin and in-store costs change materially with the addition of the QuickChek model to our network. As such, we believe it is more helpful to provide a per store range versus a percent growth figure as we have done in prior years.

We are guiding to a merchandise contribution margin range of $680 million to $700 million. For reference, the midpoint of our combined merchandise range is equivalent to our total contribution margin from the fuel business in 2018. And the upper end of this range equates to the 2019 total fuel contribution. Thus, while our business remains highly sensitive to changes in fuel margin, nearly half of our total margin is now coming from nonfuel sources, which we think is a more balanced business model and will contribute to lower earnings volatility over time.

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Also of note, with the addition of the QuickChek assets, less than half of our total merchandise contribution will come from the tobacco category, which also is a more balanced and sustained mix as we look to the future. And we have also incorporated the benefits of our renewed Core-Mark contract into our guidance.

On the OpEx side, as we build our own larger 2,800-square-foot stores and continue our raze-and-rebuild program, the OpEx per store metric will naturally move higher. When combined with the much larger format QuickChek stores, the result is a guidance range of $27,000 to $28,000 per store month in 2021. While higher on an absolute basis versus 2020, our focus on cost control remains a cornerstone of our strategy.

On the corporate cost side, with the addition of the QuickChek home office and personnel, we expect our SG&A expense to increase to a range of $190 million to $200 million per year as we continue to invest in critical IT projects and personnel to help support corporate priorities and drive long-term efficiencies and new capabilities. Effective tax rates, as Mindy mentioned, should stay in the 24% to 26% range.

Our combined capital budget, which prioritizes organic growth in new stores, is forecasted in the range of $325 million to $375 million, which includes a range of $275 million to $325 million for Murphy and up to $50 million for QuickChek. This range represents each company's independent planned capital expenditures before high grading NTI opportunities.

Our goals remain to grow the network profitably by adding high-quality new stores while maintaining a strong balance sheet and running the business with the appropriate amount of leverage going forward. The combined cash flow of the aggregated business gives us more flexibility to ensure capital is allocated to the right places at the right time.

I want to close by once again saying how proud we are of our team's performance throughout the challenges presented in 2020 and how truly we -- excited we are about the QuickChek acquisition and the combined potential of bringing our 2 great businesses together. Our standalone 5-year plan was robust and generated a substantial amount of incremental adjusted EBITDA through new stores and ongoing improvement initiatives.

With QuickChek, we are well positioned to accelerate our strategic agenda, creating an even higher quality income stream that is inclusive of a best-in-class food and beverage offer. Together, we can grow better, faster and stronger as our highly engaged teams share a passion for delivering excellence to our customers, our employees and our communities and our investors.
With that, operator, we will open up the lines for.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Ben Bienvenu.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

I want to ask first about the guidance, the $550 million, and less from the perspective of comparing it with our expectations, because I think probably like a lot of people that's comparing apples and oranges, given we did not have QuickChek in our numbers for 2021, but more from the perspective of -- from our view, it seems more like a starting point than an ending point, and it sounds like you're similarly optimistic about the multiyear growth trajectory of the business.

So I'm curious, as a baseline, one, how conservative do you think the expectations are that are embedded in the $550 million, or alternatively, how aggressive are they? And then over the next several years, how rigorous of an effort does it require to deliver against the growth goals that you'd like to? And what's a reasonable expectation that we should be thinking about over the next several years?

R. Andrew Clyde
President, CEO & Director

Great. Good question. It's this time of year Christian and the team are updating charts for the first investor conferences. And as we're thinking about one of our favorite charts where we kind of set the bar around our 15% compounded annual growth rate in our share price and how do you raise the bar to continue that in the future, 2020 is a statistical blip, as we noted. And as you think about the starting point we were going in with of $500 million, it is exactly that. It was a starting point. And as we think about that trajectory going forward on its own, we have the benefit of all the things we've been talking about.

The NTI growth, we were looking to add at least $20 million a year as those larger stores were ramping up. And the 50 store year plan, those stores are going to benefit as well from the higher overall fuel margin that we're seeing due to the industry structure and dynamics, and then frankly, just the ongoing continuous improvements that we had in the business.

And so I would articulate the $550 million is what that new starting point will look like when we first publish that new chart. And when you get to add to it above and beyond the trajectory we would be showing and we will soon be sharing for the future in addition to the $20 million of incremental contribution for our NTI stores, they have larger stores that are doing about twice the EBITDA of our stores that are ramping up. We will continue to grow and invest in those stores, in those markets and have an attractive pipeline there. They too will benefit from the higher fuel margin equilibriums in the Northeast markets, and they have their own continuous improvement plans as well.

On top of that, we've got synergies, and we've got a conservative estimate of $28 million, which we've talked about before, really doesn't speak to the potential of reverse synergies that could take place. So $550 million is the new $500 million. It is a starting point. And the future trajectory is something we're not prepared to release now. But you can -- you have a picture of what that chart looks like. And that new 2024, 2025 number, we'll absolutely be seeking to maintain that same type of CAGR on our share price appreciation. So hopefully, that addressed most of your questions. If I missed one, Ben, if you could restate it, please.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

No, it does. And I guess along those lines, you're optimistic about the future. You bought back a lot of stock in the fourth quarter at a price just a little bit below where we are now, but you do have a heavier debt load as a result of the QuickChek acquisition. So Andrew, Mindy, I'm curious to hear as you think

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about capital allocation through 2021 and beyond, should we be thinking about debt pay-down as a priority or still a continuation of opportunistic buyback? Maybe just help us calibrate how we should be thinking about that opportunity? And then also, Mindy, what are the covenants, just remind us, within what you have to operate and be mindful of around the debt load?

R. Andrew Clyde
President, CEO & Director

Mindy, why don't you start with the covenants, and then let me answer the first part of the question?

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

Sure, Ben. As you know, we issued high-yield bonds with covenants the same as what we had, had prior, so nothing really new there. And again, the unrestricted share repurchase trigger is at 3.5x leverage, so the same as the other 2 issues of notes outstanding. With regard to the term loan B, we have lots of flexibility with that facility as we have no real financial covenants at all. We do have an excess cash flow feature where we'll have up to 50% excess cash flow sweep when we have net leverage of over 3.25x.

And then in our cash flow facility, which again is a committed facility unlike the revolver that we had before, which fluctuated with commodity prices, we have some maximum secured net leverage of 3.75x. And again, that secured net leverage and maximum total leverage of 5x, which steps up to 5.5 if we make an acquisition for a duration of 6 months. So we really like the financial structure that we put into place with QuickChek. The inclusion of prepayable debt was quite intentional.

As you know, our high-yield bonds have traded and continue to trade extremely well. So we could have termed out the entire purchase price in the high-yield market. But we do remain committed to maintaining a conservative balance sheet, and we like to have that prepayable debt. So that allows us to manage easily within our preferred leverage range. And so we're very comfortable with where we are and our ability to balance our growth, our share repurchase, dividends and debt pay-down.

But I'll let Andrew add some more color to that piece.

R. Andrew Clyde
President, CEO & Director

Yes. I think that's great. And she said she likes our structure. I love the structure, and I think the team did a fantastic job. Look, we're in a still -- we're in a mature sector, and we're a mature company, but we are still very much in growth mode from an earnings standpoint and from a unit standpoint. So number one, that continues to be our focus. The QuickChek acquisition enhances Murphy's own standalone growth opportunity and then adds another layer of growth on top of that. And so with the high-return new-to-industry stores, and the raze-and-rebuild opportunities at the end of the life, that is our absolute priority as growth.

As you think about the 3x leverage ratio for restrictive items like share repurchases, you really got a choice. You can grow your way to under 3x or you can shrink your debt to under 3x. We believe we're on a trajectory to quickly grow our way to below 3x. And while we have the means to pay down debt, and there certainly might be some market conditions where we might choose to do that, our plan A is to grow our way to get our earnings such that our leverage ratio goes below 3x.

And we say that, because we expect to continue to see volatility in the equity markets. We expect to see volatility in our sector relative to other sectors, and we expect to have opportunities to be a savvy buyer of our own stock at the appropriate times. And if you play out the raise-the-bar expectations that we'll soon be publishing, you project for the share price that even versus today's level looks attractive. So that's our plan. We're obviously going to be agile and responsive to market conditions across the board.

Operator

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

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

I'd just add to Mindy and team, congrats on navigating a very challenging year.

R. Andrew Clyde
President, CEO & Director

Thanks, Bob.

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

So my first question, Andrew, is more high level. Just looking at -- when you look at the QuickChek acquisition and think maybe about the integration you have in front of you, what are maybe some of the milestones that you'd like to accomplish in the next 12 to 18 months to help us think about progressing there?

And then maybe as a follow-up to that, when you think about the reverse synergies which is really another exciting part of this thing, back to the core Murphy's business, how do you see those potentially developing? Is this new store prototype? Is it test zones with more of the QuickChek merchandise in it? Just any color there for us to think about as we monitor kind of this over the next 12 to 18 months.

R. Andrew Clyde
President, CEO & Director

Sure. Great question. And as I've mentioned before, unlike a number of acquisitions where it's about rapid extraction of cost synergies, et cetera, this is a strategic acquisition, and it's really about capabilities. And so I think the first set of milestones involves the sharing of practices where we both do things, and that could be involving contracts, relationships with different providers, integration of capabilities where we are.

We already know we're going to do it one way like fuel supply and leveraging systems that we already share like fuel pricing, and then obviously, controls and standards as a public company, whether it's on the IT side or the reporting side, et cetera. And so -- I mean those are just some of the basics, and we do expect to have synergies that come from those activities.

I think the main strategic initiative that comes out of it is going to be, how do we think about leveraging the expertise of QuickChek across the various food and beverage platforms on a fit-for-purpose basis for all formats. And obviously, for now, less than 50% of our kiosk and our chain, which we're reducing 5% a year with the raze-and-rebuilds, there's less opportunities there.

But at the other 50% of the Murphy USA chain, the 1,400-square-foot stores have a coffee program, have dispensed beverage, have a made-to-stock food and beverage offer. There are definitely opportunities there. More significant opportunities exist in our 2,800-square-foot stores. And the real trick here is maintaining the capital program we have in place, where we have permits and we're going to build the stores while thinking about, what does the redesign look like on a fit-for-purpose basis.

We're not going to have the full QuickChek world-class coffee program in that store. We're not going to have a kitchen in that store that's making made-to-order items. But we can absolutely benefit from the coffee program, the practices. As the former CEO, Dean Durling said, there's 100 ways -- 100 steps to making a great cup of coffee, and we need to add about 90. And so there'll be opportunities to do that as well as improving our grab-and-go food program as well.

We're also going to have to think about how we communicate to customers that those Murphy stores that have that enhanced food and beverage offer have it. And so there may be some branding or sub-branding of that offer that takes place. Also, we've been working on our own with Core-Mark and other equipment providers on what a distinctive unique-to-Murphy USA offer would be. And we believe not only that it is still appropriate for our business, but has legs within the QuickChek model as well. And so I think that's

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probably going to be the main initiative that we will see that will not pay immediate benefits in 2021, but will set the foundation for accelerated growth in 2022 and above that.

And I guess third, it's just maintaining the pipeline development of new-to-industry locations on both sides and the ramp-up of existing stores and stores built in 2021, as we continue to monitor those, seek to improve those ramp-ups as that becomes a more important part of our earnings growth first, to say, the continuous improvement efforts that we've had in the past.

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

Okay. I appreciate that. Very helpful. And then I guess, secondly from me, my last question. When you look out in 2021, and obviously, a ton of moving parts in variables, but with hopefully a mix of the business returning a little bit more normal and society going back to normal, how do you think about the tobacco category, some of the great progress you guys have done in driving higher gross profit per location there in tobacco and maintaining that and the stickiness of that GP on kind of a per location basis?

R. Andrew Clyde
President, CEO & Director

Sure. Look, one of the things we know about that customer is some of their buying practices are hard to change. We saw that when we would do a raze-and-rebuild in a state that had state minimum prices, and we couldn't be more aggressive when that raze-and-rebuild store returned to opening. Those customers went somewhere else. They found that there was good or good enough service, and we couldn't differentiate on price at those stores. And so it's a little bit harder to get them back. And so we had to innovate around that to avoid that issue.

I think the same holds true on the other side of this pandemic. The customer behaviors have shifted during COVID on the tobacco side. People wanted to minimize trips, and they wanted to combine trips. And so with a lot of our stores being in the proximity of Walmart Supercenters, we were uniquely positioned to take advantage of that. If you want to minimize trips, you want to buy in bulk, we went from below 50% cartons to above 60% cartons and provided that value where many of the smaller chains, the mom-and-pops, don't even offer.

One of the things they quickly learned was they couldn't get a better price than at Murphy USA in most of the markets. And where we doubled down and made investments in inventory and continued to invest in promotions, many of the competitors pull those funds back. They needed to apply them to the bottom line to make their profits. And it's going to be a difficult decision for them to let go of those funds and put them back on price, because there's going to be -- it's going to be hard to get that volume back.

And so it's kind of a long way of saying that we took advantage of customer behaviors that we had insights around from raze-and-rebuilds and others and invested in that category in a difficult period. It's continuing to pay rewards, and we can continue to innovate and do more in that space. And so while we're excited about the change in mix that is coming to us as a result of the QuickChek acquisition, by no means are we going to take our eye off the ball of this important category that -- where we can still grow share and still grow margin dollars in the future.

Operator

Your next question comes from the line of John Royall with JPMorgan.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Can you talk about the fuel volumes in 4Q? I think you beat the national average gasoline demand by a pretty healthy margin. So what do you think was driving that outperformance?

R. Andrew Clyde
President, CEO & Director

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So I think, one, we've talked about our retail pricing excellence initiative. And so any period -- I think in 2020, we were comping over a period in 2019 where we didn't have all those capabilities in place. So a shout out to that team that's continued to develop, refine and build upon that capability. And where there may have been opportunities, I think as we've accepted responsibility, leaking value, losing some volume from execution, the team continues to make that up. So we're just a sharper pricer and how we think about that.

I think, two, we've got to give customers a reason to come to us. And so on the margin, we're going to lean a little bit more into volume when we have those opportunities. And so I think we benefited on that side. And I think last, consumers are continuing to limit trips, buy in bulk, visit Walmart Supercenters, and I think our location just benefits ourselves. So when you combine a location advantage, focus on price and a continued focus and sharpness on execution, I think those things just come together and lead to stronger volumes at higher margins. And the industry continues to, I think, lean towards margin. And I think there are some competitors out there that have been also a little bit distracted with other bigger things, and that creates an opportunity typically to take share as well.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Great. And then the second question is essentially the same question really for the 2021 guidance, and perhaps it's the same answer. But I think if I'm doing the math right at the midpoint of your guidance for '21, fuel volumes ex the 4,000 from QuickChek is about only 1% below 2019 levels on an APSM basis. So this seems pretty strong, and we'll still be in the COVID environment to some degree, at least through the first half. So are you assuming kind of a continuation of that type of share capture you were speaking of there? Is it more of just a strong rebound in gasoline demand you expect in perhaps in the second half?

R. Andrew Clyde
President, CEO & Director

Yes. I mean, look, we're -- we don't have a perfect crystal ball, John. And so we've got a plan that assumes that the recovery continues, that we continue to gain strength in the face of that and have a certain set of competitive dynamics. I think the key point here is if we're rolling on the volume, it means that it was subdued for everyone, and it probably translates into higher margins. And so we don't expect to be materially wrong on the fuel contribution or the EBITDA line item where it really matters. And so as we've said in the main point, we're not agnostic to lower volume. In fact, in answering the question about why we did better than national average, we're actually highly focused on it. But if national demand doesn't pick up for whatever reason, we expect the margin response driven by other competitors to make up for that.

Operator

Our next question comes from the line of Bonnie Herzog with Goldman Sachs.

Richard Samuel Reid
Goldman Sachs Group, Inc., Research Division

This is actually Sam Reid pitching in for Bonnie here. I wanted to quickly touch on your merchandise same-store sales. I know you've talked through your confidence on the tobacco side, but wanted to talk through things on the non-tobacco side. Specifically, how should we think about that metric in the context of some of the tough comps you'll be lapping in 2021, especially given some of the strength in [lotto] sales that you saw in 2020?

R. Andrew Clyde
President, CEO & Director

Great. Well, good question. I think as we look at the fourth quarter, we saw continued strong results from general merchandise categories and products that we weren't even in at the beginning of 2020. We expect to see that continue in the foreseeable future. The packaged beverage category has improved with innovation around energy and other drink products there. It continues to improve sequentially as traffic

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rebounds and so feel good about that and similar with the snack category. Certainly, in terms of candy and some of the more promotional items, we'll get back to a regular cadence on that and some improvements there.

I think the biggest challenge that we saw in 2020 for us that's just all upside in 2021 is around dispensed beverage and around our grab-and-go food items. Many of those were turned off. And so as we see improvement and early signs of that, especially around dispensed beverage in Q4, we're pretty optimistic about the improvements within that.

One of the other things that we'll add in 2021 will be the benefits of our Core-Mark contract, which we signed a 5-year renewal and announced that. So I think this is -- 2021 is going to be a year of a lot of singles. There's a couple of categories where we struck out in 2020, but those batters have been practicing. And with the QuickChek, they're going to play in a different league going forward. So we feel pretty good about the non-tobacco comps going forward.

Richard Samuel Reid
Goldman Sachs Group, Inc., Research Division

That's super-helpful. And I guess for my second question, I wanted to pivot to something a bit more philosophical here. We're obviously seeing a lot of stepped up interest in the potential effects from electric vehicles on C-stores, and we're obviously hearing quite a bit from some of the major automakers on this front, whether it's GM, Ford. What steps are you guys taking here to kind of prepare your portfolio for these changes? And are you acquiring anything from QuickChek that you think might help jump-start you here?

R. Andrew Clyde
President, CEO & Director

Sure. So I don't have all the details of the GM announcement. But if you think about the year 2035: one, it's a long way out; number two, if it's similar to Volvo's announcement, an all-electric vehicle fleet would include not only battery electric vehicles, but plug-in hybrid electric vehicles as well. And so many of the macro demand trends that are out there already have baked in hybrid electric vehicles and plug-in hybrid electric vehicles.

And so the first thing we have to understand is what is that vehicle and what is it consuming from a fuel standpoint? Are they true battery electric vehicles for which there's a host of challenges around raw materials around [mining to] wheels versus the [weld the] wheels arguments and the like.

The second thing is, who's going to be buying them and where? And so as we think today about the 0 emission vehicle states and where electric vehicles are being sold and bought, they're largely in markets outside of ours. And if you look at the price of those vehicles, they're largely today outside of the affordability range of our typical customer. I've mentioned this before, but we did a survey last year, and we got close to 0.5 million responses from our customers in a week about the current vehicle they're driving. And it's a 10- to 12-year-old vehicle with over 125,000 miles that they bought for less than $15,000.

And so in 2035, they're probably buying a 2020 vehicle used, given how long cars are lasting. And if the affordability of the new models hasn't come down, it's going to continue to be a challenge for our typical customer to buy these vehicles new. So we think the used market is going to continue, and it's going to be strong, and it's going to play favorably for a company like Murphy USA.

If you combine all these trends that say, look, this is happening, it's happening in different places at different rates and different speeds and different metro markets in different customer segments, it will have a slow effect, but it's going to start with competitors who are already serving that customer who is today buying, this is a luxury vehicle or a luxury truck. And then you start adding pressures around minimum wages, et cetera, and if they have small formats and high fuel breakevens, 1 of 2 things is going to happen.

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Either the price of all of these commodities are selling is going to go up and you're going to have general inflationary trends. And if so, that's going to benefit greatly the low-cost, high-volume at-scale retailers in that environment. It's not going to be that we're completely immune from those changes, it's that it's going to affect someone else so much greater than it will affect us. And the inflationary pressure it will likely have on the consumer is going to create more price sensitivity. And because of our low-cost economics at scale, we'll probably end up profiting from it at the end of the day.

And so I want to be clear, there's a lot of subsidies and incentives and investments that are going to go into it, it's just further away from impacting our markets and our customers than some others. We are going to be able to learn from QuickChek. They have 5 locations that have charging stations and get a per-charge fee for that. And so we'll be able to continue to evolve that. It's not material. We're not going to start breaking out same-store charge units. But we will have the insights around that and be able to monitor that.

Clearly, QuickChek is in more dense markets closer to where you're seeing adoption, but it's still a very, very small component of that business. So we're eyes wide open. We monitor this. We study this, evaluate this. But rather than just getting -- following the herd mentality, we're going to continue to apply our insights about our customers, our markets, their purchase behaviors, not only for fuel, but for vehicles and other items and cast that in the context of the broader competitive dynamics and what that means for us.

And kind of going back to Ben's earlier question about allocation of capital, there will be some times where the perception and the rage around this is such, where on a relative basis, Murphy USA shares underperform, and we want to certainly be in a position at that point to buy back those shares under any discontinuities. Because at the end of the day, this is a super-high-quality cash flow-generating machine that just got better.

Operator

Your last question comes from the line of Matt Fishbein with Jefferies.

Matthew Jacob Fishbein
Jefferies LLC, Research Division

I wanted to ask about your most recent thinking on the unit growth strategy. I'm assuming there was a point in your planning for 2021 when it was time to combine the new store opening plans into one. And although you're confident in the organic growth opportunity in the base business, and QuickChek has its own stand-alone organic growth opportunity of its own, it feels like it probably would have been understood had you made a more substantial adjustment to the headline total new store number for a variety of reasons, whether it's the timing of the deal and inserting freshly acquired capabilities into new stores or whether you want to try a smaller sample size than the 50 or 55 with this new particular offering, et cetera.

So the up to 55 target, I guess, gives you the ample flexibility that you talked about. And it isn't up to 60 or 60 plus. But I guess my question is, why not give yourself more flexibility there? Can you walk us through how you settled on the up to 55 number?

R. Andrew Clyde
President, CEO & Director

Sure. And so -- it's not 2 numbers. So we've got all the flexibility we need within that. What I would say is, look, we have a high-quality real estate team on our side that's taken 3 years to build up a pipeline to be able to do 50 stores a year. Some of those are advanced in the permitting process. And so you will build them as they were originally designed, given the modular build format, and not hold the plug on those to the extent there are some where the redesign initiatives and the ability to do the redesign aligns with dialing something back. If we think there's a benefit in doing so, we will. But these are already high-return locations and investments. So the acquisition just makes those higher.

In the QuickChek acquisition, we also picked up a super-high-quality real estate acquisition and construction team there that's continuing to pursue opportunities in those markets. As you can imagine,

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not knowing who the ultimate winner of that process would be, they slowed a few things down in 2020. But we've turned the gears back into a high gear in terms of building stores in construction, getting leases signed or locations acquired as well. And so there may be opportunities to accelerate some locations into 2021 in that market.

And so I think it just gives us the ample flexibility. We certainly, from a capital expenditure guidance standpoint, tend to give you the up to maximum range. And look, if we end up coming in lower than that, we'll be providing some transparency after the halfway point in the year and the rationale for that. But at this point in time, we expect to hit numbers pretty close to that, knowing we've got flexibility to pivot in some areas, but less flexibility where we already have permits and efforts underway in other areas.

Matthew Jacob Fishbein
Jefferies LLC, Research Division

Yes. That's fair. I totally understand. And I guess, you derisked the proposition now that you don't have to create this expertise out of thin air by acquiring QuickChek. Curious to understand how copy-pasteable the food and beverage capability could be here? Is it more along the lines of sharing best practices situation? So maybe like you were saying, it doesn't necessarily require a whole kitchen to be installed in existing stores. Or is it more along the lines of, listen, a lot of certain percent of the existing stores can probably get a more QuickChek-like food and beverage capability? Just interested to kind of understand how you view how much attention is going to be needed on the existing store footprint.

R. Andrew Clyde
President, CEO & Director

Yes. So first of all, I'd say we wouldn't be pulling it out of thin air. We have a team. We have a capability. We've outlined initiatives. We've set potential for stores based on the existing platforms, et cetera. And so we already had baked into our $500 million planned improvements in that area from the team and the capabilities and their efforts in 2020. So it was built into our 2021 plan.

I think what we really derisked, though, is the learning curve. And you think about the steps, the capabilities to build at those 100 steps that we talk about on a great cup of coffee, we don't need 12 coffee dispensers that have the exact same footprint in our 2,800-square-foot stores to take advantage of that capability. In fact, we won't have that exact offer to do that. But it's the learning curve behind that. If you think about training in food and handling at our store level, we have that versus building that.

And so that -- those are going to be key areas around sourcing, around execution, around customer insights and the like. This is an important part of our growth plan on existing stores to improve them and the incremental capital that's going into that. But you're not going to have a made-to-order sandwich in a Murphy USA 2,800-square-foot store, because you need a kitchen to do that, and you don't have the means to really do that within the space.

But you do have the capabilities to now think about grab-and-go food in a different way, menus that you could then have a third-party commissary make and deliver to those stores through the same or different supply chain partner, et cetera. And so you've got a lot of tools to play with. As we've said also, we've been thinking about some unique-to-Murphy USA grab-and-go concepts as well. And so we think there's a lot of opportunity here. But by no means is it just copying and pasting the platforms as they are in QuickChek. It's really the insight, practices behind the capabilities of those platforms.

Operator

And you have no further questions.

R. Andrew Clyde
President, CEO & Director

Great. Well, we ran a few minutes over our normal hour, but I appreciate the great questions, the great interest in the story. And as I've said before, we believe that with this acquisition and the great efforts our 2 teams have both made in 2020, navigating through what was absolutely an unforgettable year, we're posed to come out even stronger in 2021. So thank you for your continued interest in Murphy USA.

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Operator
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