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<<Matt Fishbein, Analyst, Jefferies>>

Good afternoon, everyone. Thanks for joining us. And welcome back to the Jefferies Consumer Conference. I'm Matt Fishbein, the U.S. Grocery and Convenience Retail Analyst here at Jefferies. Murphy USA is now the fifth largest convenience store operator in the United States. Recently acquired QuickChek, the chain we all know and love here in the northeast. And is emerging from the pandemic in even better position to leverage its scale and execute on its key strategic initiatives, including its organic unit growth strategy and the continued development of its food and beverage capability.

I'm honored to be here today with Murphy USA's CEO Andrew Clyde for a fireside chat format discussion about the business. So, Andrew, thank you again for sharing your time with us today, and I'll hand it over to you for an update on how things have been since we last heard from you.

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

That's great, Matt, thank you. We're jealous of your background, wish we were all there in person and hope that one day we can return to see. And to all the investors online, look forward to seeing folks back face to face. But certainly, I think, the relationships we've built over the last several years have enabled this format to work pretty well for us and hopefully for you also.

Matt, on the current business, we're all sitting here a year ago, wondering how are we going to get through 2020, and as you do your planning for 2021, we built out a modest plan of the $500 million of EBITDA we projected for Murphy USA, and of course, we added the $50 million for QuickChek and some year one synergies for our target.

As we entered 2021, finished Q1 and continue to see performance in Q2, it's amazing just how remarkable and sustainable the business has been. Certainly, fuel demand hasn't picked up to 100% of 2019 levels. We're still in that 90 plus range for both the Murphy USA and the QuickChek markets. But what's been very surprising is just the strength in the fuel margins above and beyond what we anticipated. And when you add a blizzard, the Colonial Hacking shutdown, some record rainfall and some other things that have impacted demand, the marginal retailers are more than making up for that in margins.

I guess the big surprise is the fact that with the market rise in crude prices, over $70 a barrel, that's usually the time when our business is impacted the most, the margins get pinched as prices lag on the way up. But we've seen restorations in the marketplace such that we're continuing to earn very strong margin. So, this trend feels more persistent than probably we even anticipated as we entered the year and finished Q1 with the recent run-ups.

And tobacco continues to sustain its gains, categories attached to fuel were coming back nicely. We're having record food sales at a number of the well-established stores in QuickChek, so the customers are coming back. Coffee is still a little bit slower in the morning, but it's rebounding as well. And with some of the labor challenges we're having, we're leveraging our culture and our teams and doing a few things but the impact of that is very marginal on a financial basis relative to the outsize gains in some other areas. So overall, I'd say the business is performing extremely well and showing strength coming out of COVID.

<<Matt Fishbein, Analyst, Jefferies>>

Great. And maybe you can touch on, I know you brought it up there a little bit just the impacts that you had seen during the time with the Colonial Pipeline hack. What were the business impacts? And if there were any like general new thoughts or learnings that you took away from this event as a public company's CEO, we'd love for you to share them too.

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

Sure. I would compare the period of time to something very similar to a big storm. There was panic buying as word got out, people were anticipating shortages and lines and we saw all of that. A reasonable sized portion of our network was impacted, but we've gotten inventory back in line. We have other alternatives like the Plantation Pipeline. We had inventory up and down the pipeline. We allocated our, shutoff our wholesale operations and really leveraged our carriers on the strength of those partner relationships to keep stores wet with fuel. And so, while we had some outages they weren't as long in duration relative to many of the competitors out there, and things were pretty much back to normal pre-Memorial Day.

I think there was a big lesson just about the vulnerability of our systems, and our infrastructure and you've just got to be so diligent and persistent with your efforts around cybersecurity, your network infrastructure, your training of your personnel. And we've got a great team here that have a lot of experience in that area and feel really good about where we stand should that happen to us. But you recognize that it may not happen to us, but if it happens to one of our partners it impacts us in a material way. Fortunately, in this case they were able to get things back up and running. But hopefully it's a wake-up call for companies that have lagged on some of their cyber efforts.

<<Matt Fishbein, Analyst, Jefferies>>

Yeah. And also, another headline that we've seen over the past couple of weeks too is the Performance Food Group's pending acquisition of your key partner Core-Mark. From your perspective, it'd be interesting to hear, like number one, are you excited about the deal? And number two, what capabilities or enhancements do you think Performance can bring to the table?

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

Sure. Well, Scott called me at, I think, 7:30 after the 7 o'clock announcement and he was excited about it, and I think we're their largest customer, but we've got a great partnership with them.

We think it's a win for them and a win for us. And you think about the investments that we're making in our formats around food and beverage, it was going to require a capability build from Core-Mark tri-temp trucks, a wider offer of fresh items and being able to leverage PFG's [indiscernible] (0:06:56). Many of our stores are down to a once-a-week delivery, which optimize the total cost for Core-Mark. With the addition of Performance Food Groups they have access to their distribution centers and we would be able to have a differentiated supply chain handling that for us. PFG supplies all the fresh items for the QuickChek business so we already have that relationship. So, it feels like a very natural one to step right into, in our Murphy USA markets.

<<Matt Fishbein, Analyst, Jefferies>>

And on the current labor availability shortage that you had touched on to, first, do you believe it's more of a transient in nature type of situation, or is it more of a long-term shift? And if you can walk us through exactly what those levers are that not only the industry has to offset the higher labor cost or combat that availability problem, but maybe some of the additional levers that Murphy USA has as a scale player. Now, whether that's through cost management or really the ability to attract to retain talent?

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

Sure. Well, first of all, I do believe it's transient in nature and it must be transient in nature. I think it highlights just how important it is to have everybody in our country actually working. We need everybody all pitching in to keep this country running. And you think about some of the shortages that exists out there, part of this is the culmination of so many people on the sidelines. So, with some of the benefits ending and one-time benefits people are going to be coming back to work. And we're certainly seeing that. We've increased some incentives in certain markets for hiring, we've increased some hourly wages that we do seasonally and regionally anyway. If you think about Myrtle Beach market where you've got a lot of summer traffic or Midland, Texas, at a time the Permian Basin is on fire, we would do regional, seasonal changes anyway.

So, we've leveraged things we've done before. We've put some retention benefits in place that pay out at the end of the summer in some markets at risk or the labor shortage was more acute. And so those things coupled with relying on our great culture and engagement with our team have really paid off. We actually did our biannual engagement survey just a few weeks ago and got the results back. And we had significantly higher engagement in the home office. And in the midst of everything that's going on we maintain the same high level of engagement that we had two years ago in the field. So, we're drawing on that currency and recognize that we've got to look after our team out there.

I think one of the things that we observed, and we just finished some analysis on it, is we said, well, what happens longer term if you see a federal mandate or you see the state mandates continue to move forward? In about half our markets there are some state mandates that moved to $15 or higher levels. And what is interesting, but shouldn't be surprising, is that because of our high fuel volume and our overall lower cost structure, we are able to maintain a lower fuel breakeven margin requirement, despite higher wages. And we would have about one quarter to

one fifth the impact that the average player in the industry would have. And so, it's not unlike what we're seeing on the trucking side with carriers or in other areas where the industry is impacted, we're impacted a fraction of the same level. And so, it'll end up creating an advantage for us as the industry passes through those higher costs. And we're able to do that on a more efficient basis.

<<Matt Fishbein, Analyst, Jefferies>>

And would you say that like this could be another thing that helps the fuel margin elevation, call it that we've seen since the beginning of the pandemic, that's something that helps it stay where it is or even increase further going forward? I would just think that this is one of the fewer levers that maybe a smaller operator would have.

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

Yeah, it is one of the few, but it's also one of the most effective, because we're only talking, I mean, in our worst-case scenario, our cost might rise $0.01 per gallon where the industry, it was rising $0.04 to $0.05 per gallon. And if you think about how much prices have risen since the beginning of the year till now, I mean that $0.04 to $0.05, is invisible to the consumers' eye. It's lost in the noise of crude oil price increases, refinery disruptions and then other effects.

And so, it's probably the most efficient industry for passing through prices. And you've got these giant signs in front of every store, letting consumers know what it is. So, I think you'll absolutely see that. I think that's just part of the trend that's been going on for the last couple of decades where margins have more than doubled. And you will continue to see that based on the economics of the industry and the marginal players. And for an advantaged player like us, we just capture more of that higher margin in our profit versus passing it through in terms of cost.

<<Matt Fishbein, Analyst, Jefferies>>

Makes a lot of sense. And I guess just to close the loop on that the flip side of it is now that there's higher levels of the U.S. population being now vaccinated, and mask and distancing restrictions easing. So yes, there's this labor availability issue. But on the flip side of that are there any additional tidbits that you can give us on how the reopening, if you want to call it, that is looking and does that – does what we've seen in the past couple of weeks change, kind of that trajectory of how you thought the reopening would play out this year?

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

Yeah, I think it's really been hard to predict the reopening. I mean, there's just so many externalities, and politics and noise around it. I think hopefully we'll have a good summer and folks will get back to driving and vacations and then schools will start back for everyone in the fall. And people will come back to work. We're going to be a 100% in the office, with the exception of those that have certain exceptions, within a matter of a couple of weeks. And so, we're looking forward to that.

We're mostly in markets that don't have a great deal of commuter traffic. And so certainly in New Jersey that early morning day part around the coffee is still slow to responding. So, I think that part of the reopening there's a question mark there: will the morning coffee drive look the same? We kind of joke that people were making their pot of coffee at home, and they got on email and they let their boss know they're doing some work, and then they will run to QuickChek and get their breakfast sandwich, and maybe they will get a last cup of coffee, but maybe not. But we're seeing that made up for in the late-day, and evening and late-night day parts with shakes, and smoothies and some of that's based on a delivery business.

So, there are going to be some customer changes that persist from COVID. Another one is just the order on the app, pickup at the store. As I visited the stores in New Jersey, I recognize the customer. They look a lot like the Murphy USA customers, they're working class coming in at lunchtime and grabbing their sandwich and going, and to the extent they can earn points on the app and not spend as much time waiting, because it's been prepared and the team is very efficient, that's new business that we're getting and that's helping drive sales.

Some of our most established stores have had record weekly food sales over the last few weeks since their opening years ago or decades ago in some cases. So, we feel good about the reopening. I think it's going to be a while before we get to the 100% of fuel volume of say 2019, it may be by the end of the year before we see that, perhaps we thought we might've gotten there third quarter a few months ago.

<<Matt Fishbein, Analyst, Jefferies>>

Another key point of differentiation I wanted to touch on is your strategy in terms of unit growth, relative to the other top players in this space. And historically the company has been very driven by unit growth organically as opposed to through M&A. So as the QuickChek integration progresses and your food and beverage capabilities become stronger, is there an opportunity to look for a little while longer at some of the bolt-on acquisitions that have come to market? And outside of purely expansion motivated acquisitions, are there any additional capabilities within, or maybe even outside food and beverage that you'd consider acquiring?

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

Yeah. Great question. And just to remind everybody, I mean, QuickChek really was a capability acquisition. As we noted in October last year, we're going to look at M&A and consider it as a way to buy that capability, because it's so hard to build. And we are prepared to look outside the convenience store sector. There's not a meeting that goes by when we talk about QuickChek's results or the consumer behavior trends that we don't end the meeting by saying that they really are a QSR, and they just happen to have a convenience store attached to all of them and fuel attached to half of them. And so that was a great strategic acquisition of a QSR to build the knowledge, the capabilities, process, discipline IT around self-checkout and customer order that we couldn't have built on our own in any period of time. So, we feel really good about that.

As I think about organic growth versus inorganic growth, we've got a lot of great opportunities in front of us, whether it's building out infill markets in New Jersey with QuickChek, whether

it's building out our top strategic markets at Murphy USA. And there's a lot of things that are going for us that enhance the returns on those stores. Certainly, the fuel equilibrium that we've talked about just makes those stores better, even if they're at 95% of target volume, but we've seen those new stores, especially the 2019 class, that ramped up before COVID volumes performing well above the chain average, and even the 2020 stores ramping up to those levels, but at much higher margins. All the benefits we've gotten out of the tobacco market share gains that we sustained and the other innovation that we've done, are benefiting those new stores.

And then when you add the enhancements that we're looking to make through the QuickChek knowledge and capabilities around food and beverage, that's going to be a pretty high return hurdle to beat. And it's all things we can do within our team, our culture, our capability set within our free cash flow without adding debt, and we're taking share from other players in the process. So, we really like the organic growth pipeline that we have in front of us.

Around future bolt-on M&A, what I would tell you is there are few if any chains out there like QuickChek that we would really see coming to market. I mean, one of the analysts described it, I don't think it was you, one of them described it as a unicorn. And we actually found, I think, what is the unicorn in the industry at the scale of 150 stores. Most of the stores that we're seeing out there now are what I would call more distressed assets in that first and second quartile, lower EBITDA per store with a considerable lift in front of them from a remodel standpoint that frankly would crowd out our own remodel activities for our young 20-year-old and younger kiosks converting them to new small format stores in front of Walmart where we can get a better return.

There was also news this last week about environmental action against single wall underground storage tanks. And so, I think those that are acquiring those chains are taking on a significant burden. I don't think that you'd have the same cultural alignment that we found with QuickChek, which has been very pleasing and has really made the integration and synergy process fulfilling on both sides.

And I think there's a lot of underground liability and other things associated with those where, frankly, we'd rather go build new stores that we know are going to be around in 20 years and let someone else tend to harvesting the distressed stores in the industry. And if there's something really good that comes along we're certainly in the deal flow, we'll take a look at it. But we did QuickChek as a strategic acquisition from a capability standpoint versus saying, hey, we're going to become a serial M&A player.

<<Matt Fishbein, Analyst, Jefferies>>

Yeah. Makes a lot of sense. And you brought it up, the potential regulation changing over the course of time, especially with this Biden administration really focused on potential tobacco regulation changes, emissions related changes. That's all continuing to make headlines as it has in the past. Something that I've kind of pulled from all the discussions that I've heard you in when it pertains to either tobacco and EVs kind of feels like, the likelihood that consumers switch to different tobacco products and EVs relatively small market share of the total U.S.

vehicle fleet. Both of those are good reasons why the business impacts here could be less material, at least in the near or medium term.

So, question for you would be longer term, first, how is the company looking to continue harvesting value from a declining cigarette category? And two like, what is the potential EV impact that we could see on the business over the next five to ten years, call it?

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

Sure. Well, starting with tobacco, I mean, nicotine, broadly is just a massive category. And so, with a 17, 18 share of cigarettes, which we've grown 200 basis points since 2018, our rate of share increases as the profit pool for the industry grows with price increases as other firms move away from everyday low price and we're able to take share profitably. It's a very good category for us, and we do it very responsibly with one of the highest age verification rates in the industry. The benefit of doing it so efficiently for the manufacturers is, we're able to access funding that allow us to do things in more and more flexible ways. And as we've talked about growing carton sales up to 60%, stabilizing in the high-50s, we're seeing the same success in rolls of moist smokeless tobacco, and small boxes of cigar. So having that bulk value offer for our customers.

In addition, the manufacturers are very focused on introducing products that have a lower risk of harm to consumers, and we're well positioned to offer those products as they promote them in the nicotine pouches and other items, we're the leader in introducing those products to the marketplace. So, that continuum of products will shift over time. But I think the overall nicotine tobacco category is going to remain very strong as a very healthy profit pool. So, as more and more firms spend less time looking at the category and we continue to major in it, we'll just get more focused from both the consumers and the manufacturers, which will allow it to have a very long and profitable tail for us.

On electric vehicles, we've talked about this before it's a luxury vehicle today. Even the Ford products, which are more appealing to the mass are still very expensive. I think the Lightning truck, like the Hummer is north of a $100,000, I couldn't pull my trailer with the new Ford Lightning the 120 miles I need to go and I'll pull it, because it only has a 100-mile range when pulling a load. And so, as we've talked about before, our customers are driving, 10-to 15-year-old cars and cars are lasting longer with 125,000 miles, they bought used for $15,000. So, it's going to be a long time before it's even affordable to these customers. Many of them struggle week to week to pay their utility bills. So, they're not going to be putting in a 240-volt charger in their garage for this electric vehicle they can't afford.

So, as we see the transition take place it'll be in the urban areas. It'll be with the affluent customers. They're the ones getting the subsidies today. The chargers will be in more affluent areas, not the least affluent areas. And you'll hopefully see them on fleet and other vehicles that don't have the range anxiety that many passenger vehicle owners would have.

<<Matt Fishbein, Analyst, Jefferies>>

Yeah. All very good points. And we're coming up on time and I know they yank us off like right off the air as we hit it. So maybe just the last question and we'll end on, I guess, what are the exciting ways that from your seat, the company has become stronger since the onset of the pandemic? I know, I said it myself in my opening, but I don't want to put words in your mouth. Would love to hear what you're most excited about looking ahead?

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

Well, I think from the people standpoint, we showed the resilience out in the field with our operators, and they really lifted the heavy load for us, and we found ways to recognize them throughout COVID and we're seeing the same high level of engagement and engagement survey. A lot of companies aren't doing them in the midst of COVID or the recovery, because they don't want to know the news. We did it because, we wanted to know, and we were pleased to see that. And of course, the home office staff engagement grew. I think the decision making of the team, the investments we made, whether it was inventory around tobacco, the fuels capabilities, we were really prepared as well as one could be going into COVID. And that really allowed us to be bold as we achieved record share repurchases in 2020 and pulled off a $650 million strategic acquisition.

And so, as I think about those three things combined if I look out to our expectations in 2024 of growing the business to $700 million of EBITDA, continuing to buy back shares at a rate of a million shares a year and getting a turn or two on the multiple we're well positioned to do all of those and many of those earlier than anticipated and so excited about, how the fuel market is responding and its contribution to that, that generates the free cash flow to accelerate share repurchases.

And certainly, as we've talked to investors and had two-way conversations today, there's not a lot of interest in high quality defensive stocks. One investor said, "we'd rather have junk cyclicals," and as we're trading sideways, we continue to be a buyer of our own stock. And I think certainly with the growth plans that we have and the enhanced food and beverage, there's a great story on the multiple. But I also think if anyone is discounting the terminal multiple because of the future of fuel or tobacco, there's a narrative around that that says as time goes on, we actually get stronger and more profitable as we head towards that end state versus less profitable.

So, a lot of good news to come, it may not show up in the share price until it shows up, but we'll be a few million shares lighter by then. And it'll be a good for our long-term investors.

<<Matt Fishbein, Analyst, Jefferies>>

Perfect. With that, I think, we're right at time. Andrew, thank you very much for your time today and to everybody tuning in. And we do hope to see you and everybody else back in Nantucket for real next year. I appreciate it.

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

Right. Thanks for hosting us.

<<Matt Fishbein, Analyst, Jefferies>>

Of course. Take care.