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EDITED TRANSCRIPT

MUSA - Murphy USA Inc Conference Call to Discuss Independent Growth Program and Share Repurchase Announcement

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CORPORATE PARTICIPANTS

Christian Pikul *Murphy USA Inc - Director of IR*

Andrew Clyde *Murphy USA Inc - President and CEO*

Mindy West *Murphy USA Inc - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Matthew Boss *JPMorgan - Analyst*

Carla Casella *JPMorgan - Analyst*

Bonnie Herzog *Wells Fargo Securities - Analyst*

Ben Bienvenu *Stephens Inc. - Analyst*

Ben Brownlow *Raymond James & Associates, Inc. - Analyst*

Damian Witkowski *Gabelli & Co. - Analyst*

Bryan Hunt *Wells Fargo Securities, LLC - Analyst*

Kevin Kelly *Vrusian - Analyst*

Pamela Rosenau *Hightower - Analyst*

Doug Rothschild *Scoggin Capital - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Murphy USA independent growth strategy investor update.

(Operator Instructions)

As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Mr. Christian Pikul, Director of Investor Relations. Sir, please begin.

Christian Pikul - *Murphy USA Inc - Director of IR*

Hello. Good morning, everyone, and thank you for joining us today. With me are Andrew Clyde, President and CEO; and Mindy West, Executive Vice President and Chief Financial Officer.

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 projects will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, please see the Murphy USA form 10-K and other SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements.

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

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Andrew Clyde - *Murphy USA Inc - President and CEO*

Good morning. Thanks, Christian. Thank you all for joining today. It's been an eventful and exciting last few days here at Murphy USA. Our press release on Monday evening has generated a lot of interest and I know some of you have not been able to get your questions answered. So we are hosting this call to provide some clarification on key issues and allow you all the opportunity to ask any additional questions you may have as we embark on our Independent Growth Plans.

We have made every attempt to be completely transparent with investors over the last couple of years in our dealings with Walmart and the decision they ultimately had to make about whether or not they wanted to partner with us in building out a fuel offer at the rest of their supercenter locations. They have made that decision. They have opted not to proceed with our offer, but have chosen to undertake this investment themselves. Consequently, we have begun to execute what I have so often referred to as our Plan B, which we will hereafter refer to as our Independent Growth Plan, which couples a more modest rate of unit growth with even more meaningful shareholder-friendly capital allocations.

I'd like to be clear on a couple of points. First, the pipeline that we have in place to build between 60 and 80 stores in both 2016 and 2017, remains intact. Our growth and development plan continues at that same trajectory and over 50% of those new openings will be locations acquired from third parties and we will continue to build the remaining Murphy USA locations we have in inventory on Walmart property.

Second, we have announced a $500 million capital allocation and share repurchase program that is incremental to our normal CapEx budget. We will not only continue to build stations, we will execute our refresh program where we will do our raise and rebuilds, we will invest internally in our systems to scale up efficiencies as we grow this business, we will continue to do everything that we have been doing to make this Company successful this year and next year and the years after that.

As we have often mentioned, Plan B allows us to reallocate capital and flex our balance sheet optionality now that we know that there is no larger call on our capital, such as a down payment to Walmart. As a result, we can continue to deliver meaningful repurchase programs to increase shareholder value. This has always been part of our promise to investors and with our path becoming clearer, we are delivering on that promise.

We added some language in the release that earmarks up to $500 million for share repurchases and any new incremental growth opportunities that make sense for us. You're not going to see us making large store acquisitions. As we've said, a consolidation strategy does not fit our model. Rather, we can accelerate our land bank asset acquisition program or selectively enhance our midstream capabilities. But the lion's share of this allocation is currently intended for share repurchases at this point in time.

Last, this is not a change in strategy for us. We will continue with our five-part plan with our organic growth generated from third-party locations versus acquisitions from Walmart. Our business model as a low-cost fuel provider allows us to compete with anyone in this business, whether it is in a Walmart parking lot or a busy intersection down the street.

We have seen this fork in the road coming for some time. This decision, while surprising to many people for different reasons, has not taken us by surprise. We've been preparing for this and we are ready to execute our plan.

Ultimately, you as investors are going to have to decide if you're willing to accept a slightly lower, but arguably more efficient, long-term sustainable growth profile in 2018 and beyond in exchange for a hugely impactful program that can return significant amounts of free cash to investors. We think it is a winning combination and I know that the long-term shareholders I've spoken to are highly supportive.

With that, we would like to open it up to questions, but we will keep those questions to the Independent Growth Plan and share repurchase program. Any questions related to our fourth-quarter earnings and our future guidance will be discussed in our earnings call that we have scheduled for next week.

So with that, Operator, we will open the line for questions.

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QUESTIONS AND ANSWERS

Operator

Thank you, Sir.

(Operator Instructions)

Matthew Boss, JPMorgan.

Matthew Boss - *JPMorgan - Analyst*

Hello. Thanks. So I guess my first question is, as we think about the model implications for next two years, number one, what's your comfort level with 60 to 80 stores in 2016 and 2017? And then what's the base case assumption for store growth in 2018 and beyond? And then on the stores, can you just walk through the return profile and specifically any differences between a Murphy express build versus a Murphy USA store build?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Sure. So I would say our confidence level is very high on the 2016 and 2017 plans. Most of those are already in the land bank, whether they were remaining from the Walmart 2012 deal or land bank sites that we acquired and closed on in 2015 or are set to close on in 2016 and others are identified. So I'd say very high on that.

The growth rate beyond that, we've talked about adding 30 to 40 sites to our land bank as one of our goals in 2015, which we met. We can continue at that rate. And one of the things we will be looking to do is identify the high profile sites where we can accelerate that rate.

The return profile, Matt, doesn't change materially between an express and a USA site. And I think one of the key things to remember is we are only going to target express sites in the most attractive market clusters where we know we can get the fuel volume, attractive margins, tobacco sales, et cetera, to get the return.

When we took a portfolio approach doing a large deal, whether it's 200 stores or more, with Walmart, you had to accept that you not only got those higher return stores, but you also accepted some lower return stores and had to view it as a portfolio. And so with this approach, while the number of stores is lower, you will be targeting higher return stores as well.

For the return standpoint, we've shown in our investor analyst day presentation, the unlevered economics for both of our formats, those have not changed. I'll refer you back to those. The one thing you should expect to see, though, was more of the 1,200 square foot stores versus kiosk, when we're targeting the land from third parties.

Matthew Boss - *JPMorgan - Analyst*

Great. And then just a follow-up question. On the capital allocation plan, is it fair to think of $500 million share repurchase as sort of a base case model assumption and then these new growth opportunities potentially identified, if that were the path that you follow, is the idea that they should be more accretive than the base case share reduction accretion that you would get from buyback?

Andrew Clyde - *Murphy USA Inc - President and CEO*

That is correct. That is correct.

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Matthew Boss - *JPMorgan - Analyst*

Okay, great. Best of luck

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thanks, Matt.

Operator

Carla Casella, JP Morgan.

Carla Casella - *JPMorgan - Analyst*

Hi. My question is whether the signals have changed in your view towards leverage and if you have a leverage target in light of the share buyback.

Mindy West - *Murphy USA Inc - EVP and CFO*

Hi, Carla. This is Mindy. And actually, it changes nothing with regard to our debt target. They actually remain the same as they have been since the spin at being less than 2.5 times levered. That happens to be the point at which we start losing flexibility within the terms of our bond agreement.

And also because we are exposed to fuel price volatility, we do still think it is important to have some resilience and flexibility in the balance sheet and not become over levered. So our targets don't change at all.

Carla Casella - *JPMorgan - Analyst*

Okay, great. And then what non-core assets -- you mentioned that the proceeds may come from non-core assets or raising debt. What is your view there in terms of what are your assets that you have that you could sell and would you look to come back to the high-yield market?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Sure. So on the non-core assets, we sold our Hereford ethanol plant towards the end of last year. So we've talked about -- we are identifying assets for life-kind exchange treatment, so we'll have those proceeds released at the end of that six-month period. We've noted before that we have one remaining crude pipeline asset that came over with us and we are in the final stages of the sales process with that asset.

It too would be put in a special purpose entity to try to like-kind exchange treatment for it as well and so some of those proceeds will be held up while we execute the future purchases that would offset those. That would be the remaining asset and we'll provide more information on that as the sales process concludes.

Carla Casella - *JPMorgan - Analyst*

Okay, great. Thank you.

Operator

Bonnie Herzog, Wells Fargo.

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Bonnie Herzog - *Wells Fargo Securities - Analyst*

Hi, Andrew.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Morning.

Bonnie Herzog - *Wells Fargo Securities - Analyst*

So I was maybe hoping you could talk a little bit about what happened with the breakdown of the negotiations with Walmart and then where your relationship stands with them now. And then how do you think about Walmart in terms of them maybe as a competitor of yours and I'd be curious to hear from you if you think Walmart might be interested in acquiring you. I know they're pursuing their own proprietary plan, but certainly they could potentially get there faster by doing something different than building.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Got it. I don't want to get into a lot of details around the process, but I would not describe anything really kind of as a breakdown. I've said before that when the new leadership team was in place, myself and Board members met with Doug Mcmillon, Greg Foran, Judith McKenna, and introduced ourselves and our Company and our long history and basically explained here is how we can help with supercenter uplift by having a competitive fuel offer in front of all their stores.

And we followed that up with an offer to do that. And it was graciously received and described as compelling and they explained that they are looking at their own program and plan. And ultimately, through their pilots and plans, they decided they want to pursue this on their own and it is really just as simple as that. We did not discover the bid-ask spread in that process and they've decided to go forward.

In terms of competing, our business model allows us to compete with anyone and we do. We have plenty of stores that, within months of opening, a really, really good competitor, like a Quik Trip or a Sheetz or a Wawa, opens up within a block or a mile, we continue to compete. And so that's the whole essence behind our low-cost strategy, improving our fuel breakeven margin, maintaining our resiliency is that we can go head-to-head with any competitor with our model.

But our model makes sense in certain locations that are high-traffic locations where we can aggregate price-sensitive customers. So we're going to continue to compete and compete responsibly with anyone. And that's the basis of our model.

The capabilities needed for this business are something that we've established over a long period of time. Our supply chain advantages come from decades of participation in the fuel supply chain, Murphy Oil's heritage of having refineries, the Colonial Pipeline history, the DNA of our team and their capabilities and so I think that's an advantage that we have that's hard to replicate.

I believe our small format retailing capabilities are unique and distinctive and we've often said that what makes that business distinctly different from a big box is all about capabilities. So I believe we've got a strong model and that's the challenge anyone has getting into this business and you see people entering this business all the time.

Bonnie Herzog - *Wells Fargo Securities - Analyst*

Yes. And that makes a lot of sense, Andrew, and that's why I know you maybe didn't want to touch on if Walmart might be interested in acquiring you, but I certainly agree it's going to be tough to build out and you guys have done a good job at it.

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I just wanted to clarify something. Your relationship with Walmart then for the existing store base, is that still a good solid relationship? I guess I'm thinking about it from the perspective of future partnership programs, discount promotional programs for these existing stores. And then I have one other quick question.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Absolutely, yes. And what I would say is the Walmart leadership team has been very forthright and transparent from the beginning in saying regardless of where they ultimately decided to go with this decision, we're going to have to work together and grow and enhance the customer offer to our joint customers where the existing stores are.

And so, as we've said before, we knew we would hit this fork in a road and we knew that if the decision went where they were going to develop their own plan, we knew that we would need to continue to work together in a constructive manner and we've had very open and good conversations with the team throughout.

The nature of the programs going forward are things that will need to continue to work and collaborate on so we can be competitive together against our common competitors like the grocery store chains, et cetera, that have fuel offers where we exist. So I still think there's a lot we can do together to enhance that offer and we'll have to work together on that.

There's absolutely nothing that happened during the course of this relationship or these discussions that deteriorated the relationship and we don't want to do anything to let it deteriorate from that standpoint.

Bonnie Herzog - *Wells Fargo Securities - Analyst*

No, that's helpful and that's what I was hoping. My last question is I just was hoping you could look at over the next maybe 5 or even 10 years and talk about what MUSA will look like as a operator overall?

Then how will your mix change from the smaller store footprint to the larger boxes? And do you think you can now change that mix faster than if you would've continued with Walmart? And then if so, should we assume your margins could expand even faster? Just kind of trying to get a sense of what you will look like in the next 5, 10 years.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Sure. So the largest format in terms of percentage mix in our portfolio is our kiosk today. And since 2012, 2013 when we really started rolling out the larger 1,200 square footprint, that's really helped the merchandise sales, the mix, the margin within that. And that's the part that was expanding and will continue to expand because we would expect to do very few kiosks on third-party locations.

Now if there's a great out lot from a third-party that's a half an acre and there is no carve out possibility on Walmart where they could do it themselves and it's just one of those great locations, the returns on those kiosks are great. So you could see us still putting one on a third-party location. But that's going to be more the exception.

So over 5 to 10 years, you would expect to see the portfolio continue to increase in terms of the 1,200 square foot stores. We started a raise and rebuild program. Last year, we did the first one. We've got 10 slated for this year. Those are all over formats in which we did need additional land to build out. So we will continue to work with Walmart on the raise and rebuild program as we replace those older, smaller, kind of worn-out, tired stores. So I think you could expect to see that continue.

The bigger box model, during the period of 2007 to 2012, when we weren't getting stores from Walmart during that period, the Company experimented in some different big box models. And they were anywhere from 1,800 to 2,400 square feet and they were okay. What we've developed

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over the last two to three years is a larger 3,500 square foot store that we've been able to rollout successfully in Arkansas, Louisiana, Colorado, and those are doing very well.

They're not the 5,000 to 7,000 foot like a Quik Trip or a Sheetz. It doesn't have a prepared food offer, but it does have a much more expanded mix. And so we will look to selectively grow those in the markets where that format and offer can be very competitive. I think the biggest change is instead of having an inflection point where you go from 60 to 80 stores to building out 120 to 150 stores, you will see it modulate to a 30 to 40 to 50 to 60 store growth, depending on the opportunities within the land bank, which we will be looking more deeply at.

Bonnie Herzog - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thanks, Bonnie.

Operator

Ben Bienvenu, Stephens Inc.

Ben Bienvenu - *Stephens Inc. - Analyst*

Thanks. Good morning.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Good morning, Ben.

Ben Bienvenu - *Stephens Inc. - Analyst*

In your comments this morning, you alluded to potentially making investments in midstream positions. Could you just give us a sense of what forms those investments could take? How should we be thinking about potential exploration of those opportunities?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Absolutely. The midstream assets we have today include both the seven terminals that we have as well as the line space history that we have and we've historically had on Colonial Pipeline and other pipeline systems. The terminals we have, for the most part, are in smaller niche markets and we are able to drive great value from those on the wholesale side of the business and give us a lot of optionality.

There are terminals like that out in the market. We've looked at those in the past and that could be something we could add to the portfolio if it created an advantage above and beyond just owning a terminal asset. And recognizing you're competing with MLP owners out there. You've got to be careful that you don't overpay. But that could be an example.

We have continued to acquire line space from third parties over the last years and so as our business has continued to grow, we've continued to acquire line space to maintain the advantage we have. So those are couple of examples of things that we've explored and done in the past and we would continue to explore and do in the future.

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Ben Bienvenu - *Stephens Inc. - Analyst*

Okay. That's helpful. Thanks. Maybe shifting to your Murphy express store builds in the future relative to the past. In the past, they've generally been built in the halo of the Walmart traffic supercenter store stream. Should we think about the possibility of Murphy express stores, particularly these larger 3,500 square foot stores being built 100% independent of Walmart, but in high-traffic areas or a mix of both or how should we be thinking about that going forward?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Sure. The 3,500 square foot formats are built independently from the supercenter locations and are in great high-traffic areas. So that model is designed to be like any other big box store in terms of its location.

The 1,200 square foot express stores are within the halo and one of the things that we've discovered through, we did some customer intercepts last year and we were able to intercept over 100,000 customers and what we found is that the consumer behavior, whether you're at a USA or an express, was the same in terms of them going to or from a Walmart supercenter on that same trip.

And then when you looked at the expresses across the street or half a mile or a mile down the street, the consumer behavior was the same. And so there is ample opportunity within that halo to build out the express stores and target that same customer on that same trip or the other trips in which they're coming straight to Murphy USA as their destination for our low-price offers.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay. Thanks. And then just one last one. It sounds to me, in addition to your commentary around potentially the rate of new store growth moderating but higher-quality stores being built, is it reasonable to think that these larger square footage store formats may potentially have marginally less traffic but be more a profitable box and as a result, you see a similar return profile but with a different makeup?

Or how should we be thinking about that going forward? Should we be thinking about similar volume levels relative to the existing Murphy USA stores?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Similar volume levels to even higher volume levels because again, the average from a volume standpoint, is going to be higher because you're not going to be pursuing stores in the weaker performing markets by taking a portfolio approach.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay, great. Thanks so much.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thanks, Ben.

Operator

Ben Brownlow, Raymond James.

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Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Hello. Good morning.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Good morning.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Andrew, you touched on the Walmart program. Are there any specifics or insights you can provide in terms of Walmart's future intentions and whether that be the timeline or how they plan to go to market with whether it be a more traditional rollout of convenient stores or more of a kiosk-type fuel center?

Andrew Clyde - *Murphy USA Inc - President and CEO*

I can't, no.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Just given that uncertainty, is there, what do you see to the long-term growth opportunity in terms of risk? Does that, do you see kind of a limitation being dependent on what Walmart chooses to do or is there any feeling to be aggressive, more aggressive there in growth in the short term?

And just a related question, in terms of the real estate team, at what max capacity would they be at on a annual new build basis?

Andrew Clyde - *Murphy USA Inc - President and CEO*

We've done a lot of homework on everyone of the remaining supercenters in the entire country and we are able to prioritize where we want to go look and our real estate team was already scaled up anticipating either Plan A or Plan B because what I don't think people really appreciated was the magnitude of work that was going to be required under Plan A.

And so we were geared up to do that or Plan B and so in this case, the team is ready to go and they're excited and they've got very clear marching orders and they have a very keen sense of direction on where to go. It's probably worth noting that the areas that we are not going to go are areas that frankly have a lot of risk, whether it's regulatory risk around fuel, around the labor, around tobacco, around permitting, use, et cetera.

And those are the market areas and states that frankly we're going to completely avoid. And there was a lot of market risk and execution risk involved in those. Some of the execution risk also is in the real estate process in being able to get third-party approvals and permitting, et cetera.

And so, in some of those areas, you may have only gotten 50% of the stores at best to get. So we're not going to spend as much time on locations in which there will be no fruits for your labor because of that risk profile associated with that. So I think our real estate team is going to be highly productive, focused on the areas where we're going to get the best returns and waste the least amount of effort.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Okay, great. Thank you.

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Operator

Damian Witkowski, Gabelli & Company.

Damian Witkowski - *Gabelli & Co. - Analyst*

Good morning.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Morning, Damian.

Damian Witkowski - *Gabelli & Co. - Analyst*

Question. Just going back to Walmart, there's 3,500 of their about supercenters in the US. You have a Murphy USA in roughly about 1,100 of those, in front of those, currently. As you look out and you don't know where Walmart is going to build and how they're going to build their own convenience stores, when you build these 1,200 square foot express stores, do you try to stay away from the Walmarts where they're going to put their own gas station in front of that particular supercenter? Or do you have a way of actually know that or what is the strategy going to be?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Our strategy is going to be to go to the markets where we can get the best returns and highest traffic. We don't know where Walmart is going to put a location and, sooner or later, we are going to bump into them at one of those locations.

We're going to be thoughtful about where it's likely they could because you could see that in development plans and the like that they filed. So we are going to be smart about how we prioritize the locations we go after.

Damian Witkowski - *Gabelli & Co. - Analyst*

Can you actually, do you think, can the economics work in a 1,200 square foot express store half a mile or a mile down the street from a supercenter that has a gas station in front of it? Does that really change things drastically or not a big deal?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Not a big deal. As I said before, when you have a 1,200 square foot store and a Quik Trip or a Sheetz or a Wawa opens up within a half-mile or less or more from you, those stores continue to perform and the key there is doing those in the best markets. If you do one in a low-demand market and you add another large store like that, at some point, it's hard to divide a small number by two end up with a big number.

If you have a very, very big number and you divide it by two or three or four, you've still got a big number. Our highest volume store up to a few years ago was in Dallas. It was doing 650,000 gallons. A Quik Trip opened at the interstate exit on both sides of it. Now it's doing 555,000 gallons. It's still doing, in that case, six times the industry average because it's a great location and there's a lot of demand in that area.

We have many of our locations that today are within a half-mile of a Sam's Club and it may be on the same large giant parking lot where the Sam's Club is on the other side of the Walmart and the gas is on the other side of that. Those stores still perform well. And so we've got a good sense from our history of what creates a very attractive market that can support multiple competitors.

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Damian Witkowski - *Gabelli & Co. - Analyst*

Okay. Could you venture a guess in terms of how big you think the opportunity is in terms of how many stores can you still open, express stores, in those markets. I know the, let's say the target is to open, beyond 2017, to open 30 to 40 per year. But how big is the total opportunity at this point do you think?

Andrew Clyde - *Murphy USA Inc - President and CEO*

So I think one of the things that we'd shared before in one of our analyst day presentations is there was 1,500, 1,600 supercenters without gas where we described that as the theoretical possibility. A large portion of those, we would not put gas on ourselves if we weren't doing this as part of a larger portfolio because of the inherent market risk and execution risk and just lower performance that one would expect in those markets.

And I think, again, that was the risk not fully appreciated in Plan A and the work that we were doing was to make sure we didn't over-bid for the opportunity to build out the remaining supercenters because many of those you would not go to on your own. You would use the higher return sides to subsidize that within a portfolio approach. We're not taking a portfolio approach anymore.

So we will be clearer in the future around what we think the total possibility is but out of that 1,500, the number is certainly less than half of that and I think that gets to the final point I made in the opening statement. We've always said this is a finite life growth business. There was a lot of risk and opportunity going from 60 to 80 stores to 120 to 150 stores, but we also know exactly what the returns are from a more moderated 30 to 40 store growth or higher in using additional free cash flow for shareholder returns.

And we always had that as the hurdle rate for doing any deal. We knew what our Plan B was, we knew what our next alternative was, and it's a very attractive alternative for our shareholders. And so that's why this isn't a fork in the road where you come to a screeching halt. This is one where you just see the exit sign way ahead and you keep your foot on the pedal and you just realize you're going to go right instead of left and you just don't look back.

Damian Witkowski - *Gabelli & Co. - Analyst*

Okay. That was very helpful. Thanks. And then just lastly on the $500 million, obviously it's not all going towards share repurchases, at least not yet. But when do you think you will be in the market of actually buying back shares? Can you actually buy them back currently or are there any plans to be aggressive from the start or do you have to wait and sort of figure out what your next steps are?

Andrew Clyde - *Murphy USA Inc - President and CEO*

So our first open window will be after the Monday after our earnings and we'll continue to execute this plan as we've done others in the past, so we are not able to go in the market now because we're not in a open window. We are in a quiet period.

Damian Witkowski - *Gabelli & Co. - Analyst*

Okay. Thanks for hosting the call.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thanks, Damian.

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Operator

Bryan Hunt, Wells Fargo.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Thank you for your time. You pitched Walmart with your investment philosophy and your thesis and how you could help drive revenues at the supercenter boxes. Why wouldn't that same pitch apply to other large format retailers and discount retailers and is that a path that you're taking?

Andrew Clyde - *Murphy USA Inc - President and CEO*

So the supercenter, from a traffic standpoint, really is exceptional, and I think that's what's made this partnership work over time. As we've shown in some prior analyst day reports, the traffic in front of a supercenter is much higher than that of a typical grocery store or even a neighborhood market and we're in front of about 30 neighborhood markets ourself.

We've had some stores in front of Lowe's that we developed after the 2007 period and they do well, but there is something about the demand pattern associated with the supercenter that works very well with our model. It also works really well if there's a Home Depot or a Lowe's or some other stores like that in immediate proximity and that's why we can be a half a mile or so down the road from a supercenter on an express store and still do very, very well. But in terms of a Target or another big box merchandise like that, we're not pursuing that path, certainly not at this time.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Is there an exclusivity with your brand and with the Murphy USA in front of Walmart? You can't use that or go head-to-head with them in a given market with another big box? Is that a correct assumption or is it maybe just a philosophy?

Andrew Clyde - *Murphy USA Inc - President and CEO*

We have an ECR agreement that covers the use of the site and one of the things it spells out is the Murphy USA store brand will be used at the locations that we acquire from Walmart or of Walmart's concurrence brand as Murphy USA and those are the stores that are able to use the Walmart gift card and the Walmart credit cards. So the stores that we had bought from third parties where we didn't get Walmart's concurrence to brand as USA, we must brand something else and we've branded those as Murphy Express.

We'd certainly think there's value in having the Murphy Express is better on the parking lots adjacent, et cetera, branded as USA because it frankly causes a lot of confusion with the Walmart customer when they can't use their credit card and that's an opportunity that we want to continue to work on and collaborate towards. There's nothing that prevents us from putting up a Murphy Express anywhere else that we want to other than the economics of our model that we've talked about before.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Okay. Then my last question, part of the funding process to spend an incremental $500 million over the next two years, would that potentially include sale lease-backs on real estate? Has that been part of the thought process at all?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Yes. We'll continue to explore a lot of different options on our balance sheet. We've looked at many, many balance sheet alternatives and in today's market, we want to be thoughtful about how and when we do that.

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Before, we've kind of maintained what we call sort of dry powder kegs in case we needed to use it for more transformational growth. But we've looked at all the alternatives and have sort of a view that we'll execute on in due course based on the market attractiveness, the optionality, the flexibility that it gives us, and certainly the market conditions which have been pretty volatile of late.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Very good. I appreciate your time.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thanks.

Operator

Kevin Kelly, [Vrusian].

Kevin Kelly - *Vrusian - Analyst*

Hi, thanks. Just two quick questions. In the press release, you guys discuss that Walmart would have the ability to develop the gas system where the supercenter locations are not currently supplied by Murphy USA. Does that include nearby Walmart Murphy Express or can those locations add a gas station?

Andrew Clyde - *Murphy USA Inc - President and CEO*

I'm not sure I understood the question. Could you repeat that again?

Kevin Kelly - *Vrusian - Analyst*

Sorry. So the 200 Walmart, the Murphy Express locations, in the press release you talked about Walmart cannot compete where you already are located on a supercenter locations. Are those Murphys Express considered protected or are those considered locations they could also add their own gas station on the actual site?

Andrew Clyde - *Murphy USA Inc - President and CEO*

If your question is can Walmart put a fuel offer on a supercenter where we have an express location today.

Kevin Kelly - *Vrusian - Analyst*

Yes. That's the question. Sorry.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Okay. The answer is yes. Walmart can put a gas fuel offer anywhere they want to on their property and so, at the end of the day, they're going to have to make decisions about what makes sense to do and what's going to be a good use of capital. We can integrate any of our 1,100 plus stores

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that are Murphy USAs today into their existing or future offers, whether it's a card offer or a digital offer, and we've got a very flexible proprietary point-of-sale system to do that.

If there was an express store adjacent to it, it's easy to convert that to a USA and provide that same level of very seamless integration to the customer. So ultimately, they're going to make decisions about return on investment and integration with their other offers and we're going to be a partner and collaborate with them on it. So at this point, we're assuming they're going to make good rational decisions on that front, but they could certainly do that.

Kevin Kelly - *Vrusian - Analyst*

But the Murphy USA branded locations are protected, correct?

Andrew Clyde - *Murphy USA Inc - President and CEO*

We are going to continue to operate the Murphy USA locations. Your term, protected, I haven't used that term and wouldn't describe it -- I guess it's conceivable that if there's a Murphy USA on a parking lot and it was a giant parking lot and they wanted to add one, they could do that too. It's just not one of those things that I would think would be a rational decision, but I don't think there's anything that actually protects us from that other than common sense.

Kevin Kelly - *Vrusian - Analyst*

Okay and then with one last quick question, you said the $500 million share repurchase was the priority. That would $500 million in excess of your currently planned 60 to 80, correct?

Andrew Clyde - *Murphy USA Inc - President and CEO*

That is correct.

Kevin Kelly - *Vrusian - Analyst*

Okay. Thanks so much.

Operator

Patrick Fruzzetti, Hightower.

Pamela Rosenau - *Hightower - Analyst*

Hi, this is Pamela Rosenau from Hightower. Andrew, I have to say, this is, to me, this is a genius opportunity for Murphy. As you pointed out, not only have you, going forward, had the opportunity to be much more profitable and cherry pick your stores, but from a risk perspective, you are much less risky with much less concentration of customers.

I would have two quick questions and that is with your competitive advantage, which I think are multiple competitive advantages, how long do think it would take a competitor, a virgin competitor, to assemble what you have, to duplicate your model, both in terms of midstream and on the front office?

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Andrew Clyde - *Murphy USA Inc - President and CEO*

So first of all, thank you for your comments and I think your point about risk has probably been under appreciated and I can't say more about that.

Pamela Rosenau - *Hightower - Analyst*

I understand.

Andrew Clyde - *Murphy USA Inc - President and CEO*

My background was 20 years in management consulting and we helped really big companies, strategies and underpinning the most successful strategies for a set of capabilities. And the thesis was always differentiating capabilities are really, really hard to build. The capabilities that Murphy USA's strategy is based on took decades.

On the fuel side, the acquisition of the line space and the trading, pricing, supply balancing philosophies take a long time. Those assets are very, very hard to secure, but capabilities go beyond asset. It's the people, it's the know-how, it's the mindset. The capabilities around our small store offer should not be underestimated in terms of how difficult they are.

I just addressed last week 1,335 national managers all gathered in one place in Orlando to talk about our future and how bright it's going to be regardless of where this decision was going to go. And at this time last week, we did not know. And it was all about rolling out a new partnership with Care-Mark.

It was all about rolling out the ASAP initiatives around site labor. But it was building on this proud past that we have around up-selling, very high customer service and engagement levels, the retention of our store managers which are at the heart of our successful business.

Warren Buffett talks about moats. Those are two of our moats: our supply chain capability and our ability to execute the small format model. It is as different and distinct as a super big box model as it is from a big box C store model was food services, which is why we haven't pretended we could just pivot into a big box food service model. That requires a different set of capabilities that would be hard for us to build. We'd have to probably go out and buy those capabilities.

Pamela Rosenau - *Hightower - Analyst*

Understood. Understood, Andrew. My sense with Walmart is they just don't know what's going to happen down the road. That simply is that. This is the first cut and they don't know and they don't want to have it get messy on the backend.

In terms of my final question, have you all thought, you probably shouldn't answer this, have you all thought about doing a stock tender with the amount of stock that you do intend to buy?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Yes, we're not ready to speak to that at this point in time. The share repurchase program, at this point, is meant to be conducted over a two-year period. We have strong earnings in cash flow, we have some non-core asset sales.

It's going to be probably lumpy because the non-core assets are, we're working to get very tax efficient like-kind exchange treatment from those. We're going to be thoughtful about the debt and the leverage that is very implicit in a share repurchase of this size and so at the present time, we are planning on conducting this in a more measured way.

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But as I hope folks can tell how prepared we were for this point in time. We have looked and considered every available lever to maximize value for this business and for the long-term. And so we're not about the short term gimmicks; we are really about creating long-term value for our shareholders in a sustainable way.

Pamela Rosenau - *Hightower - Analyst*

Thank you very much.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thank you.

Operator

Doug Rothschild, Scoggin Capital.

Doug Rothschild - *Scoggin Capital - Analyst*

Hi. Thanks for doing the call. Could you just remind us when you did a Walmart site, the economics, I assume you'd paid for the land and then is there a royalty that you pay them per gallon or something going forward? And then, in the future, is there any way that Walmart can take back any of these sites now that the agreement's going to expire in 2017 or do you own them forever? And what if Walmart decides to sell one of their stores? What happens to the Murphy USA site?

Andrew Clyde - *Murphy USA Inc - President and CEO*

Great questions. If I don't answer all of them, just remind me at the end. The stores that we buy from them, we buy free and clear, all just subject to the ECR agreement. There is no royalty, there is no lease, there's no cents per gallon payment of any kind. Prior to 2007, the deal was different, but we purchased 90% of the stores at that time.

Those stores are subject to certain rights Walmart has if we chose to sell them or dispose of them in some manner. We do have some stores we continue to lease, because it's because those stores were being leased by Walmart from a third-party and they couldn't sell us those stores. So we own those free and clear. There's no milestone date in which any of that comes to a head of any kind.

When Walmart exits a location, we've experienced that in the past, and there's a number of options. One is the supercenter is being kind of rebuilt down the road and in the past, we've rebuilt a store there and we've closed the other one. And other times, maybe it's being rebuilt across town and you know what? That was a really, really good gasoline location and someone else comes there and we continue to operate it.

And then other times, they close and we just sell the real estate and because it was really good real estate, we get a nice return on that real estate at that time. So there's a lot of different scenarios and we look at each case individually to maximize the return from that.

Doug Rothschild - *Scoggin Capital - Analyst*

Got it. But it's your choice. You could do -- it's your land, your store, Walmart can't force you.

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Andrew Clyde - *Murphy USA Inc - President and CEO*

That is correct.

Doug Rothschild - *Scoggin Capital - Analyst*

And to the benefit to Walmart that they did the original deal I guess was just to help drive traffic and make their customers happy that they had a place to get gas when they went to shop and sometimes you gave them a discount on the credit card.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Yes, I mean, if you go way, way back to 1996, 1997, Walmart was building out the supercenters where they had the discount centers before, this gasoline offer was very prevalent in Europe and you saw that as part of that offer. It helped drive traffic to the supercenter and gasoline and tobacco were categories that, at the time, Walmart did not want to be engaged in.

And there's a lot of risk of being in fuel business and the same from a tobacco standpoint. Even today, there's still regulations be discussed if you have a pharmacy, will you be able to sell tobacco? Some companies have proactively exited tobacco for that reasons. But they're still pending regulations. So that was the theory of the case back then and it worked very, very well and it worked well for both companies.

On our existing stores today, we continue to work to make them stronger and that will help drive traffic, the refreshes that we have done has improved traffic and that's good for Walmart. And Walmart continues to make changes and improvements to their business and if those improvements drive more traffic to their store, that's going to be good for us. So on the existing stores, it's still serendipitous.

Doug Rothschild - *Scoggin Capital - Analyst*

Great. Thank you.

Operator

Thank you. At this time, I don't see any other questions. I'll turn it back to Management for any closing remarks.

Andrew Clyde - *Murphy USA Inc - President and CEO*

Thank you all for joining today. We were glad to be able to answer these questions and be transparent. We feel like as a standalone Company over the last two years, we've sought to be as transparent as we can about all of our strategies.

As we said before, this isn't a change in strategy. We continue to move forward with our business model and we have a lot of clarity and confidence going forward and we look forward to visiting with you next week around our earnings and some of the exciting plans that we have for 2016 that we'll share in our guidance for 2016.

Thank you very much and I know some of you may still have other questions. Please feel free to follow-up with Christian and we can get some individual calls set up as necessary. But thank you so much for your support.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program. You may now disconnect. Everyone, have a great day.

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