Company Name: Murphy USA Inc. (MUSA)
Event: 46th Annual Raymond James Institutional Investor Conference
Date: March 3, 2025

<<Robert Griffin, Analyst, Raymond James>>

Yeah. Good morning, everybody. Thanks for joining us today. For those who don't know me, I'm Bobby Griffin, I cover Consumer Hardlines, Retail here at Raymond James. With us today is Murphy USA. So we're – first, thank you, guys, for attending.

With us from the company, we have Andrew Clyde, President and CEO; Galagher Jeff, CFO; Mindy West, Chief Operating Officer; and Christian Pikul, VP of IR and FP&A.

So our format today is going to be a presentation. We'll have a breakout afterwards. I'm going to turn it over to Andrew here shortly. Breakout will be in Ameritas 2 [ph]. And Andrew, we have about 30 minutes.

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

Great. Thank you, Bobby and Raymond James. It's always a pleasure to be back here, and we are webcasting this. We use this conference to kick-off our annual investor presentation each year. And honestly, one of the biggest challenges we face as a company is trying to figure out how to tell the same story a different way, because if you go back to our spin in 2013, we've largely been telling the same story about how we're making our business better to win in any environment to deliver growth and value for our shareholders.

So we'll put a little bit of a different spin on it this year, but it's really reinforcing the same strategy and the same messages. We have our usual cautionary statement that we will skip through. So Murphy USA, if you're new to us, we have over 1,760 stores. We're in 27 states. We serve almost 2 million customers a day. And what's special about our business is, we are serving the fastest-growing largest consumer segment in the United States. Those are people who live paycheck to paycheck. With an everyday low-price model for our core offerings, we're winning with that consumer, especially in this inflationary trade-down environment.

And as I said, this year, we're going to talk about the things we've done since the spin we're currently doing to make our business better that allows us to execute our flywheel that we introduced last year at the presentation and win in any environment because the environment is always changing and then how that creates shareholder value.

These strategies, they've been foundational to our business since our spin. If you go back to our 2013 spin documents, if you go to our 2014 Annual Report, if you go to every annual report since then, you will see the same five strategies articulated. We're growing organically. We're not going to grow through massive M&A. Other people can consolidate the industry by the third and fourth quartile stores that are available. We're diversifying our merchandise mix. We started

with a heavy tobacco mix, but nicotine is now a growing category. So our positioning there allows us to not only diversify our mix within nicotine but expand outside of that.

You can't be everyday low price unless you're everyday low cost. Our costs are actually growing for a period up to the spin. In our first two years, we took $0.02 to $0.03 out of our fuel breakeven margin and on 4 billion gallons delivered over $120 million of EBITDA in our first year because of some of the transformational investments we made to make our business better.

We're in the fuel business. There's a lot of volatility. Actually, we've spent a lot of our early years explaining how with our proprietary fuel supply and advantage, we had a less volatile earnings stream from fuel than our peers. And as we've seen with the structural changes that have happened in the industry, this has now become a very reliable, resilient part of our business. And we're not short-term focused. We're investing for the long term in our people, in our stores and buying back our shares.

These strengths that we have listed here, those are the ones we started with. But what we've pursued in a business that is very competitive is not resting on the strengths that got us to where we achieved in the first two years, but continuing to make the business better every year.

So what are some of the things that we've done? Well, first, we got to just keep reinforcing our low-cost structure, right? We had the zero breakeven initiative that I mentioned took our breakeven. This is the difference between the operating cost of the store and the direct marketing overhead and the merchandise contribution. We had a GAAP [ph] of $0.035. We brought that down to $0.00 again, on 4 billion to 5 billion gallons, that's significant EBITDA accretion. We advanced our systems and processes. We've invested multiple times in optimizing our labor model.

We had customer loyalty through everyday low price, but we've taken advantage of that loyalty through upselling our promotional effectiveness activities. We implemented Murphy Drive Rewards, of which now 80% of our tobacco transactions go through that with over 10 million members and participants. We have more insights about our customers than ever before. And having digitized all those transactions, we're now leveraging through our digital transformation initiative opportunities to further target them more specifically.

With the QuickChek acquisition in 2021, we acquired a strategic capability around food and beverage, but there was no way we were going to build on our own. And the capabilities that we've developed at Murphy, we've now applied there, including this last year relaunch of QuickChek Rewards.

We focused on our competitiveness, right, in a world where people are seeking to get volume. We've got other ruthless bottom of market competitors. We have to be very sharp on our retail pricing. We've invested in those capabilities for fuel and on tobacco. We have an advantaged fuel supply. We're one of the largest shippers on Colonial Pipeline. So we have ratable, flexible, secure supply at a lower cost than our peers. And we've evolved our formats.

We're in the process of raising and rebuilding the original kiosk in front of the supercenters. We're on our third generation of modular 2,800 square foot stores and continue to remodel, rebuild and reinvest in our stores. And then always raising our potential. Two initiatives we introduced a couple of years ago around digital transformation and our in-store experience. We're seeing the fruits of those. Those are flowing through into our numbers this year.

Mindy and Gallagher are leading initiative around store productivity excellence, where for the first time, we're really looking store-by-store, bottoms up the opportunities where, frankly, we're just leaving a little bit of money on the table at every store, even though even the bottom 1% of our stores are profitable, there's still opportunities to improve our business.

Last year, we introduced this flywheel chart, and it really was about the power of more, right? In this inflationary environment being everyday low price, we're getting more customers trading down to Murphy USA and even within categories, we're seeing trade down. We're getting more from our existing customers through the initiatives that we talked about. We're getting more from our new stores. They're more accretive than our legacy network, especially as we rebuild those. That's allowing us to get more market share. Competitors are seeding volume to us to take margin. And the result of that is getting more free cash flow.

The environment is always uncertain, right? We can't predict what's going to happen. We just have to position ourselves to win in any environment. So what have been some of the headlines of late? Well, we saw a 50% demand shock in fuel during COVID. Fuel volumes fell 50%. For the marginal retailer, they've only recovered to 80%. They're still down 20%. Ours have recovered fully.

We've seen a doubling of industry fuel margins. Our margins have gone to $0.16 to $0.32 as a result of the marginal players inability to maintain the profitability that they had before because they lost the volume, they lost the traffic, they experience the higher cost, they're experiencing the inflation, the rent escalators and the like. So they're pushing it through in terms of higher margins.

We saw record fuel price volatility during the Ukraine investment, right? Prices moved up quicker than we've ever seen before. And some of that behavior is sticky today, even though we're not seeing as significant price movements, some of the underlying behavior has sustained. One of the things that if you go way back, you saw irrational behavior from retailers or marketers that were associated with a refining business. There is no longer an integrated refining marketing business out there, right? So that disintegration has led to more rational behavior amongst pure retail marketers.

What have we done at Murphy USA? We've maintained and grown our market share with our everyday low-price positioning. We continue to optimize how we price fuel and tobacco. It allows us to gain margin and volume and make those trade-offs market by market, depending on the competitive set. The EDLP positioning allows us to get higher volumes, especially in high price periods when consumers are even more price-sensitive, and we talked about the ratable supply.

We keep investing in our network. So every year, we try to introduce some updates around how our new stores and our raise and rebuilds are doing. On the left here, we have the performance from our new-to-industry stores from the build classes 2021 to 2023. And these are 2024 actual results on an average per store month basis. And what it's basically showing is versus those pro formas, fuel contribution is up significantly versus the pro forma merchandise is ahead of plan as well. And some of these stores are still ramping. Our new-to-industry stores take about 36 months for the merchandise to fully ramp up.

The confidence in the new industry investments and the raise and rebuilds and the remodels allows us to continue to grow our square footage. We're taking down the old kiosks that we originally built in front of the Walmart Supercenters, replacing those with 1,400 square foot stores. Last year, we rebuilt 47 stores. This year, we've guided to 30. Last year, we built slightly more than 30 NTIs. This year, we've guided up to 50. So that's kind of the expected mix going forward. And if you look at the raise and rebuilds, you can see in the chart on the right, the new 1,400 square foot stores outperformed the kiosk from a volume standpoint and a merchandise standpoint.

So these are investments made at the very end of the life of the kiosk where we own the real estate and any retailer with a sales leaseback model would simply be turning over the keys to the landlord. We're turning over the keys to ourselves with a low-cost base on the real estate in front of the world's greatest aggregator of price-sensitive customers, the Walmart Supercenter.

All of these capabilities together reinforce what we call the virtuous cycle for Murphy USA. Unfortunately, that comes at the expense, the vicious cycle for the marginal retailer. And so the chart on the upper right gives the context for what that marginal retailer feels. Their profitability is pressured because they've lost traffic, they've lost fuel volume, they've had inflation. They raised their fuel prices to relieve that pressure. That impacts their fuel traffic, that impacts our in-store traffic, the cost increase with inflation and the cycle just keeps repeating itself.

The good news is they can raise prices another couple of cents. We can generate about $0.005 margin off of that because we may put a little of that on the street. And every year or so, you'll see their margins going up. And you see some companies actually announce that, hey, we're consciously making trade-offs to seed volume to get margin.

Our cycle is just the opposite. When that happens, our profitability expands, we're reinvesting in our value position. Our fuel market share grows, that drives the in-store traffic, and we continue to manage our costs. So now we've got a virtuous cycle where effectively our competitors are paying us to take their customers because we're getting both volume and market share and higher margins.

And the chart on the left just shows since 2019, how our volumes have recovered since COVID and what the marginal retail volume has done. And since the spin, people have asked us our views on kind of macro fuel demand. We've always said it's plus or minus 1%, right? We see CAFE standards come in, then they go out. We see headlines about EVs and it pulls back. And for our value-conscious customer that's driving a 10- to 12-year-old car with 120,000 miles they

bought used for $15,000, we're not experiencing those same headwinds. And you can see on the bottom left, our market share and fuel volume growth versus the industry, up 21% since the spin.

At the end of this is a free cash flow machine. You can see how EBITDA has grown since 2019, pre-COVID. And even since the year of COVID and year after, we've now established a steady-state $1 billion EBITDA business. Look at the returns on the right-hand side, one-year, five-year since spin returns. And our focus and the goal we set last year was how do we get to $1.3 billion of EBITDA by 2028? And we do it in three ways, right? The same-store improvements and the initiatives that keep making our business better, the structural effect of the marginal retailer increasing price and margin to keep their profitability sustained and our ability to keep maybe $0.005 of that right, right? And then the new stores as they compound and ramp up and accelerate.

Why is this so important, right? What is the financial result of this strategy, right? It's this repeatable playbook that we continue to execute. So if you think about these highly productive low-cost stores, this is the 2024 results broken down in a slightly different way. If you think about the cents per gallon we earn from our merchandise, $0.173, you back out the operating cost of $0.156 and then the direct G&A associated with the store in the field. Today, we have a $0.01 gap, right? And that $0.01 gap versus the zero breakeven is primarily a function of the increase in new-to-industry stores that are ramping up. They have all the operating costs, but not yet the full merchandise because of the ramp. And at full ramp will be positive $0.03 per gallon.

What that's essentially saying is to compete, we do not need a margin on fuel. What margin do we get? $0.315 per gallon, right? We have payment fees of $0.048, non-direct G&A of $0.033, rent because we own most of our locations of $0.013. Our EBITDA on a cents per gallon basis is over $0.20. You compare that to the companies that have done all the financial reengineering and sales leaseback, right? There's a huge difference between EBITDAR and EBITDA. We're keeping all of that because we own most of our locations.

And with growing gallons now at $5 billion targeted for 2025, that generates the free cash flow that's enabled us to do our 50-50 capital allocation since the spin. We invested just slightly over 50% in capital and the one QuickChek acquisition and the other 50% in share buybacks.

And if you see at the end of this pane for the conviction of us in our business has allowed us to buy back almost 60% of our shares. And every 1 million shares at this point forward is about 5% of today's flow. So that's the strategy. It's been a repeatable strategy. And honestly, it really hasn't changed much since the first time we got up here in 2014. And we've got an incredible team who's all in on this strategy and continues to execute it.

This has ultimately allowed us to deliver exceptional shareholder value. This is one of our favorite charts because it shows our high average and low closing share prices every year has been higher. As we like to say, there's only one other retailer since 2013 whose high average and low has been higher every year, and that's Costco. And they are equally distinctive in their business model, the unique customer segment that they're serving and their capital allocation strategy.

And so when you combine that with our 2028 target of $1.3 billion, our share buyback program under the 50-50 capital allocation. And look, whether we're at a 10 multiple, 11 multiple, we hit a 12 multiple briefly, any one of those scenarios in your modeling gets you to a significant share price appreciation where our buybacks today generate a significant return and complement our organic growth.

So with that, we'll conclude the presentation. And Bobby, we may have a few minutes for questions.

<<Robert Griffin, Analyst, Raymond James>>

I think we got about 10 minutes for questions. So first, I'll turn it over to the audience if there is any. If not, I can fire away with some myself. We got one in the back here.

Q&A

<Q>: Stock buybacks over the last five years?

<Q – Robert Griffin>: I'll just – the question is, can you speak to the level of the stock buybacks in the last five years in [indiscernible] (0:19:33)?

<A – Andrew Clyde>: Sure. So if you look at the chart here on Slide 10, you can see we went from 27 million shares outstanding to 20 million. We've been pretty ratable at it. One of the things in 2022, we had this exceptional period of high fuel margins. We noted it was exceptional in our guidance since then, we said, hey, that's a one in every six to eight year event. And we were very clear with shareholders, we said if we had extra free cash flow, what would we do with it? And we told shareholders that we would buy back more stock with it. And that's exactly what we did.

<Q – Robert Griffin>: Got one here.

<Q>: Can you talk about the competitive environment if the consolidators keep getting bigger?

<A – Andrew Clyde>: Sure. So the question is, what happens when consolidators get bigger? First of all, we have to see a little bit of change in the FTC to allow that. I would say two things. It doesn't necessarily translate into better stores at the store level, right? A lot of the consolidation we've seen of late, I'm not sure that many speedway stores look that different now that they're part of 7-Eleven. Some of the consolidations that we've seen involve a significant amount of sales leaseback financing, right?

And with the inflators that go with that, that puts a severe pressure on the business maybe not immediately, but in five or 10 years. Consolidation at that scale is difficult. And one of the things that we see happen is folks take their eye off the ball. One of the reasons we like organic growth is we can put in 50 stores and they follow a playbook, and we're able to just focus on delivering to the customer.

And so in some ways, continued consolidation is good for us in the sense that they have to rely on the scale economies to make it better. There's a significant effort that goes into it, and we can continue to win in that environment.

The other thing I would say is the stores that are being consolidated aren't everyday low-price stores, right? They're more of the marginal stores. And so if it allows those marginal stores to stay in business, it sustains the structural advantage we have in the industry. They may not get weaker, but they may not get that much stronger. And so as we've seen in store counts over the last few years, we're not seeing a lot of stores exit the industry because the marginal player is able to prop up their profitability with just a little bit more margin to stay afloat.

<Q>: Thanks. You had a nice slide there where you guided to new store openings over the next few years. A question, is that more about density in your existing states? Or are you going to look to get into some new states? First part. And then second part relatedly is if your core customer keeps feeling these headwinds, does that kind of put some downward pressure on what we should expect in terms of growth for new store openings? Thanks.

<A – Andrew Clyde>: Yes. Good question. So on the first one, we're staying in our existing states. We're not looking to expand into new states. The ones that we're not in, I put into categories of very highly regulated, very low-density population or a lot of outward migration and some all of the above.

In terms of the customer and the pressure, one of the benefits of our loyalty program is the significant amount of consumer data we have. So we looked during the peak of high prices in 2022, and we saw that on a panel of 100,000 customers who had bought something from us every month since 2019, they were buying about 2 gallons less per month. They went from 44 gallons a month to 42 gallons a month. But we were up 9% on a same-store basis that quarter, right, because of the high prices. And so what we have seen, whether it's fuel or tobacco or other categories in this environment with inflation not abating more customers continue to trade down into Murphy USA. And that more than offsets the impact of our existing customers not having as many dollars left over in their pocket. One benefit of late is with lower fuel prices, they're able to reinvest some of that back into the center of the store.

<Q – Robert Griffin>: Andrew, you mentioned nicotine becoming a growth category again. So maybe can you touch on some of the trends that you're seeing there? And then what does that mean for kind of the margin and the potential to box as that alternative nicotine products mix up?

<A – Andrew Clyde>: Sure. On the cigarette side, I mean, this is a category that's been in volumetric decline for over 40 years. But the retailers, distributors, manufacturers, that profit pool continues to grow because we are the only retailer who has a loyalty program that truly majored in tobacco because when we launched Murphy Drive Rewards, that was going to be the key to success is to get loyalty and have a mechanism to distribute value through it.

We have seen pretty consistently our ability to outpace volume changes in the industry by 8% to 10%. So I know there was a period where over a two year stack, the industry was down 16%. We were up 4%, so up 20% on a relative basis on a volumetric standpoint. I think we will maintain

that relative advantage. And for us, volumetrically, tobacco is probably flat to slightly declining, but with the price increases continuing to be a highly accretive growing contribution margin category.

The other tobacco categories, we continue to grow share and contribution in volume and the new noncombustible products like nicotine pouches, for example, continue to grow. We continue to that – you may not appreciate as a tailwind is the amount of illicit vapor that is sold in this country for which the FDA and the DOJ are doing very little to abate it.

In one state, the state Attorney General finally clamped down, and those efforts led to about a 30% increase in our tobacco across categories in that state. The manufacturers estimate that about 80% of vapor products sold are in these illicit categories. And so there's a huge opportunity if the government actually took steps at the state and federal level that would impact our business in a positive way.

And besides focusing on affordability, being a responsible retailer is one of our core pillars. And so we are not selling those illicit products. But in many of our small town locations, we may be the only retailer who is not selling those products. So that could be a huge tailwind for us if we actually saw some relief there.

<Q – Robert Griffin>: Very good. I think we're right on time. We've got one more.

<Q>: Andrew, if you look at your – if you look at all the growth initiatives of new builds, raise and rebuilds, remodels, et cetera, and compare the run rate of EBITDA that would come from those initiatives, how much in 2024 – how much does that add to 2024 EBITDA?

<A – Andrew Clyde>: So 2024 EBITDA, it's interesting. It was a tale of a number of things. So retail margins were structurally up 50 points, but we had a fuel supply environment that was long and loose, so down versus our expectations. Raise and rebuilds at 47, there's actually a decrement of over $10 million. I think it's close to $14 million of EBITDA negative because you took so many stores out of service. The NTIs did not add as much as we had guided to because we didn't have as many store months in because they didn't start on time, and so we've addressed that. And then the balance was just some of the merchandise headwinds that we faced, especially in the QSR space at QuickChek.

So I think 2025 is probably a more normalized year, hitting the NTI targets, supply environment has become more normalized, fewer raise and rebuilds, so less of a decrement because of those.

<<Robert Griffin, Analyst, Raymond James>>

Very good. I think we're right on time. So thank you.

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

Thank you.