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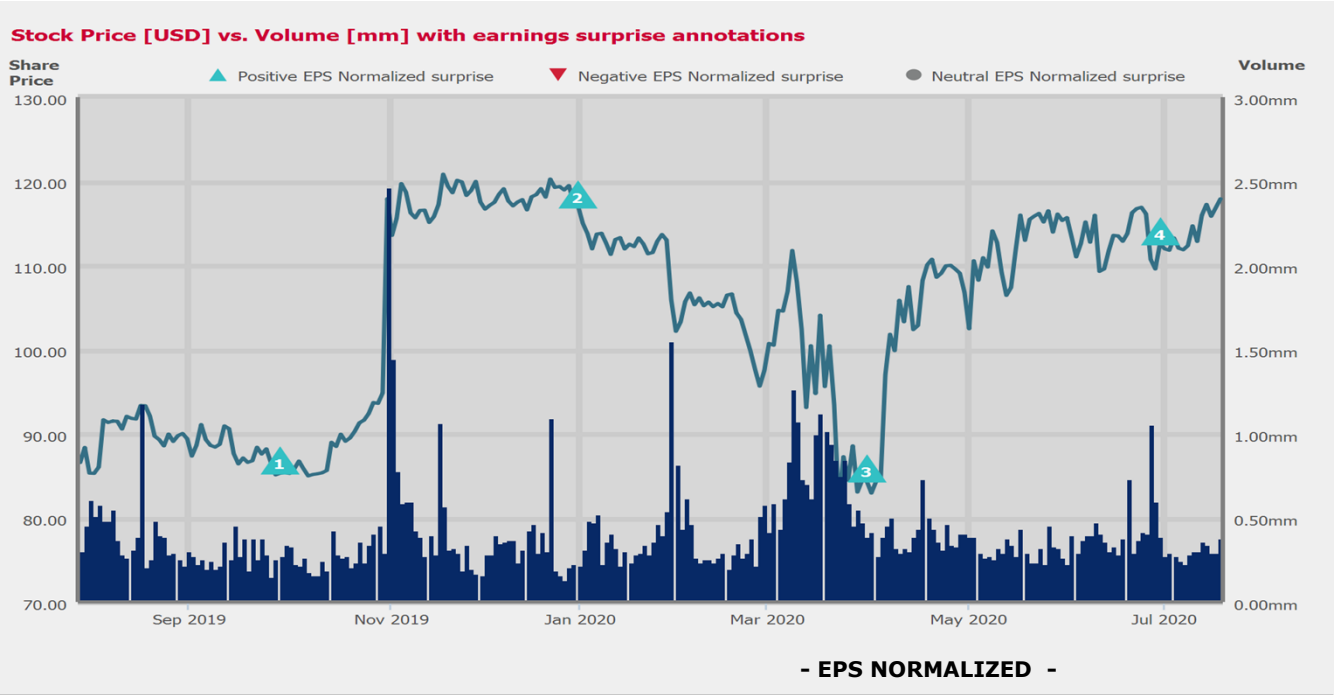
FQ2 2020 Earnings Call Transcripts

Tuesday, July 21, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.16	5.70	▲10.47	1.49	10.83	6.87
Revenue (mm)	2570.45	2379.60	▼(7.42 %)	2937.15	11786.64	13362.37

Currency: USD
Consensus as of Jul-20-2020 8:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	1.46	2.55	1 74.66 %
FQ4 2019	1.46	1.54	2 5.48 %
FQ1 2020	2.22	2.96	3 32.74 %
FQ2 2020	5.16	5.70	4 10.47 %

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Murphy USA Second Quarter 2020 Earnings Conference Call. [Operator Instructions]

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

Christian Pikul
Vice President of Investor Relations & FP&A

Thank you. Good morning, everybody. With me, as usual, are Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donnie Smith, Vice President and Controller.

After some opening comments from Andrew, Mindy will provide an overview of the financial results. We will briefly discuss our revised guidance. And after closing comments from Andrew, we'll open up the call to Q&A.

Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, please see the latest Murphy USA Forms 10-K, 10-Q, 8-K and other recent SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements. During today's call, we may also provide certain performance measures that do not conform to generally accepted accounting principles or GAAP. We have provided schedules to reconcile these non-GAAP measures with the reported results on a GAAP basis as part of our earnings press release, which can be found on the Investors section of our website.

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

R. Andrew Clyde
President, CEO & Director

Thank you, Christian. Good morning, and welcome to everyone joining us today. Today's call is the fourth investor update in as many months since we released Q1 results back in April. We've received positive feedback from investors for the level of transparency provided as we explained how COVID-19 impacted our business and financial results over time. And I certainly hope you have found this to be helpful.

While the Q2 record results shouldn't come as a huge surprise given our prior disclosures, importantly, we are maintaining that momentum into July and expect to sustain strong performance for the remainder of the year. As such, I'm going to spend my time today focusing on 3 key trends that are now well-established in their underlying drivers as fully appreciating this is critical to the relative performance potential and overall valuation of our business. These trends have been persistent, not only throughout COVID-19, but are grounded in fundamentals we were seeing well before 2020. COVID-19 simply amplified the financial impact of these existing underlying drivers. I'll also provide an update to our guidance for the year as we said we would do so when we had the fact base to provide a point of view. The persistence and sustainability of the trends we will discuss not only give us the conviction for our guidance for the remainder of 2020 but also our outlook for 2021 relative to our raise the bar goalpost we established as part of our shareholder value-creation narrative.

Related to these goalposts, I will reiterate our commitment to our strategic capital allocation priorities as we look to take advantage of our strong cash and balance sheet position in light of an undervalued and attractively positioned business. When you look at our model in the context of these trends, it's clear to us the market does not fully appreciate the sustainable competitive advantage of our business and its long-term value-creation potential.

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The first trend we'll discuss is the new equilibrium established in the relationship between industry fuel margins and demand. We have spoken at length about how the fuel margin in any given area or geography is essentially set by the higher breakeven cost of the third quartile retailer. We have observed this trend for several years and it helps explain the gradual increase in both industry-wide margins and our margins as the unit cost of the marginal retailers have continued to increase. The new equilibrium was most easy to see in the early days of COVID-19 as unit costs doubled for the marginal retailers when industry volume fell by 50%. The higher-margin requirement to just maintain the same level of store profitability for the weaker competitors led to higher sustained margins for the industry which were facilitated by crude prices that were already falling sharply. With less volume loss and a lower base margin to start with, Murphy USA benefited disproportionately from the same cents per gallon increase in overall margins while maintaining its low price position.

To further illustrate that point, consider May, June and month-to-date July margins, which are well above historical norms despite sharply rising prices which is certainly an atypical outcome. As we have discussed in many calls, these are the periods where we would expect fuel margins well below the annual average, yet we actually earned over 2x our annual average in May and June due to the dynamics of this equilibrium.

With volumes recovering to over 90% of prior year levels on a rolling 7-day basis in July, we are forecasting year-end same-store volumes to recover to around 95% of 2019 levels as we enter 2021. Yet, we expect fuel margins to be at least $0.01 to $0.03 per gallon higher, resulting in higher overall fuel contribution. We believe this equilibrium persists due to the continued headwinds the marginal retailers will face in the COVID-19 recovery and beyond. And our investments in our retail pricing excellence initiatives allow us to further maximize the value capture of this potential.

The second trend we observed and that was magnifying during COVID was how our merchandise categories performed. Our multipack and carton cigarette offers have become a destination trip for consumers and second quarter results compare strongly against the already impressive high single-digit contribution gains we put up last year. Where carton volumes averaged in the mid-40% range pre-COVID, they have leveled off in the high 50% range with no difference in contribution margin per pack. In a world of fewer trips and enhanced focus on inventory management and pricing precision, coupled with loyalty benefits and our best-in-class upselling have paid off handsomely. Customers receive the greatest value on larger SKU sizes that were always available and delivered with great service. And we believe these gains are sustainable as our ongoing commitment to capability investments in this category clearly represent a unique and differentiated strategy which explains why we have grown market share by 300 basis points since the second quarter of 2018.

Given the share gains and strengths we are seeing in cigarettes, it may be easy to overlook our other tobacco categories where vapor and alternative nicotine products are delivering substantial margin uplift. To provide proper context, second quarter total merchandise contribution margin was up about $13 million versus the prior year. Of this increase, $11 million came from tobacco, of which roughly $8.3 million of which was attributable to cigarettes, with other tobacco products or OTP, accounting for $2.3 million of the incremental margin increase. Like cigarettes, results reflect exceptional execution through managing our in-stock position, providing effective visual merchandising and offering an appealing product assortment, including enhanced promotion on larger pack and SKU sizes.

Murphy Drive Rewards continues to play an important role in driving traffic and introducing customers to new products such as nicotine pouches, which now represent over 5% of our OTP category. With over 700,000 new Murphy Drive Reward participants added since March 1, we currently have insights on 8 out of every 10 tobacco purchases, leading to more focused promotional offers and manufacture investments with higher customer redemption levels. The timing could not have been better for our enhanced capability set to come together as we have not only gained customers but gained loyal customers who are less likely to go back to their old purchasing habits, now that they have experienced greater value and service at Murphy USA.

Without question, COVID showed that our non -- our tobacco business is entirely uncorrelated with fuel traffic. On the other hand, many of our nontobacco offers are more fuel dependent, as you might expect,

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but a few key categories showed outside gains. During the quarter, we saw both sales and margin growth in lottery, beer and the general merchandise categories where we stood up a supply chain for mask and hand sanitizers. While the good news is we sold much more of these products, the less good news is they were predominantly lower margin categories, specifically lottery, where sales were up 31% but came with a mid-single-digit unit margin. In fact, 55 of the 60 basis point decline in our all-in merchandise unit margin of 15.4% was attributable to lottery. Nevertheless, we're thrilled with the performance and will gladly accept lower average unit margins when growing total contribution dollars due to more sales into more customers.

As I've commented to some of you before, while unit margin might be a simple and useful metric to you for modeling purposes, at the end of the day, we take the contribution margin dollars to the bank. For the remaining categories, more highly correlated to fuel traffic like candy and packaged beverages, sales are improving along with fuel volumes so far in July. And as we look out into the second half of the year and into 2021, we expect better performance from these higher-margin categories. We are obviously not seeing much recovery in our fresh food offer due to the COVID-related restrictions, but we are not sitting on our hands, simply waiting to heat up the roller grills again. We are taking this opportunity to evaluate and overhaul our food and dispensed beverage offer across the existing network and with a specific focus on optimizing our new larger 2,800 square foot formats. With new talent and capabilities, these opportunities represent significant potential for incremental growth in margin in 2021 and beyond.

The third key trend centers around our business model and cost structure. In simple terms, the reason we win in this environment is we have an ultra-low fixed cost model which enables and supports our everyday low price position, which in turn, allows us to be even more competitive, advantaged and attractive to customers during this period when they need additional value the most. Further, we are seeing lower variable cost, primarily maintenance, loss prevention and, to a lesser extent, utilities, reflecting the lower customer traffic and accordingly, less use in wear and tear. Our people cost at the store level have increased slightly and we would expect that given the higher merchandise sales and higher commissions that come with those sales. And we are always pleased to pay more commissions to our store managers and associates because it means they are selling more merchandise and controlling cost, which is exactly what they are motivated to do. In fact, I announced last week in a series of virtual town halls for our store managers and field leaders that we would be providing additional enhanced commissions in the third quarter to reward and encourage our team as they stay focused on the customer and sales. And I can't wait to see our team's incredible results.

As I wrap up the discussion on these 3 trends, I would like to point out that these are not independent trends, but rather the relationship is highly interrelated, for us as the low-cost player and for the marginal retailers. For Murphy U.S.A., our low store level operating expenses, which showed a 1.4% decrease over the prior year quarter, coupled with stronger merchandise sales and contribution have further improved our fuel breakeven metric, which turned negative for the quarter, meaning we can sell fuel at a slightly negative margin and still breakeven, excluding credit card fees and certain corporate costs.

Remarkably, we improved this metric more than $0.01 year-over-year, moving from 81 basis points last year to negative 37 basis points this year. A new record for Murphy U.S.A. in achieving our 0 breakeven goal for the quarter.

Beyond earning this additional $0.01, it also means we are keeping even more of the excess margin created by the higher prices established by the marginal retailers who are experiencing an increase in their fuel breakeven economics. Even more encouraging are the opportunities to continue to improve our performance through various initiatives, which in turn enhance the returns on our new store investments as we ramp up to 50-plus new stores in 2021.

I will now turn over the call to Mindy to cover some regular financial updates, and I will return with our updated guidance and capital allocation priorities before taking your questions. Mindy?

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

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Thanks, Andrew, and good morning, everyone. Thank you for listening today. I will start off with some standard items. Average retail gasoline prices per gallon during the quarter were $1.71, sharply lower than year ago prices of $2.48. Capital expenditures approximated $66 million in the second quarter, $53 million of which was allocated to retail growth, $6 million to maintenance capital and the remaining $7 million allocated to various corporate and strategic initiatives.

As we have previously stated, we have proceeded with our planned capital program in 2020 with no expected COVID-related delays. And as a result, we have tightened our guidance range a bit to $250 million to $275 million versus the original $225 million to $275 million.

Based on our debt outstanding and thanks to very strong first half results, the leverage ratio we report to our lenders dropped to approximately 1.4x as of June 30. And that's down from 1.9x in the first quarter and 2.1x, which we reported in the second quarter of 2019.

At this time, $134 million remains under our up to $400 million repurchase authorization, which should be complete by July 2021.

We ended the quarter with 29.2 million common shares outstanding or about 29.5 million shares on a diluted basis. As mentioned in the release, our cash and liquidity position remains strong with just over $400 million in cash on the balance sheet as of June 30 and a $168 million borrowing base available under our $325 million ABL facility, and that does remain undrawn.

In early April, we made our term loan repayment of $12.5 million, reducing our total debt to about $1.025 billion, and in early July, we made the next amortization payment, which reduced total debt to $1.0125 billion. So if we continue on that pace, we will end the year at about $1 billion in debt.

And looking at the financial results, I do want to make a few comments. On the first quarter call, I discussed the benefits of our low-cost structure and even went so far to say the drawback of running a lean organization is there isn't just a lot of room to eliminate cost. I also caution that we might even see a slight uptick in operating expenses as we responded to the store-level challenges presented by COVID-19. But in fact, through the dedicated efforts of our field team, our per store operating cost of $21,050 showed a 1.8% improvement versus the prior year. Although we did incur some incremental expenses at the store level in response to COVID, the variable cost more closely correlated with customer traffic, such as maintenance, strength and utilities saw a meaningful reduction. Inclusive of people cost and other fixed cost categories, as shown in our guidance, we do expect costs to trend higher as customer traffic recovers in the second half and to remain within our guided range of 1% to 3%. We are currently forecasting closer to the midpoint of that range.

While significant uncertainty remains with respect to an economic recovery and how quickly customer traffic will return to normal levels, our business remains free cash flow positive, and we have a very strong balance -- cash balance and balance sheet liquidity, which is sufficient to carry us through even the most challenging environments that we can foresee.

So with that, I will turn the call back to Andrew.

R. Andrew Clyde
President, CEO & Director

Thanks, Mindy. I want to close with an update of our 2020 guidance metrics.

As discussed in our Q1 call, we withdrew fuel volume guidance and stated we would come back with an update when we had a more informed view, which we do.

As we provided in our press release, we have reinstated our full year fuel volume guidance to a range of 217,500 to 222,500 gallons on a per-store month basis. To provide a little more insight into second half expectations, I'll give you some of the math. The 220,000 APSM midpoint of that range suggests second half total volume of 2.044 billion gallons which is about 7% lower than second half 2019 total volume and reflects expected contributions from these stores.

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On an APSM basis, the midpoint suggests 230,000 per store month for the second half of the year, which would represent about an 8% decrease versus 2019. That should get you pretty close to 220,000 APSM for the full year average or about 3.945 billion gallons. While we have gone out of the business of providing margin guidance in the past, I think it's important for investors to understand our thinking as it relates to the new fuel volume and margin equilibrium we discussed, which we believe represents another structural increase for the industry.

Due to the lower volumes the industry is facing, we will enjoy the benefit of higher margins to the tune of $0.01 to $0.03 per gallon higher in the second half, which we believe will lead to full year margins between $0.24 and $0.25 per gallon. Given the dynamics in play right now, in July, as I mentioned, we are forecasting second half all-in margins of $0.1975 per gallon, which is about $0.01 higher than last year and about $0.02 higher than the 5-year average. We believe this is appropriate given the competitive behavior we are seeing today that has resulted in margins coming down from nearly $0.80 per gallon early in the second quarter but stabilizing at levels higher than historical norms would suggest, especially in the recent rising price environment.

If you take that math a step further, you'll calculate total fuel contribution dollars of roughly $960 million, which is more than $250 million above prior year. To reiterate, our revised volume and margin guidance are, of course, predicated on continued reopening of the economy but we also recognize volume stabilization or even declines from current levels will result in flat to incrementally higher industry fuel margins, all else being equal, which helped insulate our financial risk.

We're also increasing our merchandise contribution guidance from $430 million to $435 million to a range of $455 million to $460 million due largely to the strong performance in the tobacco categories that we expect to continue through year-end and into 2021.

Regarding organic growth for new stores, we provided guidance of up to 30 new stores and that number is likely going to be 26 new stores. However, we accelerated our raze-and-rebuild activity to maintain a level load for our construction and supply chain partners and that number is likely going to be 29 versus the up to 25 guidance we initially provided. So total store construction projects remain at 55, in line with our expected activity level.

And for CapEx, as Mindy mentioned, we are going to tighten the range a bit. And given that our construction activity has not been impacted by COVID, we are now forecasting a range of $250 million to $275 million.

The remaining guidance metrics are unchanged, as shown in the release. Using the midpoint of these new guidance ranges, simply for modeling calibration purposes, get you in the ballpark of $720 million of EBITDA for the full year 2020.

As we look forward to 2021, industry analysts have projected fuel demand to recover to 90% to 95% of 2019 levels, whereas we estimate our volumes can improve to 98% of 2019 levels given our more rural geographical mix and our core consumer demographic. Data from third-party sources as well as analysis that we are conducting show conclusively that our mix of markets and customer segments are performing better than the broader U.S. average. Further, we believe this volume advantage will also come with an associated margin benefit of at least $0.011 per gallon. This dynamic, coupled with sustained tobacco gains and other improvements to our business, including initiatives around our merchandise supply chain contract renegotiations, improving our food and beverage offer in larger formats and adding more higher-performing new-to-industry stores whose return profile will benefit from all the changes we've talked about today, reinforce our view that we are poised to exceed $500 million of EBITDA in 2021, which sets our new baseline for future growth.

That brings me to my final point. In our investor deck, where we set our raise-the-bar objectives to sustain the same share price appreciation between 2019 and 2023 as we did since our spin, we now expect to achieve, on a sustainable basis, EBITDA above $500 million sooner than anticipated. With the front-loading of our share repurchases, we executed in early 2020 against our Board authorized program of up to $400 million over 2 years. We are equally well positioned with our cash and balance sheet to complete this program ahead of schedule. It's nice to see the market response this morning as investors

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are beginning to share our view of the value creation we as a management team, have worked to deliver since spin. Importantly, we have additional opportunities to continue to grow shareholder value, not just in the current environment, but for the foreseeable future as we ramp up our organic growth program, continue to deliver material improvements to the business and allocate capital in a shareholder-friendly manner.

While investors may be quick to discount 2020 results, we believe the trends we discussed today have shown persistence throughout the COVID period, yet also reflect underlying fundamentals that have been in place well before COVID. Given this view, we see no reason why an advantaged, resilient and growing business model like ours should trade at a discounted valuation versus our peer group. Unfortunately, we have the means to take advantage of this disconnect as share repurchase remains a powerful lever, given our future earnings potential, current cash position and balance sheet flexibility.
And with that, operator, let's open up the lines for Q&A.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Chris Mandeville with Jefferies.

Christopher Mandeville
Jefferies LLC, Research Division

Can I just really start quickly on the brief comments around the exit from Minnesota. I was just hoping maybe you could provide a little bit more color around the reasoning behind that, what -- how you evaluated this and what type of models were these 9 locations? Were they in super center parking lots or maybe found down the road and if there's any way of parsing out what type of performance they were illustrating relative to the footprint average?

R. Andrew Clyde
President, CEO & Director

Sure. So in our investor deck about a year ago where we talked about how our portfolio would evolve, we noted that we might see some exits. Minnesota, it represents what we would call just a subscale geography for us. We had 9 stores, many of them were old kiosks. The sad challenge of having a kiosk at Minnesota is, you have to put a heater in the super coolers. So the soda pops don't explode in the winter. And we had some low-performing stores. We'd also built a couple of new stores as part of the Walmart 200 program. And when we looked at sort of the various factors in that market, decided that we would be better off packaging all 9 stores together versus dealing with the 3 lower performance stores. The good news is we found a private buyer. And as I understand that most of our employees have transitioned over, and we appreciate their support during this transition. We haven't carved out those numbers. That's something that we could do and follow-up with Christian. But needless to say, the metrics for the 9 stores in that state were performing lower than the overall averages that we have across our business.

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

Chris, I can also add that the volume associated with those sites was on average about 130,000 gallons per site month. So dramatically underperforming the rest of the network, and the combined EBITDA was less than $1 million.

Christopher Mandeville
Jefferies LLC, Research Division

Okay. That's very helpful, Mindy. Actually, in which case maybe that leads me to my following question on the implied guidance for total gallons in the back half of the year, yet that they're going to be more or less down high single digits. I guess I'm still trying to kind of square why one would expect that level of decline anyways, if you're currently running in that ballpark. Is there anything to be thinking about in the back half of this year that would detract from a continued recovery versus the north of now 90% prior year levels? Or how should I be thinking about that, especially in light of what Mindy just referenced to now that's -- the Minnesota sale, albeit only 9 stores would actually help the per store per month number.

R. Andrew Clyde
President, CEO & Director

Yes. 9 stores out of 1,500 won't move the needle. Look, we just -- we've largely straight-lined it. We've built a capability using mobility data that gives us a good sense of how our markets in stores are actually recovering and looked at the industry data from experts that are looking at a number of other factors. And so we could certainly exceed that number, but there's other factors that could cause some variability in there. So that's just our best estimate at the time. And one thing I know is, we'll be wrong with that estimate. But the way we're thinking about this new fuel volume margin equilibrium, if we're wrong,

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that means either high or low the industry is seeing the same. And given those dynamics, the higher contribution from margins will more than make up any forecast there from a volume standpoint.

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

And also for the number quoted for the Minnesota sites and volume, that was for full year last year. They weren't performing nearly that strongly in the COVID environment.

Christopher Mandeville
Jefferies LLC, Research Division

Of course. Okay. And then my final question before I hop back into the queue here. Just, Andrew, I guess I asked you this last month or so ago. I'm curious, so you guys now have the capital -- a significant amount of that to deploy to accelerate some of your priorities, unit growth, share buyback and you clearly have referenced that you yourself as undervalued relative to what type of valuation the market is ascribing to you. So I'm just trying to get a better understanding of why there was no activity with respect to the buyback in the current quarter. And if there's any general way in which we could think about an annual practice. If you will be looking to utilize a very front-end loaded annual buyback program going forward?

R. Andrew Clyde
President, CEO & Director

Yes. I think in terms of where we sit now, look, our Board weighed heavily the considerations for ending the share repurchase program that we conducted in the first part of the year. In terms of your modeling and the other analysts, et cetera, I think we largely hit the expectations for the year on a front-end basis. And our Board will be meeting very shortly and the open window provided from this earning call gives us the opportunities to consider the timing level of resuming those. But if we -- as we stated and continue to state, this is our preferred method of giving back value to our shareholders. So we have the means to do that, to extend that as well as deliver on our capital priorities. Our NTI pipeline is in excellent shape for 50-plus stores next year. And as we showed, our ability to flex between a few lower NTIs due to some permitting delays and picking up raze-and-rebuilds, we can continue to deploy capital on a balanced basis.

Operator

Our next question comes from Bobby Griffin with Raymond James.

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

Andrew, I guess, first, I want to go back to kind of your comments about the fuel equilibrium kind of what's taking place in the industry. It was very helpful to kind of walk through that. But when you look at industry volumes, do you think there's a certain volume that if the industry gets back to, say, they get back to 95% or 98%, that the behavior will change back to more of a normal behavior where when you see rising oil, you'll see margins get pinched or you'll see operators go after the incremental volume again?

R. Andrew Clyde
President, CEO & Director

So I think that has always been the normal behavior. And I think we're seeing it still right now. Margins are pinched as prices run up, but they were just pinched from a higher level. And when we see some opportunities when prices fall, we see the widening behavior by ourselves and some of the other high volume, low price retailers. It's just being done in a rational disciplined manner. And so I would encourage people to go back to prior periods 2014, 2018, when you saw -- sorry, 2008, '09, especially when you saw a demand shock. You can trace these periods of higher industry margins back to discontinuities like this, but the underlying behavior didn't change, it just happened at a higher-margin level than before. Of course, greatest risk in an environment like this would be all the competitors would compete it all the way. But I think we've seen plenty of evidence that says, look, we all have to earn a return on capital, whether

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we have private capital or public capital, and no one's motivated to do that just for the sake of gaining more volume.

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

Okay. That's helpful. And when you look at the volume trends kind of in July versus the business update at the middle of June, a pretty notable improvement in volumes, where June was kind of in line with the industry and now July is notably better than kind of the third-party industry data that's out there. Do you have any -- besides just the kind of the standard strength in your business that we've talked about, do you have any other kind of insights into why the big notable improvement? Is it just regionally or kind of maybe the Walmart property saw a big uptick or anything like that to help us maybe understand the nice inflection in your volume trends in July?

R. Andrew Clyde
President, CEO & Director

Yes. It's a lot of isolated factors across markets with the economy opening. I've looked at a lot of third-party data showing that our customer segment, typically lower income is spending more and recovering at a higher level than higher income ZIP codes. We've done some analysis using mobility data to actually show that volumes are recovering better in more rural markets than more urban markets, also with the customer demographic we're serving. I would also say that we got sharper with our retail pricing positioning during the latter half of June and into July as well as we keyed up for the July 4 weekend, 100 days of summer, et cetera. And we saw benefits from that, and those benefits have sustained as well.

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

Okay. Helpful. And then I guess lastly for me. Just quickly on the share buyback potential and stuff. Understanding the Board still has to meet. And ultimately, that is a Board plus management decision. But when you look at kind of the uncertainty, I guess, in the environment or the business we're in, is there a certain level of liquidity, cash balance plus available liquidity on the ABL that you and the team would feel comfortable managing the business with to help us think about what the potential could be if there's excess liquidity of that number?

R. Andrew Clyde
President, CEO & Director

Yes. We haven't disclosed that number, not prepared to do that right now. I think it's that coupled with what's your view of how earnings are going to flow through. And look, the reality is this COVID-related demand destruction was something certainly -- I'd never seen, my team had never seen, the Board had never seen of this type. And I think when we just step back and look at it in hindsight and you say, well, what drives industry margins? How did that play out during this period, there's just a number of proof points to just the fundamental economics and industry structure of a business like this. And the benefit, the ultra-low-cost retailer gains in this period. And so if you'd ask me that question in the midst of this, I would have said a number higher. I think given what we've seen in that this equilibrium continues to just prove out and now we see the structural increase, we're going to remain conservative but at what we say mid 1.4x leverage undrawn ABL, the stronger demand season in front of us strong margins, $400 million of cash. We're in a very, very good position to allocate capital against our strategic priorities. And so I want to just leave it at that.

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

Okay. That's helpful. Congrats again on an excellent quarter and best of luck in the second half of 2020.

Operator

Your next question comes from Ben Bienvenu with Stephens.

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Pooran Sharma
Stephens Inc., Research Division

This is Pooran on for Ben. I just wanted to ask -- just want to ask a couple of questions. First, just wanted to see if you could elaborate on merchandise margins. Tobacco was quite strong, but we noticed nontobacco down quite a bit. Just wondering how COVID is impacting your mix within each of those buckets? And then 2, has COVID allowed you to increase the number of sites in your store pipeline? And are you thinking about -- or are you -- have you improved the quality of those sites in light of the pandemic? And then I just have a quick housekeeping question at the end.

R. Andrew Clyde
President, CEO & Director

Okay. So the unit margin, a decline of 0.6%, 55 points, as we said, was due to lottery. And so it's just because sales were way up, and it's a low mid-single-digit unit margin. So that just drove the mix down, but there's a lot of contribution margin dollars associated with that. The remaining 5 basis points were just due to promotional activity and there was no incremental Murphy Drive Rewards impact since we had already rolled out the program nationally by this time last year. So the high lottery, the higher beer and general merchandise, coupled with the lower food dispensed beverage, and packaged beverage and candy items due to volume largely explain that. And so we see contribution dollars continuing to be strong as gains are sustained and weaker areas improve with volumes, those that are correlated with volume. On the real estate side, we're not yet at that point where we're seeing a high level of distressed real estate out there. But we certainly have a lot of dry powder, and we're well positioned with the developers and real estate team and third-party that work with us in our target geographies to take advantage of that. And so to the extent we could accelerate the pipeline of new-to-industry locations in our target markets, we would seek to do that and take advantage of this -- to this opportunity. And then back to you for your housekeeping question.

Pooran Sharma
Stephens Inc., Research Division

Okay. I think this one is for Mindy. When you were speaking, the $1 billion in debt, that was total debt, correct?

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

That's correct. As of our notes and our outstanding balance on the term loan is what that includes. We have nothing drawn under the ABL facility.

Operator

[Operator Instructions] Your next question comes from Carla Casella with JPMorgan.

Carla Casella
JPMorgan Chase & Co, Research Division

I noticed Walmart is expanding and talking more about a subscription service. It's going to include some gas discounts. And I'm wondering if you see any impact of that on your business? Or does -- do you partner with them on any of those?

R. Andrew Clyde
President, CEO & Director

Yes. One would think that would just be a natural combination given the number of stores they have and the number of stores that we have for that opportunity. So that is certainly something that we would entertain and not much more I can say on that at this time.

Carla Casella
JPMorgan Chase & Co, Research Division

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Okay. And then is that typically, when they do that, does it cause a competitive threat for any of your stores where you're not partnering with them, but you're in the region?

R. Andrew Clyde
President, CEO & Director

So if you just think about the addition of neighborhood markets in stores, in markets where we're in, it's adding capacity to those markets. What I would say is there's a lot more opportunities to collaborate on something like a program like that versus where we go head-to-head because there's just not that many locations where we're within 0.5 mile or 1 mile of each other. But you also have to step back and say if there was only 300 or so stores and their network to get the full advantage of a program like that, one would think that there would be a broader application of it to get kind of uplift one would get.

Operator

Your next question comes from Tom Elliott.

Unknown Analyst

Before I proceed, can I just check that you can hear me okay?

R. Andrew Clyde
President, CEO & Director

Yes, we can hear you.

Unknown Analyst

Fantastic. And 2 questions from me. Firstly, I just wanted to ask if you provide some color around your cents per gallon throughout the quarter. So i.e., how did that develop on a monthly basis? So how did it enter next quarter? And then you highlighted this at the start of the call, but I was just wondering if you could perhaps lay it out in even simpler terms for us. Just about how well you think you can hang on to margins through the rest of the year? That's my first question.

R. Andrew Clyde
President, CEO & Director

Sure. So in April, our cents per gallon margin was $0.51. In May, it was $0.25. And in June, it was $0.22 on a retail basis. And then we had the product supply and wholesale margin on top of that, that led to north of $0.30 for May and June as we saw prices rising significantly. So we were seeing a $0.095 to $0.10 contribution from the PS&W. So $0.30 all-in in a rising price environment. That gets me back to my point. Normally, in our annual average of $0.16, we would expect to see margins in the $0.08 to $0.12 in a steeply rising environment. And yet we were seeing margins twice that. Why do we believe that it persists? I mean some of it is just getting down to the laws of supply and demand. If the price setting retailers are experiencing higher fixed, higher variable costs, a weaker volume recovery, their unit economics require them to price higher to maintain profitability. And it's simple as that. And the -- that's the industry structure that this business operates within. And if you're the lowest cost or amongst the lowest cost retailers in that industry, the excess margin created from that enables you to capture that even by offering the same everyday low price differential, to your customers. And I think the other thing I would say is that during this period, we also saw prices being passed through to consumers, right? So even as all this high-margin environment was taking place, prices were falling. And so they just fell at a lower rate than they would have if demand had held up. And I think that's another dynamic that this industry has as we're passing on higher and lower prices to consumers every day as commodity prices change. And so I think those 2 fundamentals of our industry, its structure, I call it a steep supply curve where you have weaker players on one side and ultra-low players on the other side, coupled with the ability to pass-through prices, which we do everyday. I don't know another industry that has these massive signs that display the price. And so with that level of transparency, that's just the way the industry works.

Unknown Analyst

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That's very helpful. My second question is on working capital. I know it's not a huge driver for you guys, but I just wanted to get a better sense. Firstly, on payables, I think, please correct me if I'm wrong. In the 10-Qs, your payables, you split out sort of trade payables and accrued liabilities, but I didn't see that split in the press release. So I just wanted to get a sense of how your working capital had really moved over this quarter. Do you -- are you able to split that out for the end of the second quarter?

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

No. Christian can follow you -- follow-up with more detail around the payables. But what I can tell you is working capital moved in the quarter predominantly from the accumulation of very large cash balances. And the accounts receivable was lowered. That was primarily due to lower product prices, accounts payable was affected by the same thing and also lower sales volume. And then, of course, the balance sheet, of course, is a point in time measurement. So it depends on what day during the quarter does the quarter end because you could have a very different result if the quarter ends on a Tuesday versus a Friday. But our working capital bounces around quite a bit. And that's just the way it is, and most of that is due to prices, volumes and timing of when the quarter ends. And Christian can follow-up with you on any other detailed questions regarding trade accounts versus others.

Unknown Analyst

Okay. I appreciate that. Just a follow-up and then I'll jump back in the queue. And just one last question. Just on directionality, I guess, for working capital. Are you able to provide sort of any comments on what you're expecting in the back half of the year?

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

Well, as prices would rise, then that inventory that we replaced at our sites would incur an increase in working capital. But that's why we like our ABL facility because it also grows commensurate with prices growing as well. So our liquidity grows in tandem with product prices increasing.

Operator

There are no further questions at this time.

R. Andrew Clyde
President, CEO & Director

Great. One point that I wanted to pass on that related to Pooran's question, who was on for Ben. Our Q2 nontobacco APSM gross margin grew at 3.7%. June grew at 12.7%. So I think that helps, I think, address your question about the recovery of some of those categories. So I just wanted to make sure that point was on there.

So look, thanks, everyone, for joining the call today and giving us the opportunity to share our results. Thanks to our team out there that continues to deliver great value for our customers in the face of all sorts of adversity, and we'll look forward to keeping -- providing the same level of transparency that we've been doing throughout the COVID recovery. Thanks to everyone. Stay safe. Bye.

Operator
Thank you. This concludes today's conference call. You may now disconnect.

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