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Murphy USA Inc. NYSE:MUSA

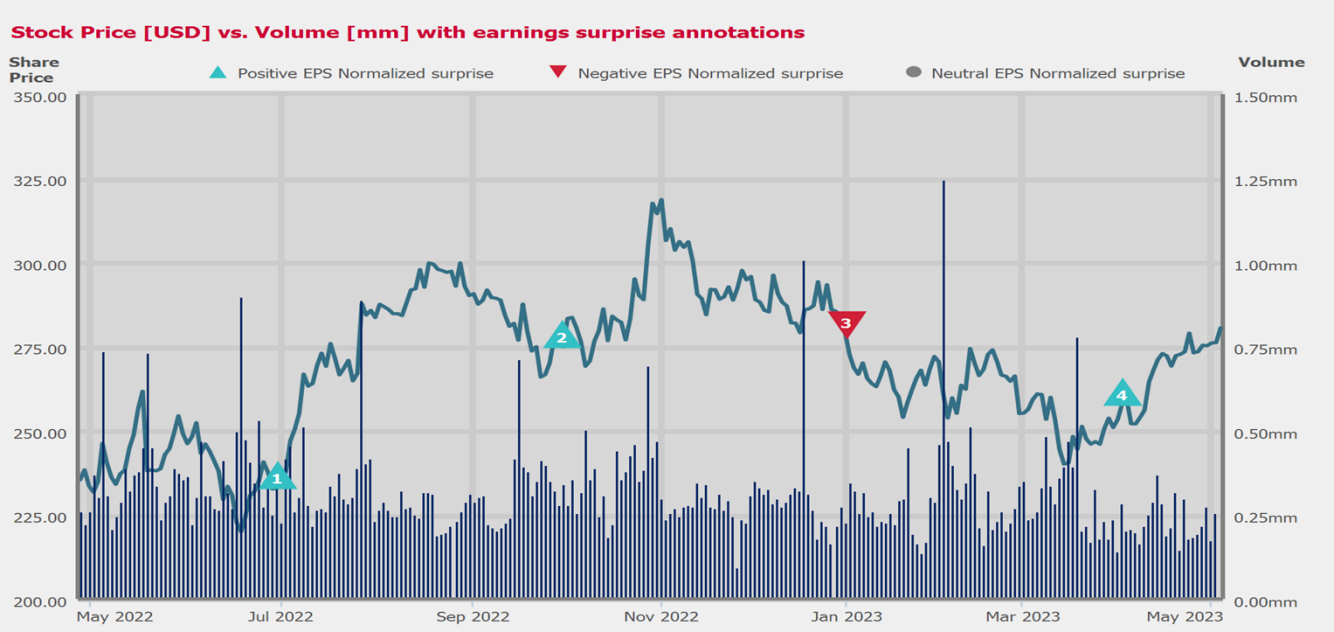
FQ1 2023 Earnings Call Transcripts

Wednesday, May 03, 2023 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.17	4.84	16.07	5.48	20.60	20.57
Revenue (mm)	4952.91	5077.20	2.51	5685.60	21454.88	21696.87

Currency: USD
Consensus as of May-03-2023 11:28 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	5.21	7.52	1 44.34 %
FQ3 2022	7.01	9.30	2 32.67 %
FQ4 2022	6.16	5.24	3 (15.07 %)
FQ1 2023	4.17	4.84	4 16.07 %

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Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Murphy USA First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode, and please be advised that this call is being recorded. After the speaker's prepared remarks, there will be a question-and-answer session.

[Operator's Instructions]

And now at this time, I'll turn things over to Christian Pikul, Vice President of Investor Relations. Christian, please go ahead.

Christian Pikul
Vice President of Investor Relations & FP&A

Yes. Thank you, Bob. Good morning, everyone. Thanks for joining us today. 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, and then we will 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. I will go ahead and turn it over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thank you, Christian. Good morning, and welcome to everyone joining us today. Murphy USA performed extremely well during the first quarter of 2023, delivering results in line with our high expectations and results that support the future value creation potential we see in the business. all-in fuel margins of around $0.29 per gallon reaffirm our view of the structurally higher industry margins. As witnessed in recent quarters, higher margins are even more impactful to the bottom line when coupled with higher volumes. Robust customer traffic continues to translate into strong merchandise performance, which, along with the contribution from an increasing number of new builds and raising rebuilds is driving positive year-over-year growth inside the store. With ongoing investments in new stores and new capabilities, we believe we will continue to drive sustainable earnings growth and free cash flow generation over the next decade and are excited to announce a new share repurchase authorization of up to $1.5 billion through 2028.

This level and commitment of share repurchase is aligned and consistent with the investor expectations we set earlier this year when we once again raised the bar for future shareholder returns. And thinking about the environment in which we generated such strong first quarter results, the most notable element was perhaps the market lack of commodity price volatility as compared to the prior year period when the Russia-Ukraine conflict first erupted. As a result, retail fuel margins were relatively stable throughout the quarter, generally ranging from about $0.15 to $0.30 per gallon and mostly residing in a tighter $0.20 to $0.25 per gallon range. When coupled with the PS&W business, which added nearly $0.06 per gallon to quarterly results, all-in fuel margins of nearly $0.29 per gallon were at the high end of our suggested range for full year 2023. Investors should be encouraged to see such strong fundamentals during what is historically considered a shoulder quarter where seasonal demand patterns and lower margins are the

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norm. In fact, going back several years ago, Q1 results were typically not materially impactful on full year financial performance.

This year, we delivered the second highest first quarter net income and EBITDA in company history. Second only to last year, where Q1 results alone generated about 95% of full year 2012 EBITDA. Our everyday low price strategy continues to resonate with customers, helping drive average per store month volumes up 2.4% as we continue to take share. Importantly, we continue to see robust fuel traffic despite lower street prices, suggesting sticky behavior from customers who may have initially come to us seeking lower prices in a high price environment but have become loyal shoppers due to the convenience, service and the attractive value in our in-store offer. With quarterly same-store gallons increasing 1.4% for the current year and 5.2% on a 2-year stack basis, we are not only retaining prior market share gains, but continuing to build upon that base. Our ability to attract customers and grow share is not only important impactful for fuel contribution dollars but is also translating to strong merchandise performance in the store, where same-store sales and margins were up 6% and 5%, respectively, led by 7.2% and 5.6% growth in nontobacco categories.

In-store performance from the Murphy network was even more impressive with higher unit growth and sales growth in almost every category despite passing through some manufacturer-driven price increases. When coupled with an active and effective promotional calendar, per store sales and margin comps of 7.1% and 6.6%, respectively, were especially powerful given they are lapping a very strong quarter in 2022 and which featured a highly impactful tobacco promotion in particular. However, even these aggregated results understate the strength of our customers and how well the business is actually performing. We are seeing center of store and packaged beverage categories, delivering near roughly 20% sales and margin growth, benefiting from strong new stores and raise and rebuild performance, store resets and promotional focus on growing categories like energy drinks. On the QuickCheck side, performance is also strong, but facing a different set of challenges unique to its geography and expanded offer.

Mobility trends in the QuickChek geographies are affected by lower commuter traffic, which has not recovered as fast as other areas of the country, impacting both the fuel and merch business. Fuel gallons were down 0.4% on an APSM basis, and merch sales and contribution margin were up 2.4% and 0.9%, respectively. We continue to see pressure on the nicotine category. However, we have put in place initiatives, particularly in the smokeless category to help shore up performance and have begun to see sequential improvement in March and expect to see incrementally better results from those efforts in the second quarter. Center store and grocery categories also faced volume headwinds at QuickChek, but product innovation and price increases resulted in mid-single-digit growth in sales and margin contribution. And from Prepared Foods, sales were up modestly as we continue to create price separation versus broader peer and QSR price points, but rising commodity costs more than offset measured price increases we took early in the first quarter. Although food and beverage margins are down 2.2% year-over-year, we will not compromise our value position in the market at the expense of short-term results.

We have intentionally lagged broader QSR price increases by about 10% over the past 2 years, establishing our low price position with our current customers and ultimately with new customers. In fact, stepping back and looking more holistically at the retail landscape in which we compete, we are seeing retailers willing to accept volume losses because they are making it up with higher pricing. Given this dynamic, we are well positioned to improve sales and gain customers from stepped-up advertising, building brand awareness and communicating value through improvements to the QuickChek loyalty platform, along with enhanced promotional activity centered around our core prepared food offer. In the short term, we expect costs impacting the food and beverage category, which were up 6% in the first quarter to moderate. When coupled with another round of measured and targeted price increases that maintain our relative value proposition, we expect to see an improvement in the near-term performance. We believe there is significant value to be created in the Quick Check business over the short, medium and long term. The team has also done an excellent job on the cost side where Q1 store OpEx was up less than 5% for the quarter.

Given the strong financial performance of the business and the resulting free cash flow we generate, we continue to invest for the long term. First and foremost, our capital is dedicated to growing the business,

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which includes both new stores and raising rebuilds. New stores are delivering strong returns in the current environment and outperforming the network averages in key metrics. In the first quarter, the last 4 Murphy build classes from 2019 to '22, which included 87 stores averaged a little over 275,000 gallons per store month were about 20% higher than the network average of about 230,000 gallons per month. Further, these same stores generated 9% higher merchandise sales driven by 80% higher nontobacco sales. While new store openings remain challenged in the current environment, we are on track to deliver 35 to 40 new stores in 2023, including 6 new QuickChek stores along with 30 raise and rebuilds, given the strong returns and repeatability of success in our new store formats, we are investing in our real estate pipeline, growing our inventory of future locations for both the Murphy USA and QuickCheck brands, ultimately preparing the business to deliver more than 50 new stores per year when conditions allow in the future.

In addition to unit growth, we are investing in future capabilities to widen the competitive moat versus the rest of the industry, which is referenced in our investor presentation in March, will result in a virtuous cycle of customer acquisition, enhanced performance, higher cash flows and a growing opportunity to extend our low price position in the market. Considering the impact of ratable high-return new store growth, coupled with business improvement initiatives on the long-term performance of the business, the case for a sequentially larger and potentially more impactful share repurchase authorization becomes even more compelling in our opinion. Importantly, share repurchase is an and, not an or for our investors. While Q1 results are strong, our repurchase decisions are based upon our long-term expectations for the business where we can deliver incremental value from the ongoing slate of investments and initiatives, driving even better returns in the future. For these reasons, we're excited to announce a new up to $1.5 billion authorization through 2028, commencing upon completion of the $200 million remaining under the prior $1 billion authorization. I'll now hand the call over to Mindy to briefly review the financial results, and then we will wrap up and open up the call to Q&A.

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

Thanks, Andrew. Good morning, everyone. Revenue for the first quarter of 2023 was $5.1 billion, in line with the year ago period. Adjusted EBITDA was $220 million in the first quarter versus $277 million in 2022. Net income for the quarter was $106.3 million or $4.80 per share versus $152.4 million or $6.08 per share in the first quarter of 2022. Average retail prices were $3.15 per gallon versus $3.43 per gallon in the year ago period. Total debt on the balance sheet at the end of the quarter was a is captured in current liabilities, representing the 1% per annum amortization of our term loan and the remainder reduction in long-term lease obligations as they are paid through operating expense. Our $350 million revolving credit facility had a 0 outstanding balance at quarter end and is currently undrawn. And these figures together result in gross adjusted leverage ratio that we report to our lenders of approximately 1.6x. Cash and cash equivalents totaled $102 million as of March 31. That's up about $40 million since year-end, and it's net of $73 million of capital spend, the majority of which was allocated to new stores and other growth investments. And with that, I will turn it back over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thanks, Mindy. Before we open up for Q&A, I do want to comment on preliminary April performance, which I'm pleased to say continues the momentum we saw in the first quarter and points to sequential improvement in some critical categories, including food and beverage contribution. April volumes are running about 4% below prior year levels and are down sequentially from March, broadly in line with pre-COVID seasonal patterns. We saw a trough in early April that then strengthened in the second half of the month. Retail only margins also strengthened in the last half of the month and average close to $0.30 per gallon over the last few weeks. This translates to about $0.26 to $0.27 per gallon in retail-only margins for the month, trending above the $0.23 per gallon we saw in the first quarter. March performance remained strong with key center store and packaged beverage categories continuing to deliver double-digit growth in sales and margin. Additionally, we expect to see some benefits from targeted and measured price increases in Prepared Foods during the quarter and see year-on-year margin comps turning positive in the second half.

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When coupled with the aforementioned investments in new capabilities, we are laying the groundwork for both near-term and long-term improvements in enterprise-wide merchandise performance. Certain areas of OpEx remain under pressure, specifically in the maintenance categories were contract renewals. However, wage inflation is exhibiting more muted growth than prior years, up about 5% in the first quarter. While total store OpEx cost per store were up 5.6% for 2% year-over-year. In closing, I would note that we are the first to say at this time of the year that neither a single month or quarter will ever define how the balance of the year plays out. in our industry, given the nature of price volatility, the persistent inflationary environment and other factors. That said, this quarter certainly reinforces the key elements that underpin the virtuous cycle where Murphy USA is uniquely positioned to win over the long term. And importantly, as we head into the 100 days of summer, we are excited about the momentum across the business. With that, operator, we can open up the lines for questions.

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Question and Answer

Operator

Thank you, Mr. Clyde.

[Operator's Instructions]

I'll take our first question this morning from Anthony Bonadio at Wells Fargo.

Anthony Bonadio
Wells Fargo Securities, LLC, Research Division

Congrats on the nice quarter. So just to dig in a little bit more on the Q1 fuel margins. It looks like industry volumes are flattish, although share clearly continues to move around. Wage inflation has continued as well, which to me suggests that breakeven should be higher than last year. Plus I would argue that Q1 of this year provided a more favorable price dynamic for margin, yet retail margins in Q1 were flat year-over-year. I realize I'm oversimplifying here, but can you just help us think through the different puts and takes versus last year and triangulate all of that?

R. Andrew Clyde
President, CEO & Director

Sure. We've talked about this before. There's the movement of price, right? Is it going up by how much? And that certainly impacts your ability to upward moving environment, that's an influence versus a falling price environment where we're advantaged. The big difference between this year and last year is the level of volatility. And the size of the price moves that we saw last year, were frankly, unlike anything I think people have seen in a couple of decades. And so that created an environment where prices moved up more quickly with greater certainty. And so we were able to kind of maintain a level of separation that serve to our advantage from both a volume standpoint, but we highlighted our annual guidance range on fuel margins. We kind of set a floor based on historical patterns, but we said the biggest difference between the outsized $0.34 we earned. So I hope that provides a little color on that.

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

The other thing, though, Anthony, I would add to that. I think first quarter results are also really impressive on the retail side because I would argue that which can happen towards the weekend, which we've talked about before. So if you look at the first quarter of the 14 weekends, half of those had wholesale price jumps of $0.05 or higher at the weekend price jumps of very high magnitude. Now February, I would agree with you, we had an unseasonable decline in price, which allowed us to gain some ground on both volume and margin last year resulted in competitors taking preemptive moves to restore the market in advance of the next price increase because the price was rising so dramatically. So I would argue that despite all the challenges, our retail-only margin for the quarter, matching last year is really a testament to the strength of the business and also to the structural change, which has occurred in the industry...

Anthony Bonadio
Wells Fargo Securities, LLC, Research Division

But it does seem like the idea of a recession and defensive positioning is increasingly being thrown around by investors. Can you just maybe talk at a high level about the different puts and takes to your P&L and a weak frame or quantify that for us? Obviously, being a value retail value players suggest a tailwind for you, but having lower overall consumer spend is certainly tricky for any retailer.

R. Andrew Clyde
President, CEO & Director

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Look, when it comes to a recession, I would say our average customer doesn't look at inverted yield curves or 2 periods of declining GDP. They look at their take-home pay, they look at how far it gets them through the month. I think one of the challenges we have when we talk about recessions as we do what we do with everything, is that we aggregate all the customer segments and demographics across the country and make a statement that's pretty binary. I was just with other retail CEOs and suppliers in our industry. And I think our conclusion was our typical customer feels like they're in a recession and had been in a recession. And so they're not waiting for someone to pronounce it has officially begun because they're seeing it every day. And that is where our focus on our #1 pillar of affordability kicks in and why we are committed to our everyday low price position across our categories and are relentless around our everyday low cost positioning to support that. So I would say the results that we've continued to demonstrate quarter after quarter the share gains, fuel tobacco, other categories reflect the fact that for a customer that is feeling all the pain points of what someone would call a recession, we're uniquely positioned to win with them. And so I think that's the way I would sum up how we're looking at it.

Operator

Thank you. We go next now to Bobby Griffin at Raymond James.

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

Andrew, one first just a quick clarification question. When you're referencing the 4% decline in gallons, was that a total gallons number or a comp gallon number?

R. Andrew Clyde
President, CEO & Director

That's a first gallon number.

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

And I guess my second question here is we're a little over, I guess, 2 years since acquiring QuickCheck. So I was maybe hoping can we talk a little bit about where you guys are in that journey of integrating that business and also leveraging some of the new acquired capabilities that QuickCheck brought back into the core Murphy's operation as well.

R. Andrew Clyde
President, CEO & Director

Yes. I mean integrations in the later innings. We've got some missions around our common systems that we're looking at and use the opportunity to step back and look both at the Murphy systems and the QuickChek systems as we think about alignment there, but includes in terms of the core functions, what's being done centrally, what's being done centrally, but embedded resources up there, what stays unique to quick check. That integration is largely done and the nature of those synergies have been captured. There have been a lot of learnings. We've talked about some of the tools and capabilities that they had that we accelerated on our side, like merchandise exceptional recording through the CB4 technology. We also, as we embark on the food and beverage strategy for the entire enterprise, we're really able to kind of understand where Murphy had the right to win and play in certain categories given the juxtaposition of quick check with its QSR food model, and that's helped inform where we're going to invest and where we've been investing in food and beverage on the Murphy side.

Innovation has accelerated on the QuickCheck side. If we think about some of the made-to-order energy drinks, our unique frozen made-to-order energy drink and the opportunity that's created both for the QuickCheck business and the Murphy business. We see a lot of continued opportunities there as we're going for category leadership and energy. So very pleased with that. We continue to open new stores. We just opened a new store with commercial fueling lanes in Laredo, Texas and also one in New Jersey. And so asset development pilots that we're doing we're able to do with both brands and compare and contrast those. Certainly, the scale of the bigger initiatives that we're doing like digital transformation

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absolutely benefit from being able to do it across the 2 brands, especially where you get synergies in the back office space where a lot of the fixed costs occur. Bobby, I can keep going on and on, but it's been a great business. Certainly, the market hasn't recovered to the same extent as the Murphy markets from a back-to-work standpoint, but we are seeing it pick up.

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

Okay. Yes, that's good. That's helpful. And then, I guess, secondly for me, we've talked a lot about why retail margins are structurally higher, and we completely agree with you and your team's view on the drivers behind that and the sustainability of that. Is the PS&W business margin structurally higher now in this post-COVID environment as it was before? And I guess I'm just asking in the context of the historical $0.02 to $0.03 we used to think about for that line item. Is that now 3 to 4? Or have we just been in a favorable kind of couple of quarter environment?

R. Andrew Clyde
President, CEO & Director

No, I think we alluded to this a little bit in our last call. If you go back to the period '27, 2018, 2019, I would call the supply market kind of long and a lot of discounts at the rack. And so our spot to rack transfer price that we net against the RIN faced greater pressure coming out of COVID with the demand destruction and with some of the pressures refiners have felt either from regulations, the incentives they have around renewable fuels, you've seen a reduction in refinery capacity, either its refineries closing or being converted to say, renewable diesel facilities. And so what we've seen, especially over the last 12, 18, 24 months is a much shorter, tighter refined product environment. And as a result, you don't see the same level of discounting that takes place at the racks where we measure our spot to rack transfer price. And so we certainly expect to maintain some of that, the tune of $0.01 a gallon or so as long as the market remains short and tight the way it currently is.

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

I appreciate the details, and congrats again on a good quarter.

Operator

We go next to now to Bonnie Herzog of Goldman Sachs.

Bonnie Lee Herzog
Goldman Sachs Group, Inc., Research Division

I had a question on your SS gallon growth in the quarter, which, I guess, seemed a bit soft and decelerated sequentially per your stack basis. So I was sort of trying to think about that in the context or reconcile with your strong march comp growth. Maybe, Andrew, you could touch a little bit on conversion and provide a little bit more color on what drove the strong sales growth inside your store despite maybe some pressures on gallon growth.

R. Andrew Clyde
President, CEO & Director

Yes. So on the gallon side, I mean, if you look at the kind of the price environment that we talked about as it related to margins, -- on the margin, you didn't see the same acceleration in prices throughout the quarter. And so with lower prices, you certainly benefit from a payment fee standpoint. But on the margin, there's always going to be some customer that may not be as price sensitive. I think the important point is we still grew gallons in this environment on top of the gallons we grew last year when we experienced that run-up in prices. So I think one of the things we talked about, hey, in a lower price environment, are you going to give back some of the consumer demand that you picked up only because prices were really high, and the customer didn't want to go -- was willing to go a little bit further out of their way to save a few extra pennies. And what we found was, yes, we kept all the customers we gained last year.

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And on a per store basis, we gained some ore, right? And so I think that's a reflection of the fact that they visit the store. They're more loyal. We've got the loyalty program and the like. On the merchandise side, I mean, we are constantly doing new things, whether it's the raise and rebuilds, whether it's the new stores, whether it's the resets, whether it's the promotional activity, where it's the new product introduction. So there's a whole set of initiatives that are kind of independent of what we're doing on the fuel side. So we were certainly pleased last year when we saw the kind of attached to fuel categories grow in response to fuel traffic. I think what's impressive this quarter is those categories grew at an even faster clip despite the gallon growth, which I think speaks to all the initiatives that the merchandise team has put in place and the new stores and raise and rebuild performance.

Bonnie Lee Herzog
Goldman Sachs Group, Inc., Research Division

And then just maybe one more quick question for me. Given your strong Q1 results and the comments you made about the impact in Q1 being greater than historical this year. Just thinking about that and framing it in the context of your full year guidance, does that change your outlook for guidance, if at all? Do you see upside? Or is there something to be mindful of and during the next few quarters, just given the strength again that you saw this in this quarter?

R. Andrew Clyde
President, CEO & Director

Yes, I would just be mindful of the nature of this industry, right? I mean there have been plenty of years. I go back to 2016 when third quarter fuel prices went up instead of seasonally down. But then in the fourth quarter, they came down significantly. And if you made the call even at that point in time, you would have been wrong. So I think we've intentionally taken a point of view that says, look, a lot of guidance update quarter-over-quarter isn't helpful, especially the discussion around margins because it detracts from the long-term discussions around the potential of the business. And if we end up getting closer to the $0.30 range versus the 26% range, we'll have the next year with a new set of volatility and price factors and dynamics. I would just encourage everyone to stay focused on where is this business heading over the next 3 to 5 years, 5 to 10 years? What's the free cash flow generation? How is that going to grow from the new stores, the improvement initiatives? And then how are we as a disciplined allocator of capital going to return that value to shareholders? And what is that going to be worth.

Operator

[Operator's Instructions]

We'll go next now to John Royall of JPMorgan.

John Macalister Royall
JPMorgan Chase & Co, Research Division

So it looks like you had a big increase in RIN sales in 1Q, which I think might have been driving some of the strength we saw in the PS&W plus RINs margin. I know that RIN price wasn't up much, so it appears that it was volume driven. Did you take down some inventories from a range perspective and just looking for a little bit of color there on the RIN sales.

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

I can give you some color on the RINs. And actually, for the quarter, we sold pretty much the same number of RINs that we sold last year. We sold 4 million more than last year with all. It was a price that was a bigger driver. We sold them for on average $1.60 versus $1.12 in the year ago period.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Okay. So just a follow-up there. I mean typically, then you would see kind of -- if it was price driven, you would have typically seen an offset from the PS&W side, it doesn't feel like it.

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

Correct.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Yes. So maybe just some color on why the strength in the PS&W + RINs margin?

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

Most of it was due to the timing impacts of pricing just due to the market dynamics of price increases versus decreases in periods of rising prices, that what we call the uncontrollable part of the business or the inventory pricing part of the business tends to do well in a falling price environment, you see the opposite impact. And so the results versus, for instance, versus the fourth quarter are predicated on the difference in the market environment, primarily -- if you look at fourth quarter rent sales, they were light versus first quarter. So that is a difference. But the remaining difference is strictly just the pricing environment that we're in because, again, even in a quarter where we don't sell as many rents, you still have that offset with regard to the spot to rack differential.

John Macalister Royall
JPMorgan Chase & Co, Research Division

Understood. And then maybe my follow-up is just on station OpEx came in below the low end of the guidance range and is actually down quarter-over-quarter, I think, for the second straight quarter, and you mentioned trending very well coming out of March. Anything to point out there in terms of what's going well? And then you did mention things like wage inflation, is there some uplift that you think you'll see in 2Q and beyond to get yourself sort of back into that guidance range? Or can we consider this that you really are tracking ahead of guidance.

R. Andrew Clyde
President, CEO & Director

Yes. Look, we haven't revised our guidance. I would say wage inflation, as we noted, has moderated maintenance expenses, contract renewals, work orders, et cetera, is expected to be on the higher side. Shrink is another area that's probably a headwind. And I think that's a challenge across retail right now. So there's always a lot of puts and takes. Sometimes there's just some timing issues as well as when we take on certain initiatives or maintenance programs, et cetera. So I think we've got kind of all hands on deck constantly looking at cost, over time, retention of staff to avoid downtime at the store and the like as well as improvement initiatives to reduce cost, but we won't be changing our guidance at this point or declaring victory on any number.

Operator

We will go now to Benjamin Bienvenu from Stephens.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

So I want to ask about SG&A spend. Obviously, elevated relative to history, you guys have been pointing to some of the incremental investments that you're making around capabilities for the organization. Can you talk a little bit in a little bit more detail about the benefits you expect to harvest from the spend that you're deploying in the SG&A line item?

R. Andrew Clyde
President, CEO & Director

Absolutely. And for the quarter, there's a whole range of things where you got $1 million to $2 million to $3 million variances, which some might include incentives and some of the alignment across the 2

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brands, but certainly also the initiatives that we have and some of the professional service fees around that. Real clearly, on the 2 biggest initiatives around digital transformation. I mean we've talked about how this insight is going to allow us to define more detailed and more detailed subsegments of customers, understand those DNA strands, understand how to target them more efficiently and effectively to be able to grow revenue and margin from them, target promotional activities better. There's also a revenue margin cost element of it. So as we look at production planning at QuickCheck, where it used to be done on paper with pen and pad being able to do better demand forecasting to make sure you've got in stock, but not too much to reduce waste, and then overlay that with a more sophisticated store labor model that builds in that insight, the learning algorithms that are built in to the technology allow us to get better and better.

So you're going to see real tangible benefits, been, both on the merch revenue side, the margin side, the labor cost side, the waste cost side and the like. So excited about those types of initiatives. We're well into some of the early pilots across all of those, and the benefits have kind of exceeded our expectation. But similar to some of the campaigns we launched in prior years, we're not getting way out in front and promising year-over-year benefits at this point in time. On the in-store experience campaign, similarly, there are opportunities around optimizing the merchandise assortment, center of the stores, further resets as well as envisioning how we think about the grab and go, grab and reheating go and dispensed offers at the Murphy stores at our 2,800 square foot stores. And so we'll be stick building a pilot store this year that takes into account that layout as well as doing retrofits on some existing stores to assess the benefits there. But again, those opportunities will impact both revenue, margin and cost areas. And when we have more details around the results of those pilots. We'll certainly be transparent like we've done in the past, share those with you and investors and then speak to the specific benefits as we give our full year guidance.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

Okay. Great. My second question is related to share repurchase. And forgive me, I joined the call late, so you may have covered this. The buyback activity in the first quarter was conspicuously small, particularly, I guess, juxtaposed relative to your new $1.5 billion share repurchase program. The answer may be just because -- but maybe why was it fall in the first quarter? Was there anything kind of idiosyncratic going on in the first quarter that either precluded you from buying back stock or made you more mindful of this being the right time to buy back stock because the results are obviously quite strong.

R. Andrew Clyde
President, CEO & Director

Yes, I think the only people I know that say just because sometimes are my kids. So I'm not going to use that response. But I would say, look, we do not comment on periods where we buy more or less depending on various factors or outlooks out there. So we'll get into that. What I will say is the new authorization in some ways, is just simply the formalization of what we'd already committed to investors back in the March investor conference, where once again, we highlighted where did we see EBITDA going over the next 5 years based on store growth initiatives, a small increase in the normalized fuel margin. What do you believe about share buybacks at 1 million shares a year generated from the free cash flow generation. And frankly, 1 million shares a year at current pricing add up to $1.5 billion. And so we just felt it was important to align that commitment with a formal authorization. And so we'll be completing the $200 million, certainly expect to have that wrapped up by year-end, if not before, and we'll be getting into the next authorization right after.

Operator

Thank you. And ladies and gentlemen, it appears we have no further questions today. Mr. Clyde, I'd like to turn things back to you for any closing comments.

R. Andrew Clyde
President, CEO & Director

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Great. Well, thanks, everyone, for the questions. We'll look forward to any follow-up calls with the analysts, investors. I would say, I think this quarter as much as it stands on its own is a great quarter. It's really just more evidence around our view of the future potential of the business. And when you look out 5 to 10 years, you look at the EBITDA growth that we have, you look at the free cash flow generation that delivers and you think about our commitment to disciplined capital allocation, we feel very good about the total shareholder return value proposition that we've presented. So thank you again, and we look forward to any follow-ups.

Operator
Thank you, Mr. Clyde. Ladies and gentlemen, that will conclude the Murphy USA First Quarter 2023 Earnings Results Conference Call. We'd like to thank you all so much for joining us, and I wish you all a great day. Goodbye.

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