

Murphy USA Inc. NYSE:MUSA

FQ4 2024 Earnings Call Transcripts

Thursday, February 6, 2025 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	6.68	7.50	▲12.28	4.73	23.97	24.72	▲3.13	27.08
Revenue (mm)	4897.49	4710.40	▼(3.82 %)	4976.30	20468.41	20244.30	▼(1.09 %)	21286.90

Currency: USD
Consensus as of Feb-06-2025 1:44 AM GMT

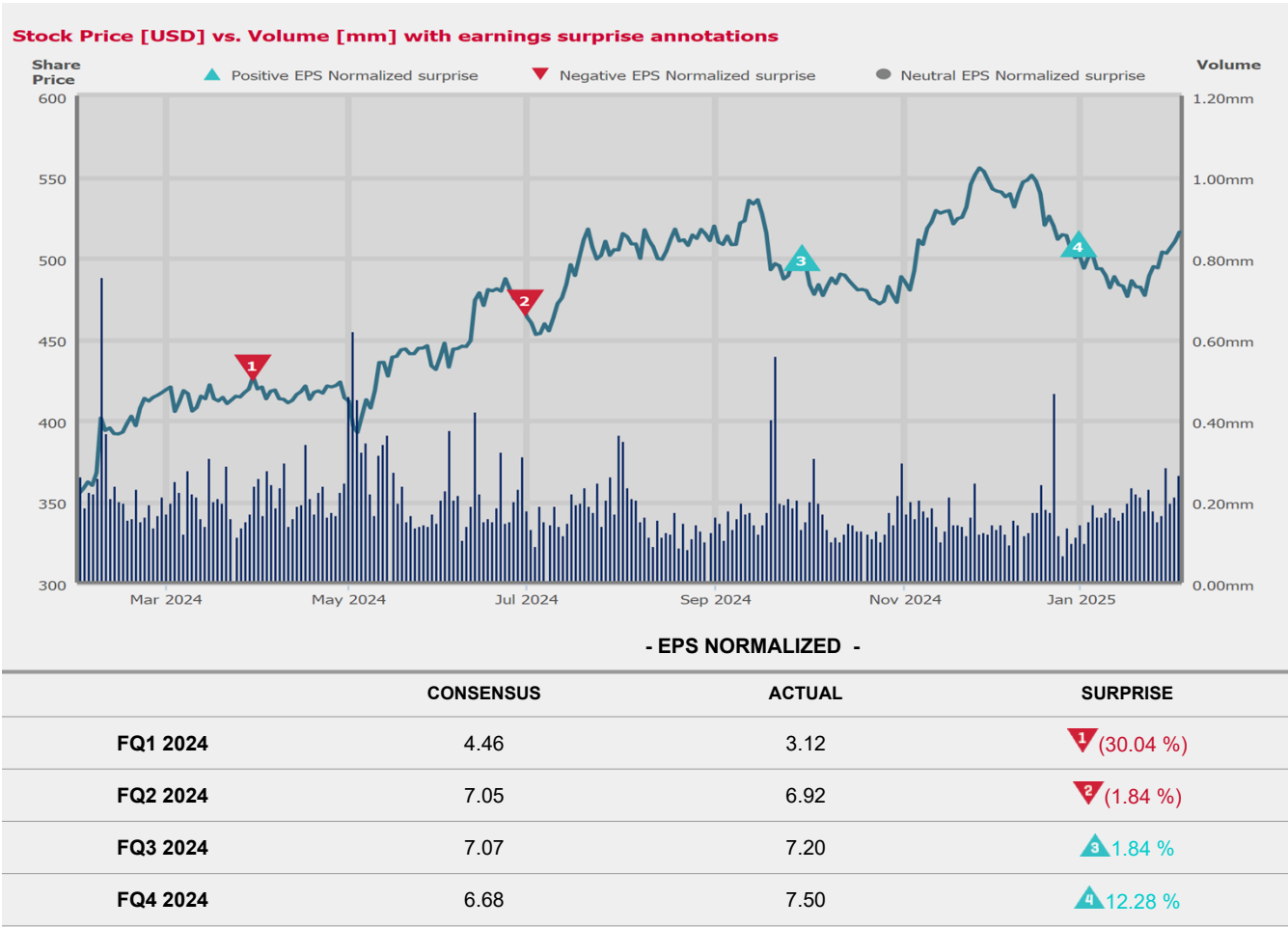


Table of Contents

Call Participants		3
Presentation		4
Question and Answer		8

Call Participants

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Presentation

Operator

Thank you for standing by. My name is Janine, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Murphy USA Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions].

I will now turn the call over to Christian Pikul, Vice President of Investor Relations. Sir, please go ahead.

Christian Pikul

Vice President of Investor Relations & FP&A

Thanks, Janine. Good morning, everybody. Thanks for joining us today. With me are Andrew Clyde, Chief Executive Officer; Mindy West, Chief Operating Officer; Gallagher Jeff, Chief Financial Officer; and Donnie Smith, Chief Accounting Officer.

After some opening comments from Andrew, Gallagher will provide an overview of the financial results and our 2025 guidance. And then following some closing comments from Andrew, we will open the call up 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 in 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, and good morning, everyone. I'm very pleased with Murphy USA's performance in both the fourth quarter and the full year 2024. The business delivered just over \$1 billion of EBITDA in 2024, demonstrating the sustainability of the earnings potential of the business. We plan to grow the base of sustainable earnings in the years to come as we accelerate our new store program, remain laser focused on improving store performance across the network and relentlessly challenging ourselves to innovate and better serve our customers.

Against that backdrop, overall, 2024 was a disappointing year for a number of reasons. The year got off to a slow start as rising prices and severe weather hindered transactions across most of the MUSA network, continued pressure on food inflation in conjunction with QSR value or pressured QuickChek markets. Further, a well-supplied product market with low volatility and minimal logistics challenges impacted PS&W side of our business, leading us to lower-than-expected all-in margins in 2024.

And although we finished the year with more new stores in the prior year, we underdelivered against our internal schedule targets, which also impacted fuel gallons and merchandise sales due to fewer store months in operation. Consequently, those collective misses translated into lower incentive-related G&A because we fell short of some of our own performance goals. That being said, there are a lot of bright spots, too.

The Murphy branded network delivered impressive results, growing per store merchandise sales and margin dollars by 3.5% and 5.9%, respectively, for the full year 2024, with great momentum in the fourth quarter across center store categories, which delivered total non-nicotine margin growth of 7.2% versus the fourth quarter of 2023, reflecting the impact of the key initiatives we have spoken to before.

Importantly, looking at fuel's performance for the full year, while the supply-demand balance and other factors impacting PS&W were less favorable, retail margins were up 50 basis points to \$0.281 per gallon, reflecting structural industry pressures on the marginal player. Perhaps more importantly, this improvement in retail margins occurred despite conditions that historically have been less favorable to retail margin capture, reflecting a more compressed price environment and lower volatility within that environment.

Taken together, the fundamental thesis that Murphy USA remains an advantage and growing player in an industry with a long-term track record of demand stability not only remains intact, but looks even more favorable from where we are sitting. The runway remains long for continued margin growth over time, high-return organic growth investments are accelerating and our core business performance is supported with value-creating initiatives. These persistent and powerful drivers strongly support our balanced capital allocation levers of store growth and share repurchase, which has delivered significant returns to investors since our 2013 spin.

I'm going to turn it over to Gallagher to discuss our 2025 guidance in the context of the quarterly and full year performance. Gallagher?

Galagher Jeff
Executive VP & CFO

Hello, everyone, and thank you, Andrew. Let me start off by reviewing 2024 performance results and highlights in combination with the elements of our 2025 guidance. Starting with new store growth. We completed 32 new-to-industry stores in 2024, in line with our guided range of 30 to 35 new stores. Since year-end, we have opened 4 additional stores with 17 stores currently under construction, giving us a great head start on our 2025 build program. As we have discussed, we expect to increase new store openings this year, targeting up to 50 new stores in 2025, and our pipeline sets us up well for continued delivery in 2026 and beyond.

We also completed 47 raise-and-rebuild projects last year. While our construction schedule allowed for a higher pace raise-and-rebuild activity in 2024, we're taking a more measured approach in 2025, planning for no more than 30 projects to ensure we're supporting new store development. Our primary focus remains adding more highly productive 2,800 square foot stores to the network as part of our long-term goal of adding around 500 new stores over the next decade.

Turning to fuel volume. Average 2024 fuel volumes of 240,600 gallons per store month came in closer to the low end of our guidance of 240,000 to 245,000 gallons. Full year volumes were pushed a bit lower by softness in Q4 volumes, which were down 2.4% on an average per store month basis. While October volumes were flat to prior year, as we mentioned in our third quarter call, a flat to rising price profile in November and December limited our ability to deploy pricing and capture share.

Additionally, year-end volumes were softer than expected, with weather events across the South in late December and the Christmas and New Year's holiday falling on a Wednesday in 2024 versus Friday in the prior year. Going forward, we expect total per-store fuel volumes to remain relatively flat with the opportunity for high-performing new store gallons to more than offset legacy declines in our older smaller format stores.

As such, average per store month fuel volumes are expected to remain within a range of 240,000 to 245,000 gallons. In 2025, we expect to sell just over 5 billion gallons of fuel in total, up 4.5% from 2024. Keep in mind, though, per-store fuel volumes only tell part of the story. We're adding more new stores in 2025 as prior build classes ramp up to maturity, coupled with more productive raise-and-rebuilds from prior years. Our share of market continues to grow.

Interestingly, when compared to the 4 billion total gallons Murphy USA sold in 2014, our first full year as a public company. Murphy USA experienced total volume growth of nearly 1 billion gallons or 21% through 2024. QuickChek accounts for a portion of that, but Murphy only fuel volumes have grown over 500 million gallons in the past decade. That is more than double the 6.5% total volume growth seen in the states we operate, according to Federal Highway Administration.

So that means we're taking share in a large and growing market and building highly productive assets in the right areas to capture that growth. We remain very excited about the future potential of our business as our strategy and execution puts us in a strong position to compete and win in this growing industry.

Moving to merchandise contribution dollars. We generated \$834 million in merchandising contribution dollars in 2024, up 3.8% versus 2023 with notable acceleration and improvement in fourth quarter results. Fourth quarter merchandising margin of \$209 million was up \$11 million versus the prior year, the largest absolute year-over-year increase during 2024, driven by strength in both nicotine and non-nicotine margin contribution, which grew 6.1% and 4.4%, respectively. For the full year 2024, merchandising contribution growth was slower than we originally projected due to some trends that are likely to continue into 2025.

We expect a challenging customer environment and value menu competition to continue pressure in QuickChek markets and their food-led offer. We relaunched QuickChek Rewards in the fourth quarter and are seeing strong early results, but expect the QuickChek business to deliver slightly lower year-over-year contribution dollars. However, our merchandising customer remains strong at Refi USA, driven by our core insight categories, resulting in 6.7% total contribution dollar growth in 2024. We expect that strength to continue at Murphy stores in 2025 and are forecasting around 6% total contribution dollar growth. Taken together, in 2025, we're forecasting a range of \$855 million to \$875 million or nearly 4% growth at the midpoint, in line with the rate of growth we saw in 2024.

Moving to OpEx. In 2024, operating expenses per store month were up 5.2% toward the low end of our guided range of \$35,000 to \$36,000. Nearly half of this total increase was driven by new and larger stores that opened in 2024. Our operations team continues to drive efficiencies across labor, which was up only 3.9% per store. Our labor expense was driven by larger format stores, targeted wage investment and rising minimum wage requirements in several states.

Looking to 2025, nearly half of our projected per-store OpEx increase is again a direct outcome of our decision to build larger format stores, which are more costly to run than the network average, but most importantly, they also can contribute more merchandise dollars. However, do keep in mind that when new stores are put into service, operating expense is running very close to the target maturity rate. Our merchandise -- while merchandise dollars take about 3 years to reach maturity.

Thus, in the early years of accelerating these stores, you will see OpEx growing a little bit more in merchandising contribution until the stores reach maturity, at which point the coverage ratio turns positive in our new larger format stores. Given these factors, our 2025 store operating expense guidance range represents a 4% to 6% increase on an average per store metric of \$36,500 per month to \$37,000 per month.

Now moving to corporate cost. SG&A expense was \$235 million in 2024, down 2.1% versus 2023 and below our adjusted guidance range of \$240 million to \$250 million. These 2024 results were driven by tightly managing home office expenses, a reduction in professional fees as some major initiative investments wound down and lower incentive-based compensation, which Andrew mentioned earlier, a component we would expect to return to normal in 2025.

Remember, most of the expenses associated with larger scale transformative projects such as digital transformation and QuickChek rewards were incurred in 2023 and 2024. In 2025, we will continue making technology and capability investments to enhance our performance while driving additional leverage and efficiency from our teams. As such, we're forecasting a range of \$245 million to \$255 million in SG&A., ensuring we deliver incremental value to investors as we ramp up our store growth.

Finally, to capital spending. Total capital spending in 2024 came in at just over \$500 million, above our original guided range of \$400 million to \$450 million, but within our revised range of \$500 million to \$525 million provided on the third quarter call. Importantly, all of this increase is attributable to a purposeful acceleration of new store growth, allowing us to get a head start on 2025 construction activity.

Our 2025 program will look similar in terms of total capital allocated for growth, resulting in a guided range of \$450 million to \$500 million. Importantly, this capital spend will deliver more new stores and more EBITDA growth in both 2025 and 2026 as in-service stores progress along their 3-year ramp curve. The new store pipeline remains in good shape, and we're making steady progress toward achieving a sustainable run rate of around 50 new stores each year, which at maturity should deliver roughly \$40 million to \$45 million of incremental EBITDA annually.

Now before I turn it back to Andrew, and as mentioned in the earnings release, we continued our balanced capital allocation strategy and repurchased approximately 240,000 shares in Q4. We and 938,000 shares for the full year 2024 for a total of \$446.6 million, resulting in a cash and cash equivalents balance of \$47 million at the year-end. The power and impact of our share repurchase decision are reflected in our year-end share count of around 20 million shares, meaning we have bought back nearly 60% of our shares outstanding since our spin. The exact amount of shares we purchased in any given year will depend on a number of factors, one of the most important, which is the share price.

Given our free cash flow generation, we intend to continue executing a balanced capital allocation strategy, which result in meaningful EPS accretion in both the year of repurchase and preserving that benefit in all future years. As we grow net income, the accretion impact will be compounded going forward, underscoring our strong commitment to ongoing shareholder value creation.

And with that, I'll turn it back over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thank you, Gallagher. In closing, as is our custom, we will provide a range of fuel margins representative of our view of the industry around which investors can forecast the earnings power of the business, subject to their own beliefs and expectations.

As we referenced on the third quarter call, the most likely range for all-in margins and what we call a normal environment, one with stable supply dynamics and limited price volatility has moderated in the \$0.30 to \$0.32 per gallon range the past few years. As a reminder, the \$0.34 we saw in 2022 resulted from a steeply falling price environment from a high absolute price level approaching

almost \$5 a gallon. Coupled with benefits from a tighter supply market, and that's a concurrence of events we might expect only once in every 6 to 8 years.

In 2024, we saw neither of those conditions. And as such, we would expect margins to remain in a tighter \$0.30 to \$0.32 per gallon range in a normal somewhat benign environment. Within this framework, we do continue to believe challenged in-store performance and higher costs for marginal retailers will continue to result in higher equilibrium margins as we experienced in 2024, where we saw retail margins up 50 basis points.

This dynamic is highly unlikely to change as the fuel pass-through mechanism represents the easiest and most efficient way retailers can pass on their higher overall costs, leading to our strong belief that we would expect to see the structural upward pressure on margins continue over time.

So in 2025, using the midpoint of all other guided ranges, we would expect EBITDA of \$1 billion to \$1.12 billion at an all-in margin range of \$0.305 to \$0.325 per gallon, respectively. We have stated in prior years that \$0.30 of all-in margin would generate about \$1 billion in EBITDA. The difference in 2025 is coming primarily from two factors: Headwinds at QuickChek stores; and the 3-year ramp to maturity of our new stores, as Gallagher mentioned. A key component to delivering our earnings potential going forward is the portfolio of initiatives currently underway that are making the business better as evidenced by the strong Q4 merch results.

I'll close out with some comments on preliminary January performance as well. Per-store fuel volumes approximated 95% of prior year levels, impacted by 3 named storms over the past month, Blair, Cora, and Enzo, each of which resulted in several hundred store closures and delayed openings across our network. We talked about weather as a factor last year, but that environment, while disruptive, was nothing compared to the downtime impacting our January performance. That being said, retail margins are trending about \$0.02 higher than last January, largely offsetting the impact from lower volumes and likely resulting in fuel contribution a little bit shy of our internal plan.

As you can imagine, the number of store closures also had an impact on merchandise results, but a preliminary view of the data says the business performed admirably in January with results in close proximity to our internal plan, which is a huge testament to the spirit and tenacity of store managers and associates who face so many challenges. So I thank you all again for your hard work and continued dedication to our customers.

As we conclude our prepared remarks, I do think it's noteworthy to point out that we have essentially hit a major milestone, reducing our share count to about 20 million shares. As Gallagher noted, the exact number of shares repurchased is a function of several factors, but the simple math highlights the next 1 million shares represents 5% of the float. Accordingly, our powerful, balanced capital allocation approach is well positioned to deliver double-digit EPS growth and corresponding TSR well into the future. Let's now turn the call back to the operator, and we'll open it up to Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Bobby Griffin from Raymond James.

Alessandra Lynn Jimenez

Raymond James & Associates, Inc., Research Division

This is Alessandra Jimenez on for Bobby Griffin. First, I just wanted to touch on the non-nicotine category. What drove that category to flip positive -- back positive in the quarter? Was it driven by a change in performance at the Murphy's brand or QuickChek stores?

R. Andrew Clyde

President, CEO & Director

So the Murphy stores performed very well. I mean we saw a double-digit growth in a number of our categories, packaged beverage, candy, beer sales, salty snacks were up high single digits. So really, really strong performance there. And look, we attribute a lot of that to the initiatives. We talked last year about the second backloaded initiatives from digital transformation. And we believe really made a difference when we look at our same-store sales. QC performed also well in Q4, not as well as our expectations or planned. But certainly, on the food and beverage side, we saw some strength in Q4 as well as we ended the year.

Alessandra Lynn Jimenez

Raymond James & Associates, Inc., Research Division

Okay. That's helpful. And then the employed non-nicotine gross margins declined year-over-year in 4Q despite better sales. Can you walk us through some of the puts and takes on that category and any of the cost pressures, whether that's the QSR promotional pressure, et cetera? And what are you assuming from a price and promotional cadence in 2025 outlook?

R. Andrew Clyde

President, CEO & Director

Sure. So one of the big gaps between the sales growth rate and the margin growth rate is the impact of how we report lotto and lottery. And so that's going to be the biggest driver there between those. In terms of the cadence, we do not expect to see anything kind of materially different. Certainly, the tobacco firms represent a large component of our promotional spend. And so a lot of variance could be a function of their initiatives and what their objectives are as well. But at this stage, we don't see a major change in our promotional cadence.

I would say on the food and beverage side at QuickChek, we do expect to see the QSR price value or continue throughout 2025 and some of the high impact 6-inch subs for \$3.99 breakfast bundles, et cetera, that have been important to sustaining traffic and sales. We do expect those to continue throughout 2025, I would say at some point, broadly for QSRs, not sure how sustainable that is, but the fact that we have a highly attractive fuels business that underpins our earnings potential is something they don't have an according but we also have the diversification of our markets.

Operator

Our next question comes from the line of John Royall from JPMorgan.

John Macalister Royall

JPMorgan Chase & Co, Research Division

So my first question is on the buyback. You've been pretty consistent with keeping that pace at somewhere near that 1 million shares per year, which is the level you've talked about. My question is on your willingness to let balance sheet leverage float up to stick to that commitment and maybe more of a downside case for the business in '25. Just trying to understand how you think about the buyback versus the balance sheet in an environment where I say, hypothetically, we lose a couple of cents of fuel margin, which I know is in your base case, but just trying to understand how you think of it.

R. Andrew Clyde

President, CEO & Director

Sure. That's a really good question. What I would say is we're committed to the 50-50 balanced capital allocation approach. So any leverage that we take on, I would not have you think about it is we're leveraging up to buy back shares or leveraging to maintain a 50-50 capital allocation plan. We have levered up from time to time as the earnings power of the business has grown. Our leverage rate now is well below 2x. So that's always something that we can look to do.

You rightly note that fuel margin volatility is the single greatest factor in the volatility of the earnings of the business. And that's one of the things we clearly lay out with our Board as we establish our plan, our capital allocation framework for not just the coming year, but the next 3 to 5 years and what we can do to maintain that commitment.

This is a business that is built to win in all cycles, right? All the things we focus on are about making our business better. We can win in any environment. And so if we saw ourselves honestly, like we did this last year. I mean, margins were \$0.01 lower than our expectations because the fuel environment was a lot longer and looser than our expectations. So honestly, it was down \$0.01 versus our expectation, and we didn't miss a beat. So I hope that provides a little color and context behind our commitment there.

John Macalister Royall

JPMorgan Chase & Co, Research Division

It does, Andrew. And then my second question is on CapEx and perhaps I misinterpreting something here, and please let me know if I am. But on the third quarter call, you had raised the CapEx guide for '24 to \$500 million to \$525 million. And then I think you had a similar level -- to expect a similar level in 2025. You ended up at the low end of that range in '24 and actually lower in '25. So it looks like maybe something more than just some activity moving between the 2 years. Can you talk about the CapEx coming in lower both this year and next, if I'm interpreting it, correct?

Galagher Jeff

Executive VP & CFO

John, this is Gallagher. I'll take that one quickly. And we guided that range. There's a little bit of uncertainty in the opening schedules for our stores. So the \$500 million to \$525 million was a number, assuming we could really deliver our full potential of stores in December. Some of that slips into 2025. We're going to be relatively flat. We hit around 500 in 2024. We're planning 500 in 2025. And the difference you see is a switch from more raise-and-rebuilds in 2024, shifting to more new store openings and organic growth in 2025.

Operator

Our next question comes from the line of Irene Nattel from RBC Capital Markets.

Irene Ora Nattel

RBC Capital Markets, Research Division

Just wondering what kind of discussions are you having with your vendors at this point around promotional support in 2025, as everyone is trying to -- is facing a challenged consumer and also around just underlying inflation rates from the vendors in 2025?

R. Andrew Clyde

President, CEO & Director

Yes, that's great. I mean we won't get into any detail around commercial arrangements, et cetera. I mean the one thing that our vendors value, Murphy USA and QuickChek for is the high volumes per store that we generate. We represent for many of them, very, very strong stable baseload volume, just like our fuel businesses. It's really no different. And that's really important. You think about the candy category and its strong performance in Q4. I mean the manufacturers really benefit from that commitment to everyday low price and driving that volume. And so that commitment over time the credibility we've established positions us well for those type of discussions.

As part of our digital transformation initiative, we did have some initiatives around contract management and we have seen benefits from those as well. So most often, the type of discussion we have with the vendor, it may look different than other partners is what can we do together to drive our mutual businesses forward in a positive way. And for them, given some of the pressures and headwinds they've had they really value a retailer like us who can drive volume on a sustainable basis that makes it a win-win for both parties. And that's really our philosophy working with them.

Irene Ora Nattel

RBC Capital Markets, Research Division

That's very helpful. And just around sort of underlying expectations for price inflation this year?

R. Andrew Clyde
President, CEO & Director

It's one of those wild cards every day, you got to say, I don't know about something and inflation is probably one of those. My sense personally is that we're going to continue to see more elevated inflation. We certainly don't know if all the tariff discussions really translate into more tariffs and, therefore, higher cost or if it's a negotiating ploy for something else and they're delayed and they never come into existence. Certainly, some of the government initiatives that drove higher spending kept labor rates elevated. We may see some of that decline.

One of my colleagues kind of made the comment the other day that this business is meant to win despite the new cycle, and we see a new cycle every single day. And honestly, we just stay focused on what we can do, control what we can control, and that's really the key message our leadership gives to our team. And if we see higher inflation, we're going to see pressure on our consumer. We saw a lot of trade down this last year to Murphy.

One thing I'll tell you is that in the last quarter, and looking year-over-year, even our low-income consumers spent the exact same amount per month from our static panel on the loyalty side. So we're hoping we're well positioned if there is continued inflation and certainly hope it goes down for the benefit of our consumers.

Galagher Jeff
Executive VP & CFO

One quick thing to add to that. And in addition to Andrew's comment about the trading into Murphy, our capabilities around the rewards programs now are very strong. And so as the customer seeks more value, both on the Murphy side and now with the QuickChek side, we can target what resonates with them. And so in an inflationary environment, we actually know a lot more about our customers than we did a year ago and can offer them the right product at the right price, which we believe will continue to do our business.

Operator

Our next question comes from the line of Corey Tarlowe.

Corey Tarlowe
Jefferies LLC, Research Division

Great. Could you talk a little bit about you expectations for your performance of some of the new stores? I would be curious to get your thoughts around maybe the planned rollout and the metrics that you are targeting for these new units?

R. Andrew Clyde
President, CEO & Director

Absolutely. So one thing we look at is by build class, how are the new to industry stores performing from a merch sales margin fuel gallon standpoint. The 2022 class NTIs delivered 310,000 gallons per store month last year. The 2023 class, 316,000. And so if you think about sort of the steady state, the average, those are really high-performing stores, which is why we're so disappointed in not hitting our expectations about getting the new stores up and we own that.

Same on the merchandise side, the '22 classes ramped up more significantly to over 225,000 in sales per store month. This is just on the Murphy side and the '23 is within 10% of that, while it's still ramping up. So we're really pleased with the new store performance. We've got very attractive markets that we're putting those stores into. And as Gallagher noted, we feel very good about the pipeline and continuing to build that up. I think one of the challenges for the team now is can we make up in '26, '27 and '28. Some of the miss that we had in '24 to be able to get right in line with our 2028 EBITDA goals.

Corey Tarlowe
Jefferies LLC, Research Division

Got it. That's very helpful. Just my follow-up would be just on SG&A. Is there anything -- and with SG&A, in particular, where you think that there's further efficiency opportunity that's worth calling out?

R. Andrew Clyde
President, CEO & Director

There is. And frankly, we built some of that into our year-over-year plan. We need to continue to invest in technology and other business initiatives to make our business better. But that also means that we've got to retire systems, get the benefits from the efficiencies that are in there as well. And so that's fully built into the expectations in our guidance for this year.

Operator

Our last question comes from the line of Anthony Bonadio from Wells Fargo.

Anthony Bonadio
Wells Fargo Securities, LLC, Research Division

Just wanted to ask about contribution guidance in a little more detail. Thinking through that new 3% to 5% number, can you just walk us through the build in a little bit more detail? I realized the environment isn't great out there right now, but it seems like at minimum compares should be easier. You've got support from NTIs, raise-and-rebuilds, and it seems like some emerging self-help. So just understanding how all of those pieces flow through would be helpful.

R. Andrew Clyde
President, CEO & Director

Sure. So, you know, on the, you know, maybe the QuickChek side, you know, start there. You know, we do expect to see some persistent, you know, headwinds there and a little bit of a drag on that. So we'd like to think that the QSR price awards resolve themselves in '26 and beyond really pick up there. And our efforts are preserving traffic and holding volume in those cases. We are seeing solid performance in the first couple of months of QuickChek Rewards with significant uptick from members there.

Nicotine is always going to be one of those categories. I don't think I can go a call without highlighting the fact that we still see a significant amount of illicit product being sold in stores, especially small stores in all of our markets. So there may be a little conservative view on that. But we'd like to see the FDA and Justice Department do a better job of cracking down and enforcing on those illicit and illegal products.

We've got the benefit of the raise-and-rebuild from last year. The NTI number, honestly, when you don't hit the store months, that you expected in the prior year, you're not as far along in the ramp in the current year to achieve those benefits that you wanted and some of the merchandise number kind of reflects the delay in pushing out some of those store months within the course of the year. It's not about hitting the number for the year. It's about hitting the store months when you wanted to hit them so that in the next year, they're at an point that you expected.

Malynda K. West
Executive VP & COO

And I would add to that, Andrew, we're also really intent on improving the store performance of our network. You've heard us talk about our store productivity initiative. And we're currently in a proof of concept right now going over after what we believe to be the largest wedge of opportunity, which is fuel dispenser help. Obviously, as a fuel-focused business. Us having our pumps in service, flowing fast is important to us because it's important to our customers.

So we've organized a lot of resources. We're in a market right now piloting 20 stores, getting ready to roll out to another 80 with a proof of concept to really try to find what are the opportunities out there the gaps to achieve that, both in the stores and the home office? And what is the cost benefit to inform a broader rollout.

Now it's too early to call out overall value capture potential, but we have identified some really interesting opportunities, especially within maintenance, I'll say, which should not only reduce dispenser downtime, but also reduce cost as well. And in fact, we found one opportunity in particular, that could generate over \$1 million in cost savings on an annualized basis, and we absolutely believe that it's doable at our stores. So trust me when I say in operations, we are putting a lot of resources and effort behind this initiative. And we have a really thorough bodacious and bold, but yes, very practical plant forward and other store improvement initiatives that are SPE-related but not necessarily led or also underway. Because if nothing else, this initiative has really shown a bright light on areas of opportunities within the stores and has really created a renewed sense of urgency around going after it. So a lot more to come there, but we are really working on this.

Anthony Bonadio
Wells Fargo Securities, LLC, Research Division

Really helpful. And then just maybe switching gears to gallons. It looks like those fell off pretty precipitously in November, December from where you guys are running in October. So maybe just some more thoughts on what drove that. And then given we're coming

off a year where APSM gallons were actually down slightly and given the softness you're seeing so far in January, just more on what gives you confidence in your ability to drive gallon growth in '25?

Malynda K. West
Executive VP & COO

Yes, I'll take that one as well. Looking at volume, fourth quarter really was a tale of winter storms and holidays falling midweek. Also, as Andrew mentioned, that lack of volatility, which just did not allow us to create price separation from our competitors. In fact, speaking to volatility, the number of cost changes greater than \$0.05 a gallon in the fourth quarter was less than half the number we saw in the prior year. And instead of that October price fall off and overall volatility that we benefited from in the fourth quarter of '23, what we got was an unfavorable and really choppy price profile for '24.

So for the quarter, fuel volumes were pressured, but still above industry as we were all fighting those multiple headwinds and the strong margin served to offset those volume softness.

In January, as we said, started off weak. Two really severe winter storms crossing a large portion of our network where at one point, we have 500 stores down. And unlike hurricanes where you get the benefit of pre-buying and post-buying as evacuees leave and then return and winter storms, what you really get is sheltering in place and no one moves at all. But as Andrew said, the margins were trending in January \$0.02 since above last year.

I will say February, little better on margin and volume, margins today above \$0.30 a gallon. But winter storms heating the Northeast, in fact, today, resulting in a full day of school closures. We can't control the weather, but we can focus on controlling our controllables and we are executing well, I will tell you that.

And look, first quarter weakness is not unusual and would rather experience these weather challenges in the first quarter than in the summer, and we have a lot of year left that we're confident in our ability to deliver. We're confident in the ability of our NTIs to come on stream and help us. And with a little market help as well, we're in a really great position to capture volume.

Operator

That concludes our Q&A session. I will now turn the call back to our CEO, Mr. Andrew Clyde for closing remarks.

R. Andrew Clyde
President, CEO & Director

Great. Well, thank you all for tuning in. As we put 2024 behind us, we have a lot of exciting initiatives and things to look forward to in 2025. And look forward to updating you across the year at the conferences and at our NDRs as well. Thank you for tuning in, and I always appreciate your support.

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