

Murphy USA Inc. NYSE:MUSA

FQ1 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.74	2.63	▼ (29.68 %)	6.94	25.76	NA
Revenue (mm)	4689.85	4525.40	▼ (3.51 %)	5280.71	20219.90	NA

Currency: USD
Consensus as of May-08-2025 10:22 AM GMT

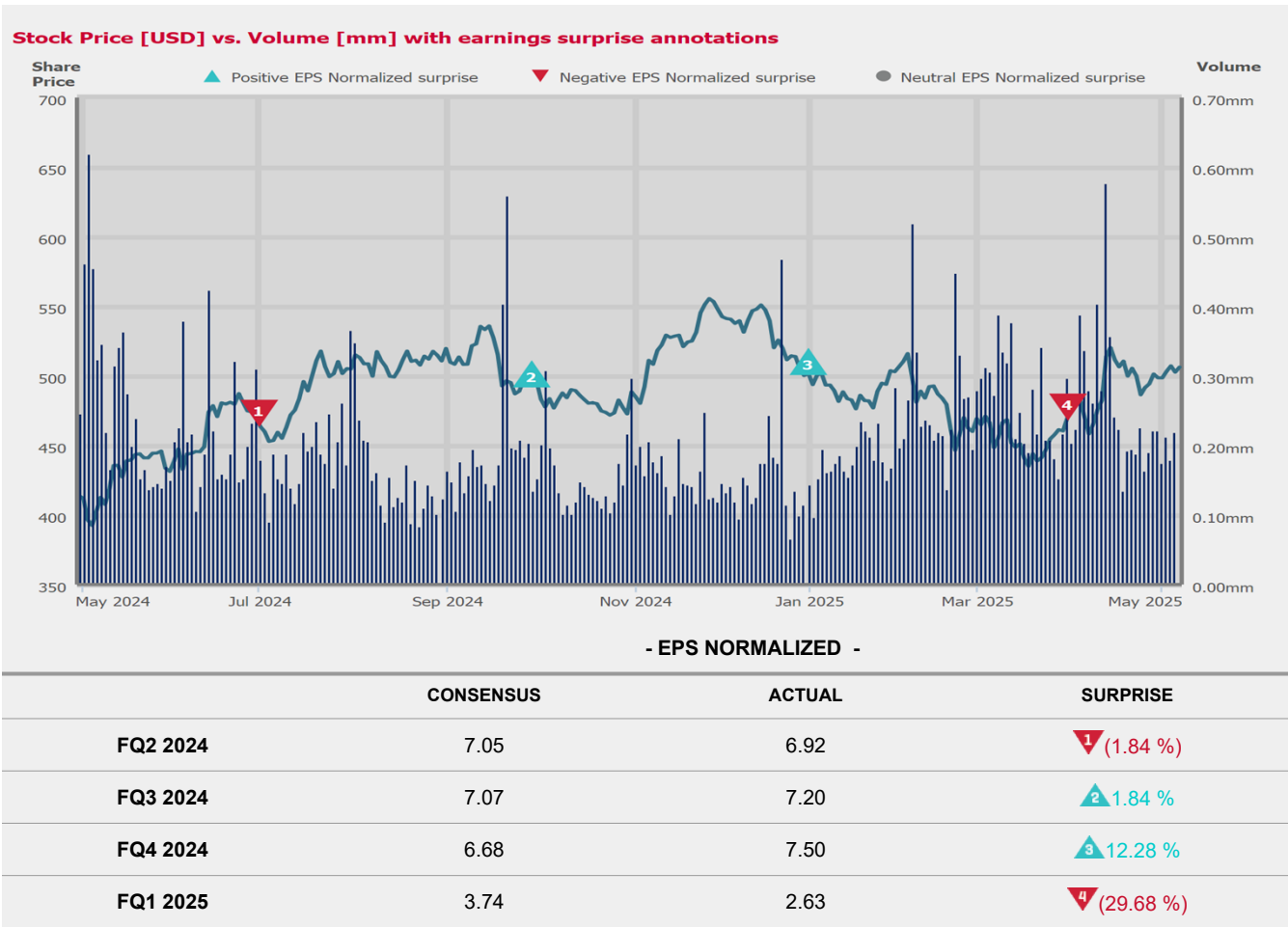


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Call Participants

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Presentation

Operator

Good morning, and welcome to the Murphy USA First Quarter 2025 Earnings Conference Call. [Operator Instructions]

As a reminder, this conference call is being recorded. I would now like to turn the call over to Christian Pikul, Vice President of Investor Relations. Thank you. Please go ahead.

Christian Pikul

Vice President of Investor Relations & FP&A

Yes. Great. Thank you, Julian. Good morning, everyone, and thanks again for joining us today. With me are Andrew Clyde, Chief Executive Officer; Mindy West, Chief Operating Officer; Galagher Jeff, Chief Financial Officer; and Donnie Smith, Chief Accounting Officer. After some opening remarks from Andrew, Galagher will provide some commentary on first quarter and financial results. And then following some closing comments from Andrew, 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.

With that, I will turn the call over to Andrew.

R. Andrew Clyde

President, CEO & Director

Thank you, Christian, and good morning, everyone. We've always said the Murphy USA business model is somewhat inflation proof, recession resistant and relatively immune to other periods of consumer weakness. We can now add tariff resistance to our lexicon. Our business model has proven durable and resilient against a wide-ranging variety of challenges over the last 12 years as a public company, speaks to serving value-oriented customers, products that are largely nondiscretionary with an EDLP offer to a relatively simple but always evolving business model.

Our focus on making the business better has allowed us to deliver results and value to shareholders in almost any environment. If there's one thing that has stood out over the past decade is that every quarter is just a little bit different. Like a saying, we had here in South Arkansas, if you don't like the weather right now, just wait a few minutes. Murphy USA's first quarter results reflect a number of factors that when distinctly broken out, provide a clear view of the core business and trends, especially when overlaid with a deep understanding of the underlying consumer behavior.

When we look back at any quarter and consider what is important for the next 12 months and beyond, we typically organize these factors under 3 headings: temporal factors that were one-off and are not expected to repeat in the next few years. Some of these are well known in advance and included in our annual plan. Others, while not anticipated should not be a big surprise to investors, as they have already been widely discussed by other firms. Cyclical factors that fluctuate up and down due to various conditions were value drivers shift both to the positive and the negative for a period of time outside of balanced and stable equilibrium.

And finally, and most importantly, structural factors, which tend to shift based on an industry's fundamental structure and each competitor's relative positioning and how that relative positioning is evolving.

On today's call, I'd like to review Murphy USA's Q1 results under these headings and then overlay the results and trends with what we are seeing from our customers real time. I believe this will provide greater insights into what we believe remains a more enduring and resilient business and what was a relatively more challenging quarter.

So let's start with the fuel category and the temporal factors. The first 2 are calendar effects, which are always fully embedded in our plan. This quarter, it was not repeating leap year and not repeating Easter in March, which together had a 1.5% impact on same-store

gallons, not planned, but clearly extreme and widely noted was the number location and magnitude of storms impacting same-store gallons by another 50 basis points as the number of store days closed almost doubled versus a year ago.

While impactful in the moment, these temporal factors are less relevant as they pertain to the long-term performance potential of the business. And taken together, these temporal factors account for almost half of the Q1 same-store gallon decline of 4.2%. More cyclical in nature is the lower absolute price level in the quarter. As we noted back in 2022, we see greater switching and share gains in high price periods, and we get some of that back when price levels subside and moved significantly lower as some subset of consumers trade off price for locational convenience.

Retail prices over the past 6 months have averaged between \$2.75 and \$2.80 a gallon, down meaningfully from the past few years and at a level we haven't seen since the onset of COVID. Fortunately, with our loyalty programs, we see greater stickiness than in similar comparable periods without the same capability. In the current low price environment, we are seeing loyal customers come a little less, buy a little more even as overall volumes declined slightly due to some customer switching.

Structurally, we believe return to office mandates a more sensible fuel economy regulations will enhance the longer-term outlook on fuel demand. That said, it is too early to pinpoint any benefit in the current quarter.

Turning to fuel margins. Retail margins were \$0.02 per gallon higher in the first quarter versus the prior year. In part, these higher margins reflect a flatter price environment versus the prior year period for gasoline prices increased about \$0.50 fairly steadily from January through March of 2024. As a result, margins were not compressed during the normal cycle of rising Q1 prices to the same extent. Also, retail margins were up about \$0.045 in the Northeast region, reflecting a more stable competitive dynamic.

Structurally, we believe the more enduring source of higher retail margins in Q1 reflects higher breakeven economics being passed through by retailers who are experiencing more significant volume declines, greater merchandise share losses and higher operating costs, requiring higher fuel margins to maintain profitability. Opus volume data points to the challenges these retailers continue to face. Additionally, we note that lower payment fees, which are typically passed through to customers in the retail price did not appear to impact Q1 industry pricing and margins further suggesting retailers continue to support structurally higher margins.

Turning to the product supply margin net of RINs, we continue to operate in an oversupplied environment, masking the value and optionality of our supply chain assets and resulting in lower PS&W contribution year-over-year. As the cycle moves from short and tight in 2022 and 2023 to long and loose in 2024 and year-to-date, the long environment will likely keep PS&W performance compressed until the supply-demand balance returns to equilibrium. One of the benefits of the fuel product supply chain is that it does not stay out of equilibrium for long. Between recently announced refinery closures on the West Coast, the impact of tariffs on imported crude oil and products, we can expect the oversupplied environment to cycle back to a more balanced state in due course.

Our plan calls for supply margins to normalize in the second half of 2025. Ultimately, the retail margin is the largest component of our fuel margin and our structural advantage continues to benefit our results. As we have noted before, our total fuel margin is primarily driven by structural factors, which accrue to Murphy's relative advantage. In the short term, temporal and cyclical factors can impact it both to the positive as we saw in 2022 and to the negative as in this Q1.

Turning to inside the store. The same temporal factors had an impact on traffic, coupled with the 30 basis point headwind in merchandise sales attributable to not repeating a \$1 billion jackpot that occurred in the first quarter of 2024. However, we did outperform in several store categories including candy, where sales were up 15% against the year-on-year comp that included the Easter holiday in Q1 in 2024.

Starting with our nicotine categories, we continue to gain share in cigarettes, smokeless and other nicotine products when compared to the market. When looking at first quarter results, it's extremely important to remember how much share we've taken since 2021 and how much we've outperformed the industry. Over the last 4 years, from 2021 through 2024, cigarette volume in the Murphy network has been about flat, while the market has lost roughly 20%. This translates to sales growth from manufacturer price increases of 11% over that same time period for Murphy versus industry sales declines of 9%.

Q1 year-over-year cigarette sales comps are slightly negative, reflecting the same temporal challenges we saw in fuels as well as some of the timing changes in the promotional cycle. That said, same-store sales is not the best metric to compare cigarette performance given that the category is so heavily promoted and supported by the manufacturers.

Our goal is to continue growing share profitably noting total nicotine contribution margin up -- was up a very healthy 2.8% on a same-store basis in the first quarter. On the noncombustible side of nicotine, we continue to see strong sales and margin contributions out of reduced risk products. Same-store sales were up over 7% for the quarter and same-store margin grew double digits -- same-store margin grew double digits, up 15%. We remain highly confident and incredibly excited about our ability to deliver differentiated

results in the nicotine space going forward through our talented team of dedicated category specialists, ongoing investments in digital capabilities and the second half weighted promotional calendar.

We're also cautiously optimistic that ongoing industry advocacy will have an effect on providing regulatory clarity and enforcement around elicit vapor products. We're also taking share profitably in many of the center store categories, including packaged beverage, candy and general merchandise, where total sales were up high single digits against flat to declining Nielsen sales data in our footprint. These gains reflect in part the structural advantage we have created through some of our new digital capabilities as well as strategic shifts in pricing and promotional effectiveness, leveraging many of the learnings and tactics from our differentiated nicotine capabilities and performance.

Another bright spot in the quarter is the traction we are experiencing in Food and Beverage at QuickCheck, where menu innovation, the relaunch QuickCheck Rewards and targeted promotions is driving sandwich unit growth up 8% and increasing breakfast traffic. As a result, total food and beverage sales were up nearly 1% in the quarter. We still have work to do, and while tariffs and margins remain challenged as the Qs or value or cycle persists, we are really excited about our upcoming summer sales plan featuring innovative new products and more attractive bundled offers.

We remain highly intentional with our investment in G&A, showing a \$2 million benefit year-over-year. From an OpEx perspective, the addition of larger and more productive stores to our network, especially with a higher number of Q4 2024 and early Q1 openings is skewing per store expenses higher as communicated in our guidance.

That said, we are performing better than our internal plan year-to-date. With record applicants easing inflation pressures, we are tightly controlling our labor hours and moderating planned wage adjustments accordingly. As a result, stores are operating closer to fully staffed levels providing better service to customers, favorably impacting shrink costs and reducing overtime hours. Despite all the noise in the press and changes in consumer sentiment in the soft data,

One thing remains clear to us. The hard data is telling us that our customer is resilient and continues to seek value for Murphy USA. This hard data derived from nearly 50 million loyalty customer transactions just in the first quarter of this year speaks to a pressured yet durable Murphy USA customer. We continue to see more and more people seeking value and trading down into Murphy USA for their nondiscretionary needs as evidenced by growing membership in our Murphy Drive Rewards and QuickCheck Rewards loyalty programs, up 11% and 30%, respectively, in the first quarter.

Interestingly, we are seeing growth in the middle to high-income customers, defined as over \$55,000 and \$100,000 in reported income, respectively, as a percent of total customers. This has gone from just under 40% at program launch to almost half the current membership base, meaning more and more customer segments are becoming value seeking. As noted earlier, loyal customers come a little bit less often as their fill rate increases due to lower prices, but by a little bit more each trip in terms of gallons and in the store with their savings even as overall volumes declined slightly due to the modest level of switching for convenience.

Last, on the consumer, we are seeing purchase behavior remain fairly static across income cohorts, meaning we are not seeing any incremental weakness from our lower-income consumer. This is especially important as we compare the headlines with the hard data. Lower income earners are still spending that they remain nimble with their decisions and choices, focusing on their fundamental daily needs where they balance inflation in other areas of their household budget with the largely nondiscretionary products, they rely on Murphy to deliver at the lowest prices. We continue to focus on these customers with targeted offers and promotions, which did drive higher pump to store conversion despite the fewer trips.

I'll now turn it over to Gallagher to provide some details on our capital spending and recent balance sheet activity.

C. Gallagher Jeff
Executive VP & CFO

Hello, everyone, and thank you, Andrew. In addition to the performance areas Andrew covered, there are several more actions taken in Q1 that are better positioning the company for the future. First, starting with store growth. We added 8 new stores to the Murphy network in the first quarter. And with 18 new stores and 20 raise and rebuilds currently underway, construction activity remains robust. Our new stores continue to perform well. With our 2022 and 2023 build classes outperforming the fleet average by nearly 20% in gallons and nearly 40% in merchandising margin while producing EBITDA 18% higher than the chain on a per store basis in Q1.

These new stores are driving value and winning new customers, which is why we're aggressively working on our new store pipeline to deliver more high-quality stores in 2025 and 2026. Second, it has been over 4 years since we put into place our current capital structure. And both the company and our resulting EBITDA have grown significantly over that time. So in early April, we increased

our revolving credit facility from \$350 million to \$750 million and upsized our term loan from March 31 balance of \$386 million to \$600 million.

Our objective in this is to manage our balance sheet to ensure we have flexibility to execute our long-term strategy in any environment, maintain low leverage while also lowering our fees and carrying costs. Despite a tumultuous time in equity and debt markets, demand for Murphy USA credit was extremely strong throughout the process, and we are very happy with the outcome of the refinancing. Both offers were oversubscribed and Murphy received tighter spreads and a favorable fee structure, undertaking both of these actions at the same time.

With these additions, our debt-to-EBITDA ratio remains at 2.0 and is comfortably within our target range. Third, I want to run through some additional financial highlights. Cash flow from operations was \$129 million in Q1, with total cash capital expenditure of \$88 million, primarily for new store construction, resulting in free cash flow of \$41 million. Additionally, we repurchased 321,000 shares for \$151 million and paid \$9.8 million in dividends in Q1.

Lastly, I did want to point out the first quarter effective income tax rate was 14.1% compared to 19.4% in Q1 of 2024. The rate for the quarter is lower due to recognition of energy tax credits and tax benefits related to share-based compensation. We do expect our all-in tax to remain within our guided range of 23% to 25% going forward.

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

R. Andrew Clyde
President, CEO & Director

Thank you, Galagher. Let me close out with some comments on performance since March 31. In April, per-store fuel volumes approximated 100% of prior year levels as traffic patterns normalize and weather has played less of a factor. In the first week of May, although it's still early, we are seeing volumes trend about 1% to 2% higher than the prior year. Retail margins in April were a little over \$0.28 per gallon or about \$0.03 higher than April last year. And May retail-only margins are also averaging about \$0.28.

We expect April merchandise results to look more like the first quarter while strengthening throughout the second quarter and into the second half with the promotional cycle.

Before we open up the call to questions, I just want to emphasize that our business remains resilient and well positioned to outperform in a variety of environments over time. I think it's just as important to point out what we didn't say on this call that so many other firms are rightly concerned about. We're not pulling our second half guidance due to tariffs or supply chain uncertainty. We're not seeing the increased risk around consumer weakness or demand uncertainty. And we're not seeing other forms of inflation impacting our business. And that is because our EDLP model, coupled with our low-cost position is a powerful combination to appeal to an ever-growing pool of value-seeking customers. Things will move up and down in the short term, but our focus remains on making the business better over the long term, and we are pulling all the right levers with investments in both store productivity and growth through new stores, raise and rebuilds and remodeling activity, coupled with meaningful share buyback that we think will richly reward long-term investors.

So with that commentary, I'll turn the call back to the operator, and we'll open up the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Anthony Bonadio from Wells Fargo.

Anthony Bonadio

Wells Fargo Securities, LLC, Research Division

So I wanted to start with inside sales. Can you just help us better understand trends there? I know you flagged the 200 bps from temporal factors. But can you talk more about the level of improvement you saw in periods where those factors eased how much of a benefit you think Easter might be to Q2? And to the extent you're still seeing fundamental underlying weakness, the different factors driving that?

R. Andrew Clyde

President, CEO & Director

Sure. Thank you. Look, I think when you look at the non-nicotine categories, the performance we saw in Q4 and again in Q1, really speaks to the capabilities that we've put in place around digital pricing, promotional effectiveness, et cetera. And certainly, the customer has a little bit more to spend inside the store and so we're seeing that despite the reduction in trips due to the average fill rate going up.

On the nicotine side, very impressive results on the noncombustible products as we continue to see customers engage in those products. And because of our large share of combustible products, we just hold a larger share of consumers that are starting to try those products and adopt those products.

On the combustible products, the promotional cycle, as we noted, was lighter in Q1 versus a year ago, and we would expect that to pick up in the second half of the year. So unlike where we stood last year, Anthony, at the end of Q1 with concerns about the guidance for the remainder of the year, we're not in that situation this year.

Anthony Bonadio

Wells Fargo Securities, LLC, Research Division

Got it. And then just -- maybe just an update on retail margins. Can you just talk a little bit more about breakeven, what you think the marginal operator is seeing right now versus last year? And whether there's been any change competitively? Or is it still fair to say industry participants are behaving in a rational way?

R. Andrew Clyde

President, CEO & Director

Yes. So as I noted, the retail-only margins in April were \$0.28 a gallon. It's largely what we've seen in May as well. Look, in terms of the marginal retailer, they're not in a position to claw back gallons. They're not in a position to call back tobacco market share. They're facing the same type of cost headwinds that anyone is. So this debate about whether their outlook significantly improves that puts a dent into the structural increase in margins that we've seen, I think most people have gotten their heads around the fact that, that structural advantage margin is here to stay, it's likely to continue to increase over time.

And I think you can just look to the commentary from a number of folks and what we see in some of the Opus data as well is that they continue to trade off volume for margin to be able to meet their profit needs.

Operator

Our next question comes from Cory Tarlowe from Jefferies.

Corey Tarlowe

Jefferies LLC, Research Division

Great. Andrew, you provided some interesting color around what you're seeing in your hard data specifically as it relates to growth in middle and high-income customers as a percentage of the total. Could you speak a little bit more about what you think is driving that and what that means for your business going forward?

R. Andrew Clyde
President, CEO & Director

Yes. So look, when we launched Murphy Drive Rewards at the end of 2019, you could imagine that we had a large customer base of value-seeking customers. And the first ones to glom onto this loyalty program were those making less than \$55,000 a year. What we've seen -- but there are still plenty of folks that were coming to our stores and often on a trip to Walmart making between 55 and 100 or over 100,000. But they represented only about 40% of the consumers.

That mix has been increasing about 1% a year even as the program grows. And so I think our view is, look, more and more people are living paycheck to paycheck. The data we get from PayActiv, one of our providers has shown us that from about that time, people -- about 50% are living paycheck to paycheck, that number is over 60%. Certainly, Walmart is seeing more higher income consumers in their mix as well. And while not a direct shadow of their customer, it's pretty close.

And so I just think we're seeing more and more consumers across segments recognizing the need for value in the current environment. And so that's generally what we're seeing. I think importantly, though, is the behavior across our lower middle and higher income consumers is roughly the same in terms of their movement. So the notion that our lower income consumer is weaker, they're behaving the same.

Positively though, the higher income consumer purchases more gallons from us every month and also purchases more inside the store as they trade down to Murphy USA as a retailer.

Corey Tarlowe
Jefferies LLC, Research Division

That's very helpful. And just to follow up on that last comment about in-store sales. You had mentioned in your prepared remarks that food and beverages are performing quite well. I think QuickCheck has sandwich units up about high single digits. I think it was 8%, was the number that you cited. How would you describe the overall momentum that you've seen in in-store sales? How do you expect that trajectory to change throughout the course of the year?

And then I did just want to ask about the recent volatility that we've seen in the fuel price. How would you characterize that volatility in terms of pricing action that we've seen versus history and the associated impact on margin?

R. Andrew Clyde
President, CEO & Director

Sure. So let's start with QuickCheck. I mean there are a number of investments we've made up there that are now kind of, if you will, stacking on top of each other. Some of the digital capabilities that we put in place around demand forecasting and production planning, it led to higher sales and margins. The barbell strategy approach that we took around our sandwiches with the value on certain 6-inch subs along with the premium sub lineup that now makes up over 16% of our sandwiches is helping on both units, sales dollars and margins.

The relaunch of QuickCheck Rewards, where we're up 30% on membership year-over-year is adding to that. So I think there's a number of factors there that continue to have momentum, and they'll be cycling every quarter for the remainder of this year. I think one of the big unknowns is what is the broader promotional intensity look like across the industry. And as we've signaled before, our current plan assumes that it remains fairly competitive throughout the rest of the year if that subsides earlier that could be a positive tailwind for us as well.

In terms of fuel volatility, we like volatility. I mean we do better and earn more when prices run up and then fall sharply and what we've seen in terms of competitive behavior is when prices run up, our margin doesn't get compressed as much on the way up. So we hold more volume on the way up. So we would prefer an environment that has greater levels of price volatility versus lower levels of volatility.

Operator

Our next question comes from Bonnie Herzog from Goldman Sachs.

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

All right. Andrew, I actually wanted to ask you about the environment. And I guess the cycle we're in right now as well as the risk there might be to continued EBITDA pressures despite the still elevated fuel margins. I recognize Q1 is a smaller quarter, but your

EBITDA seems to be reverting to pre-COVID levels as it's now below the elevated EBITDA you generated in Q1 of 2020. So hoping you could help us understand your ability to, I guess, retain EBITDA dollars, in fact, fuel margins don't move higher for the rest of the year?

And then I guess what other levers do you have to pull to maybe offset that?

R. Andrew Clyde
President, CEO & Director

Yes. So just remember, in Q1 of 2020, there was a pretty incredible March, if we recall, from a large margin standpoint. Look, this is -- if you look at 2022 and the outsized fuel margins from the volatility in Q3 and some of the halo effect on that in 2023, we talked very clearly that the product supply environment during that period was at least a \$0.02 benefit on the upside, right?

And then we spoke in this call and last year, how the product supply component was a little bit more of a headwind. And a lot of that's just fundamentally moving from a very short, tight, volatile market where our supply assets provide a real distinct value, not just in terms of ratability, flexibility, security of supply, but also just an advantaged supply margin from a contribution standpoint.

When that cycle gets longer and looser, there's just more product out there. We see more discounting at the rack. And so the spot-to-rack margin net of RINs is less. And so it's down about \$0.01 or so. And that plus or minus \$0.01 or \$0.02 is honestly the biggest driver from the fuel contribution standpoint.

If you go back and look at the structural margin, the retail component of it, that continues to grow. And so what I would say is we've got a lot of transparency in this industry around retail margins. You can see them structurally growing from pre-COVID 2019 throughout the COVID volatility period 2023, 2024 and 2025. And those are steadily moving up, and there's frankly, nothing that we see that would cause those to revert because of the fundamental industry structure kind of dictated by the marginal players.

Cyclically, we will see the product supply margin work to our advantage up \$0.01 or \$0.02 in really short tight markets and work to our disadvantage, right, in a very long and loose environment. But all we had to do is remember those few times when a backhoe stopped product on Colonial Pipeline. And we had product in almost 100 terminals and that was our inventory and everyone else got caught up, that advantage over the long term is going to be a strong benefit.

So I would say we, as a company, certainly the largest buyers of our shares every year look more at that long-term structural dynamic, recognizing there's going to be some cyclical factors that move up and down \$0.01 or \$0.02 from the norm as well as some temporal factors that are built into our plans, and I'm assuming built in your models as well.

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

Yes, I know it's difficult...

C. Galagher Jeff
Executive VP & CFO

Really quickly, I was just going to add, in addition to what Andrew mentioned of operating in our environment, we are doing a lot of other things to drive EBITDA. Obviously, we're confident in our new stores. and we're accelerating the new stores. The initiatives we're doing inside the store, both for the loyalty programs, targeted promotions. We'll see traction. We'll continue to grow margin there. And then finally, expense management. We manage expenses well. We're going to continue to grow the top line while managing expenses tightly, which will also add to the fuel contribution that we're going to see going forward.

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

Okay. That's all super helpful. I appreciate it. If I may just ask a second question on the pressure that you're seeing on traffic, which you highlighted. And I honestly don't think it coming as a big surprise given the environment. So maybe hoping to hear a little bit more color on how traffic trended maybe monthly through the quarter. And changes you're seeing in consumer behavior, especially considering the pressures you saw in your business across the board.

And I'm curious to hear more color on what you might be doing maybe to even sharpen your value proposition further, ultimately to drive faster traffic and same-store sales growth.

R. Andrew Clyde

President, CEO & Director

Sure. Bonnie, I wish there was a nice steady trend line that we could say, here was January trending, February trending, March trending. There were some episodic events. And we talked about the metric store days closed, the number of days we had stores closed due to weather. And it just provided, what I would call just kind of a discontinuity in the trend lines. And unlike hurricanes where we see a lot of stocking up for these storms, we didn't see some of that same behavior.

One thing we will note is that when we look at kind of our pricing relative to kind of top of the market, we were a little more aggressive in the quarter in the lower price environment and yet still earned retail margins \$0.02 higher, right? And so that is one of the things that we'll continue to do is put value on the street for the consumer in the form of our street price to be able to maintain that level of traffic.

On the tobacco side, as we noted, expect more promotional activity in the second half versus what we saw in Q1.

Operator

Our next question comes from Pooran Sharma from Stephens.

Pooran Sharma
Stephens Inc., Research Division

Just wanted to ask about store build. I know in the past, we've talked about getting that kind of at a more even pace for the year, given you've historically had it more back-end loaded given the commentary, we've had 8 new so far, but just wanted to get a sense I know you have 18 under construction, but I wanted to get a sense if you think you're going to see a little bit more even pace build this year as opposed to last year.

R. Andrew Clyde
President, CEO & Director

I would say with the Q1 of 8, some of those also kind of reflect the carryover from last year. We're still going to be significantly second half weighted. I think the goal is for next year to have the more -- much more ratable and continue with some of the processes we've put in place under new leadership, a more ratable plan. But I think the reality is we will be more second half weighted again this year.

Pooran Sharma
Stephens Inc., Research Division

Okay. I just wanted to ask about kind of the consumer behavior trends too. I know you mentioned you're seeing stable behavior among the lower income cohorts. And I wanted to ask about your confidence in your ability to lean in on promotional spend kind of in the back half? I know you said it already with nicotine, but just overall, I would like to get your thoughts on that.

R. Andrew Clyde
President, CEO & Director

Well, I think certainly, across categories, the to effectiveness is working. I mean if you look at Candy, for example, up 15%, that's a -- not only a benefit to us and the consumers, but the manufacturers as well. So promotional effectiveness has to be a win-win for all parties. So to the extent we can be the most effective deliverer of that resource for the consumer packaged goods companies, we have confidence that they will want to continue to invest sometimes differentially with us.

And that's the basis of the confidence. It's a win-win-win for all the parties.

C. Galagher Jeff
Executive VP & CFO

One quick thing to add to that. As we've mentioned in prior calls, our ability to get specific with unique customer offers has changed over the last 12 months. So now we can target individuals versus broader promotions, measure that impact and then lean in more where it works. So both on the QuickCheck side and across the Murphy stores, we're seeing a lot of targeted promotions that are paying off, and that drives margin for us without the broader based discounting.

So it's early for some of that, especially QuickCheck, but we're seeing good targeted promotions that are paying off.

R. Andrew Clyde

President, CEO & Director

And one last point. We continue to see innovation in some of the categories as well. And so when manufacturers introducing a new product, that's where we often see some of the most aggressive promotional activity. And if it's in the nicotine space, we're going to be advantaged significantly there as well due to our promotional effectiveness upselling in our large installed base.

Operator

Our next question comes from Brad Thomas from KeyBanc Capital Markets.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

I wanted to start just asking about operating expenses, and I'm wondering if you can give a little bit of color around what you're seeing in terms of running the stores and how you're thinking about that moving through the year given the ramp in store openings?

R. Andrew Clyde

President, CEO & Director

Great. First thing I'd say is we're seeing a record number of applications from staff positions at the store. I mean it's almost 2x versus where it was last year and that had already exceeded kind of pre-COVID levels on a per store basis. So really feel good about that -- stores that were previously at risk from not having a full complement of staff or had reduced opening hours has largely subsided. This is having an impact both on the wage rate as well as over time.

And that's having a corresponding result in categories like shrink, where we're seeing benefits there. We are seeing some slightly higher maintenance costs, but we have some initiatives underway that we expect to bring those costs down in the second half of the year. But as Gallagher says, we remain extremely diligent on our operating expenses.

One thing that we don't break out separately, but in this lower price environment, payment fees are substantially lower, and that represents a significant cost to the business. And so one of the benefits of not only being up \$0.02 on our retail margin being slightly more aggressive on pricing, we also had the benefit of lower payment fees. And I know some folks include that in their margin net of payment fees, where we don't break that out.

Malynda K. West

Executive VP & COO

And Brad, I would say that we are also making meaningful progress. Andrew alluded to uncovering opportunities within our store productivity excellence dispenser uptime, wedge where we are going to have benefits that will be a mix of revenue generation with higher dispenser uptime allowing us to sell more product, but also in terms of cost savings as well as we are uncovering opportunities, particularly with regard to self-maintenance and other things, which will help us to continue to control our costs.

Bradley Bingham Thomas

KeyBanc Capital Markets Inc., Research Division

That's helpful. And if I could ask a follow-up question on the NTIs. By [indiscernible], you've got about 34 that you've opened over the past year. Just wondering if you could comment about new store performance, how they've been doing? And then I guess maybe as you cut the data, how larger stores have been new in late versus the kiosks?

R. Andrew Clyde

President, CEO & Director

Yes, I was going to say Gallagher highlighted the level of performance new stores in both gallons and merchandise. So we're very pleased with those. One of the challenges is certainly the merchants merchandise side does take about 3 years to fully ramp up, and you've got the full complement of operating expenses during that process. So that creates kind of a headwind as we keep building more and more new stores until you get to that steady level, you'll see some of that.

The reality is our kiosk and our small stores perform extremely well. They always have. We continue to build the bigger stores away from the Walmart supercenters because we can sell a much broader offer, especially around package beverage beer larger center store and a fit-for-purpose food and beverage offerings. So we continue to see returns from those stores at levels that are very attractive, and we'll continue to invest in those.

Certainly, on the QuickCheck side, the new stores there, the food and beverage side ramps up very quickly, very much like a quick-serve restaurant and you've got the ramp there on the the centra store, but we're achieving record sales within the first few months from some of our new openings there. It just had a longer lead time to build up the pipeline given that the acquisition, we started with a pretty bare covered in terms of stores in the pipeline.

Operator

Our next question comes from Jacob Aiken-Phillips from Melius.

Jacob Aiken-Phillips
Melius Research LLC

So first, I wanted to ask about -- so the OpEx from the bigger stores. I understand the dynamic of you take 3 years to ramp up the merchandise, but you still have to staff it, but I'm curious how we should think about in relation to like your breakeven? Like are you not 0 breakeven or will that change going forward until they're fully ramped up in the pipelines like running?

R. Andrew Clyde
President, CEO & Director

Yes. I mean the calc is really simple. It's the merch margin minus the OpEx over the gallons. So when those stores get to ramp, the merch contribution exceeds the OpEx. And so you've got the 100% coverage ratio were better or the 0 breakeven. So while the merch margin is ramping up, you've got the full operating cost.

So you'll move from 60% coverage to a 70% to an 80% to 90% and then get to 100%, and we've honored that closely every month, every quarter by store, make sure they're ramping up appropriately. One of the other things about the new stores is when they open, we're going to do a lot to let customers know that we're there in the market and there to deliver value. So not surprisingly, the fuel margin of those new stores is a lot lower as we establish that everyday low price positioning.

And so again, as we start building more and more new stores, with that aggressive opening price that has a weighting effect as well. But we do everything we can to appropriately get those stores up to ramp as quickly as we can.

Jacob Aiken-Phillips
Melius Research LLC

Got it. And then you made a comment earlier about how there's like some new processes with the new real estate team. Could you just give more color or at least some of the things you think will be a bigger driver? And then any update on like construction costs, especially in the like tariffs and everything.

R. Andrew Clyde
President, CEO & Director

Yes. I think part of it may just be a mindset around risk. I'll just give you 1 tangible example. We have a lot of permitting requirements when you build a new store. And some of the core markets we're in, the municipalities may have some restrictions they place where they may have some additional requirements. When you think about the modular building that we use for both the 1,400 square foot store and the 2,800 square foot store, that may require some modest changes to that building. And where in the past, we may have wanted to get all the permitting requirements fully identified before that modular building was started, we recognize -- maybe we should just go ahead and get that particular module we're building started knowing that we may have a few thousand dollars worth of adjustments to make in the field. But if it carves 6 months out of the cycle time because of the permitting, that's a risk that we feel comfortable taking.

So that's a very tangible example. There are many others where the teams identified some approach to risk and trade-offs that we feel are appropriate to make.

Malynda K. West
Executive VP & COO

And one other example I would mention just with the NTI openings, we have begun enacting a fuel dispenser stress test procedure with all our NTIs to try to discover and correct fuel flow issues before the store opens because we have had in the past several instances of dispensers failing at open or shortly after. And when you think about that, that's going to impact fuel sales that will likely impact inside store sales because customers will get frustrated and leave.

We're obviously not making a great impression on that customer. So it does impact that overall ramp at the store. So with this new process, we will catch those things before the stores open and set those stores up for greater success from the beginning.

C. Galagher Jeff
Executive VP & CFO

Jacob, one last point on that. And then as Mindy and Andrew mentioned, our new stores are working. We're doing a lot of work to drive that 18% improvement in EBITDA versus the chain. But the team is maniacal about building the pipeline. It's really a math issue. To have good stores, you have to have good stores in the pipeline. And our pipeline now across the enterprise is around 250 stores, everything from site selection and negotiation, but it's a funnel.

So we're actively building that funnel. So more great stores can pop out on the other side. So that work is underway. We feel great about the outcomes once they're launched, and we're working to make sure they do ramp up fast. We just got to continue to build that pipeline.

Operator

[Operator Instructions] Our next question comes from Bobby Griffin from Raymond James.

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

I guess, Andrew, my first question is more kind of a high-level Murphy's position with an industry question. Our administration that we have now, particularly the President has been pretty firm on wanting low oil, low gas environment. And let's just say he gets that and we are in kind of a longer-term low gas price, low oil price environment. What does that do for Murphy's and how Murphy's is positioned in that? Does that change the long-term dynamics of this product, PS&W supply margin? Like anything around that, I'd be curious just some thoughts.

R. Andrew Clyde
President, CEO & Director

Yes. Look, I mean it's easy for any leader to say this is what they want and then what do you get and then certainly, there's leaders in other countries that depend on very high oil prices to sustain their social economy as well and countries in the Middle East that have a pretty significant impact on what the price of crude will be. So let's just set that aside and say what happens in a low price environment.

It's what we've always said happens, right? Customers have a little bit more in their pocket book. It's still a nondiscretionary product. They have more money left over to spend in other categories. We're building bigger stores and raising and rebuilding stores that have more offers that cater to those customers. And so as you continue to see the center store is an area of growth for us. But customers do make trade-off on the margin.

The other thing is that you've got to say, okay, is it a low oil price environment in a booming economy or is it a low oil price economy, and we're in a recession, right? Or you're continuing to see high inflation in nonfuel categories where the consumer is pinched? So I think you really have to think about the totality of the environment, the condition of the consumer, the other trade-offs that they're making. But as we've always said, in a lower price environment, there will be some consumers on the margin that are going to pick convenience over absolute price.

As we've also said, our loyalty program provides stickiness that we didn't have, say, in 2015, '16 and '17. And as we've continued to demonstrate, we are getting back to the customer some portion of the higher margins that we continue to see. And that additional price benefit continues to make our offer extremely relevant to all those consumers.

Unfortunately, as we've noted, there are more customers that continue to live paycheck to paycheck that trade down into Murphy USA. So versus some past low price environments, I think some of the conditions are a little bit different, and we're certainly better positioned to compete in that environment versus, say, 10 years ago or 20 years ago.

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

Okay. That's helpful. And then secondly for me, just back to inside the store, we saw that based on your April commentary, you saw gallons get a lot better than what some of the impacts probably took away from gallons in 1Q, but you did mention not as much of improvement yet in the in-store side, the merchandise, nicotine and non-nicotine. Why do you think that's the case? I mean, gallons

bounce back implies the traffic kind of came back pretty heavily once we got by the weather impact and the leap day, what do you think was the delay that we're seeing on the recovery inside the store?

R. Andrew Clyde
President, CEO & Director

Some is just the promotional cycle, especially on the nicotine side. I think that's a driver there that we're a destination when you ask consumers what's your one main reason for coming to Murphy USA is going to be value on fuels, is going to be value on tobacco and sometimes on the margin, the promotional activities in that space, it is a traffic driver into the store. I think the categories that are performing well continue to perform well, and we're seeing higher year-over-year results in those categories.

Operator

We have no further questions. I'll turn the call back over to Andrew Clyde for closing remarks.

R. Andrew Clyde
President, CEO & Director

Great. Look, we appreciate everyone joining today and as we kind of laid out the factors to our business and some of the temporal and cyclical drivers, we remain focused on the structural advantages, both as a function of what the industry is doing, but also the structural capabilities that we're putting in place to allow us to differentiate ourselves in this environment. So we'll look forward to follow-up questions later today, tomorrow, next week, and we'll stay tuned. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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