



Murphy USA Inc. NYSE:MUSA

FQ2 2025 Earnings Call Transcripts

Thursday, July 31, 2025 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.56	7.36	 12.20	7.52	23.49	NA
Revenue (mm)	5173.35	5005.00	 (3.25 %)	5093.30	19520.90	NA

Currency: USD

Consensus as of Jul-31-2025 4:15 AM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	7.07	7.20	 1.84 %
FQ4 2024	6.68	7.50	 12.28 %
FQ1 2025	3.74	2.63	 (29.68 %)
FQ2 2025	6.56	7.36	 12.20 %

Table of Contents

Call Participants	3
Presentation	4
Question and Answer	8

Call Participants

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Executive VP & CFO

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Vice President of Investor Relations & FP&A

Malynda K. West
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R. Andrew Clyde
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Melius Research LLC

Pooran Sharma
Stephens Inc., Research Division

Robert Kenneth Griffin
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Presentation

Operator

Thank you for standing by. My name is Jeannie, and I will be your conference operator today. At this time, I would like to welcome everyone to the Murphy USA Second Quarter 2025 Earnings Conference Call. [Operator Instructions]

I would now like to turn the call over to Christian Pikul. Please go ahead.

Christian Pikul

Vice President of Investor Relations & FP&A

Yes. Good morning, everybody. Thanks, Jeannie, and thanks, everyone, 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 comments from Andrew, Galagher will provide an overview of the financial results and performance against our 2025 guidance metrics. And then following some closing comments from Andrew, we'll open up the call to Q&A.

Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, please see the latest Murphy USA Forms 10-K, 10-Q, 8-K and other recent SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements.

During today's call, we may also provide certain performance measures that do not conform to generally accepted accounting principles or GAAP. We have provided schedules to reconcile these non-GAAP measures with the reported results on a GAAP basis as part of our earnings press release, which can be found on the Investors section of our website.

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

R. Andrew Clyde

President, CEO & Director

Thank you, Christian, and good morning, everyone. Second quarter results largely reflect the trends previously disclosed in our operations update covering second quarter's performance through May. Fuel prices continue to be range bound despite remarkable geopolitical events, and we remain in a lower price, less volatile environment. Together with lighter cigarette promotional activity and lower lottery jackpots -- this translated to modest pressure on customer traffic, and you can see that in Q2, same-store fuel volumes were down 3.2%, ahead of OPIS volume levels reported that noted weakness in demand.

July volumes have rebounded and are currently running at 100% of prior year levels with a couple of reporting days left in the month. While these trends reflect an environment on the low side of what we would call normal, there are definitely bright spots that may get obscured in the current environment, which should result in significant performance uplift when conditions normalize. Galagher will review the 2025 outlook shortly, but it's worth emphasizing a few things that we are excited about.

First, while cigarette volumes remain pressured, noncombustible nicotine categories are growing at a rate that fully offsets the decline in cigarette margins, which is remarkable as this category represents only 30% of total nicotine margin contribution. With an uptick in July promotional activity on cigarettes around the fourth of July, we believe a more robust second half cadence will be supportive to stronger nicotine category growth. Moreover, we view FDA Commissioner [Dr. Mark Hayes] forceful comments about illicit vapor and synthetic kratom crackdowns earlier this week is very positive. Second, unlike many of the public QSRs reporting sales declines, average per store month food and beverage sales at QuickChek have been positive for the third straight quarter, underscoring our value offer and ability to drive traffic to our stores.

Investing in traffic and transactions versus taking excessive price increases in the current environment will pay dividends later when food costs subside, resulting in both sales and margin growth going forward. Third, supporting sales and contribution on both brands are the digital initiatives that are creating value for their customers. For MDR, we saw a 31% increase in new loyalty enrollments for the quarter and an 11% increase in merchandise transactions. In fact, if you remove cigarettes and lottery from the mix, Murphy only merchandise contribution increased by 8.9% for the quarter, led by strength in candy and packaged beverages. Both categories where

we are seeing price increases across the industry yet our ability to deliver value to the customer and CPG firms is yielding positive results.

At QuickChek, the revamped loyalty program has seen mobile orders double since the relaunch and 35% of in-store pickup items included additional sales inside the store, averaging \$7 per transaction. We've also seen a meaningful shift in the full-time to part-time labor mix at QC as part of our demand forecasting digital initiative.

Fourth, a common theme across today's call will be that when merchandise contribution is pressured which it inevitably will be from time to time, we are able to maintain store profitability from operating cost improvements, a hallmark of our corporate DNA since our 2013 spend. The current quarter is no exception, where we saw improvements in overtime, labor rates, loss prevention and maintenance. These improvements are complemented by home office efficiencies that are driving our G&A lower.

Fifth, in a relatively more challenging environment where we can sustain store profitability, retail fuel margins are proving even more resilient than we would have thought. We saw retail margins up 50 basis points in 2024 and year-to-date, we are seeing an 80 basis point improvement, along with an additional 13 basis points from lower credit card fees. This reinforces our view that industry headwinds are translating to higher retail margins over time because the marginal retailer is unable to sustain their profitability without taking up price on fuel.

Furthermore, our street pricing on average in Q2 was \$0.01 more aggressive, supporting weaker demand which further reinforces our view that in a more normal price and volatility environment, we would likely see further bottom line margin improvement.

And last but certainly not least, we are really excited and encouraged by the quality of our new store pipeline and construction underway, which is poised to deliver 50 stores over the next 12 months. While we have not met our commitments and expectations on the timing of store months individual store performance for all the most recent build classes are performing well above pro forma. Galagher will provide some more details around that program. So let me turn it over to him to provide some updates on our 2025 guidance, before returning to discuss our longer term potential.

C. Galagher Jeff
Executive VP & CFO

Thanks for the handoff, Andrew. Building on your comments. I'm going to discuss our progress against our 2025 guided metrics. Starting with fuel volumes. First half volumes were down 3% on an average per store month basis, which after adjusting for temporal issues we referenced in the first quarter call, translates to down 2% on a normalized basis. Given first half performance is tracking slightly lower than our expectations, our second half outlook incorporates a market neutral view characterized by continued low volatility and does not account for anything exceptional that may occur, such as supply shock followed by dramatically falling prices.

As such, our outlook for the second half suggests volumes could fall slightly below the low end of our annual guided range of 240,000 to 245,000 average per store month. As Andrew mentioned, July fuel volumes are running at 100% of prior year. For merchandising contribution margin, we're seeing a similar impact from a slow first quarter. With headwinds from 2 of our largest categories in the first half, cigarettes and lottery, we also expect to be within but toward the low end of our guided range of \$855 million to \$875 million. It's important to remember on an average per store month basis, Q2 merchandising contribution at Murphy USA branded stores are up 8.9%, excluding the headwinds from cigarettes and lottery.

This speaks to the underlying resilience we see in the Murphy customers and broader center store categories. In this demand environment, we are actively managing our costs and driving savings across both store operating expenses and home office costs. Our initiatives to improve store-level operations are showing results and we expect store operating expenses to be at or below the low end of the guided range of \$36,500 to \$37,000 per store month.

Therefore, from a store profitability perspective, due to sustainable and structural improvements we are making to the business, on a net profit basis, we are seeing higher operating contribution dollars per store, not lower. This stronger coverage ratio reinforces the competitiveness of our Murphy business model and increase our ability to generate free cash flow.

In addition to our operating expenses, we've also made progress optimizing our home office spend, which has resulted in total corporate SG&A also trending below the low end of our guided range of \$245 million to \$255 million. The effective tax rate in the first half was 22% due to a combination of excess tax benefits related to equity compensation, and recognized benefits from federal energy tax credits reflected in first quarter results. We expect second half all-in tax rates to be within the guided range of 24% to 26%. Resulting in a full year tax rate at or slightly below the low end of guidance.

I'll close the 2025 guidance update with 2 related topics: new store growth and our capital expenditures. We put 14 new stores into service in the first half, along with 10 raze-and-rebuild stores, followed by 6 more raze-and-rebuilds opened in July. I'm pleased to report that new store construction activity will remain robust through the end of this year with the pipeline in extremely solid shape to deliver accelerated store growth this year and beyond.

Forty new stores and 8 raze-and-rebuild are currently under construction, and we're positioned to start construction on an additional 10 new stores over the next 45 days. Given any unanticipated supply chain shocks or jurisdictional delays, that means we expect to open around 40 new stores in 2025, up from the 32 stores opened in 2024. More importantly, we have over 45 NTIs in construction in Q3, resulting in a robust end of year delivery and a great start to 2026, where we do expect 15 to 20 additional new store openings in the first quarter of 2026. Accordingly, our 2025 capital plan remains largely intact, and we expect to remain within the guided range of \$450 million to \$500 million.

Looking past 2025, our new store pipeline continues to grow and accelerate with 90 stores already in design or permitting and over 50 more in contract negotiations. We believe these new numbers and momentum reflect our newly refined store development capabilities and will allow us to increase our NTI delivery capacity in 2026 and beyond.

I will close with a brief comment on share repurchase. In the second quarter, as noted in our release, we repurchased 471,000 shares, bringing our year-to-date repurchases to nearly 900,000 shares. Share repurchase remains the highest and best use of our free cash flow and we expect to remain active repurchase of our shares going forward. We will continue to take advantage of the currently misaligned views between investors and management with respect to our ability to drive future value creation for Murphy USA shareholders.

And now I'll turn it back over to Andrew for closing comments.

R. Andrew Clyde
President, CEO & Director

Thanks, Gallagher. That's a great perspective on our '25 outlook. Referencing our longer-term value creation algorithm and in particular, Slide 10 of our most recent investor deck, we remain bullish on our ability to create value for long-term investors. We remain well positioned to continue to sustain and improve our near-zero fuel breakeven margin with a focus on overall store profitability, addressing merchandise headwinds with operational and overhead efficiencies and growing categories with our vendor partners with the right mix of pricing, promotion and digital activities.

With advantaged nonfuel profitability per store, we expect to grow EBITDA on a CPG basis as we keep more of the increases we are experiencing in retail fuel margins. And as we bring on more new stores that enhance returns and higher volumes per store, growth in total volume provides the free cash flow to deliver our 50-50 capital allocation strategy that has proven to be a winning formula with shareholders. And we also believe EPS will be further enhanced through our tax optimizing strategies.

When I think about some of the conversations with investors over the past few months, these discussions remain rooted in the long-term potential of our business, particularly in connection with the \$1.3 billion EBITDA potential we set for 2028, which we have included in our investor presentations beginning in 2023. This figure was a single point target that represented in our view, the potential of our business based on a set of factors in a normal environment, some of which are within our control and some are outside of our control. Since then, our progress against some of these metrics have been slower than anticipated, as we have shared with you during prior earnings calls and investor conferences, while some other metrics have been realized ahead of our expectations.

So let's take stock and review our progress against this target. It was predicated on 4 distinct drivers. First, NTI growth approximating 50 new stores annually starting in 2024. Two, continued upward pressure on equilibrium retail margins approximating 30 to 40 basis points annually. Three, sustaining the higher rate of merchandise contribution growth we experienced in 2022 and 2023, which was about 7% annually. And last, number four, continued operational improvements to make our business more competitive which is the legacy of our history as a public company.

Together, in a normal environment, these resulted in a 5-year view of a little over \$1.25 billion in EBITDA, such that another \$0.01 of fuel margin would yield \$1.3 billion of potential EBITDA we referenced. Starting with nonfuel performance on existing stores, we are about \$20 million behind our expectations for 2028. The largest driver is a QuickChek, where older nonfuel stores have been impacted the most from the QSR value wars, while food and beverage margins have been hampered by cost inflation and overall weakness in the Northeast traffic has been persistent, impacting center store performance. As we look beyond 2028, these older nonfuel stores are coming off lease, and we expect food margins to stabilize as we continue to drive traffic on our high-volume fuel stores.

Murphy branded merchandise contribution was also lower, reflecting the compounding of delays in some of the center store initiatives last year and cigarette weakness this year. Offsetting a lower base for compounding on the top line and contribution margin growth as better-than-expected operating costs and SG&A costs, both in terms of what we have realized to date and what we were highly confident ongoing initiatives will deliver, which will also then deliver compounded benefits from a lower base.

Moving to new stores. We are also about \$20 million behind our expectations for 2028 due to fewer store months. While the fewer store months creates a drag on fuel volume and merchandise sales, it is offset by lower operating cost and rent, but more importantly is the offset from new stores that are performing better than our plan.

Turning to fuel at existing stores. The shortfall we have seen in same-store volumes is offset by higher fuel margins and lower payment fees in our forecast. We expected and continue to expect PS&W's net of RINs to normalize between \$0.025 and \$0.03 per gallon with a more balanced supply-demand outlook. Based on current market and competitive dynamics, we would expect retail margins to improve about \$0.005 per gallon per year slightly above what we had in our original plan. These updated assumptions generate EBITDA potential of around \$1.2 billion in 2028.

We also expected and continue to expect to see more normalized fuel prices and volatility levels such that we can claw back an extra \$0.01 per gallon, where we have been more aggressive to sustain volume in a much lower price environment over the last several quarters. That penny would get you back to the original \$1.25 billion plan for 2028. And if the environment yielded an additional \$0.01 above and beyond that, we would realize close to the original \$1.3 billion figure.

No matter what 2028 EBITDA ultimately turns out to be in a normalized environment where merchandise contribution offsets OpEx growth and volume pressures are abated at higher fuel prices we expect incremental benefits on retail margins in addition to the \$40 million to \$50 million of EBITDA contribution expected from each new build class at maturity.

The trajectory of the business will look far different in 2028 versus what we see today as we ramp up our NTI program. Outside of fuel margin expectations, we have shown we can manage the puts and takes of our business and honestly believe there's more upside than downside on the merchandise assumptions given the reset baseline. Range of outcomes is and always will be primarily a function of the level of fuel margins realized.

Our investment thesis as the largest single buyer of our shares every year is that prices, margins and the underlying drivers lead to a bumpy path towards a higher normalized level and with highly disciplined 50-50 capital allocation strategy, coupled with a conservative balance sheet, we are well positioned to continue our track record of TSR growth. So with that, we will open up the call to questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Anthony Bonadio with Wells Fargo.

Anthony Bonadio

Wells Fargo Securities, LLC, Research Division

I just wanted to ask about gallons for starters. Can you just talk about why trends seemingly worsened throughout the quarter and how your market share trended over that period? And then if it's an industry issue, I guess why we didn't see more retail margin growth to offset that given those poor volumes would translate to higher breakeven.

R. Andrew Clyde

President, CEO & Director

Yes. So the first thing, the trend in the quarter is partly masked by the April-May update, which had a different same-store base that we had been for the full quarter. And so where June trended around 4% down, leading to the quarter where it ended up. So there was some deceleration, but not as significant as it showed based on the April, May numbers with that different base.

In terms of where margins ended up, we see our margins not only improve, but they improved at lower credit card fees and by being at least \$0.01 per gallon more aggressive than we were in the past year's quarter. So I would say with that, industry margins were up in a low price environment, we typically put a little bit more on the street to hold volume and continue to drive traffic, stay top of mind with the consumer. And that's our view that when prices achieve a more normal level versus this lower level, we're able to call some of that back.

C. Galagher Jeff

Executive VP & CFO

Anthony, quickly to add. We did outpace OPIS volumes and each of our markets that we look at for the full quarter. And while June did decelerate for us, it also decelerated for OPIS. And as we mentioned a couple of times on the call, July volumes have returned back to 100% last year.

Anthony Bonadio

Wells Fargo Securities, LLC, Research Division

Okay. And then just on guidance, I guess, I know you mentioned gallons sort of running below inside at the low end, but still in the range. And then you've got OpEx, SG&A running below, I guess, like net of all that, it sounds like you're more or less reiterating EBITDA, I guess, is that right?

R. Andrew Clyde

President, CEO & Director

Well, and we don't give an EBITDA guidance because we don't give a fuel margin guidance. But yes, as you go through the puts and takes, there's a lot of offsets there. So we're on the lower end of merch. We're making up for that by being at or below the better end of OpEx and G&A. And as you said, volumes slightly at or slightly below the low end. So lot of puts and takes there, if you will.

Operator

Your next question comes from the line of Pooran Sharma with Stephens.

Pooran Sharma

Stephens Inc., Research Division

I appreciate the question here. Just wanted to get a sense of the store build. Looks like first half, it seemed like we were going to be a bit behind pace. And I know you've talked about getting a more even build throughout the year. But I think you mentioned still on pace for, I believe, 40. And I was going to ask what gives you confidence in hitting this number, but it sounds like you already have a lot of wheels in motion, a lot in the pipeline already. So I just wanted to ask you what's changed in your kind of store build program relative to prior years, just given your confidence talking about the next 12 months and going forward.

R. Andrew Clyde

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President, CEO & Director

Well, some of the bottlenecks at some point, if you have so many stores in the queue that have a bottleneck they're released. And so I think that's a big part, whether it's permitting or tanks or some supply chain issues. We continue to build up the pipeline. And then I think as we've talked about on the last call, there's a few things where we've taken a different view of risk and cost to make sure that things don't get delayed that are within our control. So I think when you look at the number of stores under construction, the numbers of stores, we expect to see under construction and then the pipeline beyond that for '26 and '27.

That's what gives us the confidence. There's nothing like having the shovel already in the ground to know that you're going to get that store built and whether we said before, we weren't going to get to 50 openings this year. We have well more than 50 starts. And I believe when you add what we do in January to what we close the year at, we're pretty dang close to that \$50 number.

C. Galagher Jeff
Executive VP & CFO

Just to add a little bit. I do want to give some credit to our store development team. It's really gone aggressively looking for great sites. And our pipeline -- total pipeline now is over 250 stores. As Andrew mentioned, in the rolling next 4 quarters, we expect to open 50 stores. And the performance we're seeing is outstanding. As we mentioned on the call, since 2021, each class has outperformed their expectations, outperformed the pro forma. So we continue to see really good results from the stores that are open and now we're building the pipeline to open more.

Malynda K. West
Executive VP & COO

And I would echo that too, and I think it's tougher when you come from a lower base to generate that kind of inertia and momentum. But now that we are getting that and filling the funnel with greater numbers of projects in the queue. I think it will allow us to have some momentum to continue that type of build program in the years to follow this year and next.

Pooran Sharma
Stephens Inc., Research Division

Great. Appreciate the color there. And I guess for the follow-up, just wanted to get a sense of the overall demand environment and then also the degree of cost flex and like the optionality you have in the back half of the year to offset markets. We -- I'm only saying this because we do see several weeks of gasoline demand from the Department of Energy down year-over-year. You did mention that you outperformed OPIS data in several of your markets. But just given the lower demand environment was just wondering if you could help us understand with a little bit more granularity what kind of optionality you have in your ability to flex your cost essentially in the back half?

R. Andrew Clyde
President, CEO & Director

Yes. As it relates to demand, look, we've said it for years in a lower price environment, there's some consumer on the margin who is not as price sensitive. If you find yourself in a low price environment where unemployment goes up, inflation continues unabated, and you start seeing various corporate changes, et cetera. That changes the dynamic. So it's really all about the price sensitivity of consumers and that consumer on the margin.

That's why we talk about putting extra penny on the street. That's why we talk about the benefits of Murphy Drive Rewards and QuickChek Rewards as tools we have now that we didn't have when prices were low in 2015, '16 in '17. And so at some point, when you invest in a company that you see fuel margins being the ultimate driver of value and you see some ebbs and flows, this is 1 of those trough periods where volumes from the demand side are a little bit tighter. All right?

And we're going to have to be more aggressive from a margin standpoint to winning customer. I think whether it's remote work, whether it's the battery electric vehicle percent of sales changing, it's the car ownership, CAFE standards, et cetera changing. We're actually bullish on the North American fuel in 2030 and beyond as a lot of changes have taken place.

As it relates to cost and optionality, I think, the current quarter and first half of the year is a great example of that. We've streamlined overtime. If we see some lower demand, we can optimize even store hours if we have to with our unattended overnight fuel. If you see applicants more than doubling versus the same time a year ago when you see softness in the labor market, you can be thoughtful on your labor rates, especially around new employees, which was key benefit for us in the period. Loss prevention and maintenance for 2 other categories where we've demonstrated lower cost.

So there are things that you can do because of the environment. There's levers you can pull, but you never want to pull back too hard on things like maintenance because those things catch up with you in the long run. You don't want to pull back on value. As we mentioned, QuickChek had 3 straight quarters of food and beverage growth, which is unlike a lot of the big QSRs, who pull those levers and give up a value proposition.

So we're keen and well positioned to weather a cycle of lower demand, lower prices, managing it for the long run because we know in the long run, our everyday low-price value model is going to be a winning model with consumers, and we've got a balance sheet, capital allocation strategy that allows us to continue to build stores in more difficult times so that when they're up and running in the cycle shifts, you're taking full advantage of that. So we don't get too wound up about any 1-year demand picture. We're more bullish about the long-term demand.

Malynda K. West
Executive VP & COO

And Pooran, just adding to that, particularly about the cost side of the business, we do have multiple activities underway to improve the productivity of our store. Some of those are business led, some are initiative led. Benefits are showing up, as you saw, we're controlling OpEx to the low end of our guided range. And that's despite opening those new stores, which incur full expenses day 1 while the revenue ramps over time. So this quarter, we did see the improvement on several fronts, maintenance, labor, loss prevention, as Andrew mentioned.

And we expect to continue to be able to drive value from all of those efforts. And we know that, look, despite whatever is happening on the demand front, we know that over time, ensuring that our stores are well supplied, they're in stock, they're clean, our equipment is working. Our staff is friendly and helpful. Those are all the ingredients and the recipe that make a successful store and allow us to be able to attract and retain the customers. So that is what we're focused on. Our operating model is 1 of the lowest costs in the industry, and we will continue to squeeze additional costs from our business to enable that EDLP strategy, as Andrew said, which is so important to our customer who needs that.

Operator

Your next question comes from the line of Bonnie Herzog with Goldman Sachs.

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

I had a question on merchandise contribution. You did just talk down your guidance this year, but it does still imply a healthy acceleration in the back half. So just curious to hear from you what gives you the comfort that this new guidance is achievable despite what remains a pretty challenging operating and macro environment. And then just curious to hear any specific initiatives you have in place to drive faster growth? And is your merch contribution guidance predicated on continued improvement at QuickChek.

R. Andrew Clyde
President, CEO & Director

So on the merch side, I think Gallagher and I both mentioned that if you take out cigarettes and lottery, the Murphy branded stores were up 8.9%. I mean, that's incredible growth in the context of the environment you described, Bonnie. I mean we're seeing chocolate candy price increases. We continue to see packaged beverage increases. We've just taken a different approach with the manufacturers around value, helping them drive their baseload volume. And those are 2 categories, packaged beverage and candy where we showed significant upside in the quarter. Other nicotine continues to do very, very well. And where we had tobacco weakness on cigarettes in the first half because of the promotional cycle, the promotions we're running in the second half, and we've already started give us confidence around that front.

Other initiatives that we have as it relates to getting more customer reach, we had a significant increase in new enrollments for Murphy Drive Rewards. And so we've got some initiatives underway to further drive that enrollment. And we see those members baskets and frequency and contribution to the business greater than participants and nonmembers. So that's 1 of the initiatives. And we continue to have innovation on the QuickChek side in terms of our sandwiches, our more value offer as well as the continued success of our premium offers there.

So I would say there's just a lot of things going on. And part of 1 thing that's frustrating on the QuickChek side is we're driving the sales. We continue to see some headwinds around food cost and the like. And we believe when those abate, it will be a lot easier to demonstrate kind of higher margin contribution because we won't have to go back and win back the customer because we priced and

gave them value during this period, so we didn't lose them. And you follow some of the other QSRs who are really struggling to figure out their price per check increases that ran off so many customers. I don't know if others have anything they want to add on initiatives.

Bonnie Lee Herzog

Goldman Sachs Group, Inc., Research Division

That was really helpful. I appreciate that color. Maybe just a quick follow-up because you touched on it, is nicotine. And you highlighted some of the pressures was promotion-related in the first half, and it sounds like you just mentioned you have some sense of what it's going to look like in the second half. But should I understand that to mean that you feel better about the contribution from nicotine maybe being a little again stronger in the second half versus the first half? And then just wanted to hear if you're seeing any improvements with this, on that business from the so-called stepped-up efforts to crack down on illicit e-cigs. Is that still kind of a headwind for you as well?

R. Andrew Clyde

President, CEO & Director

Yes. No, we're definitely more bullish on second half than first half. First half, we were just comping again some really significant promotional activity last year. The -- we also had a strong Q2 comp last year as well. I'm sure you listened to [Dr. Markary] a couple of days ago when he was interviewed in the morning, he said something big is coming as it relates to illicit vapor and synthetic kratom. I don't know what that's something big is. I know our industry partners have been doing a funnel all-out campaign with the FDA. I was encouraged by his discussion around risk and the continuum of risk and not going to attack these broad categories broadly, but really focus on the area where there's the greatest risk. So that's a very positive sentiment coming out of the FDA that we haven't heard in a very long time.

Operator

Your next question comes from the line of Bobby Griffin with Raymond James.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

I guess, Andrew, first, I want to circle back on the guidance, moving parts as you guys discussed. Understanding that you guys don't guide for a fuel margin. But if you were to take the range that you gave us at first and just assume the business ends up in that fuel margin range for the year, would you still generate the level of EBITDA that range implied? And basically, what I'm trying to get at is just to understand if the OpEx offsets are fully offsetting the merchandise pressure we're seeing in the gallons. Just trying to understand that range and the sensitivity there.

R. Andrew Clyde

President, CEO & Director

Yes. So if you add all of that up and you have our original fuel margin range, you're going to be below that EBITDA number that was put out there and largely that's driven by Q1 right, and the impact that we had there. So OpEx is more than making up for challenges on the merch side, we referenced on tobacco. SG&A is having a significant impact as well. So it's really going to be end of the year predicated on where we land with the fuel margin in the second half. But if you just adjust for Q1 and kind of the trajectory we are on, on the volume side in this low price environment, that is going to have a bigger impact than the offsetting effects that OpEx and G&A have on the merch side.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Understood. That's helpful. And then Galagher...

R. Andrew Clyde

President, CEO & Director

And by the way, just 1 other point. Q1 PS&W being below, that's kind of, we're still seeing a very long loose environment with a lot of high refinery utilization and a lot of exports.

Robert Kenneth Griffin

Raymond James & Associates, Inc., Research Division

Yes. Good point. It's nice to see that bounce back this quarter versus the 1Q. I guess my second question is more near term. I just want to make sure I understand the comments. July, back to 100%. I believe that is on an APSM basis for field fuel volume, correct? And I don't think you gave any comments on just July retail margins as we typically talk about, but anything you can share with us there? .

R. Andrew Clyde
President, CEO & Director

No. It's on an APSM basis and with adjustments and these different calculations you do only at the end of the month. It's just premature to give a fuel margin number for July. If we had been doing this call a week from today, we've had more confidence in that number.

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

Understood.

Malynda K. West
Executive VP & COO

We would expect that directionally though to be somewhere in the high 20s.

R. Andrew Clyde
President, CEO & Director

On the retail only.

Malynda K. West
Executive VP & COO

On the retail-only side.

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

That's helpful. And I guess, just lastly for me, this really impressive OpEx performance across the P&L here. Just curious if you can unpack that a little further. Is that some timing aspects? Or is that more of the work Mindy, you and the team and everybody has been doing on productivity that we've talked about on these lower quartile stores starting to actually now move into harvest stage and flow through.

Malynda K. West
Executive VP & COO

As I said earlier, we are seeing the benefits show up in the results through both business-led and initiative-led because we're really trying to tackle on all fronts, our store productivity. So yes, I think you're seeing the fruits of those efforts come to bear. And I think that there's more that we can do. We continue to identify larger opportunities and maintenance from both incident response as well as vendor accountability, also opportunities and team effectiveness. Now keep in mind though, these benefits are going to show up in multiple ways. Some of them are going to be very difficult to attribute. What I mean by that is on some levels, we're going to have cost savings through things like doing self-maintenance at our stores versus calling in a technician.

Other things are going to be more cost avoidance. So for example, by keeping fuel dispensers better maintained, that will result in fewer breakdowns. And then also things like customer loss avoidance. Using fuel as an example, if we have a dispenser down at 1 of our stations, does that mean customers drive away or do they use 1 of the 7 others that are actually working. Probably, you're not going to lose those customers initially. But eventually, if that is a chronic problem, then you are going to have certain customers who are going to look at the long lines and go somewhere else.

So that's why we know that over time, we're working on the right things. It may be hard to attribute that as a financial impact quarter-to-quarter. But we know that, that is the recipe for success in our stores. And yes, I think you are starting to see the green shoots really resulting in us being able to keep our OpEx under control and within the lower part of our guided range.

R. Andrew Clyde
President, CEO & Director

Bob, I was just going to say a couple of other things. The loss prevention opportunities has been something we have been working on for quite a while and just taking a targeted more analytical approach to how we address that. And labor rate is a big thing. So QC, with a better demand forecasting model, we shifted from full-time to part-time labor where it makes more sense with the enhanced labor model, doing the same thing at Murphy enhancing its labor model. But in an environment where your applicant flow is more than double what it was, you do have the opportunity to be thoughtful about starting rates, rate increases, et cetera, as you maintain the competitiveness of your business, but stay in the sweet spot of where you want to be price-wise in the market.

C. Galagher Jeff
Executive VP & CFO

One more quick build just on your point. As in a challenging demand environment like this, there's a couple of things you do while you try to spur demand. One, and Mindy team has done a great job in operations of you manage cost, right? We're doing that in our stores in the home office. And those are sustainable as she talked through. We're not expecting this to be a onetime effort. We're continuing to manage costs. And the second is you optimize cash, and we're spending our cash on the things that will pay off in very long term, such as the new stores and the share repurchase. But we are expecting the demand environment to come back, but we will have a lower cost structure when it does.

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

I appreciate the time and best luck in the second half.

Operator

Your next question comes from the line of Jacob Aiken-Phillips with Melius Research.

Jacob Aiken-Phillips
Melius Research LLC

So first, I wanted to talk a bit more about PS&W. Last quarter, there was a lot of focus on it. You went through like the temporal cyclical structural factors, et cetera. So you already just talked about retail margins. I'm just curious if you can speak about like why the blip in 2Q and what we can expect for the rest of the year and going forward?

Malynda K. West
Executive VP & COO

I can take that one. When we look at the first quarter results, PS&W of around 1.73%, I think, it was in a quarter that was really characterized by very low volatility, a much longer supply environment than this quarter, although this quarter is still very long and loose. It was worse actually in the first quarter. And then, of course, we had all the storms, with hundreds of stores down. So that impacted our demand profile. So when we look at this quarter and why the difference, still a pretty well-supplied market. Yes, there were higher RIN values, but there was also a correspondingly offset results in our transfer to retail. Price is 10% lower on absolute levels.

And so part of the difference between the impact this quarter versus last year. Last quarter is just the amount of length in the supply market and also the direction and movement of pricing, which impacts what we call our noncontrollables. So is the timing of pricing and inventory variances as well as the length of supply in the market was a little bit tighter this quarter versus last.

Jacob Aiken-Phillips
Melius Research LLC

And then so on share repurchases or I guess, capital allocation, it seems like you may have like levered up a little bit or took on some debt to do that level of repurchase. I understand the valuation dynamic, but can you walk through how you're like balancing leverage tolerance versus growth and capital returns, given like the softer fuel volumes?

R. Andrew Clyde
President, CEO & Director

Yes. So we don't borrow money for any 1 particular purpose. We have a 50-50 capital allocation strategy. So you could have asked the question differently, and so it seemed like you levered up to get all those stores in the pipeline. So we have a long-term commitment to that capital allocation strategy. So our financial framework is geared to that. So for every dollar, we borrow 50% is for growth, 50% is for shareholder distribution. So don't think about leveraging up to buy shares. It's just whatever leverage we need to maintain that

50-50. And we said we'd probably be hitting the balance sheet a little bit in '25 and '26. And in '27, '28, '29 and beyond, your excess cash flow is going to be going in the opposite direction.

C. Galagher Jeff
Executive VP & CFO

Jacob, just to reiterate, we're very purposeful with our balance sheet. We took on some additional financing early in Q2 to make sure we had the flexibility to run our strategy for the next 3-plus years. So that strategy, as Andrew mentioned, is investing in new stores, continuing the repurchases. We've said we're comfortable at leverage around 2.5 or below. We're going to be right at 2.0, Q2 right now. So we're very comfortable with our balance sheet and gives us a lot of flexibility as we go forward.

Operator

Your next question comes from the line of Brad Thomas with KeyBanc Capital Markets.

Bradley Bingham Thomas
KeyBanc Capital Markets Inc., Research Division

I wanted to follow up a bit on the fuel volume trends. And I was just wondering if you could just touch on the competitive landscape. Curious if you feel like you're seeing anything different there? And then as you look at sort of the locations of stores, wondering if any difference geographically or perhaps those more co-located with Walmart versus those not so where you might be seeing any differences?

R. Andrew Clyde
President, CEO & Director

No real differences between Walmart versus non-Walmart locations. I mean our customer behavior is pretty consistent across formats and markets and proximity to different retailers. I would say that other everyday low-price retailers experience the same thing we do from a convenience standpoint on the margin. There are some customers that may go to a more convenient store. Certainly, in some of our markets, DFW is a great example. There's just a lot of low-price retailers there, so it's pretty convenient to find the next one. So nothing really different from a dynamic standpoint and kind of big established markets where competitive entry has taken place a few years ago. What we see every year somewhere is a high-volume retailer emerging in a new market area.

And when they move in, there's greater competition. Just like when we move in to certain markets. And sometimes we move in at the same time as someone else. And so you may see some downward pressure on margins as you establish kind of the new equilibrium. And then margins of store. And fortunately, these are markets that are growing markets, which is why we're investing in them and others might be investing in them. So in any given year, there's going to be 1 or 2 pockets geographically where you see market entry at scale and there's greater competition. I would say in a lower price environment, generally, we're not the only 1 that's probably been a little bit more aggressive trying to retain customers.

Bradley Bingham Thomas
KeyBanc Capital Markets Inc., Research Division

That's helpful, Andrew. And as we think about OpEx and the success that you've seen here this quarter with some initiatives. Can you help us just think about -- does that take on a growing importance for you if volumes remain a bit weak in the near term? And how do you think about the opportunities in front of you on that aspect of the business?

R. Andrew Clyde
President, CEO & Director

Yes. That's a great question. Look, at the last investor conference we went to, there are a lot of questions kind of short term, long term. We just kind of got everyone focused back to Slide 10 of the presentation we delivered at the Raymond James presentation in March. And it's really simple. We run highly productive, low-cost stores. And we have a 0 breakeven target. And if we were at full ramp on our new stores, we'd be doing better than that.

And it's basically the merch contribution covers the OpEx and field in direct G&A. And so to the extent we can make improvements there, especially if we're seeing some temporal headwinds on the merchandise side, we maintain that 0 breakeven. And then when you see a fuel margin that's being structurally resilient and growing, we're able to then with reductions in our nondirect G&A keep more cents per gallon on an adjusted EBITDA basis.

And it kind of goes back to that long-run thesis where I kind of did the reconciliation. Yes, we've put an extra \$0.01 or 2 on the street over the last few years in this low price environment. And so we're not even capturing the full extent of that structurally resilient margin that we're seeing. And so at the end, that EBITDA margin on cents per gallon, it's all about growing your fuel volume. And we know that we're going to see some same-store declines in mature rural markets where we may be doing raze-and-rebuilds, but demographics are shifting.

But as Mindy and Gallagher said, our new stores are performing not only at a much higher level, but much higher than our expectations and especially on a gallon basis. And so with 50 stores at ramp, we keep growing that total fuel volume on a growing EBITDA margin. That's what creates the cash flow machine this business is and that beautiful virtual cycle of then reinvesting into future growth and then having the cash flow to buy back shares, pay our dividend and any other priorities.

So that's really how we think about it. And we're less worried about kind of the ebbs and flows of the cycle, need temporal effects. We've got the structural business. We've got the structural advantage because of our low operating and overhead cost. With that 0 breakeven, we'll be able to keep over the long run, more of the fuel margin versus the marginal player and continue to grow EBITDA.

Malynda K. West
Executive VP & COO

And Brad, well, I would say that the OpEx mathematically may, in certain cycles need to be more important. What I would hope is that culturally, it doesn't feel more important because it needs to always feel important, right? We are running an everyday low price model for our customer who depends on that and we cannot do that without underpinning that with everyday low cost. So regardless of the environment, we have to be ruthless on our cost, and it should just be part of our DNA and what we do every day.

Operator

Your next question comes from the line of Corey Tarlowe with Jefferies.

Corey Tarlowe
Jefferies LLC, Research Division

I just wanted to ask a question on the long term. As you think about the 2028 target that you put out, what were some of the big changes that you want to highlight? What's different? Why make the update today and how you're thinking about the building blocks of getting to that new target from where we're at currently?

R. Andrew Clyde
President, CEO & Director

I think in terms of building it today, it's kind of been out there. And with some of the headwinds that we've had, people just ask the straightforward question is that target still intact. So when you hear investors ask a question, enough times, you go back and say, okay, let's update that target and reconcile the assumptions that we had with the new assumptions and provide a new view of that. It's just really as simple as that. We've broken it down kind of similar to that Slide 10, right?

If you think about same-store performance outside of fuel, we're behind our QuickChek merchandise and Murphy merchandise. And fortunately, OpEx and G&A covers most of that gap in the 2028 view off about \$20 million. Both are going to be compounding in the future off of a lower base. But as Mindy noted, if you're able to kind of keep that relationship intact, that's what's different for us versus other retailers. They may be shrinking their merch contribution and growing their OpEx. So that's really positive.

The new stores the impact there isn't as big a difference in the 2028. We will miss those store months in '29 and '30. When they're at full ramp. The good news is -- that goal was to start in '24. We're going to hit 50 starts in '25, 50 openings, if you include January. And the good news is those stores are performing at a better rate. The same-store volumes have been really offset by the improvements that we see and expect to see in retail margins without flowing that penny back without getting that extra penny and just PS&W getting back to a \$0.025 to \$0.03 range. And so that kind of gets you back to about a \$1.2 billion EBITDA. And then we expect to see a more normal price environment. Look, it's going to be a bumpy trail to [1.2, 1.3] to 2028 to 2029 to '30.

We're really thinking about what does the business look like on a sustainable basis. And certainly, when we build our longer range plans and set expectations and present those to our Board as we think about capital allocation and reaffirming our 50-50 objectives, we need to do that in a normalized environment. But we also need to understand there are going to be periods that are better like 2022 and early '23. And there are going to be periods that are a little bit softer. And that's why the balance sheet stays conservative as Gallagher talked about, because we want to win in any environment.

We want to build in any environment. We don't want to be slowing down growth in a weaker part of the cycle because the point is when those stores are up and running, you're back to a normal environment or better and the stores ramped up and then you're getting even more out of it and a better return. And that's the philosophy we've had since the spin, right? We're going to be capital disciplined. We're going to invest in the best of times and the worst of times so long as we believe that we have a proven winning model, which we do.

Corey Tarlowe

Jefferies LLC, Research Division

Got it. That's really helpful. And then I just wanted to ask another question on the back half. As you think about the dynamics that you've seen in the first half, is there anything that maybe sticks or changes or goes away as you think about what the back half might look like? I know that there is some change in the tobacco expectations, but would be curious to know if there's anything else that you expect from either an operational or financial perspective that would shift as we kind of turn the corner into the back half here?

R. Andrew Clyde

President, CEO & Director

Not at this point. And I think given some of the areas that were weak in the first half, we'd like to think there's more upside than downside in those areas and then especially relative to some of the comps from last year. As we noted, despite some pretty remarkable geopolitical events, we didn't see a high level of volatility. Could that change? I don't know. But if you see the high level of geopolitical activity, is it going to really show up in crude prices as it did in the first half of the year?

So we're going to be a taker of those inputs and we're just going to execute our model around them because those are the things that are outside of our control. And we're just focused on the things that we can do within our control. And we continue to have a lot of arrows in our quiver to continue to improve this business.

Operator

There are no further questions at this time. I will now turn the call back over to Andrew Clyde for closing remarks.

R. Andrew Clyde

President, CEO & Director

Great. Well, thanks, everyone, for joining in. Appreciate the opportunity to provide an update on our guidance, but also how we think about long-term value creation for shareholders. Thank you very much.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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