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All right. Good morning. I'm Ben Brownlow. I cover the convenience and retail fuel distribution space at Raymond James. Our next presentation will be from one of the largest convenience store operators in the country, Murphy USA and the CEO presenting this morning, Andrew Clyde.

<<Andrew Clyde, President and Chief Executive Officer>>

Great. Thanks, Ben. Thanks, Raymond James for having us. We are webcasting this as well. So welcome, everyone who is joining through that means. We've got our traditional cautionary statement. We all read these and understand these. With me today also is Mindy West, our Chief Financial Officer and also runs our Fuels Group, and Christian Pikul, Head of Investor Relations.

We're going to make it simple today. We're only going to go through two slides and you've got a deck online that you can get. And this first slide, if you've been to one of our presentations before, really doesn't get updated except for the chart on the right. And it's because since we spun off this business, we've kept a very consistent strategy. We know who we are. We're playing kind of a unique game in this space and our goal is to be the best at winning at that game the way we play it.

And with our high volume, low price stores largely in front of Walmart Supercenters, we've attracted and grown value conscious customers with an increasing offer around fuel and convenience items. Our strategies have had these key themes to it that we've stuck with. The first around organic growth, which means that we're building our own stores versus participating in the M&A market. Diversifying our merchandise mix: as one of the largest tobacco retailers, it's not that we shy away from that category. In fact, we've been consistently growing margin dollars in that category. We're just expanding our offerings through the other categories.

Focusing on cost leadership: as a low-price retailer, you've got to be focused on cost. And we've maintained achieving cost reduction on a per store basis and staying below inflation every year since the spin. Taking advantage of market volatility, so we're probably more over-indexed to fuel doing three times the industry average versus our other peers, but that volatility coupled with being low cost can work to our advantage. And that's one of the things that we continue to focus on is increasing our supply advantage on the fuel side.

And then last, investing for the long-term: many of the stores that are being acquired in the M&A market are 30, 40, 50-year old stores, and they are a function of sort of an invest and forget mentality. We're Murphy USA, and we're continually upgrading our stores, we're raising and rebuilding old stores. We just completed a 1000 store refresh program continuing to invest for the long-term.

The chart on the right shows our stock price since the spin, there's another version of this that shows the average the min and the max for the year. Every year the average has been higher, the max has been higher, the min has been higher. And what you see here is the function of the volatility around fuel prices and fuel margins as the market sometimes over corrects in one direction or under corrects and the other bids it up based on an exceptionally strong margin quarter or an especially weak margin quarter. But what you can see over the long-term is actually our business has lower fuel margin volatility than our other industry peers. It's just because of that exposure, the market tends to over/under correct as time goes on.

So the second slide and the last slide I'm going to go through today, we'll spend a fair amount of time on is our simple value formula for growth. So this is how we think about creating long-term sustainable value for our shareholders through this EPS growth formula. And I'll walk through each of these, these five elements. But it's a pretty simple formula, because this is a pretty simple business in terms of how to create value.

And in this version of it, we actually look at what have we done over the last five years since the spin. And then I'll share with you our plan strategies for how we're looking forward to the next few years in front of us. In terms of organic growth, we've increased our store count 21% since the spin, there is 271 new stores. These are small walk-in stores versus the kiosk that Murphy USA grew up with – 1,200 to 1,400 square foot stores and then an increasingly larger number of 2,800 and 3,400 square foot stores away from Walmart Supercenters.

And then we started a raise and rebuild program just a few years ago when we've gone in and then raised and rebuilt 59 of our highest performing kiosk stores. So you can imagine a store with a 100 to 150 square feet of selling space in the super coolers in front of them and maybe four gasoline dispensers and one diesel dispenser; replacing it with a 1,200 square foot walk-in store where you're able to sell beer, a larger selection of center of the store products, six to eight dispensers with every fuel grade at every fueling position.

So these higher performing stores are being raised and rebuilt into even higher performing stores. And as I mentioned before, we just finished a 1,000 store refresh program where we got new canopies, new bathrooms, et cetera. And a lot of those are our kiosk stores that were refreshed. Going forward, we still focus on modest unit growth and presently we've got guidance for 40 to 50 projects this year, 15 to 20 new stores, the rest with raise and rebuild.

But the new stores are going to be increasingly these larger 2,800 square foot stores outside of the direct vicinity of a Walmart Supercenter. And over time we've built out those locations over the last five years. When we spun off the company, we just signed up for an up to 200 store deal with Walmart. We ended up building about 150 of those and we learned a number of things in the process, right. The portfolio or the available portfolio of great locations in front of Supercenters declined to the point where you couldn't have a scalable model from that. The other thing we learned is the express locations where we went out and acquired that land from third parties, those stores outperformed the locations we got directly from Walmart. Many of those and the years built in 2015 and 2016 in the Midwest, were just lower performing stores. And so we switched to this 2,800 square foot model in some of our most attractive markets where we could still grow with our customer. Same type of customer segment, same type of traffic

patterns, and 75% of the stores that we'll build in 2019 will be of that format. And what you see in these stores are – is still a modular building, has a beer cave. So you're participating in that category in a much more meaningful way.

And you have open air compartments where you're selling prepared food that is made to stock and then you have a larger coffee fountain type program associated with that. We stop short of going all the way to these large 5,000 to 7,000 square foot stores that have a kitchen that require a commissary and the like. And so we're staying within our capability set as it relates to the food offer. And so we're also building the pipeline of land locations in 2019 to be able to increase the number of larger format stores in future years.

On fuel contribution, we've grown our fuel contribution by 10% in terms of a dollar standpoint. We've grown total volume 11%. Our margins have been remarkably consistent around $0.16 per gallon. So there's a lot of anxiety around quarter-to-quarter margin volatility, in fact we dropped guidance this year on fuel margins as a result of that, but if you look back over time our margins are extremely resilient to the ups and down movement of crude prices and other factors.

Versus some of our competitors who just buy product at the wholesale rack at a terminal at the OPIS low to OPIS average price. We actually participate in the fuel supply chain in a more significant manner. Over half of our barrels we procure directly from the refineries. We ship through the pipeline systems. We're one of the largest shippers on the colonial pipeline system and that allows us to have low cost ratable secure supply.

And so when you see or read about these outages that take place, Murphy USA has barrels when many of our competitors are going to have to pay through the roof at the wholesale racks, even if they can get product. One of the things that we've noted recently is our fuel volume declines and efforts to restore those. And there's a number of factors I'd say that has driven those. Certainly the portfolios, we built some weaker stores in 2015 and 2016 that drag the comps down and we've seen some competitor intrusion.

One of the largest competitors in our market was actually Walmart building neighborhood markets in close proximity to their Supercenters. So those neighborhood markets not only cannibalized the Supercenter for Walmart, but gasoline at those outlets took some volume away from our stores as well. But the other thing that we noted, first about a year and a half ago and then a few months ago as well as that, we lost some of our edge on retail pricing in terms of the practices and the system we'd put in and the personnel responsible for that.

And so the shifts we made in the middle part of 2018, we saw immediate results as we've comped positive volume same-stores in both third quarter and fourth quarter. And then on our fourth quarter call, we noted the improvements that we've seen in January more than comping over the storm impact that we saw in 2018 have done better even taken that into consideration. So our goal is to continue to gain back share economically and continue to improve our fuel comps. At the same time, enhancing our supply cost advantage. And one of the things that we're seeing today is a large glut of gasoline product is refiners are in kind of max diesel mode. And so making sure that through the variety of methods, we supply gasoline for our stores, we're able to do it in a low-cost way.

The third element of our value formula is the fuel breakeven contribution, this is the metric that expresses merchandise margin minus store operating expenses and marketing G&A over volume. And it basically says how much cash margin do you need to break even on a gallon of gasoline. And this was before credit card fees. And so at the spin, our breakeven requirement was 3.2 cents per gallon, which meant we needed 3.2 cents per gallon cash margin to breakeven on a gallon of gasoline. And if you add about 3 cents a credit card fees that meant our breakeven was about 6 cents per gallon.

And sure enough over time, you'd never seen a quarter where gallon margins had ever dip below that level. We've taken that number since the spin from 3.2 down to 0.8 cents per gallon. And so if you think about that 2.4 cents a gallon improvement through more merchandise gross margin and improvements on a store OpEx basis, and then you multiply that times four billion gallons of gasoline, you're talking about $90 million to $100 million of improvement to the business since the spin from that metric.

The next 0.8 cents per gallon improvement to get to zero breakeven is one of our goals and the name of one of our initiatives. And we're going to achieve that by continuing to improve our merchandise margin through space allocation, optimal product mix, visual merchandising, a lot of capabilities, frankly, we didn't even have at the spin from a people, process or technology standpoint. And we're going to continue to be a very hawkish around cost, beating inflation and continuing to optimize labor at our stores and the like. So we believe there is still significant opportunities to improve our breakeven contribution.

Corporate cost, this is one of those things that, you've got good corporate costs and you've got bad corporate costs. So we've tried to maintain our cost on a per store basis and try to scale and leverage that. We were spun off from a global exploration and production company. And so we didn't have fit-for-purpose retail systems, process technology in many cases. So in the first five years, there was a lot of effort to try to build fit-for-purpose systems and then start gaining scale advantages out of those. And most of that work is underway.

I think the most exciting thing that we have going on as a company that came out of our investments is our loyalty program Murphy Drive Rewards. And in June of last year, we launched a 200-store pilot in North Texas and Tennessee and ran that pilot for nine months. And this last Friday, we started our national rollout in the Southwest, then we'll move in two weeks to the Midwest and the Southeast.

And what we've learned through this program is that we can change customer behavior economically as an everyday low-price retailer. And the challenge for us being everyday low price is, unlike so many of the loyalty programs in gasoline and convenience retailing that came out before us, is that the branded majors, especially, would raise the price to all their members, with all their customers and then lower the price just for their most loyal members. With our price position, our brand reputation largely being in front of Walmart Supercenters, we can't raise our price to everybody. So we have to generate additional value to our existing customers and do that in a way that's economic.

In our pilot, we've had over 1.4 million customers register, about a half million of those have gone all the way through the enrollment process. Over 60% of them are age verified, meaning that we can now send them material around age restricted products. And that tees up very nicely then for the kind of test that we can do at our locations.

So, for example, if you have a customer, we'll use a tobacco product test, that's only ever bought a one pack of an item and we can go in and look at their history to see who's bought two packs, three packs or cartons. We can go in with incentives and say, if you buy a three pack, you get this amount off and immediately follow that with a journey that allows them on their next purchase of a three pack to get additional savings.

And then we can look back over time and see how their behavior has changed, right. We're about to raise and rebuild a store and we know all the customers that go to that store in the DFW area and the three stores around them that those same customers could go to as their secondary store. And so we're able to communicate to them in a meaningful way around that. And so we're really excited in the first two days of the national launch. We signed up over 200,000 additional customers in the Southwest rollout. The number of registrants is significantly higher, because of what we learned that the pilot in the age verification is very high as well.

So if we think about our strategies, we're going to grow bigger stores, we're going to grow more customers through pricing excellence. We're going to make them stickier through Murphy Drive Rewards and then we're going to have better stores and operational practices within the store from a profitability standpoint.

And then you get to the last part of our value formula, which is our shares outstanding, right. So we've got our existing units times more units, and then we have the profitability of our existing stores that we're making better. How do we think about capital allocation? Since the spin, we've been very balanced and disciplined in our approach to capital allocation. We've repurchased almost $1 billion worth of our stock, about 32% of our shares outstanding. That's roughly about the same amount we've allocated to organic growth and other corporate initiatives to drive our business.

And so that's allowed us to have meaningful earnings per share growth over these last five years. And as we think about the impact of our future strategies, what are we going to be able to do? We're going to be able to continue to grow free cash flow through higher earnings. We're going to be able to invest that in higher quality stores, but we're going to also be able to maintain a balanced and disciplined capital allocation approach, because of the high free cash flow generation of this business. And that in essence is the story. I could go through the next series of slides, but as you'll see, all they really do is provide proof points or little bit more history and story behind this value formula. And this is really how we think about our business.

So I think with that, then I'll go ahead and just open it up to questions.

Q&A

<Q – Benjamin Brownlow>: Do we have any questions? I guess I'll ask one. In terms of the ramp and the timing of that loyalty program, how do you see that kind of playing out over the next, you know, is it quarter? Is it six months? How are you thinking about that?

<A – Andrew Clyde>: Great question. So we got to 1 million registrants in a little over 90 days in the pilot stores. And so that was one seventh of our network. And so based on what we've seeing so far in two days, we're on track to meet or exceed those kinds of numbers. So I'll give you an example. In the state of Tennessee, the total number of registrants represented 6% of the entire population of the state of Tennessee.

So if you take out, kids under 16 or really old folks that aren't driving, that's probably 12% of the driving population. We were able to get on this program within 90 to 120 days. And so that's kind of our goal is to continue, there are so many consumers right that visit our stores or go buying our stores on the way to a Walmart Supercenters or other retailers in that halo that we believe we can continue to attract them at those levels.

<Q>: Can you share any sales impact from the loyalty pilot?

<A – Andrew Clyde>: Yeah. So the question was from the pilot, what numbers can we share around sales? So let me just give you some of the information that we shared previously, 15% of our fuel transactions are to our Murphy Drive Reward members. And so what did we learn about those customers? We actually have an extremely loyal customer base. 80% of those customers are ones that we would say are high fuels customers, meaning they're showing up on a regular basis.

And what we saw from them was essentially an extra trip. They went from buying about 35 gallons a month to almost 45 gallons a month from us. So almost an extra trip, if you think about our average purchase being about 10 or 11 gallons. The other 20% are less loyal and our least loyal customers were buying 8 gallons, now they're buying 9 gallons.

So somewhere in there we're getting extra gallon or getting an extra trip out of those customers, because of the ability to earn and then burn. One of the things we like about the program, I know we all participate in loyalty programs, as you build up this big balance and just sits there. And for us, it would sit there on our balance sheet is a big deferred liability. Other than the initial signup points, which we've actually reduced from the pilot level, our earn versus burn is very consistent. So our customers are using this. They want immediate gratification.

So you're not going to see this huge deferred liability that builds up, you're actually going to see the healthiest proof point of a loyalty program, which is active users that are burning their points on a regular basis. We've learned a lot about the c-store use as well. I think 30% something of the transactions were for Murphy Drive Rewards members. And in the state of Texas, we actually allowed consumers to earn points on tobacco purchases and became the only retailer in the country where you could earn points on tobacco and then burn them on fuel. And depending on the minimum state pricing requirements we'll be able to do that in the majority of our states.

Well, what did we see? We're seeing bigger baskets, right. We're seeing more units in those baskets in a richer margin mix from those. And that's what really excites the manufacturers, because they're able to see their promotion dollars get a higher return on marketing investment through Murphy USA through this program. And the example I gave you about switching behavior from a one pack to a three pack is a good example of being able to see that behavior shift over time.

We built this on a platform that is completely different than any of the other retailers are using out there. Most of the platforms were basically cup counters like started as buy six cups, get a seventh for free night now. They can count anything and give you something for free. This platform allows us to segment customers or stores on any dimension you can imagine.

So it's really only limited by the insight or foresight of our team or manufacturer partner. So if they're introducing a new product and they want to see, okay, who are we targeting? We're able to see what that member was buying before. Did they sign up for this product? Did they stay with this product? What else did they buy in their basket with that product and provide that information real time. So we become a more attractive retailer to pilot consumer package goods with as well.

<Q – Benjamin Brownlow>: What percentage of merchandise sales are e-cigarettes and what do the trends look like there.

<A – Andrew Clyde>: Yeah. So 70% of our sales today are tobacco and the majority of that is still cigarettes, smokeless and other tobacco. And so e-cigarettes represent less than 10% of our contribution margin from overall tobacco. What are the trends? I think the tobacco manufacturers recognize and the data I've seen suggest as well, there was a real issue around e-cigarettes and underage use and how that leads to underage smoking.

And so it's something the industry broadly, including retailers, have to get behind. We have an exemplary reputation for age verification, but as an industry, 150,000 convenience stores, 62% are still single owner operators that don't necessarily have the same brand reputation, all of our stores are company owned and operated. And so we have a high level of ability to enforce things.

We were late to the game with Juul and in part, because we do five times the industry average in terms of tobacco and other tobacco products sales. We weren't able to ensure that our stores could be delivered to on a reliable basis. So we're actually late to the game. In 2018, we got into the game in a significant way and we saw the benefits there. The trends around pulling the flavor products with the fruity names or the youth sounding names has not had a material impact as the mint and menthol products have basically taken the place of those.

I don't know what future regulations will hold, 21-year age restriction is something that would have a minor immaterial impact on our business based on the data we've seen from the manufacturers in terms of smokers between 18 and 20 years old. I think the most overreaching thing the EPA could do would be to restrict a channel of trade, convenience store retailer versus vape shop from selling the product. And I think they are probably be legal challenges to things

that the FDA did overreach itself. But age 21 is something that is likely to take place and we're seeing it across states as well enforcing that.

All right. Thank you, we'll have a break out downstairs.