S&P Global
Market Intelligence

Murphy USA Inc. NYSE:MUSA

Shareholder/Analyst Call

Wednesday, May 05, 2021 2:00 PM GMT

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Call Participants

EXECUTIVES

Christian Pikul
Vice President of Investor Relations & FP&A

Gregory L. Smith
Secretary

R. Andrew Clyde
President, CEO & Director

Robert Murphy

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Presentation

Operator

Good day, ladies and gentlemen, and welcome. At this time, it is my pleasure to turn the floor over to your host, Madison Murphy. Sir, the floor is yours.

Robert Murphy

Thank you. Good morning, ladies and gentlemen. I'm Madison Murphy, and I have the privilege of serving as Chairman of the Board of Murphy USA. On behalf of the company, welcome to the 2021 Annual Meeting of Stockholders. Needless to say, the past year was one without precedent. It served to exhibit and demonstrate the resiliency of our business model, our assets, and I'm very proud of the way this management group and employees comported themselves and performed through an unprecedented year of uncertainty. I think we've been served very well by that. So thank you.

As is our custom, we'll conduct the formal business portion of our meeting first, including 3 items for our stockholders' consideration. Andrew Clyde, our CEO, will then provide an overview of the company's business and financial performance and we will answer questions at the end of the meeting. Though we may not be able to answer every question, we will address any appropriate unanswered questions on our Investor Relations website after the meeting.

It's my pleasure to introduce the company's Board of Directors, all of whom have joined the meeting virtually today; Andrew Clyde, our President and CEO; Claiborne P. Deming; Fred L. Holliger; James W. Keyes; Diane N. Landen; David B. Miller; Jeanne L. Phillips, and Jack T. Taylor. They serve you and your interest very well as an engaged group of directors.

I would like to take a moment also to recognize our KPMG representatives who are participating today. We have Michael Hufnagel, who represents KPMG as Murphy USA's lead audit engagement partner. Also with us is KPMG's SEC reviewing partner, John Murphy. During the question-and-answer period, they will be available to answer questions concerning the company's financial statements.

Our inspectors of election, Kelly Halstead and Rachel Pickett from the company's legal department have also joined the meeting.

Our first order of business is to determine whether the shares represented at the meeting are sufficient to constitute a quorum. Greg Smith serves as the company's Corporate Secretary. Greg, do you have a report?

Gregory L. Smith
Secretary

Yes, Mr. Chairman. I have an Affidavit from Broadridge Financial Solutions confirming that the mailing of the notice of this meeting and proxy statement to stockholders of record commenced on March 26, 2021. On our record date of March 5, 2021, there were over 26.9 million shares of common stock outstanding and entitled to vote at this meeting. We are informed by the inspectors of election that they are represented in person or by proxy over 25.1 million shares of common stock or over 93% of all the shares entitled to vote at this meeting.

Robert Murphy

Thank you, Greg. Because holders of the majority of the shares entitled to vote at this meeting are represented, I declare this meeting to be duly convened for the purposes of transacting such business as may properly come before it. Our polls are open. They were opened at 7:45 a.m. Central Time this morning and will remain open until the conclusion of our CEO's presentation. Any stockholder who has not yet voted or wishes to change their vote may do so by clicking the voting button on the meeting website and following the instructions there. Stockholders who have sent in proxies are voted via telephone or internet and do not want to change their vote do not need to take any further actions.

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I will now call on our Secretary to introduce the formal matters to be voted on at today's meeting.

Gregory L. Smith
Secretary

Thank you, Mr. Chairman. The first matter is election of Class II directors. The company's bylaws provide that directors shall be divided into 3 classes, with Class II directors up for election at this year's shareholder meeting. Nominees for Class II directors were set forth in the proxy statement and proxies will be voted for such nominees. The following has been -- have been nominated as Class II directors of the company to hold office until the 2024 Annual Meeting of Stockholders or until their successors are duly elected and qualified: Fred L. Holger, James W. Keyes and Diane N. Landen.

Second proposals and advisory vote to approve the compensation of the company's named executive officers as described in the proxy statement. And the third proposal is approval of the Audit Committee's appointment of KPMG LLP as the company's independent registered public accounting firm for the fiscal year of 2021.

Robert Murphy

Thank you, Greg. And Andrew Clyde will now provide an update on the company's strategy and operations, and it's my privilege and honor to introduce Andrew.

R. Andrew Clyde
President, CEO & Director

Thank you, Madison. Good morning, and thank you to everyone who is joining us for what is now our second annual virtual annual Shareholder meeting. A lot of notable events occurred in 2020, and the first few months of 2021 that should excite you as all Murphy USA shareholders. But nevertheless, I will attempt to be brief in my comments today as we discuss the much improved outlook for the company.

I will remind everyone, we just held our first quarter earnings call last week on April 30 and provided significant detail around recent financial performance and how excited we are about the first 100 days of the first acquisition in our company's history, which closed on January 29, 2021. I would direct your attention to the Investors Relations website for a full transcript of that call in addition to a more detailed review of our strategy, which we presented at a March 1st investor conference. Also before we get started, please note the traditional cautionary statement associated with today's presentation which may contain forward-looking statements.

To start on Slide 3. I am very pleased to show this slide again in this forum, which we have used over the past few years to illustrate our shareholder value proposition to investors. And as the chart on the left shows, once again, we have delivered another year of higher highs and higher lows in 2020 and are certainly starting off of great momentum in 2021 having already achieved a new record high share price in late March of $155 per share.

As a reminder, this chart demonstrates the shares have delivered an approximate 15% compounded annual growth rate from our spin in 2013 through 2019, and we did this by growing EBITDA, earnings before interest, taxes, depreciation and amortization from $340 million to $423 million by repurchasing nearly 35% of shares outstanding through asset sales and free cash flows and the market multiple increased from about 6x to 9x over that period.

At the beginning of every planning cycle, we maintain that challenge for ourselves. How do we meet or beat our historical rate of shareholder returns over the next 5 years? Question we always ask is, what do we need to believe to continue this track record of share price growth? The mathematical output is relatively straightforward when looking at the same 3 elements that drove our returns since spin. 2024, we would need to generate roughly $700 million in EBITDA, we would need to buy back about 1 million shares a year, which we are well on our ways towards doing. And had another turn to our multiple in line with our peer group based on the market recognizing and rewarding our increasingly advantaged business model and differentiated performance results. Those elements taken together or some other equivalent combination would continue Murphy USA's trajectory of shareholder returns into 2024.

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As I said last year, pulling off the math is more challenging than explaining the concept to investors, but that is the job of my leadership team under the direction of Murphy USA's Board of Directors. In our quest to continue delivering top-tier returns for the first time in our company's history, we consummated an acquisition to help ensure we remain on this trajectory and that is what I will discuss on Slide 4, which summarizes our clear and simple formula for growing shareholder value.

Given the changes to the business environment we are experiencing in 2020, we step back to review our capital allocation priorities and emerging options, giving a relatively unlevered balance sheet, robust cash balances, increasing levels of free cash flow and an enduring commitment to continue allocating our capital to generate the highest possible future returns. As a result of this exercise, in addition to reemphasizing our commitment to accelerated organic growth, upsizing a new share repurchase program and announcing a dividend, we also opened the door to explore strategically focused M&A opportunities that would help mature and advance our food and beverage capabilities, while also complementing the elements of our core strategy. With the QuickChek acquisition, we certainly found the right asset that checked all those boxes.

In QuickChek, we have a superior customer offer to win with and with more market opportunities than before to lever their strong brand recognition and augment our organic growth strategy. We further aim to generate significant synergies, primarily leveraging our scale to enhance margins across the business from reducing fuel supply costs to lower insurance premiums for the combined companies all the way to leveraging our fuel and tobacco expertise to add value to their stores.

Over the next year to 2 years, we also expect to benefit from reverse synergies as we examine the portability of their food and beverage offer and capabilities and figure out how to leverage their Great Coffee Program and their grab-and-go assortment to help improve the productivity of our existing stores, where the format allows. In addition to informing the design of future new stores to optimize the value of the Murphy USA and Express brands.

Taken together, as we leverage the distinctive capabilities of each firm and harvest ideas and innovation from our combined team, we expect to deliver higher levels of store productivity and realize future earnings and cash flow accretion that will help support our capital allocation priorities, especially as it relates to shareholder distributions. A better understanding of the QuickChek assets will help further illuminate their impact, which I will discuss next on Slide 5.

Here, I want to provide an overview of the QuickChek assets, which consists of 157 stores located in Central and Northern New Jersey and the New York metro area, 89 of which have a fuel offer. On the top right of the slide, you can see just how much of a market leader QuickChek is when it comes to food and beverage, well outpacing the broader peer group and merchandise gross profit per store with the more recent QuickChek stores with fuel, leading the pack given their stores like ours or high-volume locations and/or traffic drivers.

And on the bottom right, you can see just a sample of some of their menu offer, which includes sub sandwiches, a great breakfast offer, an excellent coffee program. So if any of our shareholders are in the New York, New Jersey area, as many of you no doubt are, we encourage you to stop into a QuickChek location and treat yourself to a great experience.

How does this all come together? As we are all well aware, both at a personal and professional level, COVID had a significant impact on all of our lives and changed many of our behaviors. As consumers, our ability and willingness to travel overlaid against a preference for both purchases and increased focus on value severely impacted consumer traffic at our stores and across the convenience store space. Nevertheless, the business you own has proven its metal and resilience to adverse environments yet again and again, and 2021 is no exception as illustrated in Slide 6.

Table on the left-hand side of the page shows our first quarter results we just reported. And of note, the same-store an average per store month figures are Murphy USA only comparisons, while the total contribution categories include the QuickChek impact for February and March, as the acquisition closed January 29 as the footnote mentions.

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Starting at the top with fuel, with strong evidence of something we've been telling investors for the last 12 months. The results validate our view that higher breakeven economics for marginal retailers are resulting in higher fuel margins for the entire industry, note that while volumes for the quarter were 9% lower than 2019, fuel contribution dollars in total were up over 77% and that was during a quarter where prices were rising, which typically compresses our retail margins. So we remain very encouraged by these results. As a high-volume retailer, we are better positioned to win in an environment where retail margins are likely to remain elevated as the marginal retailer is forced to push margins higher to make up for the lost gallons and the Merck sales are accompanying those company -- customer visits.

Looking at merchandise. We grew tobacco contribution and nontobacco contribution on a same-store basis by 16.4% and 8.9%, respectively, versus 2019 results, which indicate we are holding on to the market share gains we took in 2020 and continuing to grow these categories. Expenses, on the other hand, were up only modestly versus 2019 on a same-store basis, and higher on an absolute basis due to the inclusion of QuickChek. And when you add all this up, we reported very strong adjusted EBITDA growth. 2019 first quarter for reference was a slightly better-than-average first quarter looking back at spin to that reporting period. So results were very strong this year, and we think we are well positioned to continue to generate strong EBITDA and earnings growth in the coming years.

I want to close with a reminder to our listeners that the actions we are most proud of also came with big dollar signs in front of them. Giving back as part of our broader mission and commitment to our team members, customers and communities.

Our financial performance in 2020, coupled with the generosity of our customers, helped us uphold this commitment as we launched a national partnership with the Boys & Girls Club of America, where we leverage our team members across the chain to encourage customers to round up their purchases to provide much need funding -- much needed funding for their local Boys & Girls Club. Including Murphy USA matching funds, we are thrilled to have raised a total of $1.55 million for the Boys & Girls Club through this program in 2020, tripling our original goal of $500,000.

In addition, we generated record employee pledges in excess of 375,000 for our local United way campaign. With the company matched a total of $750,000 went to support Union County United Way organizations, all of which had anticipated the need for greater support due to the impacts of COVID-19 on their local communities.

We also made a $10 million gift to the Murphy USA charitable foundation, which will continue to support positive changes in our local communities with an emphasis on El Dorado in Southern Arkansas. The foundation funds the company's matching gifts, including United's Way as well as sponsorships like Murphy USA's national partnership with the Boys & Girls Club of America. This gift will further sustain existing local programs like the Murphy Arts District as looks to reopen post COVID-19 as well as the new community programs like the Summer Youth Work Program, which is coordinated with the city of El Dorado. This concludes my prepared remarks.

Robert Murphy

Thank you, Andrew. Now that everyone has had the opportunity to vote, I hereby declare the polls closed. While the votes are being tabulated, we'll take a few minutes to answer questions. For appropriate questions that we did not get to today, we will endeavor to provide responses on our Investor Relations website after the meeting. Christian Pikul, our Vice President, Investor Relations, and Financial Planning and Analysis, has been monitoring the questions that have been submitted by stockholders.

Christian, are there questions from stockholders that you can relay?

Christian Pikul
Vice President of Investor Relations & FP&A

No, Mr. Chairman, at this time, I'm not showing any questions.

Robert Murphy

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Pretty thorough presentation. Thank you. At this time, I'd like to request the preliminary results of voting. Greg, could you share those results with us?

Gregory L. Smith
Secretary

Yes, Mr. Chairman, pleased to report that all nominees for Class II Director have been elected, each with over 95% of the shares represented at this meeting. The stockholders have approved on an advisory basis, the compensation of the company's named executive officers with a 98.78% majority. And the stockholders have ratified the appointment of KPMG, LLP as the company's independent registered public accounting firm for 2021 with a 97.07% majority. With that, each of the items voted upon today, as listed in the proxy statement has been approved by the company's stockholders and will be recorded as stated in the minutes of this meeting.

Robert Murphy

And thank you all for participating today. On behalf of the Board, management and employees of Murphy USA. Thank you very much for your interest, your time and your trust. We appreciate that, and we appreciate you very, very much indeed. I now declare this meeting to be adjourned.

Operator
This concludes today's conference call.

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