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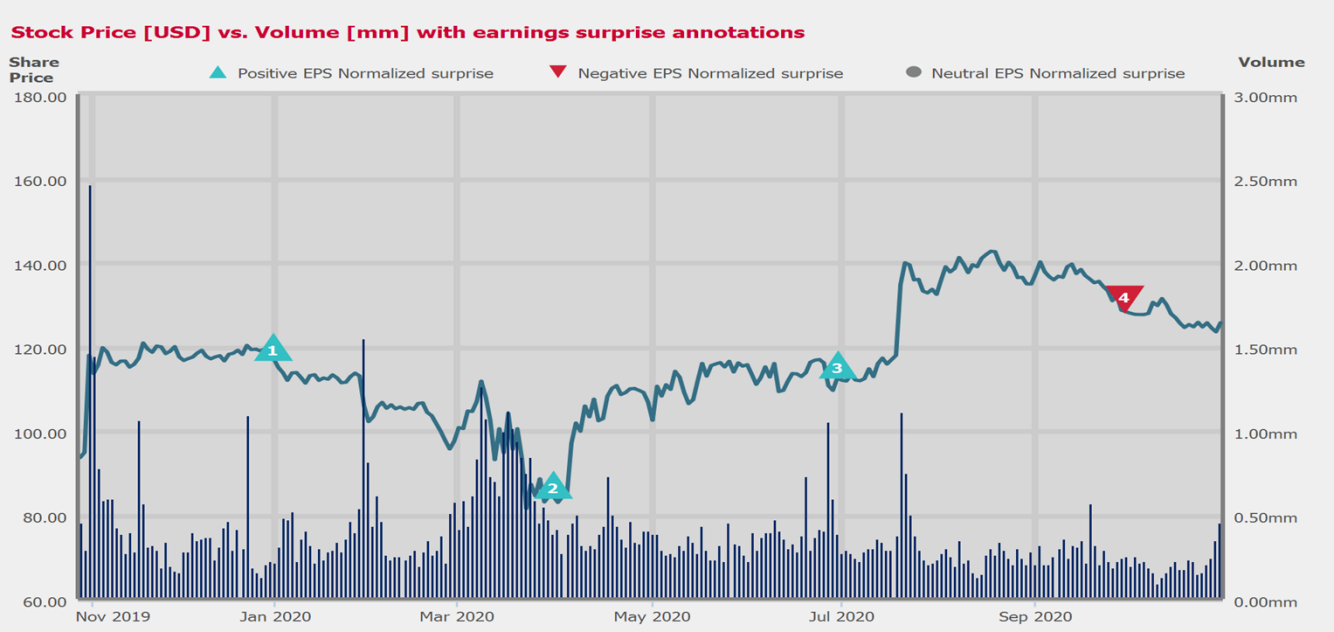
FQ3 2020 Earnings Call Transcripts

Thursday, October 29, 2020 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.55	2.27	▼(10.98 %)	1.58	12.94	7.36
Revenue (mm)	2925.65	2839.00	▼(2.96 %)	2977.43	11527.38	13076.69

Currency: USD
Consensus as of Oct-29-2020 10:03 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.46	1.54	▲1 5.48 %
FQ1 2020	2.22	2.92	▲2 30.94 %
FQ2 2020	5.16	5.73	▲3 11.05 %
FQ3 2020	2.55	2.27	▼4 (10.98 %)

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Murphy USA Third Quarter 2020 Earnings Conference Call. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Christian Pikul, Vice President of Investor Relations. Thank you. Please go ahead, sir.

Christian Pikul
Vice President of Investor Relations & FP&A

Thank you, Ashley, and good morning, everyone. Thanks again for joining us today.

With me, as usual, are Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donnie Smith, Vice President and controller. After some opening comments from Andrew, Mindy will give us an overview of the financial results, and then 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, and as such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of Risk Factors, please see the latest Murphy USA Forms 10-K, 10-Q, 8-K and other recent SEC filings.

Murphy USA takes no duty to publicly update or revise any forward-looking statements. During today's call, we may also provide certain performance measures that do not conform to generally accepted accounting principles or GAAP. We have provided schedules to reconcile these non-GAAP measures with the reported results on a GAAP basis as part of our earnings press release, which can be found on the Investors section of our website.

With that, I'll turn the call over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thank you, Christian.

Good morning, and welcome to everyone joining us today. We're looking forward to discussing with you, not only our strong third quarter results, but also the next steps we announced in the ongoing evolution of our capital allocation strategy. The business is demonstrating excellent momentum as we head into 2021, and we are excited about the opportunity set in front of us. So let's get started with the third quarter results, which are comping equally impressive results from the third quarter of last year.

Beginning with the fuels business. Total fuel contribution dollars were only $6 million lower than last year, yet these results were delivered in a much different commodity price environment. Although COVID has changed the way we talked about business performance the past few quarters, we feel like we are back to talking about the normal drivers of volatility, including both the magnitude of change and overall direction of fuel prices.

In the third quarter last year, prices generally trended lower through July and August and were flat in September, which was a highly favorable setting and generated an exceptional all in fuel contribution of $0.11 per gallon. This year, prices were choppy but generally flat in July. Trended steadily higher in August and briefly dipped in September prior to rallying higher the last half of the month. Generally, that is an unfavorable environment, but remarkably, the third quarter 2020 environment generated an even higher all-in fuel margin of $0.223 per gallon, about $0.02 per gallon or 10% above the prior year.

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Despite total volumes down around 12% year-over-year, total fuel contribution dollars of $220 million were only about 2.5% lower, down from $226 million a year ago. Importantly, these results continue to validate our belief that fuel retailers are establishing higher baseline margins to help offset lower customer traffic, which remains down versus year ago levels and could stay down given shifts in consumer behaviors in the way we work. More importantly, we believe Murphy USA, with its high volume, ultra-low-cost fuel-focused format will continue to benefit from the industry's higher fuel margin breakeven requirements, setting the stage for further success for us in 2021.

Beyond strength in fuel results, our merchandise business continues to generate consistently impressive results. We held share gains in critical categories such as cigarettes, where once again, we grew units, sales and margins. When coupled with strength in other destination purchases like lottery, it's clear customers are continuing to seek value from core products in our stores.

Complementing continued strength in general merchandise and beer categories, which we highlighted as high performers on prior calls, we are seeing material sequential improvement in fuel attached categories like packaged beverage, candy and salty snack. From an OpEx perspective, we saw some modest increases resulting from clear and deliberate choices we made to benefit both our employees and our customers. We maintained our commission kicker program throughout the third quarter to keep our frontline sales force engaged and motivated, and we saw the impact of that engagement in our merchandise results.

We maintained our expanded sick leave policy and assigned additional store hours to cleaning to maintain a safe environment as we can for our customers. We also experienced a little bit of pressure on store supplies, shipping more cleaning and sanitation products to our stores, along with PPE here in COVID-related safety signage.

We also saw a negative variance on G&A expenses, but we couldn't have been more pleased to be able to fund a $10 million donation for critical programs in our community in broader Southern Arkansas area. Importantly, the foundation also matches our employee giving, where we tallied another record year of support for our local United Way in our annual campaign. Our employees gave $375,000, which was a wonderful outcome, especially considering the elevated needs in our community this year.

I want to thank all our employees for their generosity and positive commitment to the communities where we live and work.

From third quarter results and encouraging October data, it is clear the business is gaining momentum as we head into 2021. Steel volumes improved not possibly this month, where we are seeing with healthy margins in the high teens to $0.20 range. Further, we continue to see the knock-on benefit from higher customer traffic and higher-margin category merchandise sales. When coupled with market share gains in key categories, we are exiting the year at a materially higher level of per store contribution, which helps underwrite our 2021 EBITDA target of about $500 million.

So let's now turn to the press release we issued after yesterday's market close, where we announced an update to our capital allocation strategy. First and foremost, this announcement is an outcome of a systematic and long-standing commitment to consistently review and refine our capital allocation strategy, which to date has largely consisted of balanced organic growth and share repurchases. Accordingly, this latest refinement is not a sudden shift in strategy. Rather, the business has benefited from ongoing strategic initiatives we have executed over the past several years, enabling outsized operating leverage to the current market conditions and resulting in strong free cash flow generation, along with significant cash balances.

As a result, we have a high-class set of opportunities which we have evaluated against the framework of our 5-year financial plan, and the bottom line is we simply got to the point we are at now sooner than we originally anticipated. To be clear, organic growth remains our most significant earnings and value driver, in our opinion, and we remain committed to accelerating our NTI program in 2021 and beyond.

While the early results of our larger format, 2,800 square foot stores are highly encouraging. It has taken us 2 to 3 years to develop the pipeline to support roughly 50 new stores per year, so even a

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strategic decision made today to further accelerate NTI growth would effectively be a longer-term capital deployment decision. Nevertheless, at 50 new larger format, 2,800 square foot stores per year, we are adding square footage on an annual basis that will exceed even some of our most ambitious small format and kiosk field classes of prior years. Given the importance of new store growth and performance as it impacts our 5-year plan, we are focusing management's attention on building a distinctive food and beverage offer that is fit for our purpose, our format and our customers to support the highest possible returns on our growth investments, which represent over $250 million of capital expenditures a year going forward.

To ensure that outcome, we are allocating internal resources and making investments in people with the expertise and experience to help us maximize new store investments in the year to come. As we point management's focus towards food and beverage, we see this as a natural outcome of the maturity of our operating model, which is now prioritizing a new set of value drivers to help propel the business forward.

Management focus is a valuable and precious resource that we have harnessed successfully since our spend, delivering results and executing business-critical initiatives. If you go back several years ago, we pointed our cross-functional optimization focus in other areas. For example, tobacco, where we identified opportunities to improve our supply chain terms and service levels, our in-store ordering and inventory management practices in our home office, pricing and promotional activities.

Today, we have significantly enhanced capabilities, including our partnership with Core-Mark, new operating and pricing capabilities and Murphy Drive Rewards, which have all generated both share gains and margin contribution growth since their implementation. Therefore, as we now point our optimization machine towards our lease to develop categories, not only are we coming up the learning curve faster, but we have new capabilities in place, which elevate our expectations of future benefits. In particular, we are close to renewing another 5-year contract with Core-Mark that we expect to benefit the business in 2021 and beyond with specific emphasis on improving and optimizing our food and beverage offer and cost of goods.

We recognize that building these capabilities internally is not easy, and it takes time. And given we are in the early stages of building these new capabilities, we are also open to acquiring a capability set from the outside that could complement what we do well, and that could also provide distinctive offers that are suitable for our formats and customers. More broadly, we have not participated in the M&A market beyond one off locations for several reasons we have succinctly stated over the years.

In our view, paying a premium for less-than-average assets to simply build scale is not a financially sustainable model. We would rather acquire their value-seeking customers through new store growth with our low price offers, which we believe has generated higher returns than we could have attained through M&A. As such, we view this acquisition of a unique capability like food and beverage, through a different lens. Moreover, after having built or bought an enhanced food and beverage capability, we could then view the acquisition of better-than-average, mid-sized firms in markets we find attractive differently as we would have a stronger basis to compete for those assets and generate the necessary synergies to make an acquisition accretive.

At the end of the day, the M&A opportunities we desire may not be available to us at the price we want to pay, but it is an option we are going to explore going forward, and if successful, could open up other paths in the future.

The framework for which we have historically viewed capital allocation options remains largely unchanged. However, as discussed, we have advanced significantly as a firm since our spend and believe now is the right time to not only sustain and grow our primary capital allocation options, but to diversify our capital allocation options, including a mechanism to return capital to shareholders more consistently going forward, namely a dividend.

On share repurchases, we have nearly completed the most recent authorization of up to $400 million, and the Board has approved an even larger, up to $500 million repurchase authorization to be completed by December 31, 2023, providing us a little over 3 years, which is consistent with the pace of which we have

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executed prior programs. Needless to say, that commitment should clearly demonstrate our view of the potential of the business over the next few years.

Share repurchase can be an extremely effective value creation tool if implemented properly over the right time period and then with a business like ours that is still growing and improving. And while we feel like we have taken advantage of market volatility, we understand some periods will be more desirable than others and there will simply be times when we are out of the market.

To supplement those periods and provide consistent returns of capital to long-term shareholders, we are excited to make another commitment to long-term value creation in establishing a modest-yet-meaningful quarterly dividend of $0.25 per share. This initial dividend offers a yield in line with our broader retail peer group, represents a small percentage of our historical cash balances and provides an excellent mechanism to grow with the cash flow generation ability of our business over time as we continue to build out our network and optimize returns from our new stores. We think this is a similar moment for both our company and our investors and is another compelling reason to become a Murphy USA shareholder.

And with that, I will turn it over to Mindy.

Malynda K. West
Executive VP of Fuels, CFO & Treasurer

Thanks, Andrew. Good morning, everyone, and thank you for listening today.

I will start off with some standard items. Average retail gasoline prices per gallon during the quarter were $1.90, sharply lower than year ago prices of $2.38. Capital expenditures approximated $61 million in the third quarter, a $54 million of which was allocated to retail growth, $5 million to maintenance capital and the remaining $2 million allocated to various corporate and strategic initiatives. We continue to expect full year capital spending in 2020 to fall between $250 million and $275 million.

We ended the third quarter with cash on the balance sheet of $318 million, $197 million of availability under our $325 million ABL facility, which remains undrawn. Total debt outstanding at quarter end was down to $1.0125 billion, reflecting ongoing quarterly term loan principal payments of $12.5 million, ended down to $1 billion currently post the quarter 4 principal payment we made in early October.

Based on quarter-end debt outstanding, the leverage ratio we report to our lenders was approximately 1.4x as of September 30 versus 1.4x in the second quarter and 2.1x reported in the third quarter of 2019. Although we don't expect a repeat of 2020 financial performance in 2021, the balance sheet does remain underlevered if current market conditions persist and could be utilized to support some of the capital allocation strategies Andrew mentioned.

Due to the execution of approximately $90 million of share repurchase during the third quarter, as of September 30, 28.6 million common shares were outstanding or about 29 million shares on a fully diluted basis. As stated in the press release, 7 million remains in the up to $400 million program authorized by the Board in July of 2019, which means since quarter end, we have repurchased another 300,000 shares or about $37 million worth. Any amounts left over from that program will be executed as market conditions allow prior to kicking off any activity in the up to $500 million program recently authorized by the Board.

Looking at the financial results, I want to make just a couple of comments. There are no changes to the revised 2020 guidance published in our second quarter earnings release, with the exception of some onetime G&A expense we incurred during the third quarter, which will push total expense for the year above that guided range. Total G&A expense for the third quarter was $53.7 million, an increase of nearly $18 million above the prior year quarter.

As Andrew said, we were very pleased to announce the $10 million donation to the Murphy USA charitable foundation, which is important to all of us here in El Dorado and South Arkansas. In addition to this donation, we also trued up some accruals for about $2 million, and the remaining variance was due to investments in new capabilities and the timing of certain project expenses.

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That wraps up my comments, so I will turn it back over to Andrew.

R. Andrew Clyde
President, CEO & Director

Thanks, Mindy.

I want to close with the final message to our existing shareholders and potential investors listening in. Our commitment to value creation through organic growth remains our highest priority and assure you capital will continue to flow to our highest-returning opportunities. When we have the right opportunities in the right markets to further accelerate our high-return organic growth program, we will allocate incremental capital commensurate with that opportunity.

Secondarily, we'll continue to use cash balances, free cash flow and an appropriately leveraged balance sheet to support other value creation initiatives, including share repurchase and dividends, with dividend preservation and growth receiving priority consideration now that we've initiated one.

Lastly, we will continue to explore and seek out M&A opportunities with distinctive capability-building synergy and reverse synergy potential to optimize the returns from both our new stores and any acquired assets.
With that, operator, we can open up the lines for our Q&A.

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Question and Answer

Operator

[Operator Instructions] And your first question comes from Ben Bienvenu with Stephens, Inc.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

I think the most notable kind of focus here on the quarters, and you provided a lot of good context and commentary is on the updated capital allocation thought process. And I think what I heard you say is while there might be a perception that a dividends signal potentially slow down in growth or a change or shift in your capital allocation strategy that's been so effective. I think what I heard you say is it's really supplemental. And I think you kind of demonstrated your commitment to the buyback, I guess, in buying the 700,000 shares late in 3Q, and then more in 4Q kind of price higher than here.

So I guess maybe help put into context for us, how you continue to think about how this evolves, maybe not in the near term, but over the long term. And you talked about accelerating growth for new stores in 2021. How long is that runway for store growth? I think that would be helpful for us to hear, too.

R. Andrew Clyde
President, CEO & Director

Yes. Thanks, Ben. It's a really good question, and I'm sure there's a whole lot of conspiracy theories or views about, oh, why this change? As you and I have talked about, and we've talked about with other investors, I mean, we simply just have a high-class set of opportunities in front of us. And if you think about having achieved strategic goals earlier, achieving the financial goals associated with those strategies earlier, generating superior free cash flow, including the outsized leverage in the current environment, I mean there's hardly a quarter that goes by that we don't have $300 million of cash in the bank, and yet we're continuing to buy back shares at an accelerated rate and growing at an accelerated rate. So I mean, the free cash flow machine in this business is, it's just capable of doing more.

As we thought first about accelerating organic growth, the reality is, we've already accelerated our organic growth and building up a pipeline to be able to do 50 stores a year on a sustainable basis. And from the target markets we've identified, we have a super long future of continuing to do that. So there is no constraint in the growth even in those markets. It's more about if we wanted to increase the pipeline from 50 stores a year to 75 stores a year, that would take another couple of years to build up that pipeline to do it. So we couldn't announce that we're going to do 75 new stores in 2021, because 50 was already a stretch. And if you went back a couple of years ago, we're only targeting 40 in 2021. So we've accelerated the organic growth to start with.

As we think about share repurchase and dividends, you can go from a repurchase-only model to a dividend-only model. Way out in the future, investors talk about a dividend plus model where you're mostly paying a dividend, complementing it with share repurchases. I'd like to use the phrase share repurchase plus, and to the extent that we continue to accelerate our share repurchases and obviously finishing the $400 million earlier, authorizing the $500 million program over the next 3 years is all supported by our shareholder value model that we present in front of our Board on a regular basis, our management team on a regular basis that shows that the future earnings potential from the existing business, the strategic initiatives, the NPI growth is going to generate a higher share price in the future than it is today. And so we remain very bullish on that.

But the reality is we are in and out of the market all the time, and there's a lot of volatility. We expect future volatility. And given that we are always sitting on so much cash, for which we don't earn a significant return, it's very easy for us to think about a $28 million to $30 million dividend, less than 10% of that outstanding balance, as a way to give something back to the shareholders on a consistent basis whether we're in or out of the market in that particular quarter.

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And it's really as simple as that, right? We have a high-class set of opportunities. We've accelerated the NTI growth. We can accelerate it further, but it's not something that we'd be deploying significant capital on in the next 2 to 3 years until you build up an even larger pipeline to be able to do so. So let me pause there and see if that addressed the essence of your question, Ben.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

Yes, that's perfect. Tacking on to that on the M&A, that's something we've heard about in the past, but I think you guys don't execute it really well in your business. I'm curious, when you think about buying someone else's business and layering on your execution skills, is it just that you need to justify the purchase price of the business?

I think about how in RV, your multiple is maybe lower than where it should be, and you might be in kind of an inverted area where you have to buy businesses at multiples in excess of yours and capture synergies or efficiencies to get that deal to be accretive. Is that the right perception? Am I misperceiving that? How do you guys think about making the math work on M&A if you truly want to buy a good business with good capabilities?

R. Andrew Clyde
President, CEO & Director

Yes. So it's a great question. Let's be real clear, we're not doing M&A for M&A's sake. We are not going to target average or below average assets that are towards the end of the life. we already have a very effective mechanism for acquiring those customers much more efficiently. So as we think about our larger-format stores, I mean, we are in the food and dispensed beverage business. It's not the made-to-order, with the kitchen, with the commissary-type model that many people think about.

But we have soda, we have dispensed frozen beverage, we have dispensed coffee, we have open-air dairy coolers, we have heated items and heatable items, et cetera. And to be honest with you, it's our least-developed category. And during COVID, it was effectively shut down. And we have made a number of strategic hires over the past few months. We've also been working very thoughtfully with our partner, Core-Mark, about what a very distinctive bet for Murphy USA & Murphy USA's format in customer offer would look like in line with a customer renewing our contract with them, which is going to provide additional benefits to us in this category. So we are all about enhancing a capability that's probably our least developed capability to get the most return out of our larger-format stores, right? So that's our priority.

But my prior background made it very obvious to us to me that, look, capability building is hard. And even though I think we have done an exceptional job at Murphy USA building and enhancing our capabilities, it would be foolish for us to think that we shouldn't look to the outside to say, is there an appropriate capability we could acquire. It's not going to be a massive firm, but on the other hand it's got to be big enough to have capabilities at scale. It's people, it's technology, it's process, experience. It could be brand, it could be platforms that are portable.

And you know what, there may or may not be one out there. But if there was, we would see synergies from what we bring to them, but more importantly, we would see reverse synergies as we think about accelerating the kind of returns we could get in our stores. And when we benchmark our stores to the other firms we've seen into next benchmarks, et cetera, we know there's a significant gap there. We've talked about several million dollars of opportunity already in our plans to get there, but there's bigger opportunities in front of that.

Whether you build or buy that capability, you're then in a position to then say, you know what, the synergies we could already bring because of our low-cost operating model, our advanced fuel supply chain, our exceptional merchandise supply chain and contracts, coupled with infield opportunities and markets that are target markets for us, coupled with these new capabilities could make M&A very accretive.

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What we don't want to do is just have run-of-the-mill, average-to-below-average, slightly accretive M&A deals. We could have been doing that all along. It's unlikely would have generated kind of returns, free cash flow and benefits to our shareholders that our organic path has led to. But we're simply further along than we thought we'd be a couple of years ago, and we're accelerating our organic growth and we need to improve one of our key capabilities to get the most return out of those new investments.

Benjamin Shelton Bienvenu
Stephens Inc., Research Division

Okay. My last question. You touched on the October trends as it relates to the gallons. You mentioned that the in-store was running still at elevated levels. Just curious, can you provide more granularity on how the in-store is performing through October? And then I -- on the gallons, how much of that improvement from what we saw in 3Q and I think even in September, the last update you had given, is a function of a compare? I think you had an easier compare in the fourth quarter. And how much of it is kind of what you're seeing relative to either the external environment or something that you guys are doing?

R. Andrew Clyde
President, CEO & Director

Sure. So I think from an external environment, October was good last year. And frankly, this year, we've seen, again, kind of a choppy market. So that kind of the teens, the low $0.20 kind of reflects that we've seen some volatility in rising prices. We certainly saw that at the end of September, so that wouldn't bode well for starting off the month of October. So from a market environment standpoint, we're actually comping a better period last year than what we're seeing this year.

In terms of what we're doing, we're clearly doing a better job on retail pricing excellence, and we're further down the road in terms of optimizing that capability. And so there'll be a positive benefit from that, which we've continued to see every quarter-on-quarter.

On the merchandise numbers, I don't have those right in front of me, but it's more of the same, holding our gains on the tobacco side, continuing to see destination purchases on some of the other key categories, and with the recovering traffic, seeing the attached categories rebound appropriately there as well. So generally, all very, very strong and good news.

Operator

Your next question comes from Bobby Griffin with Raymond James.

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

We appreciate all the detail and updated capital allocation strategy, very helpful. I guess, Andrew, first thing I wanted to talk about back when you kind of in your prepared remarks, you guys have been executing at an extremely high level, high-class problem of having cash and different avenues to spend it. Can you maybe talk a little bit about some of the back-end investments that are needed to support the bandwidth of being able to look into F&D as well as maintain organic growth as well as maintain some of the other initiatives that the company has been doing so successfully?

R. Andrew Clyde
President, CEO & Director

And when you say back end investments, are you talking about the CapEx outlook? Or are you talking about more other things?

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

Well, I mean, people, systems, just -- you guys have been executing very well. We're moving into another area of potential upside through this updated capital allocation strategies. How to maintain the bandwidth

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of the other organic growth stuff that's been going so well, too, is people that need to be hired, systems or anything of that sense going forward?

R. Andrew Clyde
President, CEO & Director

Sure. So what I would say is that if you just think about the organic growth, I think we have an exceptional asset-development team that has focused on our core markets and good partners that work with them, especially around the construction side of that, where I think our business got a priority during COVID because we never put the brakes on the business. So there's absolutely nothing that's changing or slowing down on that front.

We've challenged cross-functional team to say, how do we get the most out of our 2,800s, and we think about food and beverage, further store labor optimization, layout, et cetera. We have initiatives just to continuously improve and think about further optimization there. So as they get into a normal cadence of maintaining a pipeline. We had a building committee yesterday that looked at some incredible new NTI locations and raise and build -- rebuild locations. I would just say, we're just on a smooth-running cadence for all of those activities, and our store build plan continues to track along the way. So there's nothing really different that we're doing along this front.

In terms of one of our capabilities, Murphy Drive Rewards, we built it and we knew we had to build it to be successful around our 2 biggest categories, fuel and tobacco, and it has. And so now, we're effectively just going to point it to support other categories. And it's an incredible capability because it's also a great communication tool to let customers know that we have new products, or come try this product, and get their trial and conversion and acceptance. So we can create panels from our customer base to give us input on their taste and so forth. And so as I mentioned in the prepared comments, some of the capabilities we built over the last few years, we're already so far down the learning curve and have the base in place. We think the F&D capability could get advanced further.

We've made some strategic hires at the director and senior director level that have already come on board and are working closely. We've built out economics on all the different platforms, and have gone down to the store level detail to set expectations, new performance targets, et cetera, store by store. And I think we have a really good, I'll call it, the optimization machine approach to get the most out of every store. We're simply playing this machine at a new set of opportunities than we've pointed at before, and we recognize we needed to bring in some talent from the outside to be able to do that.

From an IT standpoint, we have a new Vice President of IT that's hit the ground running and help to sustain the remote work that we continue to do, the cybersecurity high results that we continue to get, and keeping all our systems up and operating as well as exploring what else do we need to be able to do to grow these other parts of our business.

So I also have a high-class opportunity, having built, I think, one of the most exceptional retail management teams out there, and together, we're all looking forward to that next challenge to move the business forward. And I think part of what we described here is we got to the first set of finish lines early.

What's the next finish line that we want to run towards? I think we have real clear line of sight what that finish line looks like. And we also have a lot of confidence of what the finish line looks like, which is why we authorized $500 million of share repurchase now because we have an anticipation of what the finish line will look like by the time that program is completed.

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

Very, very, very helpful. I appreciate that. And I guess second for me, I mean, when you think about the expanding capabilities, clearly on the larger next-generation stores, I mean, that can be very beneficial, when you look at kind of your powerful key offices that -- you do raise and rebuild of stuff, do you see further opportunities to kind of integrate any potential acquisition or any potential additional capabilities into those smaller formats that could drive even better upside out of those high-performing assets?

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R. Andrew Clyde
President, CEO & Director

Absolutely. I mean, our 1,400 square foot stores have a coffee program. We've got some stores, we pour out more coffee than we sell, right? We've got to improve that. And it's a whole set of capabilities that will allow us to do that better. Same with dispensed beverage, iced tea, open-air coolers, re-heatable items, grab-and-go, et cetera. And as I said, we're working on what we think are a couple of really unique, clever ideas that will allow us to come up with something that's fit for our formats, fit for our purpose and fit for our customers.

And if there's one thing you know about Murphy USA, we are not going to be a me-too late. Take that approach similar to Murphy Drive Rewards. We recognize our model is different, and so the ideas and the creativity and the innovation, we're going to apply to our unique opportunity set. It's going to probably look a little bit different than the average run-of-the-mill offer out there as well.

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

Okay. I guess, Andrew, lastly, I mean, I understand this is a little bit tougher of a question far out, but you look at the $500 million target next year, I mean if you had to pick 1 or 2 things that would cause you not to be able to get there from an industry standpoint, what would those be? Besides, obviously, an economic recession or something, but is it just the volatility around fuel margins? Or is it lapping the big merchandising growth and gross profit? Anything just to help us think about that number in context to some of the variables that you have to go up against.

R. Andrew Clyde
President, CEO & Director

Yes. So I would say there's no lack of conviction of finishing a $500 million program in the next 3 years. It's more about the timing of it, right? And if you think about anything that would cause you to say, hey, you know what, we're going to go slow, to go fast versus how we could go faster on the front end, like we did with a $400 million program, I mean, those are the things we're going to be looking for.

And look, there's a lot of uncertainty as we think about the current environment, the capital markets, the election, taxes, other regulations, et cetera. And so those things could have an impact on near-term EBITDA, et cetera. And those would be the things that we would be keeping a very close eye on it.

As you said, they're external, they're industry, they would affect all parties, et cetera. So it's less about where we expect to be at the end of that 3-year authorization, it's more of a timing in which we execute that. And that's why we thought a dividend was also very appropriate as well because if there's a timing period where we're out of the market, we are continuing to provide a consistent return of capital to our shareholders.

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

Thanks, Andrew. I don't think probably was not super clear in my question, but that's helpful in another asset. I was more looking at the $500 million EBITDA target for '21, and what you answered is very helpful indirectly, too, for modeling purpose and how we think about that.

But in regards to that EBITDA target, if there was a couple of things that would cause you not to hit it, what would that be, barring an economic recession, of course? Just some of the variables that you guys actually comp against to help us keep that in context as we're building out our models.

R. Andrew Clyde
President, CEO & Director

Sure. Well, look, I think the first fundamental is this new fuel volume margin equilibrium that we've talked about. And we continue to see evidence, as we've shared in this quarter and what we're seeing currently, that the market is behaving very rationally. There's nothing that says the market could wake up one

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day and become highly irrational for whatever reason. That's the single biggest driver of our expected variability in our numbers.

But just, as it could put that number at risk, you could see it having outsized benefits in 2021 also. So that's one that we saw this year swings both ways. Certainly, there could be regulations around tobacco, our second-largest category. I think Altria just announced a price increase, and we see benefits that come from that. But we could see tax increases or other regulations that could impact that. Fortunately, our market mix is such that we are in more favorable geographies than where the most tightened regulations and taxes tend to be.

I would say those are probably the 2 biggest items in terms of 2021 EBITDA. Any changes to regulations, minimum wages, et cetera, we certainly wouldn't expect that to transpire in such a short-term period, even with a new administration in the White House.

Operator

[Operator Instructions] And your next question comes from John Royall with JPMorgan.

John Macalister Royall
JPMorgan Chase & Co, Research Division

On the dividends, are the plans to keep a yield in line with peers or do you have a particular per-share growth target over time? Or any other kind of ratio of income or cash flows you're targeting? And I guess what I'm getting at is, would the idea be to eventually differentiate with the dividend or is it more just to kind of keep in line with peers?

R. Andrew Clyde
President, CEO & Director

Yes. I think it's a good question, John. I think certainly, there's at least 3 metrics most firms look at when they initiate a dividend, and we're clearly in terms of dividend-paying firms on the lower end of that. It's not only in line with the retail peers in our industry, but the broader retail peer group that we look at. And so we'll keep an eye on all the various metrics, knowing that there are some things like your share price or market cap, your shares outstanding, other things that certainly impact those metrics.

I think to the second question about, would it ever become a differentiator. I think that's the difference between what I call the share repurchase-plus model in a dividend-plus model. And I think we're still years away from a growth opportunity standpoint from moving to a dividend-plus model, where you differentiate on the dividend and your share repurchases to just supplement that. I think our view is that there's still so much upside in our business, value that's not captured in the current share price, earnings potential from the growth and the ramp of these new stores that hasn't built in.

We're going to be more bullish on share repurchases, complementing it with the dividend. And I'm sure there's some point in every company's lifecycle where it makes a transition to becoming more differentiated on a dividend, but we're nowhere near that stage given all the growth opportunities we have in front of us and the fact that growth isn't fully baked into our share price.

John Macalister Royall
JPMorgan Chase & Co, Research Division

That's really helpful. And then on leverage levels, you talked about the 2.5x max. Would you be willing to step outside of that for an attractive acquisition? And can you remind us if you have any covenants that restrict you beyond certain levels? I think in the past, you've talked about maybe 3 or 3.5x, but that might be a little stale.

R. Andrew Clyde
President, CEO & Director

Yes. I'll let Mindy tackle the covenant. But I think in terms of acquisitions, it would take something pretty significant, given our current cash balance, our current leverage ratio to move above 2.5x, and we could

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certainly do that. I think with our bonds trading at over 107%, we could effectively borrow money today at less than 4%. So we certainly wouldn't be concerned about doing that. But anything that we would do would get us quickly back below 2.5x very quickly.

And frankly, that's our stated goal. It's a great place for a business like ours to operate. It gives us a lot of free cash flow flexibility, and it gives us the opportunity to be flexible with a lot of opportunities.

Mindy, you want to add on to that, talk about the covenant?

Malynda K. West
Executive VP of Fuels, CFO & Treasurer

Sure. With regard to the covenants, both of our bonds that we have outstanding carry a 3x max leverage, which allows us to have unrestricted, restricted payments if we are below that, which affects, obviously, share repurchases and dividends. So as long as we stay within the 3x range,and we have a lot of freeboard between where we are now and there to even touch that, we can do unrestricted share repurchases and dividends.

Operator

Our next question comes from Carla Casella of JPMorgan.

Carla Casella
JPMorgan Chase & Co, Research Division

One question on the M&A front and related on the criteria. So I'm wondering if you had been seeing in turning down a lot of M&A opportunities in the past or if this will be a new exploration for you? And then also, any criteria you can give us to put our arms around the M&A process? Would you look at a either dollar outlay or leverage or multiple? Any kind of criteria you put around that?

R. Andrew Clyde
President, CEO & Director

Yes. So one thing we'll have to get used of saying is we don't comment on any specific transactions or ones in the past. But I've said publicly, we've looked at a lot of transactions. I'd say, we're probably not in the deal flow on all of them because most of them would not have been attractive to us in the first place. But we have looked at a lot.

We have the capabilities to analyze, do the due diligence. If you think about how we dissect and look at our business, we absolutely have the horsepower to get inside and look at other businesses and be honest about where we see the opportunities. And we have a great set of advisers that support us on a variety of initiatives to help on that front. So with respect to anything in the future, I think we've been pretty clear, right?

I mean, our initial focus is can we complement the organic capability, building efforts we are undertaking to get the highest possible returns out of our larger formats by acquiring that capability on the outside, right? So that means they have the capability. It's distinctive. And the key thing you would see there is it should have the ability to port the capabilities in some of those platforms to our stores. And so in that case, it would be as much reverse synergies, but I couldn't help but think that there would be other synergies associated with that from the benefits of our business is advantaged. And so that's the primary focal point as we sit here today.

We do have target markets that we are focused on, that we are growing our NTI efforts in, et cetera, and those strategic markets could present opportunities as well. And as we look at just the normal type of synergies that we got -- we could get from those, whether it's in the fuel supply chain and leveraging the proprietary capabilities we have there, whether it's our ability to optimize stores, which I think really is a distinctive capability and which is why lot of the stores out there that we have seen having EBITDA per store much lower than ours is that they're not fully optimized. And then I think we have a superior supply contract from our scale.

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And so it's not that we couldn't get synergies out of some of the transactions that have taken place today. We'd want to make sure that we're getting a capability with them or it's a very strategic access to markets where we're already planning on growing anyway. So that gives you a sense of how we would look at it. We're not going to do M&A for M&A's sake and go out and acquire less-than-average assets at a premium.

Carla Casella
JPMorgan Chase & Co, Research Division

Okay. Great. And then just one clarification or a follow-up, I guess, on the food and beverage increased focus. It doesn't sound to me like you're considering switching to a bigger format. But just wanted to hear that from you.

R. Andrew Clyde
President, CEO & Director

That is correct. We believe the 2,800 square format that we have can deliver very efficiently and effectively all the things our customers are looking for. I think there's a chasm you jump between that and a made-to-order model which requires 5,000, 6,000, 7,000 square feet, $5 million, $6 million, $7 million to build, 2 acres, et cetera. One of the best-looking stores in our building committee yesterday was on 6/10 of an acre. Quick trip, cheap wall, law firms we always admire couldn't build their format on less than 2 acres. We can still build our modular 2,800 square foot store there.

The key for us is to come up with a distinctive offer for food, dispensed beverage, hot and cold, et cetera, that we're already putting the platforms in our stores and getting the most out of there.

So yes, definitively, no, we're not looking to start building bigger stores. It's getting the most out of the high-return stores we've already got. And our view is that with those even higher returns that gives us the confidence to even further accelerate our organic growth in the future.

Operator

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

R. Andrew Clyde
President, CEO & Director

Great. Well, thanks, everyone, for joining today.

I know we hit everyone with a lot, especially with our second announcement, but I think we've got some great questions today. And I hope the clarity and conviction behind our answers to the really good questions gives you a clear sense of where we're going with our business.

We're really excited as we're beginning 2020 in the rearview mirror. We have a lot of exciting things in front of us in 2021. Thank you all.

Operator
That concludes today's conference. Thank you for your participation. You may now disconnect.

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