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EDITED TRANSCRIPT

MUSA - Q4 2015 Murphy USA Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 04, 2016 / 4:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Murphy USA Inc. Q4 2015 earnings conference call.

(Operator Instructions). As a reminder, today's conference is being recorded.

I would like to introduce your host for today's conference call, Mr. Christian Pikul. You may begin.

Christian Pikul - *Murphy USA Inc. - IR*

Thank you, Kevin. Good morning, everyone. Thank you all for joining us today.

With me are Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donny Smith, Vice President and Controller.

After some opening remarks from Andrew, Mindy will provide an overview of the financial results, and then we will go back to Andrew, who will give us some additional insight into the guidance we issued, and then we will open up the call to questions.

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 these 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 Murphy USA Form 10-K, 10-Q, 8-K, and other 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 release, which can be found on the investor section of our website.

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

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Thanks, Christian. Good morning and welcome to our fourth-quarter 2015 conference call.

I hope you all had time to read through the earnings press release we issued last night, where we reported net income from continuing operations of $29.2 million or $0.69 per share in the fourth quarter. It's been a busy couple of weeks, starting with the announcement of our new independent path for growth, our share repurchase program, and the expected sale of our last non-core asset. So on today's call, there are a handful of key points that we would want you to take away.

The first point is that Q4 completes a strong 2015 year on earnings performance. As we noted in our Q3 call, we were looking to meet or beat our guidance estimate on virtually all of the key metrics outlined, with the exceptions of, one, fuel volume, which was trending less than 1% off versus the prior year on a per-store basis and coming up against the record Q4 2014 comparable period, and, two, product supply and wholesale, which was facing a difficult, long, and unconstrained refined product environment with additional pressure on rack prices, due to the continued high RIN prices, which we stated would provide an offset as we're a major beneficiary of RINs with our proprietary supply chain.

We finished the quarter with $0.124 retail fuel margin and the year at $0.125, right in the middle of our long-run outlook of $0.12 to $0.13, which is the upside scenario we gave sitting here at this time last year. So we feel very good about the full-year earnings we produced, and the business as a whole performed in line with our plans and expectations.

The second point is the fruits of our labor on our performance improvement initiatives are coming to life in 2016. The benefits are clear and tangible in virtually every part of the business. While there is still work to do as we move into implementation over the course of 2016, the incremental benefits, as shown in our guidance, are significant and set up for an even stronger 2017 as you get to the full run rate for current initiatives and begin to deliver on new initiatives we will launch in 2016.

The takeaway is you are just starting to see the potential of this business. Since the spin, we will have fundamentally improved the competitiveness of our business by over $0.015 per gallon, as measured in our fuel breakeven metric, and we will continue to become even more competitive.

The third point is that our focus on performance improvement didn't compromise our ability to deliver robust unit growth. In fact, we added stores at the fastest pace since 2006, adding 73 stations to the network, 44 of which were delivered in the fourth quarter.

We also accelerated development of our already robust land bank that will allow us to extend our organic growth beyond the locations we purchased from Walmart. When compared to where we started in 2015, by the time we finish 2016 we will be operating in three additional states, Nevada, Utah, and Nebraska, as we open Murphy Express stores in those markets as part of our independent growth plan where we target high-return unit growth in attractive markets.

The fourth point is that we are committed to long-term value creation for this business. We have demonstrated time and time again we can be patient and thoughtful when it comes to monetizing our non-core assets, as evidenced by the $98 million in final proceeds from the Hereford ethanol plant sale and, as announced yesterday, the expected sale of the CAM crude pipeline system for $85 million. This diligence will benefit shareholders as we execute up to $500 million of share repurchases over the next two years.

Last, we are extremely confident in our independent growth plan. I hope we were able to convey that in our special call last week and answer most of your questions.

I also believe that when you look at the entirety of the points I've just made, we are very well prepared to take this path, and now that we are on it, we will continue to maximize our potential and the value of Murphy USA.

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Let me make a few comments about the fourth-quarter results. Operating earnings per share of $0.69 fell short of the consensus analyst estimates, which were a little over $1.00 per share. While there are several different factors in play, what stands out to most of you is the fuel performance.

As we noted, our retail margin fell right in line with our long-run outlook for the year and the quarter was in line as well. Versus all the scenarios we projected for 2015 at this time last year, it turned out to be a good year with normal level volatility over the course of the year. Prices fell by $0.22 in the fourth quarter, compared to $1.15 last year, so there is no comparison to Q4 to last year. The latter half of this quarter was a relatively flat price environment, which is not as strong for retail margins. We did see continued downward prices as we entered January 2016, which is positive relative to 2015 where prices rose $0.13 in January.

While our total volume increased 3.6% overall and we grew market share ahead of marketwide demand of around 3%, our per-store volumes maintained the less than 1% decline we experienced earlier in the year by not repeating the enhanced fuel discount program. In fact, our per-site volume matched that of 2014. While we opened 44 stores in the quarter, those openings and the associated fuel volume was backend loaded in the quarter, which may have impacted some of the estimates for our overall volume as well.

Clearly, the product supply and wholesale gross margin underperformed versus our 2015 guidance, which we addressed on the Q3 call. Throughout the year, refiners enjoyed good crack spreads and ran at high utilization rate, while systemwide inventories were well above average.

Besides a lot of product, there were a few constraints, as evidenced by the premiums on pipeline line space, like Colonial Pipeline. These factors weigh on the wholesale markets, and when you add high RIN prices, which continued to rise after the RFS announcement, it impacted this part of our business as the spot-to-rack retail transfer price is depressed, as is the wholesale margin. You do not see an offset -- you do see an offset with the value generated from RIN sales, which we could not capture without the proprietary supply chain. You did not see a counterbalance in retail margins because in the competitive world we live in other low-price competitors bought at lower wholesale prices and remained competitive on the street.

If you add the combination of the gross margin from product supply and wholesale and the RINs and divide over the total retail gallons sold, you actually see a fairly consistent incremental $0.025 per gallon over the past two years. So as we discuss guidance later in the call, please keep this interplay in mind.

I believe the rest of the quarterly results are pretty straightforward from the release, and Mindy and I can address any open questions in the Q&A section. So with that, I will now turn it over to Mindy for a closer review of our financial results, and then I will come back and provide some additional color on our 2016 outlook.

Mindy West - *Murphy USA Inc. - EVP, CFO*

Thank you, Andrew, and good morning, everyone.

As Andrew mentioned, income from continuing operations was $29.2 million, or $0.69 per diluted share. Reported net income of $66.7 million, or $1.58 per diluted share, included a gain from the sale of our Hereford ethanol plant, which contributed $37.5 million, or $0.89 per diluted share, of income from discontinued operations. Both of these metrics compare to a very strong fourth quarter in 2014 EPS and EPS for continuing operations of $2.13 and $2.04, respectively, as fuel margins moderated to more historical levels this year.

Total revenues were $2.93 billion in the fourth quarter, compared to $3.55 billion the same quarter last year. That decrease was caused primarily by lower fuel prices, partially offset by an increase in store count.

The effective tax rate for the quarter was 34.3%, and that lower effective rate was primarily due to true-ups of prior-year tax returns and anticipated tax credits that were reinstated late 2015.

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As of December 31, 2015, our long-term debt remained unchanged at approximately $490 million, resulting primarily from the senior unsecured notes. Our asset-based loan, meanwhile, remains capped at its $450 million limit and is subject to periodic borrowing base determinations, which currently limits us to $134.5 million. At the present time, that facility continues to be undrawn.

Cash and cash equivalents totaled $102.3 million at year-end, providing us with a net long-term debt position of $387.9 million. Not included in the 2015 year-end cash balance is restricted cash of $68.6 million related to unspent sales proceeds from the Hereford ethanol plant sale that are currently being held by a third-party trustee in order for the Company to participate in like/kind exchange transactions to defer tax gain on the sale of the plant. This restricted cash is included in non-current assets on the balance sheet at December 31, 2015.

No shares were repurchased during the fourth quarter, but for the full year, $248.7 million was used for the share repurchase program, leading to the reduction in shares outstanding. Subsequent to the beginning of the year, we announced a new share repurchase program of up to $500 million to be completed by December 31, 2017, as part of enhanced capital allocation for our independent growth plan.

Capital expenditures for the quarter ended were $53.7 million, compared to $51 million for Q4 last year. Current-period expenditures included $48.1 million for retail growth and $5.6 million spent on retail maintenance items.

Now I will go ahead and lay out our CapEx plans for 2016 as a prelude to Andrew's discussion of guidance. We have established a budget between $250 million and $300 million this year, broken down as follows. The main share, of course, goes to new store growth and we are allocating roughly $175 million to $225 million for the addition of 60 to 80 stores. $5 million is allocated per terminal and that results in growth CapEx of up to $230 million total. Then we have $40 million for maintenance CapEx, which includes a continuation of our refresh program at 300 stores, along with doubling our super-cooler installations to 120 locations this year, as well as ongoing normal maintenance.

We have included $5 million of capitalized expenditures for our ASaP program and that leaves approximately $25 million of expense at the corporate level. At the end of last year, we took total possession of our corporate headquarters building and this year we will begin a major remodel, which includes replacement of various hardware, HVAC units, and also an interior upgrade, which has been largely untouched for 30 years.

So that summarizes our CapEx program for 2016, and I will now turn the call back over to Andrew.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Thanks, Mindy, and that's a perfect segue into a more in-depth discussion surrounding our 2016 guidance, where I will touch on all the key aspects of our business.

Starting with fuel volumes, we are looking at per-store volumes of between 265,000 and 275,000 gallons per month. This is a guidance range with a lot of moving parts and assumptions. We aren't betting that market demand will grow another 3%, as we saw in 2015. We also don't expect an enhanced fuel discount program will be put in play. We see ongoing competition from new sites, just like our competitors feel that when we open a new site, but we are also increasing our percentage of larger-format stores in the system, which generate higher per-store volume.

In the end, we expect a performance variation of plus or minus 1%, which is consistent when you look across 2014 and 2015 results. Coupled with the timing for new store openings, we are forecasting between 2% and 6% total volume growth in 2016.

As far as fuel margins go, we are tightening and slightly increasing our forecast range, which we now expect to approximate $0.1225 to $0.1325 per gallon. As mentioned in the release, we expect to see some benefits from various improvement initiatives, which taken together help boost those fuel margins. Also as noted, a $0.01 per gallon increase in fuel margins can swing earnings per share by roughly $0.60 to $0.65 per share on an annual basis. So we consider a $0.25 per-gallon increase to be both a meaningful and sustainable change.

While this becomes our new long-run outlook, we can all appreciate how volatility can impact axle performance, both higher and lower, in the short term.

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On the product supply and wholesale front, we expect overall crude and refined product prices to remain range bound for the year and expect to see normal volatility patterns over the course of the year. We believe the gross margin range of $25 million to $45 million reflects the potential of this part of our value chain in the current environment.

The estimate is down in part due to a higher starting position on RIN values and the interplay we have discussed. It is also down to reflect slightly lower wholesale volumes overall as our retail volumes increase and use a higher percentage of our proprietary barrels. RINs, of course, are a source of strength in the PS&W portfolio, given our ability to ship over 50% of our retail barrels and blend the ethanol ourselves.

RIN prices jumped late in Q4 to the $0.65 to $0.70 range and have more or less stayed at that level. Nevertheless, while this pricing strength has led us to increase our expected price range versus 2015, we are maintaining a more prudent range for planning purposes of $0.30 to $0.50. If RINs remain at high levels, one should expect the refiner marketer behavior that is associated with high RIN prices to put pressure on other parts of the system.

At the end of the year, we expect that the combination of value from product supply and wholesale and RINs combined can generate an incremental $0.025 to $0.028 per gallon when divided over our total retail gallons, and we're seeing that level of combined performance now on a consistent basis.

Total merchandise sales continues to grow, both as a function of new stores, more larger-format stores in the mix, and per-store improvements, like the refresh and super-cooler investments and new merchandising capabilities. As indicated, margin should show demonstrable improvement as the benefits of our new Core-Mark contract begin to hit the bottom line, which will show up primarily in tobacco contribution.

We're very proud of our ability to hold station expenses virtually flat in 2015, excluding credit card fees, which is never easy to do in any commodity retail business, much less one characterized by continued wage pressures. In 2016, we expect to do better than flat and forecast a declining per-store expense profile of 2% to 4%, directly attributable to the first wave of our ASaP initiatives, where this will show up primarily in lower labor hours and shrink.

It is also important to note that the projected decrease was offset by a continuation of the 300-store refresh program, for which a portion is expensed versus capitalized. So by running our stores more effectively and efficiently, we are generating incremental profits to reinvest in our business for the long term.

SG&A will show a modest increase this year from $129 million in 2015 to between $130 million and $135 million as we continue with the implementation of the current ASaP initiatives, which include some systems investments, the launch of some new initiatives, and renovating a 30-year-old building. Our long-run SG&A rate will be lower after we complete the ASaP program, but the tangible benefits that we are realizing clearly support the reinvestment in our people, processes, and technology.

We expect to add between 60 and 80 new stores this year as we build out the remaining Murphy USA stations left with Walmart and leverage our land bank for our Murphy Express locations. About 50 of these stores will be Murphy USA locations and we expect to complete 10 raise and rebuilds included in this figure, so our land bank will continue to grow net net in 2016.

Of course, we won't be able to achieve any of this without the hard work and dedication of our team, so I'd like to thank each of them in advance for their efforts in 2016 and for a strong 2015. Thank you for your time and, with that, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ben Bienvenu, Stephens Inc.

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Ben Bienvenu - *Stephens Inc. - Analyst*

Thanks. Good morning, everyone. So I'd be curious, you gave pretty strong guidance on the merchandise margin side. At the same time, it looked like nontobacco merchandise margins were down a bit in the fourth quarter. I'd be curious to hear what happened in the fourth quarter, and then how much of your expectation for stronger merchandise margins in FY16 is a product of Company-specific initiatives and then how much of it is related to Core-Mark.

Mindy West - *Murphy USA Inc. - EVP, CFO*

Ben, I can take the first part of your question of what happened in the fourth quarter. During the month of October, we had a one-time rebate adjustment of almost $700,000 and that was reflected in the reduced margin for that category for the full quarter.

Ben Bienvenu - *Stephens Inc. - Analyst*

And then for guidance for next year, sort of thinking about the pieces that are reflected in that expectation for higher margins.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

So you've got Core-Mark, which is going to show up primarily on the tobacco side on a per-store basis. You've also got continued improvement across the other categories as we continue to grow our mix of larger-format stores in the mix.

We will also have additional merchandising initiatives, including continuing to optimize our promotions. The beverage program will continue to benefit at the existing stores from the super-coolers. The refreshed stores also show a small uptick in both merchandise and fuel improvement as a result of that program.

So it's really the sum of the parts. I think the single biggest item that will probably show up will be the improvement in tobacco margins reflected from the Core-Mark contract.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay, great. And then, just looking at the fourth quarter, retail margins were a little bit lower than I would have thought. I know that it looked like profitability in the broader market on a fuel margin basis moderated as we moved through the quarter. But I'd just be interested to hear sort of how that played out for you all, and then how you balanced price that you might put on the street versus margin and trying to maintain market share with gallons.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Sure, so -- and you are right. We were comping against a significant Q4 last year where we saw a $1.15 price reduction in which we picked up a lot of volume as part of our pricing tactics during that period.

So we are conscious of maintaining some level of that volume, but doing it in a prudent way because, as we know now that we've entered January, the market margins are attractive and so you want to optimize per site your volume margin equation.

One thing that I will say is that with the lower wholesale rack prices and few constraints in the system, the availability of more low-priced barrels benefits everybody. And so, other low-priced competitors were able to acquire price at the rack low prices and be competitive on the street. And you compare that to an environment where the pipeline system open [arbs], etc., create constraint, which elevate not only the low price, but the

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number of barrels available at the low price. That is a key form of value in our model where we are able to acquire product in at a lower price than others, even if the refined product market is long.

So we had both the combination of a long environment and virtually no constraints in the system, which created more of an equal playing field in that environment versus some of the periods we've seen in the past where tightness in the system actually helped us significantly because we had those proprietary barrels and those pipeline spaces.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay. That's helpful, thanks. And then, shifting gears a little bit towards expenses for next year, it's a meaningful reduction relative to this last year. What are some of the specific aspects of your ability to achieve that reduction in dollars year over year that you are doing either at the corporate level or at the store level?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Most of this is at the store level, and what we were able to do in 2015 is design and pilot our new-store operating practices that take better use of down time, follow standard operating procedures, and optimize the work that's done by each cohort at the store.

And what we will be rolling out division by division in 2016 is that program. And it was one of the things, frankly, when I joined in 2013 I felt, wow, this is probably a very low-cost model from a labor standpoint because there's not a lot of people working on the store at any given time. But when we got out in the field and did the time and motion study and looked at the inconsistencies and practices, we actually found a significant variability in how work was getting done, and part of that is just a reflection of the growth trajectory the Company had been on.

And so, those turn out to be very meaningful reductions in hours on a per-site basis and a shift in the mix in the work. That also better positions us for some of the labor rate changes where if you are required to pay overtime on salaried employees over a certain level, we now have a much, much better handle on the store manager hours and how they spend their time and we can redirect that work to the most efficient employee at the site.

We've also looked at the inventory at our stores and believe there will be a significant reduction, one, in working capital this year and again next year, which will pay for most of the ASaP initiatives in total, but it also reduces the amount of inventory you have to count, the amount of inventory that will get damaged or might shrink or if there is a break-in and it gets stolen.

And I can go on and on, but it's a lot of this fundamental blocking and tackling that we've been talking about for most of 2015 that we are going to be rolling out division by division. So I think if you listen to the comment about 2017, we will get to the full-year run rate by December, but even if we just stopped there, we would have benefits on top of that run rate in 2017 because you'd have the full-year run rate.

Ben Bienvenu - *Stephens Inc. - Analyst*

Got it. That's great. And then just one last quick one for me, is there anything in terms of the operating landscape -- I know it's ever changing and dynamic, but anything that's changed materially from quarter-to-date trends relative to the fourth quarter? And to the extent that you can talk about quarter-to-date trends, how does the business look?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

As we noted, prices are down I think like $0.11 quarter to date or through the month of January. Average prices were up $0.13 last year. In the latter half of Q4, prices were relatively flat. So January was a down month compared to a relatively flat December would be more attractive from that standpoint.

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From a demand standpoint, our latest estimate is that in our markets demand in those states will improve about 3%. It's too early to get a handle on what demand on a macro basis is doing in January. Colonial Pipeline system was down for a couple of days this past week, but there's just so much inventory sitting out there, Ben, it's not going to have a major dent compared to a longer outage in a more normalized inventory environment.

Ben Bienvenu - *Stephens Inc. - Analyst*

Understood. Thanks and best of luck.

Operator

Bonnie Herzog, Wells Fargo.

Bonnie Herzog - *Wells Fargo Securities, LLC - Analyst*

Good morning. So I guess, Andrew, I have a question on your PS&W business. I'm still having a really hard time forecasting this business and your reported gross margin dollars were actually negative last year, which was well below your guidance, and I know you suggested I think in your third-quarter call that it would be below, but it was negative. So I guess I'm trying to understand how much visibility you really have in this business and how confident you are that you are going to achieve your guidance this year.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

So let me describe how we make money in this part of our business and just put a little color around the piece parts.

The first part is what we call our transfer to retail. It's the difference between where we buy product in the spot market on a proprietary barrel and where we sell it, using a transfer price of the [obislow]. So if you've got an environment in which you've got lots of product out there -- high RINs, no constraints, there's more barrels being sold at the low price, which brings that number down.

So we've got a lot of transparency into that, and those that have gone and modeled this part of our business look at those things, like the refining utilization, the inventory levels, the pipeline premiums, etc. So we have a good handle on it, but it's one of those things that you've got little control over that part of the market, from an ability to influence it.

The benefit, though, is the RINs that you get from shipping your own barrel and, when there are constraints in the system, the additional uplift you have not only in the spot-to-rack prices, but the fact that if rack prices rise across the board because of the constraints, there are more high-priced barrels out there and your low-price position benefits you significantly. So there's a lot of upside associated with that.

We've never tried to define how much of the spot-to-rack margin gets depressed because RIN prices are over $0.30 or $0.40 or $0.50 or $0.60, but we know that the behavior by the refiner marketers whose next best alternative is to dial back refinery runs, which they are not going to do when crack spreads are high, or look to export, especially if the export markets are constrained. They are going to put those barrels out there.

So the question is, what do you believe about the market outlook for the next 12 and 24 months for this part of the business? And if you believe that RINs maintains some level over $0.50, you can get to a number that's been pretty consistent over the last two years of about $0.025 per gallon when measured using our total retail volume.

The other way we make money is we sell wholesale. We sell a lot of diesel through our proprietary terminals and we sell incremental gas and diesel at all of the terminals that we sell retail through. And part of that is a function of managing demand and making sure we are using our line space so that we can turn wholesale off and sell more retail in periods like Q4 last year, but also moderate as necessary.

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If you dial back your wholesale and then dial back your shipping, you would ultimately start losing that line space, which is a critical advantage, which also allows you to capture the RINs. So, again, there is some interplay there driven by the market dynamics. A big portion sometimes will come from ag demand from diesel and depending on the planting season, etc., so we have a good handle on that, but it's not something that we can control ourselves in terms of the quality, nature, or timing of the planting season.

You know, the last piece is the timing variations that happen whether you are in a rising or falling market, and those things will sort themselves out over time. But we know last year at the end of the year, we had a huge falloff, and that lag effect in terms of when you buy barrels and when you book them into your cost of goods sold creates a timing variance. We didn't see as much movement on that in 2015 in either direction.

And so, that's a little background in terms of how it works, our ability to control it, when you add up all the pieces what we expect to get out of it. And I feel very confident that we are going to get north of $0.025 a gallon on this business on the 4.2 billion gallons that we've projected for our retail business to sell. If more comes out of RINs and less comes out of the spot-to-rack transfer price, we are not going to lose sleep over that, and we're happy to host you and all your peers for a session to actually go through this in detail and some of your peers have actually done that. I think it's been very helpful because their numbers have gotten a lot tighter on this front.

Bonnie Herzog - *Wells Fargo Securities, LLC - Analyst*

Okay. That's really helpful. I appreciate that color.

So bottom line, it seems like, based on your comments about RINs and what you just discussed, your guidance seems to be pretty prudent, to some extent, at this point in the game this early in the year.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

I think any time a CEO puts guidance out there and it's of this magnitude, especially when you look at the EBITDA growth, I'd call it more than prudent. I'd call it confident.

Bonnie Herzog - *Wells Fargo Securities, LLC - Analyst*

Okay. Thank you for that. And then one final question, if I may, on your tobacco business, you mentioned that you had a rebate in OTP, so I'd be curious to hear what this was. And would your tobacco contribution have been up without this? And then if there's a way to kind of drill down a little bit further on your new relationship with Core-Mark, you mentioned that it's going to be a positive impact, but is there a way to quantify how positive this will be for your tobacco business this year?

Mindy West - *Murphy USA Inc. - EVP, CFO*

Bonnie, to answer your question about the rebate, it was an overaccrual of some rebates that we discovered and corrected in the fourth quarter. Had we not had that charge, the contribution would have been closer to flat. It would not have been an increase.

Bonnie Herzog - *Wells Fargo Securities, LLC - Analyst*

Okay.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

With respect to Core-Mark, we did a 10-store pilot, and then we've been rolling out the stores over the last few weeks.

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I was at the store yesterday in Florida and they were about to get their second order. You talk to the store managers, they are very pleased with how it's going and how the rollout is going. So we will be wrapped up with that shortly, and so we will be accruing those benefits for most of -- 11 out of the 12 months for the year. But they are very committed.

We've established great relationships at the top and with all the division presidents. We had our national manager meeting in Orlando and most of the divisional presidents came out and met their regional director counterparts on our side and the whole set of things we are going to do to just continue to get this setup from the start in a very positive way, but we're excited about it and the potential and I believe they are as well.

Bonnie Herzog - *Wells Fargo Securities, LLC - Analyst*

All right. Thank you.

Operator

Matthew Boss, JPMorgan.

Matthew Boss - *JPMorgan - Analyst*

Good morning. So first question on the fuel margin, could you just walk us through in a little bit more detail some of the specific improvement initiatives that really give you this comfort and confidence raising the long-term fuel margin outlook?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Sure. So there's a number of things going on in kind of the market landscape. We're seeing higher margins on diesel, and as we continue to add new stores, we are going to have more of the pumps selling diesel and we're also increasing our diesel price signs on stores, and so a lot of that is going to be execution to take advantage of the trend out there. And so, we will just have a higher pool margin as a result of that.

We've looked at the pricing of our midgrade and premium products in the marketplace, and we will have optimized the spreads and how you manage the spreads in rising and falling markets to eke out some more pool margin from the mid and premium grade products, which are actually selling more of in a lowest price environment, so that in and of itself contributes to the higher margin, although that part of it is not as sustainable because that will go away when prices go back up to $4.00.

We've instituted a new best buying system that we are piloting with our carriers called Tele-point that allows us to better optimize where stores get their loads from and have higher assurance that, when dispatched, those carriers will go to those stores, and we've also developed a mid-office risk management capability where we are able to purchase using Nymex contracts to set the price, where we were having to go through a very limited number of counterparties in the past, and we expect that the flow through as well.

So it's a lot of small pieces that add up to that $0.0025, but as we know, $0.0025 on 4 billion gallons is worth about $10 million.

Matthew Boss - *JPMorgan - Analyst*

Great. And then just a follow-up on capital allocation, when are you actually able to be back in the market again buying back shares? Any governor on the amount of buyback this year as it relates to the $500 million authorization? And then, finally, I'd just be curious, Andrew, your thoughts in general on the value of your stock today.

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Mindy West - *Murphy USA Inc. - EVP, CFO*

The next open window would be this next Monday where we could be in the market. And as to amount and how much of the $500 million we would allocate and spend in 2016, we would have to measure that against the opportunity set and if we were to see some growth opportunities that exceeded our hurdle rates, then we would deploy capital that way, so really it's just opportunity driven, as well as stock price driven.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

In terms of value of the stock, when we started this call it was down about $3.00; now it's down about $1.50, so it's improved.

We've got a shareholder value model that's not dissimilar from all the ones that you guys produce, and when you share data on that in the form of the multiples and the unit margins we are projecting for the long-run business, you get numbers that are in line with your price targets.

There's a big range there based on your unit margin projection. It gets bid up when we have a period like January of last year where people were project long-run margins well above $0.13. You would have to believe they would be north of $0.14. When they get bid down like they were in the middle of the year when the stock was back to below $50, then you have to project long-run margins of $0.11.

So there's a lot of movement in the stock, which I think is just a function of kind of short-term views of the long-run projection that get raised up and down, but there's a midpoint in there and we know what that is and we will be prudent about how and when we buy our shares based on that.

Matthew Boss - *JPMorgan - Analyst*

Great. Best of luck.

Operator

Damian Witkowski, Gabelli & Co.

Damian Witkowski - *Gabelli & Co. - Analyst*

Good morning. Andrew, I want to stick with a view of volumes and just sort of try to reconcile the difference between the market growth and your own same-store sales results. And I think if I understand correctly, you said that in your markets, and I'm not sure how you measure it, but overall fuel volume demand -- or fuel demand increased about 3% in 2015. Yet if I look at your same-store sales, they are down.

And I'm just not sure if it's just simply because you are cannibalizing your own stores, if there's that much more new competition entering the market, or is it the fact that you serve the Walmart consumer and maybe as fuel prices decline, they actually have more money in their pockets and they buy more at a single shopping trip and, as a result, don't go to Walmart as often as they used to. So just help me try to understand the difference.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Absolutely. So market demand affects the whole market, but then you've got to divide that by the number of sites. And so for us to grow 3.6% when the overall market grew 3% is clearly a function of the fact that we added 73 sites over a base of 1,260-something sites.

But good competitors aren't sitting still. They are building new sites as well, and so if we build one next to one of their stores, they are going to lose a little volume. If they build one next to one of our stores, they are going to gain volume in the chain because they added a new store, but it's going to take away a little of our volume.

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So when you kind of march out over time, on a per-store basis what you see is a small decrement in the existing stores offset by improved per-store volumes from the new stores that we are building. And when you look at the same-store decrements, you've got to get into market-by-market specifics. Some of it is a new competitor has come in. In other cases, two weaker competitors may have closed.

We also have made the refresh improvements where we are starting to see a slight uptick in volumes at those stores that really haven't been touched in over a decade, in most cases.

So, this is a business where your existing stores are going to fight and claw onto their existing volume. You've got to continue to invest in them, innovate.

To your point on the consumer, on the margin the price sensitivity for gasoline declines at these price levels. So the customer on the margin isn't going to go quite as far out of their way to get that lower price, compared to if gasoline was at $4 a gallon. So when we finished the year down less than 1%, you attribute it to the fact that we didn't repeat the Q4 where we grew volumes. I think the number was close to 1.7% in that quarter. We didn't repeat the summer discount program from the year before. I think we were being pretty scrappy at our existing sites to maintain that level.

The other thing I would point you to is the amount of emphasis placed on a plus or minus 1% change in per-store volume relative to the improvements that we have talked about in our merchandise contribution and the store operating expense improvements. So if you think about your overall competitiveness, you are much more profitable at every one of those stores as a result of those fundamental improvements to your business, which then allows you the opportunities to continue to reinvest in that business and sustain that volume for longer.

Damian Witkowski - *Gabelli & Co. - Analyst*

And then, Andrew, now that you are sort of done with Walmart, at least for now, any changes to your pricing strategy at the pump? And I guess what I'm really getting at, would you actually consider maybe becoming more aggressive and trying to maximize the gross margin a little bit more now that you don't have to worry about as much as to what Walmart does?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Walmart has no influence on how we price.

Damian Witkowski - *Gabelli & Co. - Analyst*

Okay, but I would imagine that -- if you were hoping to get a next bunch of stores open, you would actually make sure you kept your prices low, simply because you wanted to measure the understood -- the benefit you were providing them. But it doesn't sound like you are really looking at changing your strategy at the pump in terms of pricing at this point.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

No, we follow the rules of price elasticity to set our price. And if you attract the bottom of the market price-sensitive consumer with the right low price, you are going to get this much higher per-store volume. And if you start pricing $0.01 or $0.02 above that, which I think may be what you were suggesting, when you are the low-price guy and you lose your low-price position, in the short term you may gain some gross margin dollars, but you quickly bleed off volume and you lose that advantage over time. It is a recipe for disaster.

And our relationship with Walmart or the position of that has nothing to do with how we set the price. We're positioned where there's a lot of low-price conscious customers and you attract them with a low price. It's as simple as that.

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Damian Witkowski - *Gabelli & Co. - Analyst*

Thanks, Andrew.

Operator

[Paula] Rosenau, HighTower.

Pamela Rosenau - *HighTower - Analyst*

Hi, good morning. It's Pamela Rosenau, as you know. I always believe that over the long term rationality prevails, and I wonder -- we talked qualitatively in your previous call about Walmart and about particularly your barriers to entry, your capabilities that are very, very hard to replicate. I wonder at seven times cash flow, which is where your retail fuel business is selling now, what would it cost them to replicate your business? I would imagine it would cost much more than that. If you could elucidate on that for me, thank you.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Thanks. I haven't looked at what it would take them to do it and I don't know what their specific goals and objectives are in terms of how far they want to build out their capability in this business, so I really, really can't answer that.

As I think I commented to your question on the prior call, some of the capabilities we had have taken a really long time to develop and are harder to replicate. Clearly, there's others in this business that don't have those fuel supply-chain capabilities, but they are really good retailers with their big-box food service offers and they have an advantage over us in that regards.

So I don't know what their proposed secret sauce is on how they are going to have a distinctive competitive model. You'll have to ask them.

Pamela Rosenau - *HighTower - Analyst*

Okay. Thank you.

Operator

Bob Summers, Macquarie.

Bob Summers - *Macquarie Research - Analyst*

Good morning, guys. Just a couple of things. Bigger step back, given sort of the limited view that we have in the historical operating figures, can you just broadly characterize how you would expect this business to perform in a weak or even recessionary economic environment?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

I think in a weak recessionary environment, consumers become more frugal, not less frugal. The question is, is that going to be with high fuel prices, like we saw coming out of 2008 and 2009, or is it going to be at today's sub-$30 crude oil prices, which they may behave a little bit differently?

As I've stated before, I don't think the low and lower middle income consumers have frankly benefited as much from this recovery. And so, I think if we went into kind of a weaker recessionary period, I don't think you would see as much change for them because they didn't benefit as much as the middle to upper income consumer categories.

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I think certainly from a merchandise sales standpoint, when we look at our data, people will buy more single serves than caseload items and we are well positioned to do that. And certainly from a cost standpoint, our expectation is we've got to more than beat inflation year on year and we've continued to do that in that environment.

And so, I think this business actually fares well in that environment. I think the big difference between this environment, if you believe you are headed into a recession versus some of the other ones, is the absolute level of fuel prices, and so we'll have to see how that plays out.

Bob Summers - *Macquarie Research - Analyst*

Okay. And then, just it seems that there were unseen externalities with the Walmart relationship, whether it was cost per pad or an unfavorable portfolio mix. My sense is that as you get into 2018 and beyond, that return on capital per store or at the store level should get better. Is that the right way to think about how you evolve over a longer term from where you are today?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

I think it's going to be the same to potentially better. Certainly, the price we would've paid had we had the opportunity would have reflected all the risk, etc., in some of the markets that we wouldn't be going into on our own, and so we always had a return threshold in mind.

I think with a focus on, okay, we can now cherry pick, if you will, the locations, we are going to aim to have a higher return and leverage our supply capabilities and get the uplift on that. Certainly if you are going only into the better markets, your average cost per real estate transaction may be a little bit higher and that could have some impact on the returns. So I would say at least as good, if not better.

Bob Summers - *Macquarie Research - Analyst*

Okay. And then the last one, more maintenance oriented. What was the EBITDA attached to the pipeline system that you are selling?

Mindy West - *Murphy USA Inc. - EVP, CFO*

It was around $7 million for this year.

Bob Summers - *Macquarie Research - Analyst*

Okay. Thank you.

Operator

Carla Casella, JPMorgan.

Carla Casella - *JPMorgan - Analyst*

Hi, does the pipeline sale have any effect on the RIN as well?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

It doesn't. It's a crude pipeline. It was associated with the old Murphy Oil Meraux refinery.

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Carla Casella - *JPMorgan - Analyst*

Okay. That's all I had. The rest of my questions have been answered. Thanks.

Operator

Chip Saye, AWH Capital.

Austin Hopper - *AWH Capital - Analyst*

It's Austin Hopper. Thanks for taking my questions. Andrew, I thought you mentioned that you don't expect an enhanced fuel program in 2016. What does that mean and how does that impact your business?

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Given we didn't have it in 2015, I don't think it impacts kind of relative comps year on year like it did in 2015 when it was comping against a program in 2014.

We've consistently said that we need to have a consistent competitive fuel program. Certainly there are grocery stores out there that do high/low pricing, like Kroger, Safeway, others have that program, but there is others that are more everyday low priced, like HEB, that don't have a fuel rewards program. And so, we're going to continue to work on our own to identify what do we think is an attractive option and we will continue to collaborate with Walmart around their card programs, which will continue to be accepted at our 1,111 Murphy USA stores that we have. So I really don't see a whole lot of impact in 2016 vis-a-vis 2015 at this time.

Austin Hopper - *AWH Capital - Analyst*

Great. Thanks.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to our host.

Andrew Clyde - *Murphy USA Inc. - President, CEO*

Great. Thank you all for joining. I know this was a busy couple of weeks, a lot of announcements that have gone out. I think we provided a lot of clarity on our new independent growth plan, our confidence behind it.

I hope you also took away from this call and the guidance the work that we were doing in 2015 that sets up this guidance for 2016 and beyond and that this is a very strong company with a bright future with a long-term commitment to our shareholders. So with that, we thank you and please call us if you have any further questions. Have a great day.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

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