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EDITED TRANSCRIPT

MUSA - Q3 2016 Murphy USA Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Murphy USA third-quarter 2016 earnings conference call. (Operator Instructions)

As a reminder, today's conference is being recorded.

I'd now like to introduce your host for today's conference, Mr. Christian Pikul, Director of Investor Relations. Sir, please go ahead.

Christian Pikul - *Murphy USA Inc. - Director of IR*

Thank you, Liz. Good morning, everybody. Thank you for joining us today. With me 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 provide an overview of the financial results, at which point Andrew will provide an update to our annual guidance. And then we'll open the call to Q&A.

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

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

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

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

Thank you, Christian. Good morning, and welcome to our third-quarter 2016 conference call. We appreciate your interest during this busy earnings season, and I know your time is important so I will jump in and get started.

We reported net income from continuing operations of $45.5 million, or $1.16 per diluted share, versus $60 million, and $1.41 per share, in the third quarter of last year. The third quarter certainly had some unique challenges, and I will address those on the call. That said, year-to-date performance remains very strong versus prior year.

In keeping with this year's tradition of reviewing performance through the lens of our simple formula for value creation featured in our investor presentation, I will continue by highlighting our progress against the key elements of this formula. Additionally, we will review and update our 2016 annual guidance, as we are close to completing the year.

Our first point is around organic growth. And during the third quarter we opened 21 new stores, bringing our total store count to 1,364 locations. In addition, we successfully completed our 10-store raise-and-rebuild program during the quarter, converting three additional high-performing kiosk locations into 1,200-square-foot stores. Although it is early, initial results suggest very attractive returns from this program, with fuel volumes exceeding prior levels and merchandise categories ramping up nicely.

We are currently under construction on 28 new sites and expect to end the year with approximately 1,400 locations, which translates into roughly 5% unit growth.

In contrast to the past two years, we are prepared to enter 2017 with more momentum, as up to eight Murphy Express sites are slated to open late in the first quarter of 2017. During November, we expect to complete the installation of 180 Super Coolers and ramp up our 300-store refresh program.

Moving on to fuel contribution, total retail fuel contribution was down 23.5% at $149 million, versus $195 million in the prior-year quarter. Contributing to last year's strong performance was a dramatically different market environment characterized by falling fuel prices, which helped boost margins $0.181 per gallon, supporting more aggressive pricing and volume gains.

This year, prices were down in July but rose sharply in August and continued to rise in September. While total volume including new stores rose 1.2%, same-store gallons in the quarter were 3.1% lower than last year. This shortfall was primarily attributable to three factors.

First, as we've said in prior calls, it's much harder to generate volume uplift in a rising price environment where creating meaningful price separation at the pump is more difficult and not economic. As such, we concede some of our volume to competitors on the margin. And the opposite is held true in falling price periods like Q3 of last year, where we gained volume at higher margins.

Second, the business was impacted by several external factors during the quarter, including flooding in Louisiana and, of course, the 12-day shutdown of the Colonial pipeline which brings product from the Gulf Coast to the Carolinas. This outage took the market by surprise and resulted in shortages in several states including Alabama, Tennessee, Georgia, Kentucky and the Carolinas. I want to first thank our entire fuel team for handling this crisis with a customer-first commitment. We brought in trucks from as far as way as Las Vegas to supply our stores. And in some instances, thanks to our fuel supply capabilities, we were the only retailer in town with gas for customers.

This shutdown was unprecedented in its duration, and the impact on the volume was material. Sadly, the Colonial pipeline experienced an explosion this Monday, and we can expect further supply disruptions as a result. Our thoughts are with the family of the worker who lost his life and those injured during the incident.

Third, we continue to see relative weakness in our new stores in the Midwest, which largely accounts for the difference between our average per-store-month volume declines of 3.9% and same-store declines of 3.1%.

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Improvement in product supply and wholesale contribution, net of RINs, recovered almost half of the decline in the retail fuel contribution. Together, these two components added $0.0175 per gallon on a retail equivalent basis versus a negative $0.022 per gallon contribution last year. RIN sales of $48 million offset product supply and wholesale contribution of negative $29 million, as higher RIN prices embedded in the refinery spot prices reduced our spot to wholesale rack margins, which stayed negative for much of the quarter.

Strong merchandise and operating performance led to a record fuel breakeven metric of $0.0128 per gallon, which is both a sequential and year-over-year improvement when compared to $0.0145 per gallon in Q2 this year and $0.0171 per gallon in the third quarter of 2015.

Merchandise results continued to exhibit strength as we delivered third-quarter unit margins of 16%, up 140 basis points year-over-year, which represents a third consecutive quarterly record. This helped drive a 6.3% improvement in same-store contribution dollars despite a 2.6% decrease in same-store sales.

Tobacco sales continue to soften, down 2.3% year-over-year on a same-store basis, driven by a 5.2% decline in total cigarette volumes exceeding the national decline rate of 2.5% due to Murphy USA's heavy carton volume. However, with the Core-Mark supplier benefit promotions and pricing initiatives, tobacco contribution dollars are up 12% year-over-year in total and 8.9% on a same-store basis.

Non-tobacco contribution margins are also showing resilience despite the pullback in fuel sales, registering a 9.2% year-over-year improvement chain-wide and 2.7% on a same-store basis. Shifts in promotional activity and design reduced same-store sales in units but resulted in higher contribution for various beverage and snack categories.

Fresh food, dispensed beverages and beer showed improvements in units sales and contribution as the larger formats continue to gain customers inside the store.

From a cost perspective, the benefits from our new labor model began to accelerate late in the third quarter, with September average per-month station OpEx down 5.4% versus a year ago. For the quarter, station OpEx showed a 1.9% improvement over Q3 2015. With benefits continuing into the fourth quarter, we expect to see continued year-over-year improvement into 2017.

Finally, we continue to be in the market buying shares. A total of 607,000 shares were repurchased in the third quarter as we executed our broader capital allocation program aimed to optimize returns from organic growth opportunities, share repurchases and other investments. Over time, we will continue to leverage our net income growth into materially higher per-share results for our long-term shareholders.

With that, I will turn it over to Mindy, and I will return with an update on our annual guidance.

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

Thank you, Andrew, and good morning, everyone. Revenue for the quarter totaled $3.04 billion, a 10% decrease from the $3.38 billion result a year ago. This decrease in revenue was caused primarily by lower fuel prices, which averaged $1.98 this quarter versus $2.26 in the same period last year.

Adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, was $105.3 million versus $128.5 million, largely attributable to lower retail fuel margins and volume, as Andrew discussed, partially offset by higher merchandise margins.

Total debt on the balance sheet as of September 30 is $679 million broken out as follows: long-term debt of $639 million consisting of $489 million of our 6% notes due 2023, and $150 million remaining on our $200 million term loan. Short-term debt represents the $40 million of expected amortization under the term loan, which sits in current liabilities on the balance sheet.

Our ABL facility is capped at $450 million and is subject to periodic borrowing base determinations which currently limit us to $192 million. And at that present time, that facility remains undrawn. Cash and cash equivalents totaled $207 million, all unrestricted balances at September 30, which results in net debt at quarter-end of approximately $472 million.

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As Andrew also said, during the quarter we repurchased 607,000 common shares for $45 million at an average price of about $74.50 per share under the previously announced program of up to $500 million to be completed by the end of next year. With the third-quarter purchases, this brings our total year-to-date spend on share repurchases to $212 million for roughly 3.25 million shares at an average price of $65.

Capital expenditures for the quarter were $82 million, the majority of which was for retail growth. We expect the full-year CapEx to still be in the range of our previous guidance of $250 million to $300 million.

That concludes the financial update. I will now turn it back to over to Andrew.

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

Thanks, Mindy. I would like to now revisit our annual 2016 guidance, which we announced in February of this year, and we'll start with fuel. Our annual fuel volumes are projected to come in at the low end of our guidance range of $4.2 billion to $4.4 billion gallons. On an average per-store-month basis, retail fuel gallons will fall short of our guidance range of 265,000 to 270,000 gallons due to several factors.

First, as crude prices rebounded over the year, we saw fewer periods of sharply falling prices where we typically gained volume, and excess product inventory from high refinery utilization further dampened volatility on the downside.

Additionally, during periods of lower price separation and rising price environments, we optimized our pricing strategy to remain at or below the lowest retail price in our markets but did not sacrifice incremental margin to drive volume growth. While this strategy will result in some volume erosion, it increases our bottom-line profits during those periods.

As we have said before, weak Midwest geographies and the 2015 build class continue to negatively impact our network volumes, as evidenced when comparing to same-store sales.

And last, specific and identifiable external events such as flooding in Louisiana over the summer, the Colonial pipeline outage and the aftereffects of Hurricane Matthew in the Carolinas this quarter have all contributed to incremental volume loss.

Retail margins are also expected to fall just below our guidance of $0.01225 to $0.01325 per gallon. While we expect to exceed the 25 basis points of improvements from supply logistics and pricing optimization, the rising price market structure more than offset the impact from these initiatives. That said, our 2017 outlook will be stronger as we sustain these improvement benefits in what we would forecast a normal price environment.

Our guidance for product supply in wholesale, net of RINs, approximated $125 million, or roughly $0.025 to $0.03 per gallon of incremental margin on a retail fuel-equivalent basis. In total, we expect to meet or exceed this forecast before the impact of timing and inventory variances, which are also expected to be net positive.

While the net contribution is expected to be above guidance, the product supply and wholesale results alone will be below the $25 million to $45 million range, while RINs sales will exceed the $0.30 to $0.50 per-RIN range we guided to. Since RIN prices are essentially embedded in the refinery spot prices, investor focus should remain on the net contributions.

We guided total merchandise sales of $2.32 billion to $2.37 billion, and we remain on track to end the year at or near the midpoint of this range. On merch contribution, we provided a range of $340 million to $350 million, and we are on track to exceed this forecast.

For retail station operating expenses, excluding credit card fees, we provided a guidance range of 2% to 4% savings.

While we got off to a slow start introducing the labor model this year, as Q3 results show we are making good progress towards the goal. With year-to-date savings of 1.4% coupled with continued improvement in the fourth quarter, we do expect to end the year within our guidance range of 2% to 4% savings on an average per-store-month basis.

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Our guidance for selling general and administrative expense was $130 million to $135 million. We are likely to end up at or below the low end of this range. However, this year savings are partially due to some deferrals of some much-needed investments in people and technology that will take place in 2017.

For new-store growth, we provided a range of 60 to 80 stores. And we are on track with 66 to 67 new stores expected to open during the calendar year, and this is in addition to the 10 raise-and-rebuilds we've already reopened.

On CapEx, we provided a range of $250 million to $300 million, and we should end the year slightly above the midpoint of $275 million, reflecting in part the construction costs we expect to incur later this year in connection with stores that will go into service in Q1 of 2017, as well as our expanded Super Cooler program in 2016, where we increased the program by 50% midyear to a total of 180 Super Coolers.

Finally, we provided adjusted EBITDA guidance of $400 million to $440 million. Due to the lower retail total fuel contribution year to date, we are forecasting closer to the low end of the guidance given the difficult market environment encountered in Q3 and as we head into Q4.

As a reminder, every penny of fuel margin equates to roughly $40 million of EBITDA, and we have seen where sudden spikes to the upside or downside can have a material impact in the final quarter of the year.

All in all, 2016 has been a very positive and productive year. We have made great progress in many key areas of our business and continue to work hard to make every year better than the last.

And with that, we will open up the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bonnie Herzog, Wells Fargo.

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

Hi, Andrew. I guess on my first question I was hoping you could drill down just a little bit further and try and help us quantify the impact on your earnings from the Colonial pipeline shutdown during the quarter. And then, is there a way for you to share with us how much of your stores or how well your stores performed in the areas that weren't impacted versus the stores that were impacted? Just trying to get a sense of the magnitude -- maybe touch on merch sales, for instance.

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

In terms of the impact, it's both volume and margin. And one thing I would note is that any time you have a disruption in the supply chain like this, the impact is a function of several things. First of all, how prepared were you in terms of were you long or short inventory during the period right before it happened?

Second, how long is the duration of the incident?

Third, what's the market structure at that period right as it is happening? Are margins low when you are in the midst of a restoration? Or are margins higher maybe coming off a period of falling margins? With very state-of-emergency pricing regulations that go into effect, there's a lot of things that go into your ability to be able to respond to that.

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Given the duration was 12 days or more, and it took even a month for premium product to get back to normal levels, we certainly had outages. We haven't reported the number of outages. Many of them were brief. And I think one of the things that helps Murphy USA is by being a shipper having a proprietary supply chain, buying bulk, being able to get barrels into the Plantation Pipe Line. Shipping out of our proprietary terminals like Jonesboro that are fed from other pipeline systems. And our use of common carrier trucking companies to be able to bring product in, we're able to adapt and respond. But given margins were very tight at the beginning of that process and the duration was long, we certainly had both volume and margin impact.

Compared to the other regions -- we've talked about the Midwest and some of the impact there around the weaker Midwest new stores that were opened in 2015 -- we also see more pressure there competitively from promotion loyalty programs, which is something we've been working on. And in our Southwest region, that was the area hit hardest by flooding and other abnormal conditions there.

As that relates to traffic, we saw similar patterns on the merchandising side. A big variance that is quite different, though, were states like Tennessee and Louisiana that have had these large minimum mark-up tax increases on cigarettes. And so those states are both down double-digit on volume. They are up short-term from a margin standpoint.

When we look across some of the other categories like beverages, snacks, et cetera, the sales and units were down in part due to traffic. One thing we've noted as well, Bonnie, is that by rolling out Core-Mark and working through those new processes, rolling out our store label labor models, we've asked our store associates to take on a lot. And we've actually seen some of our upselling metrics go down as a result of that. And now people were well-established with Core-Mark's store labor model, we're seeing those metrics go back up.

So, some of it is temporal -- incidents like Colonial. Some of them are competitive, to which we are responding to. Some of them are knock-on effect from some of our other improvements for which we've already seen some improvement on that.

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

That was a lot of good comment. I appreciate that. But then you said something early on about the importance of inventory when the first shutdown happened. So could you help us understand, with the unfortunate accident that occurred earlier this week, where you're at? And just I guess I am assuming there will be another shutdown. Do you have any sense of how prolonged that could be?

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

My understanding is that they are working really, really hard to get the affected line up and running by this weekend, potentially Saturday. The other line, my understanding, is already back up and running. We were long going into this environment, and margins had already restored. So we're in a completely different scenario against the factors that I described. We expect it to be shorter in duration and not to have the same effect.

But certainly, we've been challenged. And if you add Matthew to the equation earlier in the quarter -- you know I don't like to talk about weather, but it's kind of a perfect-storm event, and you add rising crude prices in that. We've always said it wasn't if that was going to happen but when. And from a comp standpoint, it's always unfortunate when it happens, versus a period where prices were falling steeply. But we all knew sooner or later crude prices would have to rebound, so it just positions us now for normal volatility at higher price levels.

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

There just seems like there's a lot of moving parts. So maybe my final question is -- I'm just trying to get a sense from you, because there's so much happening in different parts of the country that's impacting your stores --. But could you give us a sense of what your view is of the health of the consumer? We're hearing some pressure is on the traffic, but maybe it's more weather related or some other issues. But just trying to get a sense from you of how you think the consumer is faring right now. That's maybe number one.

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And then number two, we had seen the uptrading of premiumization trend, and I'm just getting the sense that that is softening a bit. And love to hear from your perspective what you're seeing.

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

Sure. I think on the last point around sort of the uptrading premiumization, I think early on we felt it was as much driven by a little healthier pocketbook, and that was actually driving it. I think what we've continued to see, though, is more manufacturer incentives on multi-pack discounts for the premium products. And so in our view it's coming less from just the consumer spending more because they have it and more due to the manufacturer pricing the premium products down closer to some of the second- and third-tier products.

So it is flattening off some. We're still seeing some improvement. But we think the driver is more discount-driven on the high-end brands as opposed to just the consumer side.

In terms of the consumer in general, my perspective and our kind of economic view is that as long as we're in this 1% to 2% GDP economy, they continue to be hard-hit. We're in open enrollment, and so people are getting bills in the mailboxes that were larger than they expected. And so we continue to see pressures, especially on the consumer that shops at our store and the supercenters behind them.

And so I think demand -- we got to the most recent numbers. We may have had a record June in terms of fuel demand. But it does look like it is trending down in terms of year-on-year volume increases versus what we saw over the last two years.

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

Okay. Really helpful. Appreciate it. Thank you.

Operator

Ben Bienvenu, Stephens.

Ben Bienvenu - *Stephens Inc. - Analyst*

We obviously whiffed on forecasting on the PS&W piece of the business. And Andrew, you called out the spot/rack differential becoming more negative because of high RIN prices. While RIN prices were higher in 3Q than we've seen in quarters past, did wholesalers become irrationally more competitive at the rack? Or is just this just the interplay that you've highlighted in the past that's inherent between higher RIN prices and wholesale fuel gross profit?

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

It's what we've talked about in the past, Ben. I'm going to give you a couple of numbers. The RINs in this quarter were $48 million, and our transfer to retail -- that spot to rack transfer price was negative $31 million -- $32 million. So, an $18 million differential.

Last year, same quarter, $20 million in RIN sales transferred to retail was $1.6 million -- all the controllables all together. It's essentially the same number. Right? The uncontrollables, the timing differences, the inventory variances were much smaller this year because we had a flat to rising price environment. Last year, it was negative $29 million because we were in a steeply falling price environment.

But if you just take the two things that are independent of the price movement that impacts cost of goods sold, inventory calculations, et cetera, the net differential is within a couple million bucks.

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Ben Bienvenu - *Stephens Inc. - Analyst*

Yes, that's really helpful. Secondarily, on the RIN generation that we follow in the quarter, it looks like -- from what we analyzed, it looks like we saw the number of gallons that you are able to flash-blend tick down sequentially. And I think we've seen that seasonality in the past. But I'm curious if the Colonial pipeline outage forced you to buy more local product versus bulk, and maybe that limited your ability to capture RINs. Or is our analysis wrong there?

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

No. I think the bulk proprietary sales has generally been trending up. So you would've had a little bit more blending there. If the total RINs are plus or minus $1 million, that may just be timing of when they were sold at the month and when they cleared and all of that. But nothing material there. Generally, we've been doing more bulk proprietary blending than last kind of year over year over year.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay. And then Mindy, I think on the 2Q call you had noted that you would expect merchandise margins to be sort of in the 15.3% to 15.4% range. The 3Q margin was really impressive at 16%. I'm curious, does that suggest that 4Q will be lower, or you are just outpacing your prior expectations? And obviously Andrew provided some guidance, but for your thoughts there?

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

Thank you for the question, Ben. I'm really glad that you ask that because it's important to note that for the fourth quarter we are not expecting to set a fourth consecutive quarterly record on margin. We do expect this time we will be lower; somewhere between 15.5% to the high 15% range is what we would expect. We had some rebates that hit us during this current quarter being the third quarter that were due to the volume that we were selling. And so obviously there's a seasonal aspect to that. So we do expect that to trend lower into the fourth quarter, and so that will not be as big of a benefit this quarter. And so we are guiding you to 15.5% to high 15% range versus the 16% that we posted this time.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay. Great. I'll get back in the queue. Best of luck.

Operator

Chris Mandeville, Jefferies.

Chris Mandeville - *Jefferies LLC - Analyst*

I guess first off, glad to see that fundamentals are largely still quite robust and you're executing upon what you control. But Mindy, just sticking with the gross margins there for a second, you mentioned the rebates. Is that simply timing, or is that actually going to be a headwind on a year-over-year basis come next year?

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

Seasonal impact because a lot of the merchandise and the manufacturer rebates that we get are based on the volumes sold. And so we're going to sell more things during the summer months which are going to attract those rebates. And so we naturally see those slow down in the fourth quarter and the first quarter.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay. And then I suppose I actually only have one other question, as the majority have been already asked. Relative to your comments on the Midwest, Andrew, was that specific solely to gallon growth, or is that somewhat related to what you're seeing in-store as well?

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

No, it's overall traffic. This is something we always talked about when you take sort of a portfolio approach on the Murphy USA sites. You are going to get some great sites, you are going to get some good sites, you are going to get some average, some fair and you are going to get some poor sites. And the Midwest sites -- generally, when we look at what are the drivers that we can use to predict volumes, traffic, cigarettes, et cetera, these just rack and stack on the lower end of the portfolio and the lower end of other Midwest stores. So it's not just dragging the chain down, but actually we're dragging the Midwest comps down.

And they're ramping up at the same time. We had stores last year and we will have some this year that are on the better end. And so over the course of the portfolio, whether it would be initial set of stores or the up to 200 portfolio, you get your target returns. But if your mix of when you build them like in 2015 gets concentrated in your weakest geography, it just shows up that way.

And what I will tell you is we're doing a much better job now forecasting into our annual plan and our guidance for next year more site-specific pro formas as they flow through. So we could've done a better job guiding around that versus just having regional specific numbers in there as well. So we're getting more sophisticated in that forecasting approach also.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay. That's helpful. And is it fair to say that the Midwest drag has actually kind of worsened sequentially?

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

I think it's stayed about the same. I think there were some other impacts that have caused it to bounce around in other quarters. I think it's normalized, and you will be comping against that weaker base next year. So I don't think it's continuingly getting worse.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay. And then maybe one last one for Mindy. You guys obviously see the response in your stock this morning. If I recall correctly, you were actually quite proactive around these levels a few quarters ago. And so I'm just trying to get a sense of capital deployments for future capital programs, if you will, and if there's been any change to your view on use of leverage.

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

Are you talking about would we add some leverage to repurchase more shares? Is that your question?

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Chris Mandeville - *Jefferies LLC - Analyst*

Correct. Or just simply your thoughts on generally adding to what remains on what's left for the existing $500 million.

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

Sure. Thanks for the question. If you look year-to-date, we've already completed $212 million of our $500 million allotment that's good through next year. What I would say is we always love to buy our shares at advantaged prices. So we will be looking at our cash balances through the end of the year and deciding what we think we can afford and how aggressive that we and our Board wants to be. I don't want to quantify that for you now.

we also do have the ability, as you indicated, to add some leverage, especially as we go into next year. But we need to take a look at what our CapEx requirement is going to be, balance that out versus completing the share repurchase. We may be in a position where we do need to add some leverage. The good news is, at these EBITDA levels we could add over $250 million and still be within our 2.5-time leverage maximum target.

Chris Mandeville - *Jefferies LLC - Analyst*

Very helpful. Thanks again, and best of luck in Q4.

Operator

Ben Brownlow, Raymond James.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

On the pretty healthy optimization for labor on a [per-shore] basis, can you quantify that kind of 1.4% year-to-date decline? Can you quantify that? And then how much was the offset from the refresh program?

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

The offset from a maintenance standpoint?

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Embedded within the station OpEx line item.

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

Within the station OpEx line item, there was -- looking at prior year, it was about a $1.3 million difference in what was spent from period to period. So that was the offsetting number.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Then, can you quantify the labor optimization savings?

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

In looking at total operating expenses before credit card, looking at variances to prior years is about $2.5 million.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Is that the year-to-date number?

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

That's on the quarterly basis. On the year-to-date number, that's about $8.5 million.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Okay. That's helpful. And is that refresh spend -- does that level out at the store basis, or is that something that's recurring?

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

We had been having a recurring cost for about 100 to 125 stores every year. We would get a list from Walmart around stores they're refurbishing, and we would do those at the same time. We recognize as a public Company we needed to get out in front of that and raise the priority for refreshing our stores from a capital and expense standpoint. So we started the 300-a-year program, and I think we'll have one more year of that. And then it really levels off after that because we will have gone through close to 1,000 stores in a three-year period. And so that will be the majority of the network pretty well caught up from a refresh standpoint. Then you just get back down to normal recurring maintenance.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Okay. And just one more from me. As I think about the same-store growth and gross profit on the non-cigarette side or the merchandise side, can you give us a sense of what that gross profit growth on a same-store basis would be, excluding the Core-Mark deal? And basically I'm trying to get a sense as we think about 2017, and obviously there's been a pretty big diversion between the same-store sales decline versus your gross profit growth. But just trying to get a sense as we look to 2017 as you lap that Core agreement, how much do you think you can continue to grow gross profit excluding cigarettes on a same-store basis?

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

Yes, Core-Mark is 80% to 90% tobacco. Because most of the beverages and salty snacks and the like is on a DSD basis. So, just a smaller percent of the improvements in non-tobacco gross margin improvement is due to Core-Mark. It's really due to promotion optimization, pricing optimization, et cetera.

I think as we look forward to next year with some of the resources we have brought on board, some of the work we've done around our systems, we're going to be in a much better position to optimize our mix center-of-the-store, begin to start tailoring our offers to more local, regional preferences and the like, and just get a lot smarter about kind of timing of when we do promotions and the like. So there's still runway there beyond Core-Mark and beyond the improvements we've done this year.

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Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Great. And I guess following up on an earlier question, you had given comments around the vendor rebates and the benefit there and some of the seasonality associated with that. I guess is there the same sort of benefit that you think you can continue to drive for 2017? Or is there some kind of unusual uptick in that vendor rebates for this year?

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

One of the things that is new is when you start adding more Super Coolers and you start adding more 1,200-square-foot stores. Just your shelf allowances for products start clipping different levels -- or you do a cooler reset, reducing some facings of certain CSDs, and you open yourself up to new subcategory for SKUs within that. So I think that was some of the benefit we saw maybe in Q1, if I recall, around additional shelf allowances that we hadn't gotten the prior year.

So there are going to be some things like that that will be repeating themselves at higher levels. There will be other rebates and allowances that remain constant. And you know, with the supplier manufacturers they may have new programs to drive sales or shift some of their programs as well. So there's always still a little uncertainty there. I would generally say more of the same than less.

Ben Brownlow - *Raymond James & Associates, Inc. - Analyst*

Great. Thank you.

Operator

(Operator Instructions) Damian Witkowski, Gabelli & Co.

Damian Witkowski - *Gabelli & Co. - Analyst*

Do you have cadence by month for the same-store sales for both fuel and merchandise handy? I know that you said June for fuel was pretty strong -- I'm sorry, July was pretty strong and then it fell off in August and September as the wholesale price climbed. I assume there's a directional correlation between the two. I assume that if I look at the non-tobacco merchandise same-store sales declining, I would think that is probably driven by just traffic declining to the stores.

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

Yes. I don't have the monthly right here. Prices did fall off in July, but there would be other factors as well that would impact July performance. But we can follow up on that.

But typically, it is all about traffic at the end of the day. And so whether it's because your pricing to the broader area of the market compresses, and so you the other lower-priced retailers aren't as competitive on the way up and that reduces traffic. Whether it's the decline in cigarettes and the shift from cartons to packs, et cetera, impacts traffic. All of those things can impact that, which is, again, why we've been focused on the larger stores and driving conversion there.

And it's one of the reasons we highlighted the fresh food dispensed and beer being up on both units, sales and margins, because that's a good reflection of the newer stores and what they are able to do in terms of converting those customers in.

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Damian Witkowski - *Gabelli & Co. - Analyst*

In general, stepping back, I think over the last few years we've had a sense per gallon for the industry obviously varies day to day, quarter to quarter, month to month. But overall it's been a trend upward. Is there anything you are seeing that's changing that you obviously are seeing more pressure on the -- forgetting the low-volume providers who don't have to price as fast -- don't have to take price as fast on the way up. But are you seeing anything else in general in the industry that would give you sort of caution about the competitive environment?

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

Nothing really about the competitive environment. We continue to add new stores -- other advantaged competitors at new stores, grocery stores that are building new grocery stores, including neighborhood markets, are adding fuel on that. So the competitive environment remains strong from that standpoint, so that continues to just put pressures on it, which is why we've always taken the view the long-run margins are -- for us are like $0.12 to $0.13 in nominal terms.

What I would say is the margin for any given year is just a function of the four quarters or the 12 months. So we said at the beginning of last year and again at the beginning of this year, crude prices have got to rebound from the lows that they were at. And it was just a matter of when, not if, that happened.

And so when we get through with 2016 we're going to look back at a margin that's probably close to $0.12. You can look back largely to the third quarter and say, okay, that's a big driver. And why it wasn't $0.13 or $0.14 or something more in line with what we've seen in the past, it was largely due to a period in which crude prices kind of rebounded up with the OPEC news and other factors.

So I think once you get to a new stabilized crude price, whether it's $50 or $55, and let's say it's kind of rising $5 a barrel over the next few years, we would expect to go back and see the new seasonal volatility in price patterns that are more normal -- kind of a run-up from January to April/May, a falloff in May/June and then kind of a falloff again towards the end of the summer into the fall. Our falloff this year wasn't as pronounced in the first half of the year, and we just skipped one of our normal periods where it fell off.

So I think, accordingly, if we go back to that more normal environment and typical volatility pattern, we would have those opportunities to be more aggressive on price and pick up volume as a result of that. But we always said at some point crude prices go back up is going to compress margins on the way up. When that happens, it challenges your ability to get some volume on the margin economically. So it's not a surprise that it happened. It's just when it happens, no one had a crystal ball to predict that.

Damian Witkowski - *Gabelli & Co. - Analyst*

Sure. But do you have to rethink the actual strategy of sort of giving up volume and ultimately giving up traffic when crude goes up, and just kind of take hit on the margin side and hope to keep the traffic?

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

It's just not an economic payoff because what you can get is that marginal customer back the next quarter when prices fall off.

Damian Witkowski - *Gabelli & Co. - Analyst*

Okay. So they do come back?

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

They do.

Damian Witkowski - *Gabelli & Co. - Analyst*

Okay. Then just lastly on the product supply, if we are here two months from now or three months from now and we are looking at 2017, and let's say for whatever reason RINs are again back to the $0.40, $0.45 range, would you still guide to a $0.25 to $0.45 contribution range for PS&W?

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

No, I think what I'm probably going to do next year with my team's concurrence is just say it's $0.025 to $0.03 per gallon, and you guys figure out RIN prices and PS&W contribution. That way, we don't have to get into this debate, and we'll help people with their whiffs and the like.

Damian Witkowski - *Gabelli & Co. - Analyst*

That's a good idea. Thank you.

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

That's what we've been saying, so our bad for not doing that earlier. But we try to repeat that every quarter, and we'll just try to make it easier. That said, we're going to continue to report RINs and other income just like refiners report the cost of it separately. I gave a real clear example of how it nets off against our piece, and it's still going to be in that $0.025 to $0.03 range. The refiners have that built into their refinery margin. They just like to call out the cost separately. And I appreciate that refinery margins are now at a very low point again, but that's largely due to the refinery economics, the excess product, the high utilization and the more macro factors, and not really about RINs.

Damian Witkowski - *Gabelli & Co. - Analyst*

But if I -- I mean, not to -- if we go back to time before RINs were in double digits, would that $0.025 still hold?

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

At the time of the spin that number was closer to $0.015 to $0.02. And we've made some other improvements to our business. So if you want to think about the longer-term range, that's what is. I think with the improvements we've made, it would be higher than the prior range.

Damian Witkowski - *Gabelli & Co. - Analyst*

Very helpful. Thanks, Andrew.

Operator

Pamela Rosenau, HighTower.

Pamela Rosenau - *HighTower Advisors - Analyst*

Hi, Andrew.

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

Good morning.

Pamela Rosenau - *HighTower Advisors - Analyst*

Andrew, I wondered, have you all -- are you in the middle of figuring out your cap spending for 2017 and anticipating how many stores you are going to open, and where you are in that process? And I wondered, I think the environment is changing. So, a couple of questions related to that. One, are the stores going to cost you the same amount of money per store? And, two, Mindy, with regard to taking on more debt, have you explored the pricing of that debt, and would your cost of capital still be very close to that 6%? Thank you.

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

Thanks, Pamela. Yes, we are busy in the midst of our annual plan. We take it in front of our Board in December, in which it gets approved. So I'm not going to jump out in front of my Board as a best practices there.

We have guided previously to 50 stores of new-builds and 20 raise-and-rebuilds, so we feel comfortable with that. I think with the load leveling we've done with the Express stores -- and we noted that we're already starting on stores that we're going to open in the first quarter of next year, where we wouldn't have been able to do that on USA stores because of the Walmart blackout period. That load leveling with our general contractors actually results in our stores costing less because it's more efficient for us and them to do that.

So, 50 new stores, mostly Expresses -- we'll have the last number of USA stores in that mix. Generally expect them to cost the same or less. But we're not seeing inflation in our items, and we'll continue to do strategic sourcing and other initiatives to reduce the cost.

I know Mindy has got a good answer for you on your debt question.

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

Yes, thanks for the question on debt, Pamela. I'm always looking at the cost of debt -- whether we need to add any or not. So what I would tell you is, firstly, it's going to depend on how much leverage would we want to add. I think we've probably exhausted the amount that we can get from the bank on a term loan basis at the $200 million level. That's obviously a very advantaged rate of LIBOR plus $250 million.

So, what we would probably do is look first to the bond market and see whether we could just do a tack-on to our existing bonds or a new issuance. Either way, we have the advantage of both rating agencies having upgraded us since the ratings that we had at spin. So we sit just one notch below investment-grade with both agencies, with a very strong track record of performance. And so I think our bond would be as attractive to the market, and I think we could easily achieve something well with -- under a 6% level if rates stay where they are.

Pamela Rosenau - *HighTower Advisors - Analyst*

Mindy, it looks like you would gain, what, 500 basis points if you bought your stock in now in terms of value accretion. It seems like a no-brainer to finish that share buyback program.

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

Pamela, we don't disagree with you, and we have every intention of finishing that program. We're committed to it.

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Pamela Rosenau - *HighTower Advisors - Analyst*

Thank you.

Operator

I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Clyde for closing remarks.

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

Great. Thank you. We know it's a busy day and week for earnings, so appreciate everyone joining. And we'll look forward to next quarter. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.

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