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EDITED TRANSCRIPT

MUSA - Q1 2017 Murphy USA Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Murphy USA Q1 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Mr. Christian Pikul, Director of Investor Relations. You may begin.

Christian Pikul - *Murphy USA Inc. - Director of IR and Financial Planning Analysis*

Thank you, Vicki. Good morning, everyone. Thanks 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. And after some closing comments, we will open up the call to Q&A. Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. 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 release, which could be found on the Investors section of our website.

Before I turn the call over to Andrew, I want to thank everyone for their interest in our Investor Day we are hosting at the New York Stock Exchange on May 16. We have reached capacity for the event, but we do have an active waitlist. Please reach out to me via e-mail, if you would like to be included on the waitlist. As a reminder, you will need confirmation from us to gain access to our event at the exchange.

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

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R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Good morning, and welcome to Murphy USA's First Quarter 2017 Conference Call. I'd like to start the call today by referencing our press release from April 18, which stated that first quarter performance was influenced by a variety of market conditions that led to weak financial results beyond normal elements of seasonality. The purpose of the prerelease became obvious when we subsequently launched our bond offering. This maintains our goal of being transparent with both equity and debt investors. We do not expect to make early releases an ongoing element of our cadence.

To investors, the most obvious area of underperformance was in the product supply and wholesale results. However, we note that first quarter retail volumes and margins were also both soft compared to 2016. When coupled with higher SG&A expense, which we will discuss later, and other operating costs such as credit card fees, which reflect higher gasoline prices and a larger store network, year-over-year adjusted EBITDA of $30.3 million was well below first quarter 2016 results of $83.1 million.

While these results were below expectations, it is important to remember that the first quarter typically comprises the smallest contribution to our net income on an annual basis. Moreover, our 2016 Q1 results were well above the prior 4-year average of $39 million. So on a relative basis, first quarter 2017 results were still below average, but the comparison is not as severe when looking at what was really a very strong first quarter in 2016.

At a more granular level, record high gasoline inventories from the early and sustained buildup of winter-grade refine product and subdued retail demand early in the year resulted in depressed wholesale prices and discounted pipeline space values, which negatively impacted product supplies spot-to-rack margin.

When coupled with lower RIN prices, which were negatively impacted due to heightened regulatory and political uncertainty, first quarter all-in margins were below our expectations and historical average. There are a few key points to make here around these results. First, given the heightened level of investor interest in the relationship between RINs and PS&W results, and that is what we have spent the majority of our time talking about over the past 9 months. But, of course, RINs are not the only factor in determining how much gain or loss flows through the product supply business. There are other more fundamental market factors that also influence spot-to-rack margins. In an oversupplied market with closed arbs between the Gulf Coast New York Harbor, negative line space values and weak consumer demand would, of course, be one of those scenarios. While RIN prices remain embedded in the spot price of gasoline, other factors can and did severely depress wholesale prices in the spot-to-rack margin.

Second, given all that we have said about RIN and the embedded function within the fuel supply chain, at the end of the day, the RIN market is its own paper market where prices are determined by its own set of supply and demand factors, the most significant of which is anticipated demand from refineries based on regulations, including the annual volumetric mandate in any associated waivers. Given all the noise and uncertainty about potential changes to the RFS program, we saw an environment where RIN demand was artificially low due to externalities outside of the normal market structure. When the political uncertainty was clarified and the regulatory uncertainty resolved for now with the end of the moratorium, RIN prices stepped up more in line with the historical relationships.

Third, the retail environment also underwent some challenges. Consumer demand was lower year-over-year versus a very strong first quarter in 2016, and this showed up as the pumps and in customer traffic. First quarter volumes were down 3% on a same-store basis and this coincided with retail margins that were lower across the industry.

Finally, markets are characterized by ups and downs, by periods of strength and weakness. When we look back at prior periods, first quarter results are usually the least impactful on the full year results, and we know prior periods of weakness that were offset by later periods of strong fundamentals.

Although we can't anticipate nor expect a drop-off in crude prices similar to the 2012 and 2014 periods that helped generate strong retail margins the rest of the year, due largely to the fact that crude is trading at a much lower price level, we do expect market conditions to average out over time, and in fact, we have witnessed in recent weeks, improving fundamentals and product supply in wholesale throughout the month of April and an even stronger recovery in retail margins especially in the last half of April.

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As a result, given the weak business conditions experienced in the first quarter, we did take the opportunity to maintain transparency with both equity and fixed income investors and revised our full year guidance to reflect the unfavorable business conditions experienced through the first half of April.

As expected, from taking a longer-term view of our business, the bond market responded with enthusiasm to our $300 million debt offer, which was nearly 10x oversubscribed and was priced at a very attractive long-term fixed coupon rate of 5.625%, which will continue to fund our near-term growth plans and other corporate activities, including our share repurchase program.

I hope this provide some context and color to the biggest performance driver in Q1 beyond that in the early press release, which was needed prior to the subsequent bond offering.

So let's move on now and review some of the other parts of the business following our framework of the simple formula for creating shareholder value. The first point is, of course, around organic growth. We opened 5 new sites in the quarter versus a single store in the prior year quarter. Being able to load level our construction process around new stores, in conjunction with a more aggressive raze-and-rebuild program this year, will help us control costs and timing around new store openings which are more heavily concentrated in the spring and summer months versus the majority of the 2016 build class was put in service late in the third and fourth quarter of last year, which is not an opportune time for new store openings. With stores opening during summer when traffic is heavier is much easier to attract new customers.

As mentioned, 17 high-performing sites are down for raze and rebuild. We expect to have these sites back up in time for the summer driving season, along with 3 other raze-and-rebuild projects, which should complete in the fall. While this timing has a noticeable impact on our fuel and tobacco volumes Q1, this approach generates the best long run performance, which is what matters the most.

Additionally, we plan to install approximately 240 of the larger 3-door super coolers this year, which will largely complete our network expansion. We have some other opportunities to add smaller 2-door super coolers that will comprise part of our 2018 CapEx, but these opportunities are fewer in number, approximating about 100 locations. As a reminder, the super coolers offer 68% more capacity, a more diverse higher margin mix of beverages outside of the carbonated soft drink category, and these additional pacings allow us to better execute promotions and qualify for better shelf allowances and rebates.

The refresh program is continuing on pace. As a reminder, this is the last year of our accelerated refresh program of around 300 stores. At the end of the year, we will have touched 900 stores in the network leaving roughly 100 to 150 stores that will require a full refresh in 2018 and then a much slower pace, less capital intensive maintenance schedule will continue after that.

On fuel contribution, for the retail business, per store volumes on an average per store month basis, average 243,000 gallons, a 3.6% decline from 252,000 gallons in the prior period, 1.1% of which is attributable to the extra leap day in 2016.

Additionally, we also took down 17 high-performing stores for raze and rebuild earlier versus the 10 stores we took down last year later in the first quarter. As these 17 stores had volumes well above the network average, we estimate an additional 40 basis points in lower volumes, suggesting an adjusted per store decline rate closer to 2%.

January consumer demand was impacted by 3 [nine] winter storms, which resulted in soft year-over-year volumes. But I would point out that while quarterly same-store volumes were down 3% year-over-year, March same-store volumes were showing momentum with a 2.8% increase versus March 2016 where prices were rising dramatically.

Let's look at fuel breakeven starting with merchandise margins. As a reminder, there are a number of outlier events and adjustments we have to consider when we compare first quarter results to year ago results. The first is, of course, the extra day in 2016, which creates a roughly 1.1% negative impact on the numbers right off the top.

Second, the transition to our new supplier, Cormark, occurred in February last year, and we also received a partial final payment from McLane, which raised our margins in 2016, and this largely shows up in tobacco margins. Third, as you recall, there was a $1.6 billion lottery jackpot in play

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last January, which generated large margin contribution from the lottery category that was not repeated in 2017. And last, we recognize that the market environment was not strong to start the year tracking along the lines of fuel demand in January. So the negative comps are not all onetime items, but I would point out that we exited March with momentum in merchandise, and with some new initiatives, we are seeing Q2 results that are more representative of the potential of our business.

Total merchandise margins in the quarter average 15.7%, up 40 basis points from 15.3% a year ago. Total merchandise contribution on a per-store basis decreased slightly to $21,307, down from $21,506 a year ago, partially attributable to the onetime events already mentioned. I will say January and February results weighed heavily on the year-over-year comps, For perspective, March performance show tobacco margins up 2.9% on a year-on-year basis on a 3.7% decline in per store sales, while nontobacco sales were up 8.7% driving in 8.4% increase in year-over-year margins.

We continue to make progress on operating expenses through store level efficiencies as we drove down operating expenses before credit card fees by 2.5% on a per store basis during the quarter. In the face of ups and downs on fuel volatility, we continue to see and execute on opportunities to improve our fuel breakeven and long-term competitiveness.

With that, I will turn things over to Mindy.

Mindy K. West - *Murphy USA Inc. - CFO, EVP and Treasurer*

Thanks, Andrew, and good morning, everyone. Revenue for the first quarter totaled $3 billion, an increase from $2.49 billion in the year-ago period largely attributable to higher average retail prices for gasoline or $2.11 per gallon in 2017 versus $1.67 a gallon last year.

Adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, as previously released was $30.3 million versus a strong first quarter comp a year ago of $83.1 million.

The effective tax rate for the quarter was 69.2% versus the more typical rate of 38.4% a year ago. That was due to certain discrete items and the adoption of ASU 2016-09, which required excess tax benefits or shortfall to be recorded as part of the income tax provision effective January 1, 2017.

I also want to point out that the elevated level of G&A in the first quarter. The SG&A expense was $38.2 million versus $31.5 million in the prior period or an increase of $6.7 million.

As mentioned in our last conference call, in conjunction with our SG&A guidance range of $135 million to $140 million, we incurred a restructuring charge in first quarter, which totaled $2.1 million. Beyond those charges, there were some other onetime expenses from 2016 that were booked in the first quarter. And while we are incurring a higher level of company-wide G&A due to investments in new personnel and other technology-related upgrades as we incorporated in our annual guidance, we do still expect to finish the year within our guided range.

Total debt on the balance sheet as of March 31, 2017, was $687 million and was broken out as follows: We have long-term debt of $620 million consisting of $490 million of our 6% notes due 2023, and we had $130 million remaining on our $200 million term loan. We're also carrying $40 million of expected amortization under that term loan in current liabilities on the balance sheet. The current liabilities section also reflected a $26.5 million balance outstanding on our ABL facility at quarter-end. Subsequent to quarter-end, we repaid the $26.5 million outstanding on the ABL, which was borrowed in order to fund higher CapEx, along with higher-priced inventory barrels versus the same period in 2016, in anticipation of the seasonal upswing in summer driving.

Our ABL facility is capped at $450 million and is subject to a periodic borrowing base determination, which currently limits us to approximately $172 million as of March 31. At the present time, the borrowing base is $193 million and that facility is undrawn following the April repayment.

Also, since quarter-end, we issued $300 million of 10-year notes at a favorable rate of 5.625%. From these proceeds, we paid down $50 million on the term loan as required by our covenants, leaving an outstanding balance in that facility of $110 million.

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Cash and cash equivalents totaled $36.3 million as of March 31, resulting in net debt of approximately $651 million.

During the quarter, we repurchased 268,000 common shares for approximately $17.4 million at an average price of just under $65 per share under the previously announced program of up to $500 million to be completed by the end of this year. Approximately $159 million remains under this authorization, and common shares outstanding at the end of the period were $36.8 million.

Capital expenditures for the quarter were $63 million, which included approximately $48 million for retail growth, $7.5 million for maintenance capital and the remaining for other corporate expenditures.

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

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Thanks, Mindy. And in closing, I simply want to say we are excited about the opportunities ahead and remain committed to improving the long-run earnings potential of this business. We're excited to see those of you who signed up early for our Investor Day at the New York Stock Exchange. We will be webcasting the event for those that cannot attend.

And so with this, we'll open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Chris Mandeville with Jefferies.

Christopher Mandeville - *Jefferies LLC, Research Division - Equity Analyst*

Andrew, if we could just start off with PS&W. I know it was mentioned in the release that market forces have begun to normalize. But I guess, from what we can tell thus far, the arbs still to be some -- appear to be somewhat closed as far as we can see anyways, and I think everyone acknowledges that inventories remain quite elevated. So I guess what I'm trying to understand is, given kind of the ever-changing macro and what seems to be the U.S. putting forward more exports internationally, there's been some concern, I suppose, that there could be a prolonged headwind on the PS&W side of things. Can you just comment as it relates to pipeline space value on the Colonial? And help us understand if this could be temporary or a bit more prolonged, if you will.

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Sure. So during the quarter, we saw line space values negative anywhere from $0.03 to $0.04 to $0.06 negative. That's modulated now in the $0.01-plus range. And so if you see that also reflected in the spot-to-rack margins, the larger negative numbers we saw earlier in the quarter are very small now and more in line with the relationship with RIN. So we've seen that correct. You're right. Where the arb was closed by several cents, the arb is now closed by a much smaller amount where it was opened last year. Anyhow, there's a number of things that are going to drive the arb value which, in turn, reflects the value of the pipeline. And so maybe, start with why are we one of the largest shippers on the Colonial pipeline in the first place. It's about low-cost ratable secure supply. And so we could have just said, "We're not going to ship on Colonial, and we're just going to buy product at wholesale racks at depressed prices through the quarter," and we would have presented a different set of financial results. But we would've lost that line space history and over time, that would be contrary to our objectives of having low-cost ratable secure supply. And all you have to do is go back to third and fourth quarter of last year, when we had 2 major disruptions on the Colonial pipeline. And we are able to provide low-cost ratable secure supply when many other retailers were out of fuel. And so that's the underlying basis for being a ratable shipper on the Colonial pipeline.

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There's a number of things that will affect the arb values. The first is what's the demand in the Colonial markets? The demand is strong, right? And when you look at the 10-year outlook for fuel demand where it's getting weaker in certain states that have 0 vehicle emission requirements, you do not see those in the markets up and down the Colonial pipeline, and we expect those markets to continue to be strong. We did see a weakened January and early February versus a year ago. And so that's going to be more of a seasonal change. I would expect that the pipeline will continue to be in allocation and things will get tight during the summer. Maintenance and disruption patterns are unpredictable, right? We've had a pretty -- other than the 2 events last fall, we haven't had a lot of bottlenecks or constraints along the pipeline in those periods when that happens, all of a sudden, the values spike back up. And so you can look at line space values over time and see a pattern, you can correlate it to events like that. The New York Harbor supply dynamics are changing. So instead of crude trains running from the Dakotas to the East Coast, you've got the Dakota access pipeline open, and that crude is now being shipped to the Gulf Coast, someone may end up taking a Jones Act vessel and taking it from the Gulf Coast to the East Coast refineries, but the exploration and production companies are going to benefit from that, refiners are going to be disadvantaged from that and that will impact their overall economics. And if you think about the Gulf Coast basis, yes, that may change if exports to Mexico and other places bid up the Gulf Coast price, but that's going to attract imports from other places, including European imports.

And so I guess the long and short of it, Chris, is, in the short term, you can see a lot of large swings. Over the long term, these refine product markets get back into equilibrium. And the other thing, I'd say, last about the Colonial pipeline is, given that strong demand, if there is weakness in the line space values in the short term, that impact how shippers think about expansion projects, and there have been a number on the table for the last few years, none of which have happened because of the requirements from shippers that -- and the commitments they would have to make. And so we would expect that to be a valuable asset, even though the short-term values of that may shift, it continues to be a critical part of our business model to ensure we have low-cost ratable supply for our high-volume retail stores.

Christopher Mandeville - *Jefferies LLC, Research Division - Equity Analyst*

That's all very helpful. I guess, maybe, turning to in-store performance. There are actually really quite solid results given January, February retail backdrop and the tough year-agos. Looks like on kind of both per store per month basis and on a comp basis that your 2-year stacks accelerated quite meaningfully back into the low-teen's range, a lot of you outlined, merger margin expanded nicely by 40 basis points. So if I caught it correctly, did you mention that you're seeing further follow-through kind of quarter-to-date? Or if you could just kind of talk about what you're seeing in-store and what you're expecting as we progress throughout the year?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. So certainly, as we finish the quarter in March, because it really -- I mean, we talked about the onetime event from the lottery, and January where nontobacco margins were lighter, and in February, you had the final McLane payment. So this year, the tobacco year-over-year comp was weak. March was a normal month in both -- tobacco margins and nontobacco margins were both up. And so we continue to see that kind of momentum going forward. We're really starting to see the benefits of new leadership, people in new roles, some of their performance improvement efforts that we've talked about in the past showing up in the results. We're seeing it in the way we're doing pricing, center of store optimization, the promotion effectiveness, activities and just the natural way in which we're interacting with our vendors and supplier partners in a much more strategic way. And so, I think, those trends will continue and will be having a more robust set of promotional offerings during the summer. If you've been out there, you see instead of the 10 or 15 -- $0.10 off gasoline, you see much higher levels, $0.15 to $0.20 off on some of the fuel discount programs. On Monday, we had -- we launched a special Murphy Visa Card promotion that's been running throughout the summer where all Visa Card users are getting $0.15 off per gallon as well. And so there's just a lot of meaningful activities that's going to continue in the second quarter and throughout the summer.

Christopher Mandeville - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And then maybe the last one from me. Mindy, with kind of the guide down for the full year and then the new addition of debt left to take down, it looks as though pro forma leverage will creep above the 2.5x threshold kind of even if we were to assume 2Q's EBITDA is flat year-over-year. So maybe if you could -- I get that it comes with more favorable rate, but can you help us understand maybe the timing and rationale of the issuance?

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And then additionally, are there any nuances to the calculation that may lead us to a more accurate depiction of leverage? And what exactly does this mean for near-term capital allocation? Or maybe what type of restrictions would kick in until you got back below that 2.5x leverage ratio?

Mindy K. West - *Murphy USA Inc. - CFO, EVP and Treasurer*

Sure. The timing was opportunistic on our part. We opportunistically access the debt market because it's our belief that rates are going to go up from here. So we think we've seen the floor. And so to the extent that we wanted to add a layer of advantage, right financing and take advantage of the fact that both rating agencies had upgraded our companies since we first entered the market in 2013. We wanted to access the market earlier in the year rather than later in the year. And so we did that, and we're quite successful. But we always have been and are still committed to staying within our 2.5x leverage maximum target. We may, as you indicated, have quarter-to-quarter fluctuations in which we may drift above that. It's not our intention to stay there, however, and we do have prepayable debt in the form of our term loan that we can use to help us manage that. So you're correct with the pro forma for this quarter, it's going to put us probably a little bit of above 2.5x, because if you look at our adjusted total EBITDA to around $360 million, which would imply to stay within 2.5x, we can have debt of around $900 million.

So that gave us $200 million of free board when you look at total long-term debt outstanding at the end of March. We've now issued $300 million of new notes, but with that, did prepay some money on the term loan as we needed to under our covenants. We also subsequently been getting the bar proceeds, went ahead and paid down that $26.5 million outstanding under the ABL. So that puts us really where we're sitting today at just a little bit over 2.5x. But again, going back to the comment I made about the prepayable debt, we can pay an additional increment as needed to get us to meet that target, which then would allow us to continue share repurchases. And again, this has nothing to do with an occurrence test or our ability to actually add debt. That's a completely different ratio. It's an interest coverage ratio of 2:1 in terms of the indenture, and so we will exceed that. So it's really not an issue of being over lever from that standpoint. It's just the ability to maintain flexibility to do share repurchases, requires us to stay under the 2.5x, but we think that as we go throughout the year that we will be able to manage and keep that ratio underneath that.

Operator

And our next question comes from the line of Ben Bienvenu with Stephens.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - Research Analyst*

I wanted to start on the OpEx side of things. I think excluding some of the one-offs, you had per-store OpEx down 2.5%, labor costs were actually down 9.6%, you called out in the press release. I'm curious, this number is certainly going against the grain relative to the industry and some of your peers. What are you doing there to drive some of those efficiencies? And what inefficiencies are left in the model that you see continuing to drive operating expense improvement?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Sure, Ben. So the cite labor model initiative that we really had ramped up in full in late Q2, we only had the pilot divisions implemented in Q1 of last year. So we're comping a favorable baseline there. And so by the end of Q2, we'll be comping a more normalized baseline there. I will say just like we had the lottery jackpot impacting the merchandise number in a negative way, that also helped us on a labor standpoint. So part of that labor benefit in Q1 was the fact that we didn't have the extra transactions that led to higher labor in the staffing models. We're building up to that $1.5 billion jackpot. We typically see once you get over $250 million, the amount of transaction starts becoming meaningful. So there was an extended period of time in which we were building up for that. So we've got another quarter of comparable -- comping a favorable baseline on labor.

A couple of things, though. With tobacco transactions down in other variability, we fine-tune the labor model. So we're going to be more in tune with changes that are going on at the stores to be able to keep it more tightly in line with that. We do have some other initiatives around labor

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that we look to execute in the second half of the year. So there's still some more opportunities there on that front. Some of the other categories that we're just beginning to take a look at include maintenance, our shrink categories, for example, and some of that is just better merchandising of where you put some of the high theft items in the store. Last year, we were still in the process of going through the whole banking process of qualifying our EMV at the point-of-sale for our stores. And while we were later than we would've liked to have been getting that rolled out, I think we were still ahead of many in the industry. So we're seeing a meaningful year-over-year improvement in liability shift chargebacks on that front as well. And so we'll have some continued benefit of that in Q2. So I guess the bottom line is, we still have some favorable comping periods, but we're still looking out for that next wave of opportunities in the business.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - Research Analyst*

Fair enough. And then you mentioned the softer retail demand for fuel consumption at the start of the year. I'm curious how you saw your competitors react. Has the landscape become more competitive or promotional [unexpected] softer demand?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. I'm not sure we saw anything in particular from a promotional standpoint during that period. I think, depending on where you were geographically, you were more or less impacted by the major winter storms. I think, in March, we saw some favorable price structure comparisons year-over-year. So over last year, prices were rising pretty sharply. It was a kind of more flat environment in March this year, which led to the more favorable year-over-year comps. So really didn't see a whole lot from a promotional standpoint. We do continue to see competitive entry in a lot of the markets in the attractive markets. So there are retailers like us that have advantage business models that continue to get good returns on invested capital from building new stores, and we continue to see those and the more attractive markets. And so I'd say, if there is a headwind out there around fuel, it's more about competitive inroads versus fundamentals like fuel demand or promotional activity. We look to -- this year, as we've said, begin to pilot a loyalty program to be able to get some of that customer base back that's more motivated by promotions versus just low price.

Operator

And our next question comes from the line of Bonnie Herzog with Wells Fargo.

Bonnie Lee Herzog - *Wells Fargo Securities, LLC, Research Division - MD and Senior Beverage and Tobacco Analyst*

I just had a little bit of a follow-on question, but also maybe more of a broad question on your fuel volumes. So you've reported pretty soft same-store fuel volumes this quarter and then sort of historically in the most recent quarter. So I guess I was just curious to hear from you, how much of that is maybe consumer softness? Or how much of it is a conscious decision by you to maybe take a little more pricing and margin? I guess I'm just a little surprised that you aren't able to see a little bit stronger volume in a share, given your low-price position?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. So what I would say is that, certainly, this year, there was no view towards, let's take margin on the -- margin versus volume. And so I would not attribute it to that. I would say, January was weak. I think just about every retailer out there in some form or fashion has noted that we won't get the final vehicle miles traveled for the quarter for a little bit of time. But I think they're going to pretty much report January was soft following prices last year in January and early February, so that was an attractive environment for getting volume. And so while we were comping a more favorable market structure in March when prices were rising last year and flat this year, we were comping in, say, much more difficult environment in January and February when prices were falling last year, which is typically when we pick up volume. In terms of our low-price position, we haven't changed that. And so there are really 2 factors there if you assume flat demand or even slightly rising demand. One is who are the competitors that are entering, and all the competitors that are really entering the market are people with advantage business models who price fuel low. So you've

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got more competition for that price-oriented customer. And eventually, they get to start choosing based on convenience because there are so many low-price outlets out there.

In addition, you're seeing a lot of continued sustained promotional activities, especially by the grocery store chains where we see the volume over time for customers who are -- who pick their stores based on the promotional offers that are out there. And so I wouldn't say that, that has changed year-over-year. We actually see this as an opportunity to get some of those customers back. So we remain low price. You've got more low-price entrants in the marketplace. I would also say, Bonnie, on the margin, when you've got some competitors who may have been taken over a year ago and they were weak competitors and maybe they were pricing for cash and margin -- on the margin. You've -- they're now owned by maybe a larger company with a different view around sort of attracting their customers. And so you may even see some competitive intensity even amongst the retailers who aren't pricing at the low end of the market.

Bonnie Lee Herzog - *Wells Fargo Securities, LLC, Research Division - MD and Senior Beverage and Tobacco Analyst*

Okay. That's helpful. And then that also begs a question for me. Just to -- I'd love to hear from you general thoughts on the health of the consumer. We're hearing from a lot of our staple companies, consumers' pressured categories are decelerating. So I'm just curious to hear from you and your -- their consumer base, what you think might be going on? And are you seeing any signs of improvements from the consumer?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. So I think you've got this sort of mixed data between consumer confidence ratings up, but not necessarily seeing the spending. I've tried to always on these calls separate our consumers, the lower income -- the lower middle income consumers that are primarily shopping at Walmart supercenters. I'm not sure that they were benefited greatly by the changes in the economy over the last several years. And so I don't know that their situation has changed that much in the last year either. So I would say, it's a more stable customer base versus some that may have seen some benefits and now maybe be worried that some of those benefits are going away versus some of your other consumer stapled companies. I think you go back to our model. We're selling more individual servings. We're selling smaller SKU sizes. And so people will continue to buy individual items. One other thing I would note is that, with higher gasoline prices, we're actually seeing a higher level of transactions because more of our consumers are purchasing a fixed dollar amount. And so they have to come back more often to get the same amount of gallons for that $20 bill. So we're actually seeing a higher level of transactions on the fuel side at the store. And the other thing I'd say is, as prices rise, people become more price-sensitive. And on the margin, we will attract some consumers that we lost on the margin when prices were below $2 a gallon. And so, I guess, in summary, I would say, this is one of the beauties of Murphy USA's business model, our targeted customer segments and the fact that if you start to see some recessionary trends in the marketplace, we're going to fare better than some other retailers out there.

Operator

And our next question comes from the line of Andrew Burd with JPMorgan.

Andrew Ramsay Burd - *JP Morgan Chase & Co, Research Division - Analyst*

Most of my questions were answered. So I just have one. Can you comment on the new leadership on the fuel side of the business? And whether this represents a part of a larger strategy or a greater or more enhanced focus on the supply side?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes, and thanks for noticing. I think one of the most impactful things we've done over the last year is bringing in some of the strongest leaders in the sector into our company. And so we really are excited about this edition. Daryl Schofield joins us from Tesoro where he was Senior Vice President and had responsibility for the entire commercial optimization from acquiring crudes and feedstocks to disposing a product in the marketplace. I had a long-term relationship with Daryl in my prior life when he was at the BP in Talisman and then at Tesoro as well. So I know firsthand his

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capabilities and the impact he is going to have on our business. One of the things that we're going to be looking at is, in a world where demand, as we've always talked about, is flat to slightly declining over the next decade. And even though Murphy USA has advantage because our markets will not decline at the rate that East Coast and West Coast markets will. We have one of the most attractive things in the industry, which is a large high-volume ratable short position. And so as we look out over the next 5 years, we'll be doing some work to say, how do we best take advantage of that in the marketplace given the excess refining link that exists, the fact that they're searching for export markets, the fact that crude dynamics and other market dynamics are shifting the landscape. We continue to have one of the most attractive output mechanisms for the refining industry as this low cost, highly ratable short from a high creditworthy retailer. So part of Daryl's charge is to work with our team to help develop that strategy and then build whatever capabilities and positions around that to make sure we maintain that competitive advantage that we have.

Operator

And our next question comes from the line of Damian Witkowski with Gabelli.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

You're still comfortable with your original 2017 guidance for $4.3 billion to $4.5 billion total fuel gallons?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

At this point, yes, Damien. And depending on the summer season and the response to the fuel discount promotions, we feel real good about that. Q1 probably has us a little bit lower than we anticipated, but we still maintain that guidance range.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

Okay. And then just to clarify, so if I look at your same-store sales and average per store per month, does the same-store sales exclude the extra day from a year ago?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

The same-store sale figure we gave would not adjust for that.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

Meaning that, okay. So it didn't -- you shouldn't -- I mean, there wouldn't be a 1%-plus benefit from the extra day a year ago on a apples-to-apples basis?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

That is correct.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

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R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

But we said, first quarter volumes were down 3% on a same-store basis. If you took out that 1.1%, same-store sales per day would have been down 1.9%.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

Sure. Okay. And then, I didn't see -- I hope I didn't missed it, but I mean, you didn't, I think, disclose how much you made on RINs versus how much you lost on PS&W? Is that just a change in how you're going to report going forward?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

No. We report all of that in the queue. And I think, last quarter as well, we didn't provide that. I think part of our objective certainly in the earnings release is to focus on the total all-in margin.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

Okay.

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

That's my hope. And the uncontrollable timing differences in the retail margins. But, again, it's in the queue.

Damian Andrew Witkowski - *G. Research, LLC - Research Analyst*

And then just going back to some of the comments you made on the competitive landscape and the better markets where you're seeing more advantaged providers coming into those markets. I mean, who would -- who are you referring to? And again, I mean, as I think about, I mean, it's really (inaudible) providers I think of, people like supermarkets which you've kind of highlighted in a separate category. And then Costco, really. Am I missing someone?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. So I will just give you some specific examples. Florida has a very competitive market. You see a lot of new Wawas entering that market, racetracks entering that market. They have been very competitive. Certainly, if they get -- they price aggressively similar to us when we enter a market. One of the facts around Florida is that it has certain low-cost pricing rules, et cetera that you have to maintain, and we always operate within those rules. So if you got a tight margin period and you've got new competitors entering, it's difficult to get separation from the market. But a lot of times at the level's new entrants price, you're really not trying to get a separation in the first place. We see (technical difficulty) for chains including Walmart neighborhood markets in some of the Texas markets. We still see very, very few Walmart supercenters adding gas where we have a Murphy Express adjacent to it. But if you have a midsize East Texas Town and maybe we're in front of 3 supercenters and they had 4 or 5 neighborhood markets, it does impact total volume for that market. And just like when we enter and add a store any time any low-cost competitor enters, there is some volume shifts that go on there. Similarly, Kroger and some of the Midwest markets continuing to build out. Kwik Trip is another example of a retailer that continues to build out markets where they're at scale. Costco, while they continue to build and they always had gasoline, really is a different consumer than that is -- that's typically coming to our stores. So they do help set the floor, if you will, to what the low price is in the market place. We don't necessarily see them as competitors from a volume standpoint.

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Operator

And we do have a follow-up question from Chris Mandeville with Jefferies.

Christopher Mandeville - *Jefferies LLC, Research Division - Equity Analyst*

Andrew, so you mentioned the Midwest. I'm just curious if we could maybe get an update on how that store base is performing? Or how it performed in the quarter? Did it follow kind of similar trends where they ended on a bit of a high note and margin continued to show signs of improvement?

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Yes. So I would say, the Midwest stores, especially, the ones we opened in a higher concentration in 2015, is ramping up. As we said, we opened a lot of them in lower-performing states and markets at the time of the year to be kind of opening. But we are seeing year-over-year improvements in those stores as they're ramping up, I mean, they're still performing on average below the chain average, but coming up in line. And so I would say the trends we saw from the beginning of the quarter to the end of the quarter held up the same in the Midwest as other markets.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back over to Mr. Andrew Clyde for closing remarks.

R. Andrew Clyde - *Murphy USA Inc. - CEO, President and Director*

Great. Well, thank you for all the questions. This has been a dynamic quarter, to say the least. I think the clarifications we've been able to provide highlight sort of the long-term commitment we have to the business and how it will sustain us despite the short-term ups and downs. So thank you for your interest in Murphy USA, and we look forward to seeing folks in New York in a couple of weeks. Take care.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.

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