THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MUSA - Q1 2016 Murphy USA Inc Earnings Call

EVENT DATE/TIME: MAY 09, 2016 / 3:00PM GMT

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Christian Pikul *Murphy USA Inc. - Director IR*

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

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

CONFERENCE CALL PARTICIPANTS

Ben Bienvenu *Stephens Inc. - Analyst*

Bonnie Herzog *Wells Fargo Securities, LLC - Analyst*

Chris Mandeville *Jefferies LLC - Analyst*

Matthew Boss *JPMorgan - Analyst*

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

Damian Witkowski *Gabelli & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2016 Murphy USA Inc. earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mr. Christian Pikul, Director of Investor Relations. Sir, you may begin.

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

Thank you. Good morning, everyone. 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 open comments from Andrew, Mindy will provide an overview of the financial results, and then Andrew will open up the call to Q&A after some brief closing remarks.

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 Murphy USA Forms 10-K, 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 provided schedules to reconcile these non-GAAP measures with the reported results on a GAAP basis as part of our earnings press release, which can be found on the Investors section of our website.

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

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

Thank you, Christian. Good morning and welcome to our first-quarter 2016 conference call. I hope you all have had the time to read through the earnings press release we issued earlier this morning, where we reported net income from continuing operations of $85.9 million or $2.08 per share in the first quarter. Excluding the $56 million of after-tax gain on the sale of the CAM pipeline, quarterly earnings per share would have been $0.72 per share compared to $0.50 a year ago.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Over the past several weeks we have spent a fair amount of time on the road, visiting investors and reviewing our independent growth plan. Throughout those discussions we shared a simple formula for driving earnings-per-share growth. So on today's call I would like to start by highlighting our progress against the key elements of our growth formula.

The first point is that organic unit growth is off to a brisk pace. Since the beginning of the year we have opened three new stores and presently have 23 new stores under construction. We remain on target to add between 60 and 80 stores to our network this year.

In addition, all 10 of the planned raze-and-rebuild stores are under way and expect to be opened for the peak summer driving season. Over half of the 120 Super Cooler installations at our kiosks are completed, with the balance to be wrapped up in Q2. Our 300-store refresh program is also on track.

The second point is our fuel contribution showed resilience to and took advantage of market volatility. Retail margins of $0.111 per gallon exceeded the $0.10 earned last year and represent the highest first-quarter margins since 2002.

Product supply and wholesale plus RINs added an incremental $0.029 on a retail gallon equivalent basis this year compared to $0.038 a year ago. When combined, fuel contributed an additional $9 million in earnings as total volume grew 4.6%, well ahead of total market demand.

The third point is that our initiatives to improve our fuel breakeven requirement are firing on all cylinders. Merchandise margins expanded 126 basis points, reflecting the impact of implementing the Core-Mark supply chain contract, higher rebates and allowances, better promotions, and enhanced product mix from larger stores.

Higher same-store sales, up 4% overall, at record margins resulted in a 13.9% increase in same-store tobacco margin dollars and an 11.5% increase in same-store non-tobacco margin dollars. The same-store metrics were slightly higher than our average per store month metrics, as new stores opened in the back half of 2015 ramp up.

Q1 results were also boosted by an extra $1.5 million in Lotto lottery margins for the quarter, increases in cigarette pricing in Tennessee and Louisiana associated with state tax changes, and some nice one-time shelf allowances and rebates.

At the same time, our average per store direct operating expenses fell by 1.7% on relatively flat labor expenses, as we prepare for the full-site labor model rollout in Q2.

Moving the needle in both margins and costs improved our fuel breakeven margin requirement by $0.011 per gallon from this time last year. And we have line of sight to continued improvements throughout the year.

The fourth point is our initiatives to improve and scale SG&A are well underway. We completed a successful reorganization of our finance and accounting groups and have just upgraded PDI Enterprise at the home office and started the store rollout in the field. Along with other ASaP initiatives, we are building the capabilities to have a leaner, more capable and scalable support structure while reducing SG&A per site along the way.

These four points of our value formula support our strategy to drive organic earnings growth, and we are excited about the results we achieved in Q1 and the momentum it creates for the full year. The fifth and final point is we further enhanced our EPS growth in the quarter by returning $150 million to our shareholders through share repurchases.

Since announcing earlier this year our up to $500 million share repurchase program, we bought back 2.4 million shares in Q1. Our steady approach to share buyback has provided a consistent boost to earnings-per-share.

We ended the quarter with a strong cash position, along with restricted proceeds from the sales of our Hereford ethanol plant and the CAM pipeline. As such, we are well positioned to continue to invest in the organic growth potential of our business while sustaining our commitment to return value to our shareholders.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

That is our simple formula for creating shareholder value, and we are off to a great start in 2016. I believe the rest of the quarterly results are pretty straightforward from the release, and Mindy and I can address any open questions in the Q&A section.

I will now turn it over to Mindy for a closer review of the financial results.

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

Thanks, Andrew, and good morning, everyone. As Andrew mentioned, net income was $85.9 million or $2.08 per diluted share, which included $56 million after-tax gain on the disposition of the CAM pipeline system, which closed on March 31.

Total revenues were $2.49 billion in the first quarter compared to $2.92 billion in the same quarter of last year. The decrease in revenues was caused primarily by lower fuel prices, partially offset by an increase in store count.

Adjusted earnings before interest, taxes, and depreciation and amortization, or EBITDA, was $83 million, up from $63.5 million from the prior-year quarter on improved fuel margin and merchandise margin. The effective tax rate for the quarter was 38.4%, largely in line with our expected rates, but lower than the prior-year rate due to discrete tax adjustment items made during the 2015 quarter.

As of March 31, 2016, our long-term debt was $657.8 million, reflecting increased borrowings due to the reinstatement of a term loan facility for $200 million. The term loan carries a four-year term and a 5% per quarter amortization provision, the first payment of which is due in July; and the facility has an interest rate of LIBOR plus 250 to 275 basis points, triggered by total leverage.

Our asset-based loan facility was renewed concurrent with the term loan and carries an extended maturity to March of 2021. The ABL facility continues to remain capped at its $450 million limit and is subject to periodic borrowing base determinations, which currently limits us to $153 million. At the present time that facility continues to be undrawn.

Cash and cash equivalents totaled $195.7 million at March 31, along with $130.9 million of asset sale proceeds held in escrow for like-kind exchange treatment. Including cash and restricted cash, net debt at quarter end is approximately $361 million.

During the quarter, as Andrew mentioned, we repurchased nearly 2.4 million common shares for $150 million at an average price of $62.50 per share under the previously announced program of up to $500 million to be completed by the end of 2017. Shares outstanding at the end of the period were 39,396,549.

Lastly, capital expenditures for the quarter ended March 31, 2016, were $41.7 million, which included approximately $33.3 million for retail growth, $4.9 million for retail maintenance, and the remainder for other corporate expenditures which were primarily ASaP-related. We currently expect full-year 2016 capital expenditures to be in the range of our previous guidance of $250 million to $300 million.

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

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

Thank you, Mindy. As you can see, we're off to a great start to 2016 on all fronts. The competitive and market factors remain very dynamic, whether it's shifts in crude prices and refinery crack spreads or proposed labor, e-cigarette, or EBT card regulations. This remains a highly competitive business which requires a great deal of focus on both execution and innovation to keep pace.

I believe Murphy USA continues to be poised to win in this environment because we have the clarity, coherence, and consistency of a strategy and value creation formula that has stood the test of time since our spin and will serve us well through our independent growth plan. We have a lot on our plate to execute, yet remain excited about future opportunities to innovate and push the boundaries of our business model.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Our staff and our business partners have been very busy with the initiatives underway, and I would like to thank them for their continued support. We have asked a lot of them already this year, as we rolled out Core-Mark in less than 30 days, launched a store labor model that impacts every store and operating practice, upgraded systems that have been static for several years, all while remodeling a 30-year-old headquarters building while occupying it. Thank you.

With that, we will open it up for questions, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ben Bienvenu, Stephens.

Ben Bienvenu - *Stephens Inc. - Analyst*

Yes, thanks. Good morning. Great quarter.

I guess first, touching on full-year guidance, there wasn't reference to it in the press release, but I know that hasn't been your practice in the past, but I assume you guys are still comfortable with the $400 million to $440 million of EBITDA for the full year?

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

That is correct.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay, great. Then I guess just looking at the merchandise margin, for me that in particular stood out as strong, even if you X out the $1.5 million contribution from the Lotto, margins were still up 100 basis points year-over-year.

If I extrapolate that through the year, it suggests something towards the higher end of your total merchandise gross profit projections for the guidance. I realize merchandise sales were quite strong in the first quarter, too. But I guess the heart of the question is: I would like to get a sense of how you expect the cadence of that margin to progress as we move through the year. Or what were your expectations when we entered this year for how that would progress through the year?

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

Sure. The cadence that is going to be the most sure and repeatable were the benefits from Core-Mark -- rolled out in February, full benefit in March -- we'll get for the remainder of the year. That represents maybe a little over 50% of the improvement on the cigarette side.

A big portion of the cigarette increase was also due to the changes in the minimum markup requirements in Tennessee, which flowed through to margin although there was a sharp impact in volume when you have those changes. There was also a state tax increase in Louisiana. So those become one-time items that flow through and then ultimately work its way through the system.

The non-tobacco improvements had less to do with Core-Mark and more about execution. But there were some one-time benefits there.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Clearly the Lotto was a nice one-time benefit. We also got some shelf allowances. And when we think about the Super Cooler in the larger stores, at some point -- given our very small starting position -- we start qualifying for certain rebates and allowances that we didn't before in certain non-tobacco categories.

So some of those were one-time. I think we estimated if you take some of those factors out, that 15.3% probably would've been a lot closer to 14.8% or 14.9%, which is still a significant improvement over the prior-year quarter.

So if I can say, those were some of the one-time impacts, we would then expect to see that gradually improve over the quarter because you'll have three months of Core-Mark in the remaining quarters versus the one to two months in Q1. Does that help, Ben?

Ben Bienvenu - *Stephens Inc. - Analyst*

Yes, that's great detail. Thanks. A question for Mindy. You guys have added post the quarter an incremental $200 million in debt, but still at the midpoint of your EBITDA guidance range: sub 2 times debt-to-EBITDA. I know in the past you've stated a goal of 2.5 times debt-to-EBITDA and 45% debt-to-cap, which it looks like we're currently above. I suspect that drifts higher as you execute your share repurchase strategy.

But can you help me think about -- is that 2.5 times debt-to-EBITDA goal a cap on where you'd like to be? Or is that leverage a ZIP Code you think you could live in at a run rate basis longer term?

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

I wouldn't necessarily call the 2.5 times a target. I would refer to it more as a maximum or a cap rate, because it happens to be the level at which within our indenture agreement it starts restricting our ability to do things like share repurchases.

So if you looked at the trailing 12 months' EBITDA as of the end of the quarter, obviously we could still have some debt added and still be under the 2.5 times, as we finish the quarter, about 1.88 times.

Ben Bienvenu - *Stephens Inc. - Analyst*

Okay, great. Thanks. Then just one last quick one for me. The retail fuel margin in the quarter, I know it was a tough second half to the quarter; it looks like you navigated nicely through that. Can you speak to -- I think of you guys as a low-price operator, and I suspect you want to lead the market down but you don't want to lead the market up. So how do you navigate through a rising price environment and deliver a result like we saw in the first quarter here?

I guess a related question, the competitive landscape, what it looked like. We hear continual chatter around maybe an appetite for higher margins out in the market, but maybe that's not true in your lower-price competitive set.

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

Sure. I'm going to avoid having a discussion about competitive pricing and price movements in this forum. But I would describe the quarter as really a tale of two periods. You had the January to early part of February where you had a nice falloff in prices, and typically we gain both volume and margin during that period, which we did.

Volumes were strong in January and February. Even with the extra day in February we were still over 100%. Then you had that rapid run-up in March: $0.44 from the low in February to the end of March, that's a pretty steep run-up.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So you started the period with that run-up, with healthy margins, and then there is just a competitive dynamic in which, if players behave rationally, you navigate through that. Certainly that challenges volumes on the way up.

Our goal is to remain the low price or match the low-price competitor in the marketplace, because we've got to face all consumers everyday and we can't (technical difficulty) erode that value proposition. So we're going to be in some way at the mercy of the price movements; and with continued run-up in prices, margins get squeezed further and it's a little pressure on volumes.

But as we know they run up and then a fall off, and typically they fall off pretty sharply. And then you have those periods of high margins and volumes that offset that.

So I think that's what hopefully folks have gotten accustomed to seeing, is that over any rolling 12-month period those cycles ebb and flow, and you've got a much more sustainable position than if you look at it on any monthly or quarterly basis.

Ben Bienvenu - *Stephens Inc. - Analyst*

Great. Thanks and best of luck.

Operator

Bonnie Herzog, Wells Fargo.

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

Good morning. I had a question on your store labor model. I guess I was hoping to get a little bit more color and maybe some examples of what types of initiatives are working.

Also, could you give us a sense for how much you've completed in terms of this opportunity? For instance, have you implemented more than half of the opportunities you've identified?

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

Right. Maybe in terms of timing, this started last year in some pilot stores in a district in Louisiana. We rolled it out fully in the Louisiana division and then rolled it out in the Florida division. So we had the benefits of those pilot stores as we started the year.

The remaining of the stores, we're going through training. So we had additional hours allocated in the quarter for training up those new stores.

So virtually we had the pilot benefits offset the training hours in Q1. We've now started the rollout in the other divisions beginning in Q2. Different stores and divisions will be at a different pace depending on the complexity of the changes and where the starting point was for the stores.

We've had some stores that were already at the ideal hours, but maybe their practices needed to be adjusted to deliver the activities and standard operating practices to live within those hours. There may have been some stores that needed to add hours; but again, it's all about the practices that lead to more efficient daily activities, better customer interaction, store cleanliness, and the like.

I think we've talked about some of the practices that led to the savings, but a lot of it was just basic store operating practices for things that consume the most time. If you think about a daily close process, or you think about a tobacco cigarette counting activity, because the Company had grown so rapidly during the early years there just wasn't the model in place that was consistent across all the stores. There was a lot more kind tribal knowledge and way of doing things.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So it's really about just taking a more consistent approach to everything we do at the store.

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

Okay; that makes sense. It sounds like then, listening to you, a lot of this has already been implemented. You're seeing the benefits of that, and I assume you're going to continue to see the benefits this year.

Do you think you'll also see the benefits from some of these changes into next year as well, Andrew?

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

Yes, let me just modify a little bit what you said. We've implemented in two divisions. We've completed the training in the other divisions.

We've started the rollout in the remaining divisions. So we will start to see those benefits in Q2 and Q3 as that work is fully implemented throughout the year.

I do believe we will see additional opportunities in 2017, one, because of just the continuous improvement culture; but once we have the operating practices in place, there are some secondary and tertiary levers that we can pull as well to further enhance that labor position. Of course, then, you've got headwinds out there in the marketplace, proposed regulations and so forth that could impact it.

One of the things, for example, that offset Q1 labor was the fact that we were awarded more transactions when we were selling 3 times the number of Lotto lottery tickets in January during the jackpot. So the additional contribution there more than offset the higher labor expense in that period; but our model now was able to be more adaptive and responsive and agile to changes like that in a marketplace, good or bad.

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

Okay; that makes sense. Then another key initiative of yours, Andrew, is your refresh program, which you touched on. I think you've mentioned before that you anticipate seeing a 1% merch lift and a 1% fuel volume lift; so I just wanted to confirm that that's in fact possible as you roll this out through your store base.

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

Right. Those were the early results from last year. Clearly we don't have a full year yet, but when we compared them against control sites in the same district or area that was the average improvement we were seeing.

So we're continuing to proceed. I would say that we would proceed even without those benefits, because of the need to just refresh the look and the image and the consumer perception of the store. So we will also get benefits in reduced maintenance expense because of the warranties on some of the items. Some of the brick veneer cladding on the metal buildings can be powerwashed versus painted, and so there's a total lifecycle benefit on top of any top-line benefits.

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

You mentioned there's 300 of those, I think, you're planning on completing this year. Is that correct?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

That is correct.

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

Then just my final question is on your share repurchases. You mentioned that you completed 30% of your buyback, which is authorized through FY17. So guess I'm wondering if there is an opportunity here for you to recommend to the Board that they implement another share buyback program. I guess I'm thinking about this especially considering your strong balance sheet.

Then also if you could remind us on your thoughts regarding a dividend, and would that ever be a consideration, thanks.

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

Sure. On whether to do it -- the next tranche -- we have the liquidity, we have the commitment, we have a shareholder value model that gives us a good sense of when the stock is fairly valued or undervalued. So I think with that perspective, we're in a position to keep the Board continuously advised on the relative merits of doing more or less; and we've been having those same conversations since the spin.

On a dividend policy, I think investors want to first see organic earnings growth above and beyond anything else. That's why we like our simple value formula, because it's anchored in organic unit growth and organic earnings growth.

I think then the question becomes: If you have not sacrificed that, what do you do with the extra capital? Our sense from investors is they want to see something meaningful. We believe at this point in our Company's lifecycle, share repurchases are a more effective and efficient way to distribute value to shareholders, especially given the volatility of our business and some of the lumpiness it has.

So our sense is that special dividends aren't viewed as favorably as consistent share repurchase programs. Then on regular dividends, our view is that it should be meaningful -- or why bother? So while we're doing meaningful levels of share repurchases, at some point having a meaningful dividend of 2.5%, 3%, 4%, would crowd out the ability to do that.

So our bias and focus has been on a more ratable approach to share repurchases, ratable over the course of a year versus some quarterly period; do it with a strong view of what our valuation is; and leverage our liquidity to be able to do that. So I think it's not if we ultimately declare a dividend, but when; and I think it would -- when we can do it at a meaningful level.

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

Okay. I appreciate that. Thank you.

Operator

Chris Mandeville, Jefferies.

Chris Mandeville - *Jefferies LLC - Analyst*

Good morning. Congrats on the quarter. Andrew, despite that fuel price run-up in March, you guys showed some nice gallon comp growth, as have many of the retailers whom have already reported the quarter. It sounds like from the industry that they expect trends to persist as we head into the summer months.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

I guess first off I'd be interested in getting your take on that. And then second, if it were to in fact persist, how would or how should we think about the impact to your PS&W and RINs pricing?

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

Sure. There's a lot of very short-term sources for fuel demand out there, and then there are some near-term ones like vehicle miles traveled. But ultimately getting the authoritative data, there is about a four- to five-month lag. We just got it for December.

When we look at our core markets, 2015 as a whole, macro fuel demand was up 3.87%. I think that's a pretty remarkable number.

You still have EIA and the other long-term forecasters describing a flat to 1% decline over time. But the reality is when you have very low prices, consumers decide what vehicle to purchase based on their expected lifecycle economics. And the population is not growing any faster; you just have more people buying higher or lower miles per gallon vehicles, light-duty trucks, etc., even though they're more efficient than the light-duty trucks five years ago.

So we do see demand at good levels, and we also see it at low prices, which is quite different than when we were at the same time we were at this demand level in 2008, when prices were high.

So we would hope to be beneficiaries of that. We continue to add stores. We're growing total share. Clearly others are doing that in our markets as well, and that's why some of our average per store month numbers we project to decline at about a 0.05% based on that.

So we think we'll be the beneficiary of demand as it continues to grow. If demand begins to slow down, it's probably more likely due to higher prices. What we typically see in that environment is consumers get more frugal, and then they shift towards the lower-priced outlet; and so we become a beneficiary of that. Whereas in really low prices, consumers on the margin won't go as far out of their way to buy at a low-price outlet. At the same time, there's a lot more low-priced outlets than there were five or 10 years ago, based on the competition.

So there'll be some puts and takes out there. But net-net we think we are well positioned to capitalize on that trend.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay. And just as it relates to PS&W and RINs pricing, any way to connect the two to increased demand?

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

Yes. On that side, increased demand would have a benefit in terms of tightening the overall refined product supply chain. We've seen inventories consistently above the five-year average; higher demand pulls at those inventories.

We've seen utilization come off a little bit. I think crack spreads are closer to $18 a barrel, where they were $28 a barrel a year ago. So refiners aren't quite as motivated to push that extra barrel out the door as they were.

When you see more demand, it also at some point puts some constraints on the logistic systems. We've had a couple of cycles in the current quarter where the Colonial pipeline has been down for maintenance. That type of bottleneck constraint raises the wholesale price for markets; and we're a beneficiary in that we have a proprietary barrel going through that system.

So I think on balance, higher demand will flow through PS&W in a positive way. You will still have the impact of rising and falling prices, which has a lead-lag effect either on inventory timing differences and the like.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

As it relates to RINs, it should take a little pressure off of RIN prices in the sense that the overall refinery complex will be producing more gallons that are met by demand in which a RIN is captured. So the supply/demand for RINs should not be as tight.

But then you've got the regulators who will be announcing, hopefully by the end of May, their proposal for the RFS ethanol mandates for 2017. Then those are enacted in November. So depending on whether or not they ratchet up the ethanol mandate or not, that benefit of balancing the supply/demand of RINs may be short-lived if they decide to raise the mandate further.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay; that's actually very helpful. Then, Mindy, you guys showed some really nice free cash flow generation in the quarter. When I look at your cash conversion cycle, it looks like days payable saw quite a bit of bump there.

Is that a function of the new Core-Mark deal? Have you begun to see any working capital improvement as it relates to your ASaP program yet?

And can you provide any color or remind us on where you think free cash flow is going to shake out this year?

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

Thanks for the question. The difference in the payables, a lot of it is due to just timing of when invoices happen to hit at the end of the quarter and what day the end of the quarter was this year versus last year.

As far as our ASaP initiatives, as we have stated previously we do expect to free up approximately $15 million in working capital from our inventory management, taking out at full run rate about a week's worth of inventory. We expect to get halfway there this year with $15 million and do another $15 million next year.

We have already started to see modest improvements, but that initiative has not rolled out to all of the sites. As Andrew mentioned, we're rolling out a lot of things to the stores, inventory management being one, store labor and accounting software, and we really put all activities on hold during the month of February so we could make sure that the Core-Mark rollout was seamless.

So we would expect some of these improvements to be more back-end waited for the quarter.

Then looking at free cash flow, if you're assuming $400 million to $440 million of EBITDA and assuming that we spend the max rate of our CapEx of $300 million, we would actually be free cash flow negative, but for the fact that we have now added some debt proceeds of $200 million from our term loan.

Chris Mandeville - *Jefferies LLC - Analyst*

Right. Okay; That's helpful. Then just the last one for me, can you update us on your Express store pipeline, what you've got out there so far?

And Andrew, just quickly: how many refreshes did you actually perform in the quarter itself?

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

On the actual refreshes in the quarter, we just got those started, so it's a pretty low number. Most of them will be in Q2 and Q3. I don't know, Mindy, if you've got the exact number.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Chris, we only spent about $150,000 on those refreshes during Q1 because we just started ramping those up towards the end of the quarter. We obviously like to tackle those when the weather is nicer.

Chris Mandeville - *Jefferies LLC - Analyst*

Got you. And just the Express store pipeline, any changes there in terms of the number that you currently have?

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

No. No changes there and no change in our outlook for this year or next year in terms of new store growth.

The landbank is a lumpy process as well. We're clearly trying to close as many locations as we can and associate them with like-kind exchange treatment, so we're highly motivated to do as many of those as we can and build up that landbank.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay. Actually if I could get one last one in here, as it relates to the $130 million in restricted cash, can you just remind me when that becomes available again?

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

Part of it comes available tomorrow, as we will free up the remainder of the Hereford proceeds, so call that around $35 million, leaving the rest of it in the escrow until September.

We closed on the CAM sale on March 31. So those proceeds will be held in escrow for six months.

Chris Mandeville - *Jefferies LLC - Analyst*

Okay, great. Thanks.

Operator

Matthew Boss, JPMorgan.

Matthew Boss - *JPMorgan - Analyst*

Hey, congrats on the nice results this morning.

We're a quarter or so into Walmart's gas station testing. Any updates that you've seen or impact on any of your stores when Walmart gas opens in the vicinity of a Murphy Express?

Then on the landbank for the Murphy Express stores, are you finding it easier now to find good sites since you're no longer limited by the portfolio approach?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, I'll say on the second question, it's no less difficult or easier. We have the tools in place to identify the best-performing markets, the attributes at specific local markets that would make a high-performing site, a good-performing site, to a less-than-good-performing site.

The approach has really been last year not getting too far out in front of ourselves, not knowing where we stood with respect to acquiring more sites from Walmart. So it's really taking those same capabilities, which we continue to refresh and enhance, and then just applying them with more purpose than we did while that decision was still up in the air.

What was the first part of the question again? Oh, just in terms of stores, there's really not that many stores where a Supercenter has been built in close proximity to one of our stores. And the results of those where it has happened, frankly, don't look that different than if another high-volume retailer opened up in a proximity.

We've had competitive incursions since the beginning. We continue to have them on a regular basis. So the first point is there are not that many; and two, they are not that different in terms of the impact.

Matthew Boss - *JPMorgan - Analyst*

Got it. Then just a follow-up. 4% same-store sales in the quarter, can you talk about the underlying drivers? Maybe any color on traffic ticket and just the best way to think about a sustainable comp rate going forward. And also just what you're seeing in your larger kiosks versus the chain.

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

Sure. If you think about same-store sales growth of 4% versus average per store month of 1.8%, the biggest difference between the two is on the tobacco side, where cigarettes are ramping up at the new stores to get to their target levels. So once they get to that target level -- which we expect with our small format to happen within 12 months, versus some competitors talk about three to four years to ramp up. We can get ours ramped up within about a year. So if you think about 4% when you just have the existing stores versus 1.8% with the new stores added in, then you can see the difference there.

On the non-tobacco, the new stores actually contribute a little bit more there than the average per store month metric, because you've introduced a richer mix of larger-format stores versus the kiosks. So if you've added 70 stores in a year and 60-plus of those stores are 1,200 square foot formats, and you've got 800 kiosks in the denominator and those haven't increased that much, even as the stores are ramping up that's improving as well.

Some of the cigarette increase is also due to the fact minimum markups increased in Tennessee, which is a high-volume states. Taxes increased in Louisiana.

The cadence and likelihood that you have other increases like that as well as other just price increases is pretty hard to project over time. But we do have those on a pretty consistent basis.

Matthew Boss - *JPMorgan - Analyst*

Got it. Best of luck.

Operator

(Operator Instructions) Ben Brownlow, Raymond James.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Hey, congrats on the quarter. Just a follow-up on an earlier question with the labor expense initiatives on average being flat per store. But when you look at those pilot divisions in Louisiana and Florida, how much on a per-store basis was labored down in those sites?

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

Yes, so I don't have those exact numbers for those stores. But put it this way: it offset the training hours and it offset the increase in labor for the Lotto, and it also offset the fact that we have fewer vacancies than we had in overall labor from a store manager standpoint.

We haven't broken out those individual divisions. But it was a -- it will be a material number what we roll it out across all the divisions.

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

Ben, I would say that the results we saw in the pilot stores did confirm our expectations for the store label model once it gets up to full run rate.

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

Okay, great. That's all I had. Thank you.

Operator

Carla Casella, JPMorgan.

Unidentified Participant

Hi, this is May in for Carla. I'm sorry if I missed this, but did you give a leverage target or like a comfort leverage ratio that you'd like to stay in?

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

I did. Our comfort level is 2.5 times levered on an EBITDA basis. For some perspective, we ended the quarter about 1.9.

I would consider the 2.5 a maximum target, because once we get over that it starts inhibiting our ability to do share repurchases. We like to maintain flexibility, so we would like to stay underneath that ratio.

Unidentified Participant

Would you be taking it up to 2.5 in June, given your plans for capital and share repurchases?

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

Well, we have some flexibility within our independent growth plan of which we designated $500 million of incremental capital to be completed by next year. So we will be taking a look at cash flow versus CapEx for this year, next year; also look at the price of our shares, based on our proprietary model. If we think that they are undervalued and it represents an opportunity to purchase more now, then we obviously have some levers in which

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

we could add even more leverage to the balance sheet in the near term to accomplish that. But that's just something we're going to play by ear for the remainder of the year.

Unidentified Participant

Okay, great; thanks. Just another quick question. How much will the Easter shift affect Q2 for this year?

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

The Easter shift?

Unidentified Participant

Yes.

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

I couldn't tell you right now the impact of that. Typically if you add an extra Friday or Saturday to a quarter, that has a nice impact. So it's probably close to rounding error or not that material.

If you add a day like February, leap year, that's material. Adding a Friday or adding a holiday in one quarter or whatever, it's not going to move it materially.

Unidentified Participant

Okay, got it. thanks.

Operator

Damian Witkowski, Gabelli & Company.

Damian Witkowski - *Gabelli & Company - Analyst*

Hi, good morning. Could you -- are you seeing any differences between geographies in terms of store performance?

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

We do and we always have. The Midwest market, with lower density and lower population and certain demographics, performs at a lower rate than the Southwest and Southeast from a fuel standpoint. Geographies that have more state minimum requirements on tobacco underperform those that don't have those regulations in place.

There are certain economies like Texas and Florida, etc., that are growing at a faster pace than others, and the growth is made up of consumer segments that value a low-priced model like ours. So every geography has its own flavor.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

You've got also competitors that focus on different geographies with their differential offers as well. So it's -- to say that all the geographies or market areas are similar would be an understatement; they're actually quite different.

Damian Witkowski - *Gabelli & Company - Analyst*

That's helpful. But I guess you're not really seeing any impact from lower crude prices in terms of economies that are levered to that industry in particular falling off?

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

If the question is, are we losing volume in South Texas where, say, Eagle Ford Shale production is off, we're just not as concentrated in a local market. So if we've got a store in front of a Supercenter in one of those towns, that town is still pretty active and busy. We didn't build up 10 or 15 convenience stores in that area in which they may be impacted more or have more meal occasions that are impacted by it.

So we probably didn't benefit as much from some of those trends, but we're not impacted on the downside to the same extent either.

Damian Witkowski - *Gabelli & Company - Analyst*

Okay. Then food stamps, which I think is a pretty small part of your overall business, but the proposed changes -- and they are not implemented yet and they are not approved -- but if they do get approved, any way to gauge how big of an impact it would have on your business?

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

It is, and it's pretty small. I think one of the things about our business, having so many kiosk stores that aren't able to deliver that offer means we weren't able to offer that method of payment in the first place. Even on our larger format stores we were probably underrepresented versus our potential to deliver EBT.

So sitting at the beginning of this year it was more of a upside opportunity than a downside. Given the proposed regulations, it's not going to have a material effect on us.

Damian Witkowski - *Gabelli & Company - Analyst*

Okay. Thanks and congratulations.

Operator

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

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

Great. Well, thank you all for joining and listening in. I know that we visited with many of you over the last several weeks that we've been out on some of the investor tours.

We remain very confident of our strategy and our value-creation formula and really excited about the Q1 results providing proof points to that. So thank you all very much and we'll look forward to next quarter.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS