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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Murphy USA Second Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Christian Pikul, Director of Investor Relations. Please go ahead.

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

Thank you, Jonathan. Good morning everyone and 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'll open up the call to Q&A.

Please keep in mind that some of the comments made during this call, including the Q&A portion, will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained.

A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, please see the latest Murphy USA Forms 10-K, 10-Q, 8-K and other recent SEC filings. Murphy USA takes no duty to publicly update or revise any forward-looking statements.

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

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

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

Thanks, Christian. Good morning and welcome to the Murphy USA Second Quarter 2017 Conference Call. I'm very pleased with our second quarter performance as the business performed well against the backdrop of robust retail margins. Additionally, the product supply and wholesale business showed sequential improvement from the first quarter, as we noted on our previous earnings call.

Total EBITDA for the quarter was $129.1 million, up from $108.6 million in Q2 a year ago and up sharply from this Q1 result of $30.3 million. As shown in the tables on our earnings release, total fuel contribution in the second quarter was $0.181 per gallon, which includes both the retail business and product supply and wholesale results net of RINs. This compares to $0.168 per gallon in the year-ago quarter. We are always reminding investors to take a balanced long-term view of our fuel results on a combined basis.

All-in margins for the first half of 2017 are $0.142 per gallon, towards the low end of our initial guided range of $0.14 to $0.16 per gallon, but above the midpoint of our revised guidance of $0.125 to $0.15 per gallon issued in April. We hope this mean reversion behavior that has been evident throughout our history as a public company remains at the forefront of conversations regarding total fuel contribution on a go-forward basis.

PS&W contribution this quarter was $0.015 per gallon versus $0.059 per gallon in the year-ago quarter and this showed meaningful improvement from a [0] contribution in the first quarter. There are 3 primary components that comprise our PS&W results. The first, our transfer to retail margin which captures the spot to low rack supply differential remained under pressure in Q2. While retail margins have held up nicely in a range bound with sufficiently volatile environment for crude, the wholesale market continues to face over-supplied conditions which limit margin capture opportunities for us.

The arbs have been closed. There have been no major refinery upsets. No pipeline constraints. And limited supply disruptions which create opportunities for our business model where our proprietary supply positions become advantage in constrained volatile market conditions.

The second component is the timing and inventory variances which were negative as prices ended the quarter lower. However, this was more than offset by higher retail margins which, of course, were also beneficiaries of falling prices. This negative impact approximated about $0.01 per gallon in Q2.

The third component RIN prices have returned to a more stable equilibrium level versus the Q1 lows. The prices appeared to have largely baked into the various EPA announcements that occurred during the quarter and since quarter-end.

In keeping with prior discussions around our earnings, I would like to review other parts of the business following the framework of our simple formula for creating shareholder value. With respect to organic growth, we opened 5 new stores in the quarter bringing our year-to-date total to 10 new stores. Additionally, we opened 3 stores in July. And we remain on track to open between 45 and 50 new locations this year. Of the 17 high-performing sites that were taken down in Q1 for raze and rebuild, 12 of those have reopened late in the second quarter with the remaining 5 expected to be up and running by mid-August. The 3 remaining sites slated for raze and rebuild will go down in the third quarter and should be open by year-end. Of the approximately 240 3-door super coolers we plan to install this year, 138 have been completed with remaining scheduled for completion by year-end.

Looking next to fuel contribution. For the retail business per store volumes on an average per store month basis averaged 253,000 gallons, a 2% decline from 258,000 gallons in the prior-year period. There is a small impact from the stores we have down for raze and rebuild in the second quarter, but that does not counteract some of the negative volume trends we are seeing in some areas of our network.

There are a few comments we can make around the state of the industry and our results in particular. First, given what was a weak first quarter for the industry as a whole, as margin opportunities presenting themselves in the second quarter with falling product prices, we saw less aggressive pricing across the board to create separation versus other periods of strong margin. In short, there appeared to be a bias towards margin versus share capture.

Second, macro demand has improved modestly from the first quarter but does not appear to be growing at rates seen in prior years. When macro demand for gasoline is stable, the math simply tells you that industry newbuilds will take market share from each other and less advantaged participants.

Third, I would also note that some of the large-scale M&A is changing the tactics and behaviors of some competitors. Some are being more aggressive with the assets in the hands of more economically stable new owners.

Fourth, in the Southeast where we saw the greatest market penetration from like-kind, high volume, low priced competitors, our volume loss was most noticeable, particularly in some of the highest-performing markets that would be the most attractive to competitor new entry and new builds.

Last, we've also seen an impact in our Southwest markets from shifts in immigration trends and reported lower economic activity, including lower remittances from individuals in the U.S. to Mexico, as reported by third parties.

These trends highlight the competitive intensity in the sector and accordingly Murphy USA is focused on improving its competitiveness in our fuel breakeven margin requirement metric and remaining very disciplined with our capital allocation priorities.

So let's move on and look at the fuel breakeven metrics starting with merchandise margins. Total merchandise margins in the quarter were a record 16.1%, up 40 basis points from 15.7% a year ago. Total margin contribution on a per store month basis increased slightly to $23,366 per store up from $23,187 per store a year ago driven by same store margin growth of 2.6%.

Non-tobacco sales were up 4.8% on an average per store moth basis driving a 2.3% increase in per store margins. Tobacco margins were up 2.6% on a same-store sales basis, but down 0.3% on an average per store month basis. As a reminder, the difference in the same-store versus average per store month metrics for Murphy USA highlights the 2 most impactful changes with the 1,200 square foot formats. New stores, given their enhanced offer, start with a higher mix of non-tobacco sales than established kiosk and ramp up even further over time. However, tobacco sales which have essentially the same offer across formats, start off lower than well-established kiosk but catch up in 12 to 18 months.

Fuel breakeven margins of $0.0124 per gallon continue to improve down from $0.0145 per gallon in the year-ago quarter, as we continue to make progress on operating expenses through store level efficiencies. Operating expenses before credit card fees fell by 2.4% on a per store basis during the quarter. We do expect these comps to get a little more difficult as we start to cycle the benefits of our labor model in 2016, which largely took place in the second half. However, we still have areas to focus on at the store level which are very meaningful opportunities to continue to drive cost and our breakeven requirement down lower.

So with that I will turn things over to Mindy.

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

Thank you, Andrew. Hi, everyone. Revenue for the second quarter totaled $3.2 billion, an increase from $3 billion in the year-ago period, largely attributable to higher product prices, total volume and to a lesser extent higher merchandise sales.

Average retail prices for gasoline was $2.14 a gallon versus $2.03 a gallon in quarter 2 of 2016. Adjusted earnings before interest, taxes, depreciation and amortization, or EBITDA, as previously released was $129.1 million versus $108.6 million a year ago. The effective tax rate for the quarter was 38.2%, which is largely in line with the year-ago rate of 37.5%.

Total debt on the balance sheet as of June 30th was $884 million and was broken out as follows. Long-term debt of $869 million, consisting of $491 million carrying value of our 6% notes due 2023, $295 million carrying value of our 5 5/8% notes due 2017 and $82 million remaining on our $200 million term loan. We are also carrying $15 million of expected amortization under that term loan in current liabilities on the balance sheet.

In conjunction with our $300 million bond issuance, we did repay a required $50 million on that balance and then elected to do an additional $13 million to get us below the 2.5x leverage ratio in order for us to continue share repurchases in the second quarter. These repayments will reduce amortization going forward to $4.7 million per quarter from what was previously $10 million per quarter. However, the amount depicted on the June 30the balance sheet as the current maturity reflects only 3 quarters of amortization as a portion of the elective $13 million repayment was characterized as prepayment of amortization for the third quarter. The outstanding balance on the term loan is $97 million including the current portion.

Our ABL facility remains in place with a $450 million cap and subject to periodic borrowing base determination currently limiting us to approximately $208 million as of June 30th. And at the present time that facility is undrawn. Cash and cash equivalents totaled $197.1 million resulted in net debt of approximately $672 million.

During the quarter, we repurchased 726,000 common shares for approximately $49 million at an average price of $67.50 per share under the previously announced program of up to $500 million to be completed by the end of 2017. Approximately $110 million remains under this authorization. And common shares outstanding at the end of the period was 36.1 million shares.

Capital expenditures for the quarter were $75 million including approximately $51 million for retail growth, $12.5 million for maintenance capital and the remainder for other corporate expenditures. And 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*

Thank you, Mindy. In closing, I just want to reiterate the sequential improvement over the first quarter results. As I've often stated in the past it is very important to look at our results over a period of time to fully appreciate our integrated and advantaged business model. While some of you may have felt like the sky was falling in the first quarter, the market is always changing, and here we are halfway through the year with fuel margins that are within the range of our initial guidance.

However, the competitive pressure I spoke of on the first quarter call and some of the industry behavior around margin capture into Q2 has moderated somewhat in Q3 as rising crude prices have pressured product margins while compressed price differentials impact volume. On a positive note, rapid run-up in prices at the beginning of the third quarter creates the opportunity for falling prices potentially later on. That is the cycle of volatility we live in. But most importantly, our business model is designed to thrive upon that volatility.

Our business will continue to face competitives and market structure challenges, but we are always working to address those challenges. And as leaders of this organization, we remain dedicated to continuously improving the long-run earnings potential of this business and properly allocating capital to the highest returning projects, whether it be organic growth, shareholder distributions or investing internally to maximize efficiency.

With that, we will open up the call to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ben Bienvenu from Stephens Inc.

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

I wanted to ask a bit about the merchandise and gallon trends that you're seeing. Headline results sequentially improved and you've got substantially easing comparisons in the back half. Assuming the same 2-year stacks from 2Q, it looks like you guys can get into positive comp territory on both merchandising and gallons in the back half. And I just want to check whether that's an unreasonable assumption or not.

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

So, Ben, a lot of it's going to be determined on certainly the fuel transactions which is a function in the environment we're living in. Certainly, Q3 was kind of flat to running up last year versus typical downward pressures. What we've seen this year so far in July, starting really with the last week of June, is a pretty significant run-up in prices. And so if that stays flat versus falling while we might have a relatively easy comp in historical terms in terms of Q3 last year, it just may not play out that well. So I think one, you've got to just look at what is the price structure in the marketplace and how would that translate to volume and transactions associated with that. The raze-and-rebuild stores are coming back up which is positive and we're seeing nice improvement there as we go from 4 to 6 dispensers to 6 to 8 to 10 dispensers, diesel at every pump, proper store versus an undersized kiosk. So that will be some improvement on the fuel side there, [to speak of]. We continue to see some of the weaker stores from the 2015, 2016 build class in the Midwest, the [tail of Walmart 200] ramping continuously, but still below those regional averages there. On the merchandise side, we continue to see competitive pressure on cigarettes and certainly the traffic associated with fuel impacts that as well as people have those combined businesses. So we've got a lot of initiatives in place to try to drive those, but some of that will be around market structure, Ben, how it translates into fuel volume capture and then some of the competitive intensity around that as well.

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

Understood. Shifting to the fuel side of the business, on the wholesale the PS&W business, we saw a sequential improvement in Q2 despite falling gasoline prices. Could you comment at all about quarter-to-date in 3Q? It looks like some of the arb data has sustained improvement or at least even sequentially slightly improved and then I would imagine rising prices just perhaps helped that transfer price dynamic.

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

Yes, so what I would say is transfer of retail that, spot to low rack improved Q2 versus Q1. The RINs got more, I would say, kind of an equilibrium. You didn't see a lot of change when the [CLB] released the numbers which suggested a lot of that was built in. So there's a more stable equilibrium there. We have seen some improvement in RIN prices, but we've also seen an increase in crack spreads so that supply cost has gone up in concert with that as what you would expect. So colonial remains unallocated. There are stub lines like from Atlanta to Nashville that do remain allocated and have been. We've seen a little tightening, but it's not dramatic, I would say. We are still in an over-supplied environment. We still have excess inventories. There are a lot of exports leaving the country. And at some point in time, that will have an effect on inventory. It may also have an impact on RIN generation and the obligations there as well. So I'd say it's too early to call anything from Q3. It looks and feels a lot more like Q2 than Q1 though. I will say that the rising or falling price environment that impacts the timing and inventory variances, a lot of that will be a function of kind of what actually happens in the last month of the quarter versus what happens in the first month of the quarter as that's just something that constantly gives and takes over time.

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

Got it. And then just one last one for me. The merchandise margin really strong against a difficult compare. What's driving that and what's the continued opportunities there?

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

Yes, we've just gotten a lot smarter around, 1, some of our center store opportunities around taking cost increases, showing that in pricing, optimizing our mix. We just did a reset on our kiosk non-tobacco, non-beverage items which was long overdue. And the store managers I spoke with in the days after that were really excited about the new mix of products. A lot of it is the new team kicking in, new leadership, new processes around center of the store, we just did a beverage reset as well. So a lot of that is what I would describe more kind of continuous improvement, opportunities around basics, more effective promotions, and promotional activity working better in concert with our vendors than we had in the past.

Operator

Our next question comes from the line of Chris Mandeville from Jefferies.

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

Andrew, just kind of 2 higher-level questions or maybe long term. How do you feel about the company and I guess maybe even the industry's ability to adapt to what could potentially be an accelerating shift away from combustible cigarettes following last week's announcement out of the FDA? And when we think about your current exposure to the category which is kind of roughly 75% of your in-store merchandise sales right now coming from cigarettes, how should we think about Murphy's merchandise sales mix over the next 5 or 10 years or so?

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

So a few comments on that. One, this is not something that's going to happen overnight. From a timing standpoint, doing this with the real science, understanding the unintended consequences of any regulations, this is something that's not going to happen in the short term. This needs to play out in a thoughtful way and feel confident that that will happen. The second thing is that the announcement clearly showed this risk continuum that exist. And so as you think about the new products and the innovation that have been developed either here in the U.S. around the wafer products or if you think about the heat-not-burn products in non-U.S. markets that are coming in, those play into that risk continuum. And so if you think about our position with adult consumers and the share we have with the major tobacco manufacturers, we are well positioned to participate in the new products, their introduction and work in the context of the regulations as they get developed and modified over time. But there is nothing that we saw in the announcement that gives us concern in our discussions with the manufacturers as well. This is something that will play out over time in a thoughtful way and the innovator products that come out as a result of that, we're probably better than anyone positioned to take advantage of that.

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

And then my second question being as we think about your already impressive breakeven margin and the goal of lowering that further this year, I think you mentioned in kind of your introduction that there is some leverage to which you think you could further pull. But could you maybe elaborate a little bit more so on really some of those identifiable levers? And thinking longer term, do you think the key drivers to a lower breakeven margin do they shift over time, is it more on the OpEx side or generating incremental gross margin dollars or how do you think about that longer term?

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

So what I would say is it's going to continue to be a balanced mix of margin improvement and operating expense improvement. What I would say the difference is the levers that we pulled in the past were big brute force levers like the Core-Mark deal and the store labor model, right. Those had significant impact and they apply to all stores. The next wave of opportunity is probably just as big, but it involves more precise execution of all the things we talked about on the OpEx side and some of the things I just mentioned around center of the store and beverages on the merchandise store, getting every store to be able to deliver to the planograms, to execute the labor model, the scheduling, all the practices in a consistent way, managing shrink, all of those things is what will get us to the next level. There are some other initiatives around the interaction between the stores, maintenance, the support center, the vendors, et cetera that also bring opportunities to bear. But frankly those will show up in merchandise margin as well as operating cost. So if a cooler like the one I saw in Mount Pleasant, Texas on Sunday, it's been down for 2 weeks because of inefficiencies in the dispatch processing and getting technicians out there, we sent 3 technicians to address an issue, and yet the cooler was down for 2 to 3 weeks with cans exploding in that cooler. So it's just a real simple example of it will impact the margin line and the cost line and there's lots of just detailed execution which is what a retail business is about. So I feel like we've pulled a lot of the big levers. Now it's time to deliver at the detailed level and we've got the right team in place through the leadership that we've brought in both at the regional VP level and with the existing and new division directors and district managers to establish that.

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

Maybe just one last one if I could. I know we just heard from you guys about 2 months ago, but is there any update in terms of timing of a pilot or at least the rollout of a rewards program and/or your goal for greater engagement with prospective as well as current customers?

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

So we are in the midst of designing that both from a technology standpoint. We've selected, but won't announce, pilot markets for that. There is a lot of work that's going into that program. So I think the key thing to remember is you're an everyday low price retailer and your core consumer comes to you for low price. You are not going to be able to do what the majority of loyalty programs have done in the space which is, let's raise prices to all the customers and then discount to those who are participating in loyalty. And the reason others are able to get away with that is most of their customers are coming to them in the first place for just simple locational convenience or if it's one of the top major brands maybe because of their premium products. So they're effectively doing this as a price discrimination and their programs are designed around price discrimination or they actually have a consistent network of stores, thousand programs, et cetera where they have 50%, 60% margin items. And so giving away 1 out of every 7 has the economics. We are designing something fundamentally different to attract and create more stickiness with customers who are already seeking us in similar competitors for low prices. And that requires sort of a careful thoughtful way of going about and doing that. And it's going to leverage a different set of technologies than sort of the me-too programs that are out there today. So more to come on that, but we've committed to not implement a me-too late model, but rather something that adds to the already loyalty and stickiness we have as an everyday low-price retailer.

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

Good stuff. Thanks again and best of luck in Q3.

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

Thank you.

Operator

Our next question comes from the line of Bonnie Herzog from Wells Fargo.

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

I have a question on your guidance. You sort of touched on this a bit but I guess I'm trying to understand why you're maintaining your guidance for the full year in light of the easier comps that were discussed, improving trends in your PS&W business and then what appears to be strong RIN? So I guess I'm getting this sense that your guidance after you lowered it a little bit earlier this year is now maybe too conservative. Is that fair?

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

No, I think the assumptions in there, the easier comps, all we know about Q2 to-date is we've had a run-up in prices which are bad for retail margins and they're bad for retail volumes. So until we see a significant fall-off, they just stayed flat, it would probably be a worst comp if you think about Q3 last year, which was largely flat to somewhat rising versus what we've seen so far in the marketplace with a steep run-up in crude price. So I would challenge that assertion right there. While RIN prices are -- have gone up, we would say they're in equilibrium like they were in equilibrium in Q3 last year, meaning that price is now embedded in the supply price at the refinery gate and you see crack spreads up for refineries as well. So the key is that supply the low rack, differential net of the RINs, I would say the RIN part of that is in equilibrium, the supply cost to low rack is still under pressure. And so what will determine that for the third and fourth quarter is whether or not that ease this up or not. We've been comping against more favorable environments in Q1 and Q2 of 2016 versus 2017 on that front. So I think those characteristics kind of highlight sort of that measured conservatism that we put into the revised guidance. I would say until you saw inventories drawn down, colonial allocated, arbs opened, some major refinery downtime, maybe 1 or 2 disruptions in the system, I would be hesitant to say we would come in in that $0.15 to $0.16 range, which would have been the differential in the guidance high point.

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

And then I have a question about just traffic in the consumer. I guess I'd be interested in hearing what you've been seeing in terms of the traffic and any of the consumer behavior and maybe how that's translating into in-store purchases. It seems as though traffic has been pretty soft. In fact, Pepsi's CEO just called out weak c-store channel growth as a drag on their business for their current or their second quarter. So just wanted to hear from you what you're seeing and just seeing this what you think some of the reasons for this could be.

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

Look, I think we're actually seeing that on a number of fronts. The actually fuel demand data that you get from the tax proceeds is 5 months old and so you don't have perfect insight to that. The vehicle mile travel data you get is 4 months old. So I don't put a lot of weight into the EIA data. But the trends we're seeing are there are still growth. But it's nowhere near the growth rates that we were seeing in 2015 and 2016, right. And so, that's impacting traffic. You are seeing -- I'd say in the Southwest, I met with one of the Mexican consulates the other day and spoke specifically about traffic from that demographic group not coming over for major shopping activity in December and January, the pattern that have been seen in prior years. We're seeing less migrant workers coming over which is impacting farmers and their ability to get the labor they need. We are seeing fewer remittances back to Mexico. So there has been a number of things kind of reported in the news on that front that we've corroborated from people that are much closer to that. And so we're able to kind of correlate some of that to specific market areas where we've seen some lower comps on that front. And then what I would say is as you have more flat demand, you continue to see new store builds. Those new stores are just going to be competing for the same demand. And so if they're in urban areas that are growing, that's great. But then that's reflecting population moves from other areas. And so I think this is where whether it's growing past a certain point, M&A activity, et cetera, there is a world of flattish demand out there that really informs how we think about capital allocation, market choices, focus on continuous improvement for organic earnings growth through our fuel breakeven metric, and then how we think about that in terms of shareholder distributions. So we're seeing it. We've identified a lot of macro trends that affect everybody. I think we understand where the competition impacts are happening and I mentioned in the Southeast. Look, some of the most attractive markets where we are going to expect new builds to come in, a new competitive entry to take place, but there are some other markets where frankly I kind of question why you would see the level of kind of new build competitive activity given shrinking populations and the like.

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

Yes, there's a lot going on in a lot of different, I guess, headwinds. So it's interesting. And if I could ask one last quick question if I may on your Visa promo that I think you've been running all summer, just trying to get a sense on maybe the specific impact of that promo so far and if you think maybe there is an opportunity to potentially generate positive comps in your fuel volumes in Q3, especially given the relatively easy lap.

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

I'll let Mindy take that one because she oversees our payment systems.

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

Thanks for the question, Bonnie. The Murphy Visa limited time offer this summer has been very well received and we've effectively doubled our cardholder base within the last 12 months or so because of that. But keep in mind it is still a very small share on a total sales basis. So the percentage of customer -- of sales seen on that particular card is about 0.5%. But that has grown dramatically because this time last year that would have been about 0.1%. So while the growth is dramatic, it's growing from a very small base. But it is our intention to continue to build out this program. And then when we are also able to tie that card program in with our loyalty program, we think that we can really gain some traction and gain even more cardholders.

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

I think what it tells me, Bonnie, is that there is still a very large group of customers out there who shop based on price and are continuing to look for even more value as evidenced by getting an additional $0.15 off through this program. And so there is nothing about sort of the consumer segments that we target in those demographics that suggest they're not going to continue to want everyday low price with additional value and promotions on top of that. And so I think we're getting smarter and better about understanding what they're looking for, how do we deliver that in an efficient and economic way.

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

The other thing it does I think is it also demonstrates our ability to be able to influence customer behavior through these limited time offers and that certainly does bode well for the introduction of our loyalty program.

Operator

Our next question comes from the line of Carla Casella from JP Morgan.

Carla Marie Casella Hodulik - *JP Morgan Chase & Co, Research Division - MD and Senior Analyst*

I just wanted to update on the Walmart, number of locations that you have in the Walmart lots and then if you're seeing any change in their strategy of build on their own site base.

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

So I think Mindy has got the numbers handy in terms of just the absolute numbers. If you want to go through those, Mindy, and then I can update you on what we've seen from a competitive standpoint.

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

Right. Carla, there is a number of locations that are branded U.S.A., which are the ones that we would have gotten a lot from Walmart at the end of the quarter was 1,154 out of the total number of locations of 1,411 .

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

And so there's been -- I think we've noticed between a half dozen and a dozen locations Walmart has built on super centers where we had a Murphy Express store within, say, half-mile of that super center. So that head-to-head competition in terms of what they build relative to where we are remains relatively light. They focused, I believe, their new builds in a lot of the states that we are not in. There are 2 pilots that they have been public about. One is a pick-up point with the storage area, the drive-through out in the forecourt with the convenience store attached to in the fueling lanes in front of that. They have 2 pilots of that type and then they've got a couple of larger format stores that are on pilot. I will note that their pick-up points have been growing very dramatically, but in the side of the building approach. And so I think the last number I saw was close to 500 and growing on that side. And so they are definitely committed to doing that and rolling that out very rapidly, but it's largely in the format of being at the side of the building which from a labor standpoint, from a safety and handling of perishable items, et cetera probably solves a lot of logistics issues. I'd also say that as we continue to do our refresh program, we will finish kind of 900 accelerated refreshes by the end of this year. That makes our stores look better, deliver better, offer the same with the raze and rebuild. Well, certainly not at the scale of their refresh programs and their efforts, I think you see 2 high-volume retailers investing a lot in their core businesses to make it better. And given that we share the same customers, we believe what we're doing helps them and certainly what they're doing helps us in retaining that customer versus letting them go to a different grocery store, mass merchant for their items.

Operator

(Operator Instructions) Our next question comes from the line of Andrew Burd from JPMorgan.

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

On the new stores for this year, and I'm sorry if I missed it, but are you reiterating the 45 to 50 new site count for 2017? And then maybe if you could comment on that guidance in the cadence of new store openings through the end of the year. And also in the second quarter where the stores brought online kind of ratably throughout the quarter was there a lumpiness at one end or the other?

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

So our guidance of 45 to 50 is intact on that front. And that's kind of what we've notionally projected out into the future as well as that kind of range complemented with the raze and rebuilds. Given the smaller number of stores that we opened in the quarter, I don't know how lumpy it was, I think it was pretty ratable. We've got well over 20 stores under construction right now. And so you'll be seeing in Q3 a number of stores opening literally every week throughout the quarter. So we try to do this as ratable as possible from that standpoint.

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

And second question is on Colonial, how does management at Murphy approached the decision whether to retain the historic shipper status? Or maybe another way to ask is for how long does line space need to be uneconomic before the trends can be declared permanent and then what would prompt you to revisit the Colonial strategy?

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

So I think there are 2 fundamentals that we've articulated that are kind of at the heart of how we think about this. Why do we have a proprietary supply capability that is, well, not unique versus other retailers is done at the scale that we do, it's about ratable secure low-cost supply, right. And if you're doing the kind of volumes that we're doing across 1,400 stores in the markets with a significant presence along Colonial, you've got a couple of options. You can ship it yourself, right, or you can have a contract with someone else who is shipping it and you can buy at the rack. The issue is if a backhoe bust open the pipeline, causes some explosion and it goes on allocation are you going to have ratable secure supply. And if you look at the folks that bought at the wholesale rack without a contract last October, they not only ran out of products, they ran out of plastic bags used to put over their nozzles to tell the customer they're out of fuel. So ratable secure supply is critical to our business and to our customer value proposition, whether it's a hurricane, whether it's a blizzard, regardless what the issue is, we are usually the last store down and the first store back open in our customers' eyes, right. And that may include first responders that we take care of. From a low cost standpoint, the second fundamental is you got to look at the net cost. And so while line spaces is at a negative, right, if you incorporate the value of the RINs, the advantage of terminaling rates, et cetera, that we have, we can still land product net of RINs at or below the OPIS low. And so if we had a contract, are you going to build a buy better than the OPIS low wholesale rack. And so if you look at this quarter, while the supply margin was negative net of RINs, we still made a $0.015 , and then there is about a $0.01 of timing differences, so that would have been $0.025. So again, I would challenge the assertion that Colonial for us is uneconomic, right. When you net the RINs and all of the other factors together, it's still contributing -- the overall proprietary supply business is still contributing to our business. And look, there are some regional areas where others may be contributing more of that $0.015 to $0.025 if you factor in the timing differences. In Colonial, maybe it's attributing less. But even if it was earning between $0.00 and $0.01, you would still go back to the question of how could you achieve ratable secure a supply on a consistently economic basis. And I think a retailer of our scale and scope, high volume, low price value proposition would be challenged to do so. So it's key to our business. It contributed positively to the quarter and year-to-date. How we optimize around it in terms of our wholesale position, the price where we sell our discretionary wholesale position, other line trades or things we do or things we don't comment on, but there are opportunities to manage around that. I would say that if you look at our business versus say someone like NGL, right, who has a significant Colonial position that they acquired from TransMontaigne, they're in the wholesale marketing position. All they have is the spot-to-rack margin when it comes to refined products. So we have this entire retail margin on top of that. So when you wrap all of that together it's integral to our business, it's integral to the resilience of our business to weather the type of disruptions that can really have a big impact on customers. And today and especially this quarter, it's economic.

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

That makes sense. So it seems like that we can look at your use of Colonial and others' use of colonial because others might not have the structural short or long Colonial's pipeline route that you do. Is that kind of fair to say?

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

That's absolutely fair to say. Our structural short in a flattish demand long refined product environment is one of the most valuable assets out there in the eyes of anyone who's manufacturing refined product. And we're going to be manufacturing refined product for a long time.

Operator

Our next question comes from the line of Ben Brownlow from Raymond James.

Benjamin Preston Brownlow - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I just want to touch on G&A in the quarter down around 3%. Can you just talk kind of year to date how that's trending versus your internal expectations? And as we think about the second half, what's the timing of some of the those spending initiatives that are going to move that around and just how should we think about the sequential movement in G&A?

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

I'll take that one, Ben. As you probably remember, we were on the high end of G&A in the first quarter at $38.2 million. And that was caused really by $4 million or so costs that were unique to the first quarter and then also some timing of some other charges. Second quarter G&A trended below first quarter as we would have expected at $31.3 million. So what I would tell you is we do still have line of sight into finishing within our 2017 guidance within the range of $135 million to $140 million. Probably they are trending towards the higher end of that range than the lower end and so I'd expect the rest of the year's number to be around $35-ish million per quarter.

Benjamin Preston Brownlow - *Raymond James & Associates, Inc., Research Division - Research Analyst*

That is very helpful.

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

The other thing I would say there is, I'm really proud of our IT team and our finance and accounting teams who have been going through, frankly, a lot of changes. We brought over technological debt at the spin. We've been working hard to address that. We brought on new CIO and leadership in that area. And the team has been working really hard and what we're finding is that contracts for a variety of services are being renegotiated at better rates that's helping offset some of the cost to new personnel that are coming on board. As we're implementing these systems, we're finding that some of our back office accounting and other transaction support activities can be done faster and quicker. And so we're focusing on more value-added work. And so when there is natural attrition in the organization, we're able to do more for less because of the technology. And so we're really starting to see the benefits of that. And that allows us to then continue invest in further upgrades, whether it's cyber security, infrastructure security or customer appreciation program, retiring old assets. And so these teams have been working very, very hard on that and have done a great job.

Benjamin Preston Brownlow - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Thank you for the color. All my other questions were answered.

Operator

Our next question comes from the line of Ryan Domyancic from William Blair.

Ryan John Domyancic - *William Blair & Company L.L.C., Research Division - Research Analyst*

Just one quick one here. I know the class of 2015 had a lot of Midwest openings. And we've talked in the past that those were a bit slower to ramp. Any update on how those stores are doing and if they're getting closer to company averages? And if so, could that be helpful for the back half of the year.

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

So the Midwest performs below the company average, if you think about a company average in the [260] plus or minus range, the Midwest performs more in the [210, 220] type range. And so, even if they got up to the Midwest average, we would be happy. As we've noted before, they were performing below the Midwest average. They continue to perform below the Midwest average. But they are ramping up year-over-year. So we're seeing improvement in those versus last year, but it's still well below. And I think that just kind of gets into some of the enthusiasm we had in our plan B strategy is that we know that portfolio of available stores out there, the universe includes stores, and markets and geographies that are less attractive for a number of reasons. And so we remain encouraged by the new Express stores, especially in the Southwest and Southeast that are going to have a higher volume. So happy they're improving, but they are still below the Midwest average which performs below the network average.

Ryan John Domyancic - *William Blair & Company L.L.C., Research Division - Research Analyst*

It's great to hear. Thanks for the time and nice quarter.

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

Thank you.

Operator

Thank you. And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Andrew Clyde for any further remarks.

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

Well, thank you all for the call. Great questions today. I appreciate your interest in Murphy USA. And just a heartfelt thanks to all our team of associates out there that are working hard to deliver these results. Thank you and have a great day.

Operator

Thank you, ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.