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Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

Okay, I think we're about ready to get started. Thank you, guys, all for coming. It's great to see a full room here and welcome to those of you joining us on the webcast. We're excited to be here. I hope we have an informative presentation for you. I'm Christian Pikul, Director of Investor Relations. For those of you that haven't met, I have talked to a lot of you on the phone. Feel free to follow up with myself or Mr. Joe Van Cavage, who is largely responsible for a lot of the content you're going to receive today. He's joined our team about eight months ago. He's been a very valuable addition.

We were talking on the plane ride out about a fun way to kick off the day here and an interesting slide concept we came up, an idea that we thought would be interesting was to plot the number of investor calls we get as the stock goes up, which is not many, versus the amount of calls we get when the stock goes down, which is plentiful. So we thought about that for a while, and I think our takeaway was "Well, if our shareholders believe that the intrinsic value of this company is higher, and that when the stock goes up, that's a rational outcome." We thought that was probably an appropriate way of understanding investor anxiety around the volatility we have seen. That rational outcome is a conviction that I share along with the four presenters here today. So again hopefully the content we review today will help support that thesis.

We didn't end up actually making that slide, but I will talk about this next slide, the cautionary statement. There will be forward-looking statements today, so please read the fine print and again feel free to follow up with us afterwards with any questions. Again, we appreciate your attendance. With me today are Mr. Andrew Clyde, Chief Executive Officer; Mindy West, Chief Financial Officer; Mr. Rob Chumley, VP of Marketing and Merchandising; and Ms. Renee Bacon, VP of Sales and Operations.

With that I will turn it over to Mr. Andrew Clyde.

Andrew Clyde, *President, Chief Executive Officer & Director*

Thank you. Good morning. So I'd like to, first of all, just thank all of you for coming, and those who couldn't make it on the webcast, look forward to you joining us as well and following along. We'll do our best to call out page numbers from time-to-time, so you

can follow along. Love to thank Carmen and the New York Stock Exchange. They've done an amazing job as they prepare for their 200th anniversary with the remodel here. And also, appreciate Christian and Joe's work as our investor relations team, and they're also recognized this year by institutional investors as having one of the best IR shops in the retail space, so I appreciate their hard work.

Starting off on Slide 4. It's been a couple of years since we held an Analyst Day at the New York Stock Exchange. Our last one was in May of 2015. And if you think about what's happened since May of 2015, probably the most notable event was our announcement in January of 2016 of our independent growth plan, and essentially that we would no longer purchase locations for Walmart beyond those in the up to 200 deal that we had remaining that we would buy land in parcels or lease land from third parties.

And in conjunction with that, an announcement for an up to \$500 million share repurchase program that demonstrated our commitment to balance growth and shareholder returns. And so that was kind of a big seminal moment in this company's history, but it was one that we had prepared the analyst community, the investor community, our board, our employees and other stakeholders for better more than a year. And so while there was some movement on the day, I think intraday we were down 10%, we closed down 3.5%, and we were up close to 30% in 30 days.

It was one of those moments this company was prepared for, and you didn't have a shift in our strategy or plans, but just a reallocation of how we thought about our strategic capital allocation. And then you saw in 2016, the execution of a couple of major initiatives that were well in the works before we started executing them in 2016, as we prepared for either Plan A or Plan B. They were both essential to put this company on a different trajectory from a performance standpoint.

And those were namely our Cormark supply chain renegotiation after having a 20-year relationship with McLane, and then some significant efforts around our store labor model and other operations improvement. And so those really kind of set the stage for the trajectory of the company. And then we also divested the remaining non-core assets that we took – with us at the spin. And because we're very patient in how we approached the turnaround and restructuring of the Hereford ethanol plant and then seeking to get the most value for what became a very strategic pipeline asset, we generated \$183 million from those noncore assets.

So those were some of the key things that took place. Clearly, if you look at our stock price over to the right, it's had a lot of ups and downs, but whether you draw a line connecting all the dots from the lows, the mids or the highs, you'll see them continuing to outperform the S&P 500, the Midcap 400, of which we're a part of, and we've continued to drive improvements in our share price. Clearly, that volatility reflects periods where quarterly, near-term margins were outsized in one quarter and a bit up in the short term, and then pressures around quarterly margins again in the short term on the downside caused the stock to be a bit down. And so you do see a lot of that volatility, largely

around fuel margin associated events, the most recently events being around speculation associated with the EPA policies related to RINs.

Turning to Slide 5. This is a chart that we continue to use. And just as our business has evolved over the last two years, the competitive landscape has also continued to evolve. We continue to play in the space with other hypermarket retailers: Kroger, Safeway, Costco, Walmart now a standalone competitor with their neighborhood markets and a limited number of Supercenters, as well as Sam's Clubs in that space. And we've pulled some information from a recent survey from Market Force Information that was published in the Convenience Store News, and it kind of showed what consumers valued the most and who they rated as retailers achieved the highest scores on that.

The most important metric to consumers' remains low prices on the survey, and not surprisingly, Murphy USA was rated as number one in low fuel prices and number two in pump speed. If you look over to the right the Big Box C-Stores made up of largely private companies, the QuikTrips, the Sheetz, the Wawas, also Casey's in the public space and Speedway, to be public or not is the question before them. They continue to have a different business model with different capabilities, building these larger stores with food offers, commissaries, et cetera. And not surprisingly, QuikTrip is number one in fresh food and merchandise selection. They are also number one in pump speed.

And so if you want to play in that space, and we get that question all the time, we'd argue you'd want to had demonstrated the capabilities to be as good as those players who set the benchmark and have the sustaining capabilities to do so, otherwise you're going to just be a me-too late participant in that part of the business. I think where the most activity is taking place is in the consolidators' model. And we kind of drew this picture originally, and there's a lot of companies in the middle. And we said, if you didn't have a distinctive strategy, you'd kind of go through this funnel and get consolidated.

And sure enough, we've seen quite a bit of that over the last couple of years as CST, The Pantry, Susser with their Stripes brands, were all consolidated. Now Sunoco, being kind of undifferentiated as a consolidator from a retail standpoint, has now recently announced the sale of all of their Sunoco, Stripes assets into 7/11. And those consolidators are taking a portfolio store, some good, some less good and putting their brands around those. But what was interesting from the consumer survey is that the principal consolidators were kind of middle of the road on all of the categories that consumers valued.

So they weren't number one or number two at anything. They were middle of the pack or lower in the pack. And so their model is effectively taking undifferentiated stores that really aren't distinctive at anything and giving them a brand and giving them a set of processes and systems and capabilities and making them better than they are, but not necessarily making them as distinctive as Murphy USA is with its set of customers and what QuikTrip or Sheetz or Wawa are with their customers.

And so when we get this ongoing question, are you going to participate in the M&A trends that, by the way, have been going on for 20, 30 years and with 150,000

convenience stores, 50% single owner-operators? That trend will be going on as long as any of us in this room are alive. The answer is no because that is a different model, and it's not our aspiration to be kind of middle of the pack in our consumers' eyes. We'd rather be number one or two on dimensions that are important, that are aligned with our business model. And if you can't be as good as the best in the Big-Box C-Store with food model, then it's not a great use of capital to go attempt something like that without the capabilities.

So the competitive landscape continues to evolve. What really hasn't evolved significantly is how Murphy USA thinks about its strategy and how it competes for our customers and then how we think about growing shareholder value. The five pillars of our strategy have remained consistent since before we spun off, and this value formula that we introduced last year as a way to represent that from an earnings per share growth and how we think about that remains intact as well. It's about growing high-quality units organically. It's about improving the core earnings potential of the business through the fuel contribution aspects, the merchandise and operations aspects, which are represented in our fuel breakeven metric, and then improving our corporate cost and the capabilities associated with those and then balancing that with shareholder-friendly programs and in our case share repurchases and that's what driven our EPS growth.

And so we'll continue to use this as a framework today as we go through the discussion. I'll focus a lot around the organic growth and questions people have had around our independent growth plan and offer some food points around our Express model. I'll then focus more deeply around fuel contribution and really get into some of the questions many of you had over the last year with recent announcements, how the RIN market works and so forth. I'll then turn it over to Rob Chumley, who joins us as our Senior VP of Marketing & Merchandising. He will talk about the first part of our breakeven metric and the plans we have around merchandising. And then have Renee Bacon, who leads our sales and operations team talk about what we're doing on the sales and operations side. And then let Mindy wrap us up talking about our corporate programs and initiatives to improve our capabilities and then our balance sheet and share repurchase initiatives.

There is this old saying, I know you've all used it many times past performances is not indicative of future performance. We're actually very proud of our past performance. And if you look at the guidance that we've issued for 2017, even the revised guidance we did after adjusting for Q1, you'll see that most of those numbers are within those 4-year ranges and where we've got sort of CAGRs on some other metrics or year-over-year change, you'll see continued improvements in those areas. So it's -- we won't be getting into these numbers in detail on this page, but as we go through the deck, each one of these sections, we'll kind of highlight these key numbers.

I think the key thing that we focus on is this balance between the organic growth, the share repurchase, the continued focus on improving our internal earnings through the fuel contribution, the breakeven and on building our capabilities for the long term. So with that, let's dive into organic growth, and so we're on Slide 9. I think probably one of the most important things about our independent growth plan is that it not only provides for

high returns and we'll show actually higher returns, but also the flexibility to grow at our pace over the calendar year in a way that is more efficient and to choose the markets that we think will be the best markets.

So in 2017, we will build out the final stores that were in the up to 200 store program with Walmart and the remainder of the stores this year and beyond in the land bank we're already building that's built for 2018 and 2019 will be under the Murphy Express brand, where we acquired those locations independently from third parties. This moderate level of growth of up to 50 stores contrasts quite sharply against what might have been a 100 to 125 store plan, but the locations and the quality of those locations are materially better. And we'll show some examples of 2015 USA versus Express stores, where we're able to go out and cherry-pick those locations in the best markets using our market modeling tools based on past performance of where we want to go.

One of the things that we've been able to do with this model as well is load-level throughout the year, and so you'll see more of these high-quality stores starting up earlier in the year. And so we'll get better comps because we're opening them during the summer months versus in the middle of winter and also load-levels the construction costs, so that makes it more efficient as we build those out. We believe and what we've guided to is up to 50 stores a year for the next three years, so 2017, 2018, 2018, and our land bank is in really good shape to be able to continue to do that.

So this next chart on Slide 10 shows the Express performance relative to the USA-branded stores. So on the light blue, you'll see the 2015 build class of small-format stores. So these are the 1,200 to 1,400-square-foot stores. They exclude the limited number of kiosks we did in any of the larger-format, 3,450-square-foot stores. So of the 44 USA stores versus the 13 Express stores, you'll see that the Express stores outperform on a fuel volume basis, 261,000 gallons per store month over – versus 222,000; 134,000 per month in the store versus \$103,000.

And so if you remember these stores opened up a lot of the 2015 class were in the Midwest. They opened largely in the third and fourth quarter, not a great time to be ramping up. And we're still seeing those stores continuing to ramp up. From a fuel standpoint, we typically see stores ramp up pretty much within 12 months, what they're going to be able to do. On the tobacco and some of the other categories, it takes a little bit longer. But it's not the 3 to 4 years that a lot of the Big-Box stores talk about in terms of how long it takes to ramp up. We expect our stores to be largely ramped up within 12 to 18 no more than 24 months.

And then 2016 build class is what we'll show you next here. It's still very early in its ramp-up process. So this is an example of being able to go out and cherry-pick the locations versus taking a portfolio approach. We're going to be able to get higher-volume stores, with better traffic, with better merch uplift, for the same capital outlay and for the same operating cost, for the most part.

If you look at the 2015 Express stores now on Slide 11 and you compare that to the network of smaller-format stores, and the network here includes all stores built prior to 2015 that are walk-in stores, so you have some as small as 243 square feet, that's a walk-in, versus a kiosk up to 1,700 square feet. These 2015 Express stores are essentially hitting very similar numbers on the fuel, a little bit lighter on tobacco, as those are ramping up, but much higher on the non-tobacco sales.

And then if you look at Slide 12, this is our expectations for the 2017 build class. So these are the internal pro formas that we're using for these stores. And this is 47 stores, small format, are the ones that we're building this year. And so you can see we project our average fuel volume to be over 286,000 gallons per month at a 16% margin, which includes some of the product supply and wholesale uplift from that merchandise sales of \$154,000, at margins over 16%, leading to an unleveraged return on invested capital of 11.5%.

As we go forward, we do expect more of our stores to be leases from third parties than in the past. I think today, we're somewhere between 88% and 89% fee simple on our real estate. But as we go out and get third-party locations, probably about half of the future locations will be through operating leases. So we will expect to have leverage returns much higher than we're showing here. Another important part of our growth program is the raze-and-rebuild program, and after one pilot store, we built out 10 stores last year. We have 20 stores on deck this year. We've already started to open the first of those stores that we started on this year. And this is important because a lot of the early stores we built were under-tanked, under-pumped. They were 112 to 150-square-foot kiosks. They weren't even the standard 208-square-foot kiosk.

And so at some point, the highest-performing stores just don't have the capacity to serve the customer traffic that's available to those stores. And so naturally, you start with your best stores when you embark on a program like this. And you take a hit because you're losing volume last year of 10 of your best stores; this year, we've lost the volume from 20 of our best stores, as we're taking them down. But typically, we can get these things completely rebuilt in 90 days. And so these are the early results from the 2016 raze-and-rebuild class looking at Q4 results in 2015 versus Q4 results in 2016. So be mindful, these are 2016 raze-and-rebuild and so some of their attributes are still ramping up.

What's really impressive is the fuel volume. These stores are doing 415,000 gallons a month before, and they turned right back on very quickly and are now averaging 461,000 gallons per month. So all of these stores now have diesel at every dispenser. They also have the ability to offer an E85 or an E15 or an E0 product, depending on what we can sell in that market based on regulations and what the customer is asking for. So we see fuel volume turn on very, very quickly. Again, rated number one in price in the consumers' eyes. They can see that when these stores open back up.

Tobacco is one that takes a little bit of time to get that customer back. So now you've asked those customers to go somewhere else for the last three months to buy their products. And so being able to get them back into our stores takes a little bit longer to be

able to do that, but you can see that those results are picking up. The non-tobacco sales, though, are what's really driving the benefit of larger 1,200-square-foot store versus the smaller kiosk. And then if you look at site OpEx, it's not that much higher, and that's really the beauty of our model. So by going from a small kiosk to the 1,200-square-foot store, we're outlaying a fraction of the capital the industry does with their typically Big-Box models, right, we're getting a noticeable uptick in the total merchandise at a higher margin, but at very little incremental operating costs, which leads us to generate the kind of returns that we expected.

And these are early returns, seasonally adjusted, based on what we've seen so far. We expect these numbers to be much higher as we get fully ramped up on those. And so these are the first ten we did. We'll take a look at these same ten again next year. We'll also have the 20 that are in the deck, and as I said, we're opening already the earliest of those raze-and-rebuilds. We took most of those down in January, February of this year. Where we haven't or can't do a raze-and-rebuild in the short term, we are adding these larger super coolers in front of our small kiosks. And these have had a pretty significant improvement on our business as well.

We will have completed 610 of the 3-door super coolers. So if you think about the small kiosk, these are 3 super cooler doors on each side of that snack alley, it holds significantly more products, 68% more capacity, which allows us to bring about a larger assortment of non-carbonated soft drink items at these kiosks. The refrigeration areas where you keep the chocolate, candy offer, and so you've got -- some room dedicated for that as well. It chills the items in four hours versus the old coolers would take 24 hours to chill it. So if you're running these promotions, buy 3 soft drinks of some sort, get \$0.10, \$0.15, \$0.20 off. You're restocking time is now improved, because you've got more capacity for those promotional items, and they're chilled a lot faster as well.

What you can see in the middle here is 86 stores where we installed super coolers in 2015, and so we have a full 2016 run rate on those. The total units stayed flat, but that compares to the change, seeing same-store beverage units declining 4%. So think about the carbonated soft drink trend that's going on, by adding the super coolers and improving your mix, you can see that the non-carbonated soft drink units improved as a result of having that additional capacity. Sales were up 8%, again, largely due to the non-carbonated soft drinks and the margin dollars improved by 11%, again largely due to the non-carbonated soft drinks improvement.

So between the improved units of higher-margin items, now you've got more space allocated to this, you're getting shelf allowances and additional rebates that you didn't qualify for before. This is having a nice improvement on our beverage category at these kiosks, which in the old view, may have maxed out on their potential, we're continuing to find ways to get more out of these kiosks. And there are some opportunities where we don't have the space, due to permitting or regulations, to add a 3-door super cooler, to opportunistically add a 2-door super cooler and get some additional benefits from those as well.

One of the things that I think has been unique to Murphy USA is our commitment to invest in our existing stores to give them a new look and feel, and that was the basis behind our refresh program. And so this year, we will have completed 900 refresh initiatives at our store and so this is a new canopy ramp. This is the brick veneer on the side of the building, it's new bathrooms, and just a whole set of other things like that, that improve the look and the look and the feel. And if you drove by one of the old kiosks from before, with the old coolers, you now see a refresh store with the new super coolers, you would have thought it was a brand-new store.

And I actually had a store manager tell me the other day that they had feedback from their customers saying, our customers feel like we're rewarding them for their loyalty, right, with the updated store, the clean, brand-new restrooms, the super coolers with the expanded offering. And so it's been a really nice improvement. So our store associates noticed it. And the other – remember the other kiosk models out there are ones that are largely not being invested in. So from an employee value proposition, they see us reinvesting in that store, and they take a great deal of pride in it. And in turn their customers take pride in it, because these are very loyal customers to our stores.

So we will have a few remaining stores to build down in this program, and then we go to a much wider refresh over time in conjunction and Walmart refreshes one of their stores, there may be some additional refresh work that we would do. So a significant amount of capital allocated to this over the last 3 years, but it gets our stores up to a brand-new look and feel. On Slide 16, this is really – this really caused us to kind of stand back when we said, okay, before the spin, what did this chain look like? And at the end of 2019, the period we've kind of guided out in the next two to three years, at 50 stores a year and the raze-and-rebuilds, what does the portfolio look like?

And what it basically says is you started at the spin with a network of over 2/3 kiosk, and we've now will have moved to a model by the end of 2019 where less than half of our chain is kiosk. And that's a pretty remarkable transformation over that short a period of time to invest in new stores, to invest in the existing stores and transform that, and then see how quickly that then flows through to the bottom line. And there's a lot of retailers out there that say, I'm making all of these investments. Trust me, in three or four years, you're going to see a return from them.

We've made these investments, and we can see and measure these returns as we execute on these programs real time. And for those that kind of keep up with square footage count, it's up 112% from this period, and the average per store is up 60%. So that ends our section on organic growth. We continue to focus on new stores at a modest rate, 50 stores a year, the raze-and-rebuilds, the improvements to the existing network and really, taking this investing for the long-term mindset around our stores.

We'll switch gears now to fuel contribution, and we'll spend a fair amount of time in this section, because this was frankly where a lot of our questions have come about over the last year. Yeah, I think one of the things that may surprise people when they talk about the volatility of our business and how that volatility translates into short-term volatility

and our share price is despite having higher fuel volumes per store at just somewhat lower fuel margins, the actual standard deviation that you see on a quarterly basis for our fuel margins, all-in is lower than our public peers.

Now maybe it's because fuel makes up a larger part of our total contributions from an earnings volatility, but because of our proprietary supply chain, we actually end up with lower volatility on the fuel side than our public peers. And so if you see on the left, our average fuel volumes, this is in millions of gallons per store per year, last year, we averaged 3.1 million gallons per store and you can see that's quite a bit higher than Casey's, Circle K, Couche-Tard and Speedway. And if you look at the average total fuel margins, these numbers are all before credit card fees, and we've made an estimate to adjust Speedway so it could be apples-to-apples.

In Casey's example, they're doing 2/3 less volume that only 10% higher fuel margins, right? And so we think that's a really good trade off when we think about our high volume low cost model and that's why we're focused on that. And then you can see the volatility difference there on a quarter-to-quarter basis. On Slide 19, this summarizes the work we recently conducted looking at fuel demand for light-duty vehicles over the next 10 years, because the question we get all the time is, well, isn't electric vehicle and autonomous cars and ride sharing and all of these things going to destroy your business model overnight?

And I think there was another Stanford Report yesterday that came out that if you read all of these reports, you would think we will stop relying on fossil fuels within the next few years. And what we'll show over the next few pages is some of the detail that supports this, that really fuel demand for light duty vehicles is largely going to be driven by the vehicle miles traveled, which is a function of the economy and gas prices and the CAFE Standards right. What dictates miles per gallon, that the auto manufacturers have to achieve as part of their programs.

And for each of those, we've got kind of three scenarios. We've got a lower GDP growth case, a base case and a higher GDP growth case and then three scenarios around CAFE. The current program in place is Scenario 2, when that expires in 2025, if you continued along the same trajectory versus flat-lining you get to Scenario 1.

So if you take that middle case, what this says is fuel demand in the Murphy USA markets in 2027 would be 97.2% of what it is today. So that says basically a decline of a 0.3% per annum. Now you'd say well gee the last couple years fuel demand has actually gone up, alright. So we know this is going to be a bumpy line but the projections based on vehicles miles traveled in the CAFE Standards suggest we should see kind of flat to slightly declining fuel demand over that period.

In the wide space, there it's what you would see U.S. wide, so in all of the markets in the U.S. you would see fuel demand in that same scenario down 5.6% over the entire period, so dropping a little bit more than a 0.5% a year. So it's not something that's going to

change this business, overnight. It's happening at a slow pace and Murphy USA markets are advantaged relative to US as a whole, and we'll talk a little bit about why that is so.

On Slide 22, just a little detail what drives vehicle miles traveled. So if you look back over the last 20 years or so it's really driven by GDP and fuel prices. So if GDP goes up by 1% you could expect to see a 0.74% increase in the vehicle miles traveled. If gasoline prices go up 1% you could expect to see a 0.05% decline in vehicle miles traveled. So on the right, you can see how that actually has trended over-time and when you get to a period like 2007, 2008 the economy is roaring. The gas prices get about \$4 a gallon and you start seeing that trend down. And then you see the economy trend down and then start picking back up again.

And so we basically have a range of 3.6 trillion to 3.8 trillion vehicle miles traveled in 2027 and it is largely driven by GDP estimates of between 1.8% and 2.5% GDP. And so our base case is at 1.8% GDP growth. So that's vehicle miles traveled on a miles per gallon basis. It's largely driven by the CAFE Standards and the dark blue line is the current CAFE Standard in place and the legislation has in place a revision point at 2021 and so at that point in time they decided to cut back. You could see a Scenario 3, or the average CAFE mile per gallon target is 37 miles per gallon.

If it stays on current course without changes, you would get to 44.5 miles per gallon, that's the target today. And if you had more tightening it could go up beyond that. So that's kind of what's in place today. One of the key things, to note though is those targets don't necessarily translate into on the road efficiencies and so the tighter the target gets the bigger the gap is between the target and what you actually see on the road. So today we see about a 20% discount, when you add ethanol into the fuel the energy density is lower, so you get less miles per gallon. So it comes down a little bit more.

If you start putting advanced turbochargers in the vehicles, the on the road differential increases as well and this isn't anything more than you drive a car certain way in the test and then we all know in real life if you've got a turbo charger you stomp on it from time to time and your miles per gallon goes down significantly. And so the more features like that you add to a car, the bigger that on-the-road gap becomes.

So you could see the difference between the 44.5 and the light blue line on the road is a pretty significant gap when you get out there. The other thing you have to factor in is those are new car additions to the fleet. And so now you've got this fleet of cars that's a eleven plus years old, and you are adding to that gradually.

So if you go all the way back to the 1970's when you started seeing these increased CAFE targets and then it flattened out. The period between 1985 and 1990 you continue to see the fleet average improve even though the new car targets had flattened out and that sort of that adoption effect within the fleet. And so even with these higher CAFE targets, even with the on the road haircut that you get from it, all these new vehicles have to ultimately work through the fleet that impacts the real miles per gallon that you would put out in your model.

Electric vehicles, are incorporated into this forecast. I think the key thing about electric vehicles is where they are going to be located and in our view it's largely going to be outside of Murphy USA's footprints. Because the auto manufacturers are going to target them towards the zero emission vehicle States for which they have quotas they have to meet. And so if you think about the penetration in states like California, Oregon, New York other places in the northeast by 2027 electric vehicles on current course with current economics would be at 11%, 10.8%.

In the rest of the U.S. outside of those markets, the penetration is closer to 1% and so that is where Murphy USA is advantage is, that we are not in the zero emission vehicle States. And one of the key things about adoption is today, these cars are not economic for the manufacturers to produce. And so if you cannot get battery cost all in, below a \$100 per kilowatt hour, you're going to continue to have the manufacturers produce these and sell them into the zero emission vehicle States at a loss. Right and then make up for that by having higher prices and making it up on the more profitable vehicle sold in those states and other states.

At that point in time, when the battery economics make it compelling for consumers, we would expect to see a shift towards greater electric vehicles but everything we've done in our research in third party research says that there is not the technology on the drawing board, today that can get you to the point where consumers would rapidly adopt electric vehicles. You need today subsidies well over \$10,000 to \$14,000 and you would need sustained gas prices over \$7.5 a gallon.

Those scenarios do exist in the world, if you want to do a deep dive study on Norway they have 29% electric vehicle penetration there. Gas prices are over \$8.5 and I believe there's about a \$14,000 penalty attached to internal combustion engines to encourage people to drive electric vehicles. And by the way all in all ways electricity is produced primarily through hydroelectric clean power.

So there are cases out there where you can get that level of penetration. But you have to believe gasoline prices are going to get up there or there's going to be incentives or penalties associated with the differential between internal combustion engines and electric vehicles.

Or alternatively, you've got to get the economics down on the batteries and we just don't see line of sight for that today. A lot of talk about autonomous vehicles. A lot of investments going into that. There are a lot of features today that are classified as Level Zero, Level 1, Level 2 autonomy. The side view mirrors that tell you when a vehicle is approaching the lane shifting technology that calls your steering wheel to vibrate or may actually move you back into the lane. Those are examples and those are safety features that that, not unlike anti-lock brakes and airbags and other safety features. We would expect to see roll through new cars over time and the cost of those technologies come down.

But a purely autonomous vehicle without a driver, the penetration on that, in 2027 is expected to be very light as well as this Level 3, which is where the driver can take over a lot of the auto manufacturers have basically said that based on the amount of time it takes and the reaction time is they don't anticipate a lot of that technology coming out. And so even if you do see some level of Level 4, technology it then still has to penetrate the entire auto fleet. For that to have any impact on the vehicle miles traveled and the like.

A lot of people talk about well this is going to kind of change the landscape, because of ride sharing, et cetera. We have ride sharing today, it's a very, very, very tiny proportion of the 3.7 trillion vehicle miles traveled going on.

We look at some of the other disruptions beyond electric vehicles and autonomous cars. ride-hailing is one. Again it's a very, very small portion of the vehicle miles traveled. So today 96% of the vehicle miles traveled are for personal vehicles, 4% comes from buses other mass transits, rental cars, taxies, ride sharing, ride hailing et cetera. And within that the ride hailing is like 8% of that 4%. So it is a very, very small number. So while it's displacing taxi drivers at airports and getting additional trips it is still a very tiny portion of the vehicle miles traveled but it is still a lot more expensive than owning your own personal vehicle especially in Murphy USA markets.

We looked at the millennials, again and see a few in the room. They have delayed some of life's major stage gates. I mean one of the things that surprised us was the percentage that don't have a driver's license. But when you look back at 25 to 29 year olds for example in 1996 and 2006 and 2016, these trends have been taking place over that time period.

This isn't something that is just happening overnight, and so those more subtle trends that may be accelerating a little bit like the driver's license have actually been out there for the last two or three decades. And so those are already built into the forecast, we don't see a sudden disruption associated with that.

Online shopping is another one we looked at, shopping is a smaller portion of total miles traveled, grocery shopping is a large part of that and so that's still the hardest online sector for the industry to crack. And so we do keep an eye on foot traffic at Wal-Mart, the transactions there, the number of trips there, the consumer intercepts we've done suggest 50% of our customers are going to be coming from trip to Wal-Mart. So seeing their base business continue if they have the pick-ups that's still a trip to the Wal-Mart and so that is something that we monitor closely. But we don't see any major disruptions out there, over the next 10 years that are going to really impact this business.

Turning to Slide 26, what we do see driving our volume more than the macro demand trends or any disruptions is shifts in the demand segments we served. And so if you go and ask consumers what's your one main reason, for choosing the gasoline station, you go to, I've done this research going back to the to the 1990's. People would typically would say price, convenience, brand and quality and in the last decade or so this promotion category has grown large enough to stand on its own.

And so those are the four main reasons that you can put just about anything into and say that's your primary reason for selecting your location. And what you can see is that from 2013 to 2017 as we do this research on a pretty frequent basis, the amount of people who buy primarily based on price has gone down.

All right, so reason number one prices are lower, so on the margin consumers just aren't as price sensitive on the margin. Number two, you can see here the promotions segment has more than doubled. In many ways this is a different way of getting the lowest price if you save up your points and get a \$1 off from your grocery store loyalty program, it's a different way to get low price.

Convenience has grown. One for consumers, who won't go out of their way as much when prices are low. But also because there's just so many low priced outlets out there and they are now just becoming more convenient and that is just sort of the circle of format innovation, initially when new formats came out, they differentiated themselves on price over time. More of them came into the market, they started providing more convenience features more quality product et cetera.

Now they're competing against each other on their own, you can see the same examples in Southwest Airlines and the airlines face or others. The low priced outlets like QuikTrip for example are actually seen as a very high quality brand in their consumers eyes. And so we do see that convenience segment growing on that basis. On the right, you can see the primary reasons for selecting some specific brands.

We over index on low price, not surprising right the consumers in that survey said Murphy USA was Number 1, for low price. We also have a lot of customers who find us convenient. Again that customer intercept survey that said well 50% of us are coming to you either going to or from a trip to Wal-Mart. So we know who that customer is.

Rob will talk a little bit about path to purchasing conversion and how many of those customers that are going to that Wal-Mart aren't stopping at our store and what an opportunity that generates. Where we have fallen behind versus the other grocery store chains in that kind of hypermarket business model is in our promotional programs and the loyalty schemes.

In the early days we had the gift card and the credit card that Wal-Mart offered and accepted that, but the industry has really leapfrogged that materially and Kroger is a great example of their loyalty program. They over indexed on loyalty and so that is one of the initiatives that we've talked about that will be piloting this year as a loyalty program it's not me too late it is going to be something unique that reflects our business model. That reflects our customers and the value proposition that we can give them.

And then you see QuikTrip, we're usually between – at the same price or no more than a \$0.01 or \$0.02 below QuikTrip in most of our markets. Most of their customers say we go to them because they're convenient and if you go to a market like Atlanta or Dallas

where they really penetrated that market. They're everywhere. And so now it is truly a convenient low price outlet and look at their brand and quality scores. And so again for those who say are you looking to get into the big box, food service retail model that is the shift you have to make from a customer acceptance standpoint to demonstrate that level of convenience at scale and that level of brand and quality.

And so you can see how these different business models are unique, both in terms of the customers they're capturing and what those customers value but also what they do to go attract those customers. So that's on the demand side. We thought, we'd share a little bit of kind of the research. This is a segment where we're not going to be having gasoline shipped over the Internet, these outlets are not going to go away. It's going to be less about demand destruction and disruption. It's going to be more about demand segment shifting and making sure you stay relevant to the customers.

And what we recognize is we can't just be low price in convenience, we've also got to develop something that appeals to this promotional loyalty segment out there that we've lost share of that will be targeting with our pilots. So let's turn to our margin now, so when we think about our participation in the fuel supply chain we start acquiring product at the refinery gate. We ship it through pipeline systems, and in to our seven terminals and proprietary terminals. Blend it with ethanol and then distribute that to our locations and then we buy a lot of product on a spot index basis from refineries at terminals on that same basis.

What this chart shows is, there are others who participate in that supply chain the same way we do. Wawa in their introduction to Florida has barges now, they're shipping product into Florida. RaceTrac is very active in Florida as well and a number of terminals, QuikTrip takes positions on the Colonial Pipeline.

And so the point here is we're not the only one doing this, but we're probably the one retailer that is doing it at this scale and scope that we do it in across as many geographies that we're doing it in. And so we think that's really a distinctive capability for us especially versus some of the larger chains that are primarily buying it on a branded basis from the major oil companies.

When we think about our proprietary sourcing capabilities, and this was largely buying at the refinery gate and shipping through the pipeline systems and we'll use the colonial example. The number one reason we do that is to have low cost reliable secure supply. And Q1 was sort of a great example of where – if you could just cherry pick every day without any consequence you wouldn't have just bought product at the wholesale racks and not shift it through the pipeline system.

Our economics were to look different in Q1, but if we continue to cherry pick supply sources month to month, week to week, quarter to quarter our lines space history on Colonial will decline rapidly. And all you have to do is go back to Q3 and Q4 of 2016 when there were two major outages on the Colonial Pipeline. And we had the fewest

stores that ran out and we were the last to run out of product in those few markets where we did.

And that's because we had pipeline in the system, we had pipeline in hundreds of, we had product in the pipelines, we have products in hundreds of terminals in that area. We had the ability to ship product in by truck from terminals outside of the colonial footprint. And so in that period we had ratable secure supply, where others had run out and over time we can look at quarter like Q1 where the wholesale racks were depressed and other quarters where the wholesale racks were blown out because of pipeline constraints.

They are being open, other disruptions and we know that we're better off economically as well having that proprietary supply chain. Quarter to quarter, if you could cherry pick you absolutely do that but then you start eroding your long-term sustainable advantage.

And this looks at our picture of our all in fuel margins. The retail contribution from our OPIS low transfer price to the Street and the spot to rack supply margin net of the RINs and you have seen there has been a pretty consistent \$0.14 to \$0.16 per gallon over time during this period.

2014 was the exceptional year, and a lot of that as you can see happened on the retail side when product prices fell dramatically in Q3 and then even further in the fourth quarter of 2014, I think we had over \$0.25 margins in the entire fourth quarter, when prices fell over a \$1.20 a gallon. And so we expect this \$0.14 to \$0.16 to persist over time in a kind of rolling 12-month period.

We did take the steps with our Q1 performance to adjust our guidance, but in terms of our long-term view we continue to expect \$0.12 to \$0.125 to \$0.135 retail margins and \$0.02 to \$0.03 from our product supply and wholesale, net of RINs regardless of what RINs end up doing.

And so what I thought what we would now is just kind of – this is a chart I think I have drawn in a number of one on one meetings, where we've had questions about so how does this RIN market work? How does it impact the spot market? And thought we just kind of lay out over a couple of pages of how we see it works.

In a market without RINs and in a market with RINs and so on Slide 30, what you can see in the upper left is an illustration of the spot to rack market structure without RINs. And so the spot price is the price set at the refinery gate, it's influenced by a number of things. How long or short the market is, is the market exporting or importing. You have imports coming in, imports typically set the spot price in that market.

You've got your cost to get it to the product terminal, that includes your pipeline tear off, your terminaling charges, the additive charges, couple of charges for blending in the ethanol itself, the cost of the ethanol and that gets you down to what we call our laid-in costs. Our costs laid down all the way to the terminal.

And then if you look at sort of the typical rack prices and compare it to those laid in costs you typically see rack prices posted anywhere from \$0.02 or \$0.03 or more above those laid in cost and that's effectively our rack margins that we get from taking on that risk. So you've got the risk of the product in the system, the basis risk, the timing risk associated with that, you've got capital employed, with that pipeline, line space has value associated with it.

You've got inventory to terminals, you've got the capital associated with your terminals if you own those. And so that \$0.02 or \$0.03 is effectively compensating you for your holding cost of the inventory, the working capital and any capital charges associated with that. In a way that shows up on our books on the right is the rack prices, our retail transfer price. And then the spot to rack margin is our product supply margin, we also sell some wholesale barrels separately from that.

And then the RIN sales shows-up in other income and in this example, RINs didn't exist or RINs were at zero. And so that gets you to your total contribution and then if you think about what drives the market structure for that spot to rack margins, in a world without RINs because this is completely independent of the RIN environment.

It's going to be a function of a handful of things. The refinery margins and their utilization, if the crack spreads or the refining margins are low, that is not going to incentivize refiners to manufacture more gasoline. They're going to dial back their runs they may decide hey let's go ahead and shut down part of the plant for maintenance, that will also show up in lower utilization. Well that's good, because that takes the inventory out of the system and makes it tighter.

Conversely, if refinery margins are very attractive, like they were in 2015 over \$30 a barrel they're going to make a lot of product, their utilization is going to be really, really high. You're going to have lots of inventory and that is bad because the inventory is going to be a function of what season you're in and what we saw in Q1 was this excess, massive excess supply of winter grade gasoline that had to be out of the system by the summertime.

You see that conversion every May, and so you saw deep discounts to move that inventory out. The forward market is in backwardation or contango, so if you have a contango market, which means the forward price is higher than today's price, I mean a perfect when you're going to want to sit on your inventory because you know you can sell it at a higher price later.

So if you hold on to your inventory, rack prices go up the system becomes a little bit tighter, inversely in a backwardated market where you can see the forward price is lower than today's price, you'd rather get out of all your inventory today. Your excess inventory over some neutral stocks, versus holding onto and see the value get lower and lower and lower. So on a backwardated market you see steep discounts hit the rack.

The arbitrage, we don't arbitrage product ourselves, but the difference between the Gulf Coast markets and the New York Harbor market, whether it's open or close last Q1 it was open and what that meant was products sitting in the Gulf Coast would move all the way to the New York Harbor because the New York Harbor was short of product. And the differential between the harbor cost minus transportation minus the Gulf Coast had a profit where people were willing to put product basis price at risk to take advantage of that open arb.

This year it was closed by several cents. There's plenty of product in the New York harbor a lot of imports coming into the harbor from Europe. And so with that arb being closed, there was no incentive to ship product all the way up. When the harbor is open there's that incentive to ship the product all the way through the system, that every one of those terminals along the way they're having to bid up the price of gasoline at the rack to have some of the divert into Atlanta or Nashville or Greensboro instead of making the journey all the way to the New York Harbor.

With the yard closed those racks are not being bid up in that same sense. The pipeline system, so we've seen constraints in the system, we've seen them be down for periods of time, when their constraints and bottlenecks and there's allocation, you see those reflected in lower inventories at the terminals. You also see the line space, which trades on a daily basis being bid up as well.

We see line space at certain times of the year worth \$0.10 to \$0.12 meaning shipping product we just sell that cycle and make \$0.10 or \$0.12 but it also shows up in the higher rack prices so for our retail business we would ship the product. This year in Q1 because there was no excess demand. Demand was like there was plenty of inventory there were no constraints line space was discounted anywhere from \$0.03 to \$0.06. And so you could see that, in the wholesale prices as well.

And so those were the dynamics that play out, a lot of it shows up in terminal inventories and this was a period when we had a lot of excess inventory that had to be drawn down. There's other periods of time if you had a lot of refinery disruptions or you've had pipeline outages where you've had excess demand you may see terminal inventory very tight. And that will cause rack prices to go up.

And so you can kind of think through all these different variables and some of the analyst have some frameworks they use as well from spending time with us, that kind of give you a sense of what type of environment are we operating in. But this market structure is completely independent of the RINs, this is really about sort of whether a product is long or short. The markets are loose or tight and how that gets reflected throughout the system.

So if you go to the next slide. Let's introduce the RINs. So again the RIN is something that's attached to a gallon of ethanol when it leaves an ethanol plant, when it gets to a product terminal and gets blended with a gallon of gasoline that RIN is separated. It's a 38 digit number, and goes into a system and then if someone who's buying product on a

daily basis at the refinery gate and we factor in the net value of the RIN we then sell those RINs on a ratable basis.

Refineries that are balanced who have a marketing business have an obligation offset entirely by their RINs and then there are some refineries that do not have a marketing business or do not have the length of a marketing business to cover all the refinery obligation and so they go into the market and buy the RINs.

And so what this illustrates is that refiners and importers incorporate the cost of new RINs into the spot price. And so using the same illustration you've got your spot price for the \$1.65 with the tin sin RIN added to it. It seems to lay down cost now at \$1.81 the spot direct margin and so it will be in \$0.03 is now negative \$0.07. So when you talk about our product supply margin be in negative, the only reason it's negative is because the RIN prices are built into the spot price. And then you separate the RIN and so that in this illustration you end up with an exact same \$0.03 per gallon, right. You would not hold all that inventory in the pipeline systems if you are not being compensated for. You will not hold on the value of the line space because you could go sell in the market long-term or short term like if you were not compensated for, you will not hold your inventory in your terminal, or you would not own terminals if you were not compensated for.

So the \$0.02 to \$0.03 that we get from product supply and wholesale that of RINs effectively compensates us for all holding cost associated for this part of the business.

One of the important things to note is imports. Imports are subject to the RINs. And so if you have an imported barrel of gasoline, coming over from Europe into the New York harbor, the only reason it is going to come over is that refinery is saying I can make a profit on that and it's better than my next best market or it's better than storing market or it's better than storing that product in Lauderdale, and they are subject to the RIN. So they have to ship it across the ocean, pay for the RIN obligation and they are still getting a net back that's causing them to do that versus their next best alternative.

And so imports typically set the spot price in the market, right. And so that RIN is baked into the spot price. Some refiners may argue we cannot fully recover the cost of the RIN, but the reality is that in that example the importers only going to import if they can recover the costs. Now there may be some other costs they can't recover or they may be selling product into a long market or an oversupply Gulf Coast market may be seeing barrels discounted significantly, but it's not because of the RIN, it's the fact that there is excess length in the market. And so every day a refiner is running an LP, right and they are baking in the cost of the crude, the cost of manufacturing the cost of the RIN and the rack prices. And they continue to produce at high utilization levels with all those factors built in. And so at the end of the day, they're still making a \$12 to \$13 or higher refinery margin net of the RIN one of the biggest challenges they face is the fact that in 2015 they were making \$25 to \$30 per barrel on the refining margins. Now they're making a fraction of that. And in part we've got an oversupply market and we're still attracting imports into that market and those imports have to bear the cost of the RIN.

One of the things about our integrated position is that it reduces the margin volatility. So on Slide 32, you can see our spot-to-rack contribution over the last three years and as you can see that light blue number has gone from positive to negative. And it's gone steeply negative and largely due to the fact that RIN prices have gone higher that sponsor rack margin has gone more negative and those things affectively offset each other and the total contribution from that hasn't changed materially. There could be other factors like whether the market price is rising or falling that impacts our LIFO variances and other inventory and timing variances, but if you just look at the product supply margin and the RINs they're largely offsetting each other.

Similarly on the right-hand-side you see our retail margin in dark blue and then this product supply inventory gain and loss offsetting that as well. So a great example is Q4 of 2014 where we've made over \$0.25 retail margins because market prices were falling significantly as we build into the cost of goods sold new product because the training cycle and the accounting cycle are different, we actually have an inventory loss as we bring in higher cost product at the end of the month into the next month's cost of goods sold and the cheaper product that we buy at the end of the month and that trading cycle doesn't show up until the next month.

And so some of these factors offset each other, what I would say is a good or bad retail margin is always going to trump the inventory gains or losses it's always going to be on the margin. The other thing I would say about product supply and RINs is those factors while over time will rental be reflected in that product supply margin you will have periods like Q1 where the market factors associated with the spot to rack margin work for you or work against you independent of what the rent prices are doing.

The last thing I'll say about the economics of it is RINs have their own separate paper market. So you've got a physical market for gasoline, a physical market for ethanol and they have paper markets and you have a paper market for RINs. Their values trade on supply and demand, as well as expectations on supply demand. So we have seen periods of time where RIN prices were inflated relative to what a long run outlook would suggest based on expectations that RINs might become especially tight. So if there's a view that the EPA mandate is going to go up significantly, that might cause market expectations for RIN prices to go up because there's a belief they may be short in the future.

Similarly you can have the same effect on the downside if there was a belief that the EPA might lighten the mandate or change some aspect of the RFS program you may have the market believe RINs are plentiful to by and therefore the RIN values are depressed. So you've got a lot of independent factors at work, we've had some quarters where they've all worked in our favor Q1 was a good example of one where we had pressures and spot to rack and we also had depressed RIN prices based on political and regulatory uncertainty.

That might be a good segue into just our view of the RFS. We've been very active in contributing to the dialogue in Washington on this topic. I am not on social media so you will not be seeing me tweeting just after leaving a meeting in Washington, but it is

something we're active on is something our industry group is active on you've got a very small proportion of the refiners that are petitioning against this. And you've got some small retailers that are petitioning against this. I think Bonnie Herzog, coming out of her NACS report, noted that the bottom quartile of retailer saw their fuel breakeven go from like \$0.17 or \$0.18 to \$0.28 per gallon.

We're going to talk about fuel breakeven margin in a little bit. Ours has gone from \$3.4 to \$1.6 that's kind of zero fuel breakeven this is the merchandise margin minus OpEx over volume. And so the \$0.02 supply advantage we gain on product supply wholesale in RINs, but we said remunerate the capital enjoyed there pales in comparison to the competitive and economic challenges associated with having a \$0.17 fuel breakeven let alone a \$0.28 fuel breakeven. That's the disparity in the retail environment today. And when you have things like mandatory EMV at the dispensers which is a huge capital outlay else you have the counterfeit fraud liability shifted to you, it will be no different than Stage II Vapor Recovery capital or underground storage tank capital. If you've got a \$0.30 breakeven contribution and you've got a \$50,000 capital requirement in your store you're probably going to sell that business and get a higher better economic use for that location than continuing to operate it at those kind of economics.

So there are some very small groups petitioning against this point of obligation. This is the summary page we took and presented to the EPA that basically said if you just step back and look at the RFS program, it is working and functioning very well for all parties. They have very clear goals like any program. And so it's a workable stable program uses RINs and then incentive to increase the volume of renewable fuels in the overall gasoline and diesel pool.

The framework and the rules are well established. And they've been well established for a long time. Everyone understands the rules they haven't changed and they're easily monitored and enforced. The EPA has effective controls and systems to be able to monitor that.

There's also what you described as infinite flexibility. You can achieve RIN compliance in a lot of different ways. You can blend it, you can acquire the RINs it in market, lots of different combinations. And here's the key point participants can make the strategic and tactical choices for how they want to comply. The EPA isn't holding a gun to anyone's head and saying you have to change your business law. And so some of the most vocal critics of the program actually held most of the assets you would need to effectively blend and capture the RINs. They sold them off several years ago in the face of well established rules by securing billions of dollars and divesting proceeds in the process and now want to change the rules from this.

And so I think that that sort of parameters in the program prices flexibility for participants to achieve compliance in a lot of different ways. One of the most important things about the current program is the liquidity that is essential as we said there's a gasoline and ethanol physical and paper markets there is a paper market for RINs and for any market to function well you need liquidity. And the current program provides that.

Every day when we make a spot-to-rack decision we're looking at okay how negative is the spot-to-rack margin what are lines face values and what are RINs worth.

And net-net we can say okay we're still going to clear x cents per gallon buying at the spot price because we know we're going can sell our RINs on a lately basis. And every other retailer like us that participates in this part of the supply chain is making those exact decisions. I don't have authority from my Board of Directors to go out and speculate on RIN prices and say we're going to keep a large boat load of RINs sitting on the sidelines speculating on prices, while we have a spot-to-rack margin that's negative, we have an offset called the RIN, we make those decisions on a ratable basis every single day. Large proportions of our RINs are sold on a monthly average basis.

That provides more liquidity into the market. And there's a number of players that are doing that. Then you've got a number of the integrated players that are pretty close to balance some of them are net long, some are net short. And then you've got a number of players that are net short wins and this provides the essential liquidity to win. The challenge in a shift in the point of obligation is that liquidity changes significantly because you move towards hundreds of new players that do not have the sophistication or scale or size to manage programs like this. And most of the parties will be very slightly imbalanced. And the only way you're going to get to the balance is to sell a lot of E85. And it's going to be the same parties like us and other retailers that are investing in E85 infrastructure today. But because the liquidity would be dampened significantly, we would expect to see E10 prices the regular gasoline most of us put in our cars those prices to go up.

And so as a result this is the case we've made to the EPA. The EPA relied on this perspective quite a bit in the report it just happens to kind of align up with, I think, a lot of their views as well. And I think the bottom line point we made at the bottom here is RINs are agnostic to your competitive and strategic choices and you're competitive in strategic positioning. And so if you've got a weak business model that's becoming weaker over time, either because the refined product market is getting longer and longer and we still have imports coming in or you've got a retail business model or more and more competition is coming in, will drive agnostic to the choices you made that got you there and the choices that you have to get out of that situation.

So the last thing I'll say about fuel margins. You think you have a difficult time forecasting on a quarterly basis we have an even more difficult time forecasting it on a monthly basis. On the right hand side here you see the monthly margins, this is our total fuel margins all-in. It is volatile as we noted before the volatility on a quarterly basis is actually lower than our other public peers. I would say we have a very firm understanding of what drives the volatility. Some of that you can see in advance some of that you can't see in advance, right. If you tell me that prices are going to fall \$1.20 in the last half of Q4 2014 what have we done different anticipating that right. So we're selling volume at 105% we're still pricing at the Street to consumers in a competitive way, right.

On the large and you could say well you can sell some of your inventory in advance because it's a backward related market. But if you've got this model that we do where when prices are falling you can be a little bit more aggressive then you can sell 5% more volume in a steeply falling market that's one way to manage through our inventory in an effect way. So we know it's volatile, we understand the drivers of volatility, we believe that these factors largely self-correct in the short to medium term. Some of the factors that we saw in Q1 we have seen them self-correct in Q2 and we'll continue to see volatility in the future.

One of the things we do recognize is that in a long refined product environment where demand is essentially flat our retail position is one of the most coveted positions out there for a refinery looking to place their barrels. And so one of our new hires that just came on Board, Daryl Schofield, who came over from Tesoro worked at Talisman and BP before that.

One of the things we're going to be looking at is over the next five years how do we really take advantage of that unique position that we have in fuels. So we'll continue to have a high proportion of our contribution coming from fuels is going to be key to our capability building efforts and we think we have one of the most attractive positions out there basically being a high volume, very relatable, attractive shore in otherwise long product market.

So hopefully that addressed some or many of your questions that you had around the fuel part of our business. I would say if you add up all the questions Christian and Joe I've had over the last year a lot of them started around independent growth but clearly the fuel contributions have been a big part of that.

So let's switch over to fuel breakeven because that's another important part of our business. And it's one I'm especially proud of because it recognizes the significant efforts we've made across the organization. And people getting – please get out as you need to for refreshment or other break throughout this.

If you look back since the spin our fuel breakeven has almost been cut in half from \$3.4 per gallon to \$1.6 per gallon. And again if you compare that to the bottom quartile retailers who's gone from \$0.17 to \$0.28, this is what it means to be a high-volume, low-cost retailer and doing it in an effective way. And so we're just as focused on this as any other aspect of our business. We know it's really hard to sustainably increase fuel margins \$0.02 per gallon. We know we can sustainably improve our fuel breakeven by \$0.02 a gallon.

And the reality is volatility favors a low cost business. I know many of you that may have covered the C-store sector prior to 2013, there weren't a lot of public companies. And those that were had high cost and they didn't like fuel price fuel margin volatility because of the impact on the business. But if you have a low cost position volatility is actually your friend. So here is the same margin profile over time including Q1. And this overlaid with our fuel breakeven and I think that's build our half for us when looking at this as

while we made more in total sense per gallon margin for FY'13 on far left \$16.4 a gallon. Net of our fuel breakeven we only made \$0.13.

If you go over to FY'16 we made a \$0.001 than fuel margins \$15.4 so when you back out the lower one 1.6% breakeven we actually made more money, we made \$13.8. And this is with our credit card fees, corporate overheads and other or other corporate costs. In fact if we had \$1.6 breakeven in FY2015 we would have made even more money at \$14.9 margins than we did at \$16.4 margins. So this is why this has been part of our strategy from the beginning and continues to be part of our five pillars in our value creation model and we're going to continue to make progress on that.

This model bugs the industry trends and so if you look at the next industry metrics on merchandise profit and side OpEx excluding payment fees for the industry on the left, you can see what the industry has been doing, they've been chasing higher margin items like food services, et cetera. And they've actually shown significant margin improvement 6.5% to 15% improvement, but looking at what the industry has done from a cost standpoint it's gone up 9% to 22%. So we actually see a compression on their net margin and then you got to remember these are bigger stores, these are 5,000 and 7,000 square foot stores costing \$7 million.

Compare that to the right with what we've been able to do with our 1,200 square foot stores are raising rebuilds, our super coolers, our refresh programs for a fraction of the capital we're expanding our merchandise profit while taking our store operating costs down. So we're actually expanding that net margin contribution. So at the end of the day, when you say what type of business deserves an advantage multiple, is it one that has the sexy top line sales growth and margin expansion where you don't pay a lot attention to cost and it comes at a very high capital cost? Or is it the one that makes it feel old fashioned way, right? Disciplined on the capital, ruthless on the returns, expanding profit margins at the top line while actually reducing cost on the bottom line. It was a pretty lean model to start with.

A lot of what we achieved in the past were, frankly, levers we could pull at the center. And so if you think about the two big initiatives designed in 2015, executed in 2016, if this was a baseball game, these are like walk-off home runs, right, with a couple of guys on bases, right? Cormark was a large opportunity, and the price improvements we got in rebates, largely around tobacco, has fallen through to our bottom line immediately, right? And there have been some hiccups and headaches as we kind of learned to work with the new partner. We've improved our processes around delivery and credits and returns.

And we did this, by the way, at the same time we did our store labor model. So we were rationalizing some of the labor at the store at the same time. And they've been a great partner to work with as we've worked through those changes and have a strong commitment to continuous improvement as we work jointly on a number of initiatives. And similarly, our store labor model was something sort of designing standard operating procedures, having a much more dynamic store labor model. We were able to do that.

We've talked about this being a baseball game. And so if 2016 was the fourth inning, we've got a couple of nice walk-off home runs. Now we're in 2015 [ph] (1:30:13), we've pulled some of the big levers. We no longer have the noncore assets to sell off for the balance sheet. And yet, we've got to continue to improve this. And so as we said, we went out to the draft and got some top draft picks. They, in turn, have gone within our team and have really developed some of the great talent there, and guiding and directing them in a different way.

And so I'd like to introduce Rob Chumley first, who joined us a little bit less than a year ago. He's going to talk about what we're doing different on the merchandising side. He'll introduce Renee, who'll talk about the sales and operations side. And what we're fundamentally doing different there. And then she'll hand it over to Mindy, who'll talk about some of our corporate capability changes and our balance sheet.

So with that, Rob, I'm going to take a sip of water and turn it over to you.

Robert J. Chumley, Senior Vice President, Marketing & Merchandising

I appreciate it. Good morning, everyone. As Andrew mentioned, I joined Murphy USA in September of 2016. Prior to that, just under six years at 7-Eleven and prior to that, 17 years on the CPG manufacturer side. So I'm one of the rare folks out there that's actually played both sides of the net, and it's really refreshing. Let me tell you, I joined Murphy USA for three reasons: Number one, Andrew and his reputation in the industry and his commitment to the strategic long-term growth of the business; two, the consistency and the commitment to the 5-point plan and the discipline that the decisions are actually made to lead the company in view of the plan; and three is what I see as a significant opportunity for our continued sales and margin growth at Murphy USA.

And so on Page 41, one of the first things that I did as I approached the business is I wanted to figure out how do we make money? And we've coined that the path to purchase. And as we think about our locations and where they're strategically situated, our research tells us that in and around those 1,400 stores we operate, there are roughly eight million transactions each and every day in the Walmart Supercenters around us. And in terms of our daily fuel transactions, about 1.7 million fuel transactions a day. That means that there are six million folks approximately driving by our Murphy USA site each and every day that aren't coming and purchasing fuel from us yet. And so the number one opportunity that I think we have as an organization is, how do we reach out and acquire some of those customers that are driving by our sites each and every day? So our number one opportunity is acquisition.

Of the customers who do come and purchase fuel from us, similar to industry average, roughly two to four of them purchase fuel without purchasing anything from our kiosks or our stores. And so the second opportunity then is, how do I convert more of the fuel-only customers to purchase the higher-margin merchandise from the kiosks and from the stores? And the third opportunity is, of those customers that come in and purchase

products already today, how do I help build their basket by adding one more item or expand the margin of the items that are in there?

And so the sum total of our entire merchandising strategy: One is drive acquisition of customers that are driving by; two, convert more of the fuel-only customers to purchase products in our store; and three, those that are currently merchandise customers, how do we help them expand their basket.

And so one of the things that became pretty obvious to me is the merchants would come to me and say, "Well, why this vendor making – taking this price increase now? Why are they changing the mechanics of this program? And what's going on?" And so we really kind of stepped back and said, "Look, if we understand the business from the manufacturers' perspective, then their decisions are going to seem pretty obvious to us, but what's on us then is to figure out how we best react to those." So I will give you an example of three of our largest categories very quickly here, being cigarettes, soft drinks and beer.

So cigarettes, these are what I call the four truths. Cigarette units will continue to decline. The industry numbers say 4% or so per year. Number two, historically, they have taken price increases twice a year, typically June and November, a little bit of a curveball this year, with one coming significantly earlier in the year than we expected; three, they have, over the last number of years, been shifting funding away from what I call participation towards activation. So if you think about funding models, it used to include, have the sign or the header up here and you get a rebate for that. Increasingly, it's moving through actually sell that through a VAP or a reduced retail directly to the consumer. So there's a shift away from participating to actually driving sales.

And the third is, collectively, the manufacturers continue to explore one-on-one relationships with their adult tobacco consumers through digital means and couponing and websites and everything else. So those I call the four truths around the cigarette category. I don't see any of those things changing in the foreseeable future.

But what's most important as you can think about, so what can and should Murphy USA be doing given those four truths? And the way that we're looking at it is really making decisions now to maximize the value of the cigarette customer, not just the cigarette category itself. So as we have visibility now into the broader market basket of those customers and how frequently they're coming, what other items they're buying, that allows us to make better pricing decisions for that store, in that marketplace, based on how those customers are behaving.

And the third reaction for us is really maximizing manufacturer resources. We are positioning ourselves to be able to participate in as many of the manufacturer programs, both analog and digital, as possible, and have the flexibility to move with the manufacturers and move with the technology. I don't want them to come out with some program that we cannot participate in because we made a technology or a strategic decision earlier on that would preclude us. And lastly, as I mentioned, deploying digital

assets. So we will be increasing our ability to execute manufactured digital offers in the cigarette and tobacco category.

A similar approach to beverages, and this is a fun one for me. I worked for Coca-Cola enterprises in Canada and the U.S. for about 9.5 years. And I can remember it was around about this time in 2001 when I came to run Coca-Cola enterprises for Eastern Michigan and Northern Ohio, and one of the first things I had to deal with was all the modeling and the expectation and the panic around taking a 20-ounce Coca-Cola bottle over that \$0.99 price point.

So if you think about that, that's 16 years ago and everybody was terrified about what will happen if we take it above \$0.99. Now in many cases, we're almost pushing \$2 a bottle, okay? And so what will happen is you're going to continue to see this mix shift away from CSDs in favor of non-carbonated, functional and alternative beverages. Consumer demand preferences will always change. Outside influence will impact consumer preference and choice. By that, I mean regulation and a number of external factors. And the manufacturers will continue to invest to meet the demand to offset the reduction in the CSD volume of their flagships.

And so again, importantly, what is Murphy doing given these truths. Andrew talked about the installation of the super coolers, significantly improving in terms of the inventory that we're able to hold, the chill time to have it available at the right temperature for the customers when they want it, the mix shift away from kiosk in favor of smaller-format stores has just about doubled our capacity for single-serve beverages. Optimizing the promotions. When I came, we were offering buy three, for example, Dr Peppers and save \$0.10 a gallon. We're now buying three and saving \$0.15 a gallon, but offering a broader choice. Rather than one brand, offering consumers a mix of carbonated and non-carbonated and functional beverages to choose.

And then also taking a look at segmenting our stores based on the local demand for individual products and flavors and starting to do some heavy lifting there to optimize the assortment on a by-store basis. And lastly, for beer, very similar to CSDs, the per capita beer consumption will continue to decline as shifts – as consumers shift their taste. The brewers will increase their prices annually. This is starting to sound like the same two stories.

In general, what we're seeing is that consumer preferences will change at the expense of domestic, premium, light and budget, and those are the horses of AB and of MillerCoors. Those are the brands that are being hit most directly as this demand shifts. And while multi-packs drive the top line growth, single-serve drives the bottom line growth. And so what we've been – our approach to the beer category is start to think about what portion of the category is ownable for us, given our business model.

And you'll see that we've got a very strong focus on providing variety and value against the single-serve segment. And then, again, positioning ourselves to be able to leverage the promotional assets, pricing on a per-store basis and then increasing our assortment

against these emerging segments in terms of craft and local offerings. So how are we going to grow moving forward? It's really on two different arcs: One is accelerating the core business, so getting better at what we already do today; and then growing new in terms of stores and customers. So what I mean by accelerating the core. One is we run three distinct types of stores. We run kiosks, and we need to get very good at running kiosks; we run small stores and we need to get very good at running them; and we have larger stores that we need to understand as well.

So it's really about understanding the floor and mix optimization for each of those three different store formats. Continuing to price with precision. We will move with the markets and the prevailing market retails, but we will also continue to provide a fair and a value for our target customers. And then continuing to optimize the promotional effectiveness, and that's around ensuring that we have the offering the customers want, that is priced responsibly and that we reengineer the promotional and funding mechanics more in favor of Murphy USA.

And then around growth from the new, it's really around segmenting the stores, understanding where the store is, who is using it and what I call what job those customers are hiring the store to do and really start to think about from an approach to signage to product assortment, to visual and layout, how we start to really optimize those stores for the neighborhoods that they serve. And you'll see us move more aggressively into personalizing our experience from the customer – from a one-on-one marketing perspective rather than a network or broadcast approach. And I'm really embarrassed when I pull this slide up sometimes. I've been doing this for about 26 years, and this is what it all comes down to for me.

And as we think about the initiatives that we are putting forth as the merchandising and marketing department, this is our pledge to the rest of the organization, it's our pledge to you and it's our pledge to the customers is: We will continue to take every initiative and make sure it passes these three filters. One, desirable, does the customer want it? The second lens is, is it feasible? So can it be executed with excellence in our stores each and every day? And the third, is it viable? Will we make money on it in the long run? And it sounds ridiculously simple, but if you all think about things that fail in retail, they fail because they miss one of these three lenses.

And so the partnership that I have with Renee and her counterparts in the operations team right now, Andrew started with the baseball analogy, is this notion of the batter, the pitcher and the catcher. And so we see our role is in creating demand for the products and services that Murphy USA provides. And the operator's role is to actually catch that demand as we pitch it over the plate.

And with that, I'm going to hand it over to Renee Bacon.

Renee Bacon, Vice President, Sales and Operations

Thanks, Rob. Well, I joined Murphy approximately six months ago, and I'm also asked about why did you join Murphy. And I can say that I have the traditional or expected answers that I give folks, that it's a financially strong company, there's a lot of growth and opportunity for me here. But frankly, however, it was the challenge that Andrew presented to me. And he told me about the proud history that we have here at Murphy. And what he wanted me to do is to preserve what is special in the field and in operations, by raising, though, going from good to great, and raising the bar on our expectations and performance.

So I couldn't turn down that challenge. I have to admit, though, that when he talked about preserving what was special, I didn't fully understand it until I attended our national leadership conference. And our national leadership conference has all the field organization, including our store managers. And the energy and camaraderie at that event was really amazing. I would walk the halls and I would introduce myself, because I was – this was soon after I joined and I was meeting store managers that have been with us for five years and eight years, 12 years, 18 years. I mean, I have to admit, the tenure, it blew me away I mean, many of our folks out in the field, they grew up with us, right? I mean, they would start as part-time sales associates and they chose to make a career here with Murphy.

I then was given the opportunity to hand out \$5,000 checks to all of our Circle of Stars winners, and that's our annual incentive contest. And the passion there was just unbelievable. I have never received so many hugs and kisses and high-fives in my life. I mean, that was just an amazing experience. And from that event, I then got what Andrew was telling me. And so when I came away from that experience, I realized that what we had to do is we had to harness the energy of the sales team to drive the business forward, but we must do it in the right way to be able to preserve what is special here.

When I was a little girl, my dad would tell this quote to me by Yogi Berra. And he would say, "If you don't know where you're going, you might end up somewhere else." And so at a very young age, the importance of setting priorities and goals was instilled in me. And soon after settling in at Murphy, I can see with our operations team that we lacked some clear priorities. We were known as the cost leaders in the organization, but we are so much more. And what we needed to do was take that drive and passion and energy and make sure we had focus and direction. So we looked at our department and we said, "Okay, what is our value to this organization? What is it that we're going to own and what are we going to move forward to drive?"

And so we came up with these five priorities and they are in two distinct categories. So the first is responsibility of the store P&L, and then we also have responsibility over the store operations. On the P&L side, it is all about driving sales and reducing cost. And one small but important step that we did is we also changed our name. We were always field operations. Now, we're sales and operations. So that every communication that goes out to our team, they understand that we're also responsible for driving sales in addition to our cost leadership position.

And on the store operations side, it is up to us in the sales and operations team to ensure great-looking stores. And we're also on the front line on taking care of both our customers and our people. We have a full slate of initiatives in 2017 to also strengthen our sales and operations team's ability to drive performance. What I want to do now is just take you through just a couple of the initiatives at a greater level of detail so you can see our approach.

On the sales side. We believe that incentives drive behaviors. And in our 2017 commissions program, the behaviors that we're trying to drive are all about sales and profit. Our prior program, it was good, it got results, but it was narrowly focused and primarily concerned with driving cigarette sales. It was very complicated. If you went out to one of our store managers, they couldn't easily explain it to you. And it also had a punitive nature to it. So many times, store managers were more concerned about either money is being taken away or what they couldn't do versus how do I drive the business forward positively.

So for 2017, our commissions program is fully aligned with the Murphy pillar of diversifying our merchandise mix. So now, store managers have the opportunity to bonus on every item that they sell. It's also extremely simple. Store managers earn a portion of their fuel gallons and also on their merchandise profits. That's it. And it's all about rewards. It's all about rewards. So it's about what store managers can do.

And I'm seeing it already in action. I was in Omaha last week and I visited with a store manager named Steve. And it was really exciting to see. He had a construction site near his store and he had taken the initiative to go over and find out what it was. It's a 300-unit apartment complex. And he's already approaching myself, the division director and telling us the things that he's going to be doing to work with the new apartment complex. He's challenging us on what products could he bring in the store, how he's going to be working with his vendors.

So the level of ownership that the store managers are taking, because they know that it impacts their pocketbook to drive sales and profit, is really exciting to see. On the cost side, as a low-cost operator, we must have standards and we must operate with precision. And we're getting surgical. Andrew mentioned our labor model. We're getting surgical on our labor model. In the past, it lacked specifics. There was a general rule, for instance, on the management side, one store manager, two ASMs. That no longer exists. We are tailoring our staffing guidance and our labor model to each individual store based upon volume, the format and complexity.

Andrew also mentioned about Murphy being the low-cost leader on fuel. And in a recent survey, over 11,000 consumers, we also rated high on appearance. We were in the top five. But we know we can do so much better. So we are raising the bar on standards, both on service and appearance, and we will be doing that through our district managers. Our district managers visits have become – they're very task oriented, compliance driven, kind of reactive. We are now raising the bar and we're piloting a new tool in the field called the Store Walk of Excellence.

And here, visits are structured and substantive. And it's all about the quality of interaction between the store manager and the district managers. And district managers do not leave that site until we are sure that there has been quality feedback given, there is clear accountability on kind of who's doing what and follow up and follow through to ensure that we continue to move our business forward between visits. So I have to say that our sales and operations team, we're excited about the future. We have taken – I think we've made great improvements since spin. And now, we even have a sharper focus with our priorities.

So I think you take those improvements and the focus, you couple these with our initiatives and we still have tremendous runway for us to conquer.

Mindy K. West, *Executive VP and Chief Financial Officer*

Thank you, Renee. And I among the group am not new. And in fact today is my 21st anniversary with the Murphy family of companies. But I chose to come over here at spin for a lot of the same reasons that Rob and Renee did. It's a fantastic company, great business model, great asset base, ability to generate revenue, but was really underappreciated, really unknown within the former Murphy parent structure. So coming over here at spin, I recognized, really, the enormous potential that we have and I was excited and still am excited about what we're going to accomplish. We were fortunate at spin in that we had some great assets coming over. We have a large retail network, owned fee simple primarily, sitting in front of a world-class, low-price retailer. We also inherited some midstream assets in the form of pipeline positions and terminals. And previous to spin, those assets were all about keeping those and retaining those close to our refinery sales to ensure a low-cost ratable supply.

So while we inherited a really solid asset base, very little investment had actually been made and the capabilities needed to support that, especially from a standalone publicly-traded company level. So post-spin, our focus has been on figuring out what capabilities we need and developing those. And as part of that analysis, we brought in new leadership. And in fact, 70% of our executive leadership team is new to the company since spin, as we filled some key gaps in our expertise and our experience. We have also automated and streamlined processes to do more, to do it faster and to do it with less.

And in technology, we are upgrading our capabilities in line with major retailing standards from what we inherited. But it's really all about capabilities in the way that we think about it. It's taking those great assets and being able to leverage those with people, processes and technology. But building capabilities is difficult. It also costs money, takes a little while for it to pay off, but it is an important investment, especially with the legacy of inherited weaker capabilities and infrastructure we came over with.

So with regard to people, one of the first things that we did was formalize all the competencies and behaviors that we needed to support our business model. And our new leaders, and the old ones, too, we live this model and we are really excited about it. So

with the right competencies in place, along with the right people, we can now have leadership drive that change and support that value creation. We also got to work restructuring key corporate functions to align it with our strategy and our execution. And I can tell you, just in my accounting department, I am down about 22 FTEs from when I inherited it at spin, just from being able to automate and outsource some of our lower-value work.

We have also established a process framework versus a break/fix. So what we mean by that is we actually dive in to find the root cause of a problem and solve that, versus designing the most efficient workaround. And we're also proactively managing our enterprise risk across the organization, so whether that's loss prevention, it's technology, it's environmental, we are actively managing that, as a public company should. And with regard to technology, we've developed a strategy road map to replace some existing systems and better utilize some of the ones that we are keeping. We're building stable and secure infrastructure, recognizing a top tier retailer needs to be supported by top tier technology.

So while our SG&A for this year is higher than in prior years, we are making those necessary investments to transition ourselves from being a more reactive organization to be able to lead from the front on a more proactive level. Now as Renee touched on, incentives do drive behavior. And so we know it's very important to ensure that our metrics support our value model and that we remain good stewards of our assets and make the right investments. So we do believe that our incentive program aligns management and shareholders.

As you can see, we have a nice mix of long-term and short-term metrics. So when you look at our corporate goals and our fuel breakeven, we borrow that directly from the simple value creation formula. We also care about returns, as Andrew has mentioned earlier. We also care about our performance relative to our competitors, because even though they're executing a very different model from the one that we are, they are our direct competitors on the street and it does matter to us how we are performing relative to them.

So to sum it up, when we think about our corporate investment, and sticking with the sports analogy, because we love those, we are fielding our own team since spin. We are unsheltered from our parent. And so we know that it is really important to align the best talent, to give us the best equipment, make sure that we're incentivized to win, have great coaches and then also a really great playbook to execute against. And that was that potential that I saw when I came over.

At Murphy USA, we have all those ingredients here, and I think that's what Rob and Renee responded to as well in their decision to come over. So let's talk about – a minute about the denominator of our simple formula, shares outstanding. Since the spin, we have had a very balanced approach to capital allocation and have demonstrated a really strong track record of disciplined approach to investment. We balance our EPS growth with a realistic view of accretive growth opportunities, along with shareholder distribution.

And when you look at the math, we really could not be more balanced, with 50% of capital going to share repurchase, 50% going to capital, both growth and maintenance. Now within the \$600 million-plus we've spent on capital expenditures since spin, we allocate dollars first to our high-return new store opportunities. And as you can see here on the slide, our unit growth has averaged 50 to 73 new sites per year. But as Andrew mentioned earlier, we don't just build things and then forget about them. We've also devoted capital to maintaining our existing network through raze-and-rebuilds.

So turning those killer kiosks into a really high-performing small-format 1,200-square-foot format. We've added those super coolers to our kiosks to improve our mix selection and margin opportunity and we've also done targeted refreshes to improve the overall customer experience. Now what we haven't done is M&A, as anything in that arena would be, first of all, different from what we do, and we think it would be disadvantaged and it really hasn't been a strategic priority for us. One thing, though, that is worth noting, we've taken some really nice noncore assets with us at spin and we've been very patient stewards of those assets.

We've turned those around and we've sold them. And so being a good steward of capital is not just about acquiring the assets, it's about maintaining those assets over time and then exiting those assets at the appropriate point. Now we have been very successful at accumulating a very large percentage of our float in a short period of time, taking our shares from about 48 million since spin down to 37 million at the end of last year and we've pro forma-ed it out, 34 million at the end of this year, assuming we complete the remainder of the \$500 million allocation.

Now here is what we believe about distributions, about the how. We believe that you need to go big. We think the amount of the distribution is more important than the mechanism. So for MUSA at this time, we can only really afford to pursue one mechanism at scale and sustainable, and so we selected share repurchase. It's not that we don't like dividends, we do like dividends, but paying a meaningful dividend at this time would crowd out our ability to do a meaningful share repurchase. We simply can't afford to do both things while growing at the rate that we are.

But because we are choosing share repurchase, we do believe that a perspective on our valuation is fundamental and necessary and we do take that approach. In our opinion, we know the business, we know the opportunities before us and we use that perspective in deciding when to buy and at what price. And as you can see here, we've actually been pretty good on the timing. We've bought shares during periods of major market dislocations, for example, following the Walmart announcement. We weren't concerned about that because we knew our Plan B was fabulous.

We also had some noise earlier in the year on RFS. Again, we thought that, that was just a temporary market anomaly and that the market overreacted. And our balance sheet has been flexible enough to allow us to be very decisive in the timing of these repurchases.

And it's our goal to maintain that type of conservative balance sheet so we can take advantage of undervalued shares.

Now as Andrew talked about the five pillars of our strategy and how they are aligned, we also seek alignment within the financial structure as well. So what we like is longer-term fixed rate debt, balanced in part by bank term debt that is prepayable. We additionally have an ABL facility with – whose borrowing capacity increases, for example, as prices rise, so it protects our liquidity. We also like to keep our asset base fee simple. We like to keep it as dry powder, unencumbered by mortgages. So those are the vehicles that we do like.

So what type of a financial structure do we not think would be aligned with our model. REIT, for one. When you think about our business, if we had a REIT, ours would be a single tenant, it would be rural. So it would probably trade at a disadvantaged rate. Leases expose our business to cost inflation, so sale-leasebacks are not that appealing to us either on a large scale. And an MLP structure, when you think about that, that would restrict our ability to pursue our retail-first model. It would also put us directly on that treadmill where we would continually have to acquire assets to drop those down, and that's just not a strategic focus for us.

So if we think about limiting cost inflation in our business, preserving that balance sheet flexibility for share repurchases and having the liquidity to invest throughout the cycle, we really like that corporate debt, especially when we can time it well. And that was one of the reasons why we went out last month and did the \$300 million bond issuance at a really good demand for that offer, being able to get a really advantaged rate in the market.

So as you can see, we have strategically added modest leverage to our balance sheet. At spin, we were about 1.6x levered. We oscillated around that level until this year when we added the \$300 million in bonds, taking us pro forma to about 2.4x for 2017. Our incremental new debt has been opportunistic, so we've been very patient about the timing. It's also been cost efficient. It is also flexible and I want to emphasize one point with the flexibility. We have this covenant at 2.5x leverage, which dictates whether or not we can do unrestricted share repurchases. The fact that we have that prepayable term debt allows us to manage around that ratio.

So at a period, for example, where we end up being 2.51x, if we have cash, we have the ability to pay down whatever increment we need to on that term loan to get us back below that ratio. So that flexibility is important. So overall, our strategy really remains the same. We continue to add debt appropriately and in tandem with our EBITDA growth that's generated from our new site growth as well as continuing improvements that we're making in the business, providing the opportunity for us to continue that balanced approach to organic growth and shareholder returns. And we are focused on the long term. That is really what our view is. And how we manage our balance sheet does directly support each element of our simple value creation formula.

And with that, I will turn it back over to Andrew for a wrap-up.

Andrew Clyde, *President, Chief Executive Officer & Director*

So we started with a formula, we'll end on the formula. I think on the right-hand side, it's kind of the value proposition to shareholders. When you get – when you invest in Murphy USA, you get this commitment to modest organic unit growth, high returns, reinvesting in the remaining core assets. You get the sustained operational improvement mindset, not settling for good enough, seeking great, in the eyes of our customers, our staff and our people. The highest EBITDA and free cash flow per store, so improvements that we make that translate to the bottom line to reinvest in the business and to share repurchases.

And as Mindy said, that's our commitment for shareholder distributions is share repurchases. But maintaining that disciplined capital allocation, always looking at the marginal unit that we build and marginal share that we buy to make those optimal decisions. And recognizing that we do have volatility inherent in our business, right? In the fuel side and other factors. We trade at a discount from time-to-time. And when that multiple is discounted, it just provides a feedback loop, as Mindy showed, to accelerate share repurchases to take advantage of that. This year's annual report was titled *Competing To Win*, had some race cars on there. It demonstrated throughout the text, what we had done in the past year.

And what I hope this leadership team that we introduced today gives you is a sense of confidence that we know where we're going and how we are going to get there. When we finish a year, we don't grab a double magnum of Imperial champagne, and shake it and spray it on our fans. We actually just realize that's one more lap of the race, that's one more inning in our baseball analogy. And this industry will have evolved and has become 1-year more competitive in some way that we have to be responsible to. And so that's kind of the mindset, we're playing for the long-term.

And with that, we'll conclude our formal remarks and open it to Q&A.

Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

That's fantastic. Thank you, Andrew. We'll do the Q&A for the webcast, and then for those of you that are here in person, we're going to have lunch later. We'd love for you to stick around and chat, if you have the opportunity. Let's open it up for questions.

Andrew Clyde, *President, Chief Executive Officer & Director*

And please do wait for the microphone, so people who are listening to the webcast can hear your question.

Ben Bienvenu - *Stephens Inc.*

Thanks. I'm Ben Bienvenu with Stephens. I appreciate all the detail on the business today. I'm curious, you talked a little bit about your spot-to-rack margin, over the last several years, you showed that spread. I'd be curious to know what that look like pre-spin for a couple-year basis? And what opportunities there might be to improve that margin longer term? And then Mindy, kind of concurrent with that idea, you said that M&A in the near intermediate term may not be the best use of capital. But as you more fully tap the organic reinvestment that you have in your business, do midstream M&A opportunities look attractive to potentially boost that margin position?

Andrew Clyde, *President, Chief Executive Officer & Director*

Right. So prior to 2012, it's really hard for us to untangle Murphy Oil Company's operations, because they had the refining business. So part of that spot-to-rack margin sat in the refinery's books, right? And so the plain and simple answer, Ben, is we don't know, right, because to be able to untangle it from how they sold their product and how they used some of those midstream assets. In 2012, the spot-to-rack margin, net of RINs, was below \$0.02. We've had periods since then where it's been north of \$0.03. I know in 2016, there was at least 60, 70 basis points, that's just associated with the inventory gains and losses. So it's been a lot closer to that \$0.025 to \$0.03 of late.

In terms of what can you do about it? There's actually a lot of things you can do to continue to improve it, either to get the net gain from it, or if there are some headwinds in a given year. So let me share some of the things that we have already done. Our delivery cost from the terminal to the stores is embedded in our retail margin, right? We've made significant improvements going market to market to market evaluating who are the carriers that we are using and what are the economics associated with those carriers.

One of the things that we have been able to do is establish better relations with the ethanol carriers who are bringing product from an ethanol plant to a terminal and then they leave empty. And then we have an empty truck show up at a terminal filled up and then it goes to our store. And those trucks are passing each other, right? And so to be able to do a backhaul, where the ethanol truck comes to the terminal, drops off the ethanol and then picks up a load of fuel and takes it to our stores along the way, has reduced our delivery costs significantly in the markets where we've done that.

So in the past, we may have had several years of just kind of aggressive kind of leveraging our position in the marketplace and not allowing rate increases. And then maybe if the market got tight or we are growing, we went to this kind of model of accommodating carriers, right? Well, let's pick this carrier, they've been great on service. I'd say we're taking that same analytical approach to that part of our business, where we're actually just sizing up the market in a different way, and it's having nice dividends on that side.

When Mindy spoke to some of the earlier ASaP initiatives, a year or so ago, we talked about standing up the middle office and how we would price trading deals versus kind of old trigger systems that hardly anyone was using, to using NYMEX pricing to be able to

do that. That has generated savings for us as well. Where we have length in our pipeline systems or terminals, we've done back-to-back deals to just lock in some wholesale margins for some of the large truck stop companies. So we could kind of just keep going on.

We've made some terminal investments around biodiesel that allows us to put B5 or B20 in all of our stores and so it allows us to capture that additional benefit there and then support the RFS investment. We've also made butane blending investments at our existing terminal, starting with Tampa. And so there was a period of time where you can blend butane into the gasoline pool, and you're basically arbitraging the differentials in those pricing.

And so there are things like that we can do with those investments. We also, because of our scale and scope, we can underpin those same investments being made by the large logistics companies, who would only do that if they had a ratable provider inside that terminal they could count on who would do that.

A part of the reason for our latest addition is to bring in, again, more senior talent that can look more broadly at the marketplace with myself and others to identify future opportunities to leverage our business. So it's the sort of thing, they are not like Cormark or store labor, where it's a \$10 million to \$15 million opportunity. But there may be two or three things every year that add 25 basis points here and there that we continue to work on.

On the M&A side, that is one of the things, from a midstream standpoint, we just need to step back and ask ourselves, given this highly attractive, ratable short in a flat demand, long refined product environment, what are the assets and positions one wants to have to best take advantage of that?

And if the conclusion from that says greater ownership of certain midstream assets is key, and here's the value it can generate and here's the enhancements to our business that we can get on an accretive basis, then a strategy which underpins, again, our retail business, would suggest some activity in that space. We're not getting in that business just as a sideline. We're doing it to underpin our core retail business, and that's the business we're in.

So a year from now, we will probably have a deeper view on the supply side and the outlook there, and how we can compete, like we did on the demand side this year and that may lead to some decisions. And we'll have the balance sheet and flexibility to be able to pivot that way, if we need to.

Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

Great. Thank you. I think we have a question over here.

Damian Witkowski – *Gabelli & Company*

Thanks. Good morning, Damian Witkowski with Gabelli & Company. Thanks for all the detail in your presentation. Question on the Express stores. So the 1,200 stores, you're talking about the exceptional or better locations. So I'm curious, if you look at the 50 stores that you're going to open next, are you – who are you competing with to get those best locations in the areas you are going into? Is it your – obviously, it's not your QuikTrips, but who are you competing with for those best locations?

Andrew Clyde, *President, Chief Executive Officer & Director*

Yes, well, in some cases it is the QuikTrips of the world. They need 2 acres, we typically need 1 acre. So there's been several cases where developers have gone with us, because they can get more for two 1-acre tracks than they can for one 2-acre track. Damian, we're seeing a lot is the QSRs, the quick serve restaurants. They continue to be competitive. And in fact, in some markets we've seen them drive up prices well above that, that we want to pay. And so we've kind of said, no thanks, in those cases.

And if we came back and said, we do 45 stores or 40 stores in 2018, because we didn't fill up the land bank, because we turned down opportunities to overpay for real estate. We're okay with that, right? Because at the end of the day, we're making a capital allocation decision based on the best returns. We've got to make each one of those stores as an individual store decision. We're not buying a portfolio of up to 100 stores.

But there's a lot of competition out there for that. A lot of times, our best opportunities comes from, another sports analogy, just playing around the hoop. And so if there is a bank branch that closes or a chicken QSR that closes, there tends to be a lot of those in our markets, we're able to pick up those stores faster than many others because of the relationships we have with the real estate developers, and so we're able to get those attractively. So timing and speed to market sometimes trumps things.

Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

Thanks. I know Damian has a follow-up. We'll circle back.

Adam Scott - *Wells Fargo Securities, LLC*

Hi, good morning. Thank you very much. Adam Scott with Wells Fargo. I work with Bonnie Herzog. Just two small questions. First, for Andrew, related to the new store builds, particularly the returns around them. It looks like the returns for the 2017 class were about 11% – or exactly 11.5%. And just reflecting on the last few years, I know you've shown this slide before, those seemed to have come down from, I believe, it was somewhere in the 13% a couple of years ago, and maybe 12% last year. So just curious what's driving that trend, if that's something you expect will continue, just broadly, if you can comment on that?

And then my second question, if I may, is actually maybe more towards Rob and Renee, just related to a lot of the in-store initiatives, which I think sound very promising. What do you think the opportunities are as it relates to long-term gross margin potential in the merchandise category? And what are some of the internal targets that you're setting for same-store sales growth? Thank you very much.

Andrew Clyde, *President, Chief Executive Officer & Director*

Got it, good question. So when – this is – if you look in your presentation, Slide 12, there's a pro forma. This is what we expect from the 2017 portfolio. These were the numbers in the AFEs that come in front of the building committee that Mindy and I sign off on. So these relate to these specific stores.

In the past, when we've shown this chart, it's typically been a representation of, say, the 2015 stores' actual 2016 performance for the 1,200 stores, USAs, versus – so they have been typically actual numbers. I think we had some numbers that had 2014 in there, so it would have had a higher retail margin. And so there are really two variables that probably drives pro forma numbers or actual numbers that we've shown in this format before. It's going to be the fuel volume and the fuel margin.

So if I recall, I think the 2014 stores that we showed – and I can't remember if we showed the breakout of the fuel contribution, but those stores had north of 310,000 gallons per store month in terms of their actual performance. And then the margins from the retail side were a little bit higher. There could be some variation in the site operating expenses.

Some numbers that we have shown in the past would have been reflected in lower-priced environments. And so with higher prices, you do pay a little bit more in credit card fees, so OpEx may be trending up there. You would also see a reduction in these numbers from our store labor initiatives as well as from the Cormark initiatives that may not have been in there.

Depending on the year, the average land value that we had in there may have been higher or lower. Certainly, if they were USA stores, they would have been a lot lower, because, again, you're buying based on a portfolio. So the land prices may have been a little bit higher. I would ask you to note the average PP&E of \$1.9 million is going to be slightly lower than we showed in the past in part because of the load-leveling ability that we have.

So there's probably, Adam, a whole set of gives and takes. If I was to say it was one thing, it was probably actual performance in 2014 on a slide for a subset of actual stores where the fuel volumes were 10% higher and the retail margin was a little bit higher. And that has the single biggest impact on our business overall. So on a individual per store pro forma, it would show up the same way.

So if I answered that part, I'll turn it over to Rob and Renee to answer the second part.

Robert J. Chumley, *Senior Vice President, Marketing & Merchandising*

Sure. So the way that I would answer your question around margin rate, we are aggressively addressing four key components to sustainably accelerating the margin rate. First is making sure that our retails keep pace with the prevailing market retails across our entire portfolio of items, while still providing value for the customer. So one, make sure the retails are where they should be.

Two is continuing to work with our vendor partners to reengineer, both our annual contracts and the promotional mechanics, so that there is a more equitable sharing of investment in accelerating those unit velocities. Three, continuing to optimize our assortment so that we can shift and adjust our mix away. One example I would give you is, say, there is two for \$2 bagged candy, really making sure that we make an adjustment to have the top-selling bag candy in our kiosk. So we've got to trade up in retail, expansion of margin to something that is more desirable to the customer.

And the fourth, obviously, component in impacting our net margin would be shrink and taking some steps to merchandise the stores a little more thoughtfully in terms of discouraging shrink, but also maximizing the shopability. So those four levers work across all the three store formats, whether it's a kiosk, a small store or a large store. Those will all accelerate the margin rate.

The other thing from an enterprise level will be, as Andrew mentioned, as our portfolio shifts more in favor of 2019 and beyond, as we continue to build out smaller stores and shift that mix away from kiosks, we know that the non-tobacco sales more than double in our small and large store formats versus the kiosks. So within formats, four levers; optimizing retails, the promotional engineering and contract dynamics, the natural product mix shift within the format, addressing shrink issues and then this ongoing portfolio shift in favor of small stores and away from kiosks. Those will all sustainably accelerate our margin rate and margin dollar performance.

Adam Scott - *Wells Fargo Securities, LLC*

Great. Thank you.

Christopher Mandeville – *Jefferies LLC*

Good morning. Chris Mandeville from Jefferies. Thanks for having us. So Andrew, actually first, starting off in regards to the raze-and-rebuilds. While it's a small sample size, thus far, it looks like pro forma numbers and returns are really quite superior relative to just actual new store builds. So maybe keeping with the sports terminology here, what inning are we in regards to the opportunity long-term for raze-and-rebuilds? Is there potentially an opportunity to accelerate that process?

And then maybe separately for Mindy. There are a few slides within the deck here this morning that would make the assumption at least that you utilized your remaining share purchase program through 2017. I guess I'm curious, should we walk away today under that assumption, just given the dynamics that have played out kind of quarter-to-date and where leverage sits these days?

Andrew Clyde, *President, Chief Executive Officer & Director*

Great. So on the raze-and-rebuilds, I'd say we're in the second inning. Last year, we did 10. This year, we did 20. We've got line of sight to 20 for the next few years after that. I think as you approach the middle innings right now, I'd say there could be a forecast or a rain delay, and you may have to pull out the mat. What I mean by that is there's only so many locations that we have where we have the necessary acreage, right?

And so this would be something where you'd need cooperation from Walmart, to get an additional 1/10 of an acre, 2/10 of an acre, 3/10 of an acre to make that work. Currently, they're in the midst of trialing a whole series of formats and offers, leveraging fuel and convenience and pick-up points and other things at their stores. And so I think the idea that these innings may converge, their innings and our innings, and you get to a point where you would say, okay, great, we're getting – we can see you guys are getting uplift because we are being transparent to our investor base.

But they know that they're targeting uplift if they're getting this many more fuel transactions at their store, if they're being this much more competitive than Kroger or some other option that, that customer has, they will see the uplift as well. And then it's just sort of a make versus buy, right? And if you're at this point, well, we're operating the store, but it's under-capacitized, at what point does it make sense for them to say, yes, we would love to have that uplift, it doesn't cost us anything, and allow us to work through that. So I'd say we have a few more innings left before we get to that inflection point.

Mindy K. West, *Executive VP and Chief Financial Officer*

So with regard to your share repurchase question, I appreciate that one. Our board announced the \$500 million allocation last year in conjunction with our Plan B following the Walmart decision. So it was their intent at the time to complete it by the end of this year, and we haven't done anything to signal that it is not our intent to complete it by the end of the year. As we exited the first quarter, I believe we had \$160 million remaining on that allocation. You guys know that we now have cash, because you saw that we did that bond issuance.

And so what I would say about it is we will certainly be measured in our approach, we will be disciplined with regard to the price, and we will continue to make decisions as we go throughout the year. But we're not concerned about our leverage position, because we're not overleveraged at this level. And the fact that we have cash and prepayable debt means that we can manage around that 2.5 time maximum leverage target, which would turn off the share repurchase.

So as we go through the year, we'll see how business conditions are. But we've had bad quarters before, and it was just one quarter, and we'll move on and we'll be fine, that's part of the reason why we keep so much dry powder. We have a lot of liquidity. We are low levered so that we don't have to be overly concerned when we have a challenging quarter like the one that we saw.

So we're not prepared at this moment to say that it is no longer our intent to execute the share repurchase, because I think that we could see a path easily to do that with a measured approach, but very disciplined on the price.

Andrew Clyde, *President, Chief Executive Officer & Director*

One thing I'd say about Q1 as well is we've had three successive months in a row before that have led to all-in margins between \$0.10 and \$0.11. It has never happened to be three successive months that made up a quarter. So there may have been a January where margins were through the roof and then you had a really tough February, March and April. And if February, March and April was your fiscal quarter, you would said, oh, we've seen this before, all right?

And so we've had at least three or four periods that have been in that \$0.10 to \$0.11 range, and so that's why it doesn't, I guess, caused great stress from a cash management, share repurchase standpoint.

Christopher Mandeville – *Jefferies LLC*

Excellent.

Andrew Burd – *JP Morgan*

Hi. Andy Burd from JPMorgan. Two questions. First, on both NTIs and the raze-rebuilds, the return profiles identified for 2017 or 2016, how do you see those returns relative to the 2019 build class, given you're targeting the low-hanging fruit, first? And then second, if you could expand on the hiring of day roll, what you're targeting there? Is it to gain a \$0.01 on margin? Is it to do all the third-party business or just risk management or any more kind of clarity on that? Thanks.

Andrew Clyde, *President, Chief Executive Officer & Director*

Sure. So in terms of expected performance over time, I mean, we have a model for every Supercenter in the country and what our business would look like within a half mile to a mile of that, based on fuel margin, supply considerations, tobacco sales, beer, labor restrictions, all of that. So we know where we want to play and what kind of returns we would get.

The normal thought, like the raze-and-rebuilds, is you start with the highest returns and then work your way down from there. The reality is, when you go out and look at a few hundred locations, there maybe some great locations, but there is nothing available today. But there will be something available a year from now because that main branch is going to close down or there is something there.

So I would say the return should be comparable in the sense that there are factors like that that will dictate kind of where we go. There's some really attractive locations right now, that frankly, we passed on because QSRs and others just bid up the rates. Well, maybe those things don't go through or there's some economic impact where we can go in and buy something comparable later, but it's still an attractive market.

We've always said this is a finite life growth business, meaning, you run out of growth opportunity. So I think it is fair to say that, look, over time, you would think that the opportunity set available should be declining. But I think it's somewhat tempered by the fact that you can't go get tomorrow all the best locations, because they may not be available in its present form.

On the Daryl Schofield hire, the gentleman who was running our fuels business left in December about a year and half ago and went to an independent midstream company. And so we've been looking from a search standpoint for a reasonable amount of time. We have a strong internal bench. And so this wasn't about trying to get someone 5% or 10% better than what we had. It was really, like in the case of some of these other outstanding professionals that we hired, leaders in their field who can bring to Murphy USA, at this point in time, skills, knowledge, insights, relationships that we, frankly, didn't have as an organization.

And so I think as I said before, taking a 5-year view to say, how do we want this incredible, ratable, short in this flat demand, long-refining environment, what is the best way to get advantage from that. And it may be changing our mix of supply options, supplying a line space can be worth more or less in the future based on the fact that we have all these Jones Act ships that can now hold either refined product instead of crude, looking at factors like that. Does owning terminals and that idea that we can buy an underutilized terminal, put all our volume into it and immediately create significant value doing that?

Once you've done that, do you then create additional value, because from there, maybe or at some point in time, well can you get that same leverage in a contract? We think we've got some pretty good contracts today. They may not be the best contracts, and having some new eyes looking at those will be helpful.

So my approach is not to give Daryl – and I'm sure he's listening – Daryl, I need \$0.01 from you next year. I think more the view is what's the potential of this business? And similar to the fuel breakeven, aspirationally, I'd love to get to a zero breakeven. Did we set that as a target? No. We actually said what are the three or four levers that in 2015, we could design for 2016 implementation that's within the organization's capabilities, kind

of bandwidth from the change standpoint and doesn't take our eye off the ball from executing something else, right?

We picked Core-mark and store labor, because those were the two biggest initiatives we could kind of pull from the center, right? Renee and Rob just outlined a series of things, that we stack all those singles and doubles, they're going to look a lot better or as good as that walk-off home run. They're just going to get executed in a different way. I haven't given them a target that says, you've got to improve your fuel breakeven from 1.6 to 0.5.

What we'll do as an organization is look across all the initiatives and everything that we have going on, kind of set some boundaries in terms of what's potential and then build that into our annual financial plan that we go to our board and then coming out of that, we'll say okay, we can take our fuel breakeven from 1.6 to 1.2 that's what we delivered in our stretch plan, but it's a function of these initiatives, all right?

And then if next year, we say, this loyalty thing is driving a lot more volume and uplift than we thought, we'll have the insight. We'll set a more aggressive target then, but it's really set by the potential of the business. And I don't think we have yet to discover what's the full potential on the fuel side of our business.

I think it's like everything else, I mean, we've got great positional assets, right? We have a strong team. It's now about taking our game to the next level and higher and seeing what this business can deliver. And I think that's why a lot of us, and I joined for the same reason. It's like this is a \$15 million – at that time, it was a \$20 million startup, because gasoline prices were so high.

But I think the more we turn over stones and see opportunities – and a lot of this is just being bandwidth constrained. We've got really, really good people, right? But we're focused on a lot of things as we take those things off our plate, make the investments in the systems and the technologies and some of the things that just slow us down. It's almost like, you know in that race car, we have the handbrake applied, right? And so once that's let off, I think we'll see even more potential out in the business.

Andrew Burd – *JP Morgan*

Thank you.

Patrick Fruzzetti – *HighTower Advisors*

Thank you. Patrick Fruzzetti from HighTower. Andrew, quick question. If you could just talk a little bit about the impact of the lease versus build model, as you mentioned, about 50% of your future new stores will be leased from third parties. Maybe – is it really just a function of identifying the ideal location? As you mentioned, the bank branch closing down eventually and you have to lease the space because it's not an option to buy. But really, what are the other key reasons as well for that slight shift? And maybe perhaps compare returns of the lease versus own and build model?

<A – R. Andrew Clyde>: Right. Yes, so I think it is primarily around access, right? And it's so if you had two parcels side-by-side, we would look at them from an IRR standpoint over the life and say which one's going to give us the best overall return, knowing we can go add leverage on the corporate balance sheet to get a leveraged IRR. Usually, we don't have those opportunities. It's like, here's a developer, they developed out all of this space. Walmart's an anchor tenant. They control all the restrictions on all of the out lots, and they want to lease it.

And if we want to be there in a prime position, we've got to go with the lease. So we're rarely making the choice at an individual location, do I buy versus lease. If we did, it would be about the numbers. So the 50% lease is just a really, a reflection of more kind of third parties and that a lot of the great land in front of Walmarts in the markets where we want to go are in the hands of third parties who want to develop it.

The other thing is that these developers love Murphy USA's paper. And not only do they look at our – because they can see all this public information which they can't with a private company and they see we're investing for the long-term, they see the conservative balance sheet, they see the liquidity of the business, they see that Moody's and S&P have upgraded us since the spin. So they're able to get really comfortable in the terms they give us.

And then a lot of times, they go and then flip the paper, and they make yet another profitable transaction on our side. So there's a lot of factors on the supplier land side that says they favor leases when they work with us. And because they can flip that transaction on the back, we can still get an attractive deal.

So when we look at kind of returns, we try to get everything back as much an apples-to-apples basis knowing that, at the end of the day, our primary means for adding leverage to our business is going to be through the corporate finance capital markets, right? Because in our leases, we're only leasing the land, right, we're not doing a capital sale-leaseback where all the building and equipment and everything is being leased back in some transaction like that.

Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

I think we have time for one more to close out the webcast. I know Damian has one, anybody else? Sounds like you get it.

Damian Witkowski – *Gabelli & Company*

So I just wanted to follow up on loyalty. You didn't provide much detail, but would it involve Walmart? Would it involve another retailer? Or are you doing on your own, by yourself?

Andrew Clyde, *President, Chief Executive Officer & Director*

Yes. So the answer is it could, but initially, this is focused on our value proposition to our customers. So if you think about learning to walk before you run, it's taking those initial steps to finding is there a value proposition that works for the customers that we can execute economically.

And one of the things that's different about Murphy USA versus many of our competitors who have programs, and I'll kind of put them in two camps, right? If you think about the other fuel retailers, they're just doing price discrimination, right? So they're pricing all their gallons high so that their loyalty gallons or their promotional scheme gallons are discounted.

And so they price up to consumers who don't care, who're buying on convenience and they're able to provide a good value proposition to the others. And so that's kind of point number one. We can't do that, because we are the price leader. It's that second slide we showed, it's like we're recognized by customers as number one in price. And so we can't do a high-low pricing scheme and make that work.

The grocery stores that do this are using as a cross-promotional subsidy, right, to pay for higher-price groceries versus their competitors, like Kroger versus Walmart, and then they give you some of it back in gasoline rebates, which people like. And to this day, people still value a dollar in a gasoline rebate more than any other form of the same dollar bill off on anything. So they're playing to that.

The second thing is our margins on gasoline and then the 80% of non-fuel sales being tobacco, right, is very slim. So this notion of buy nine fill-ups, get the 10th for free, that's \$0.10 variable margin. I mean, you need 30 fill-ups before you started giving somebody a free fill-up. So those kind of schemes don't typically work. So we've done a lot of consumer research and tests, and now we're about to roll out a full, live pilot to test a set of earn and burn schemes that we think works well for us, given who we are in the eyes of the customers, where our margins and economics are.

And then I think from there, you can then think about how could that same value proposition be positioned in front of some others who might want to participate, even if they don't have an EDLP program – excuse me, even if they do not want to have a non-EDLP program, there are still ways you could drive more consumers to the combined stores. But we've got to first prove we can walk with this. So we'll know more this time next year for sure.

Christian Pikul, *Director of Investor Relations and Financial Planning and Analysis*

Great. Thank you all for showing up today. That will end the webcast. Thanks to the panel. I thought it was a great day. Feel free to follow up with Joe or I with any questions afterwards. Thanks again.