

# Murphy USA Inc. NYSE:MUSA

## FQ3 2024 Earnings Call Transcripts

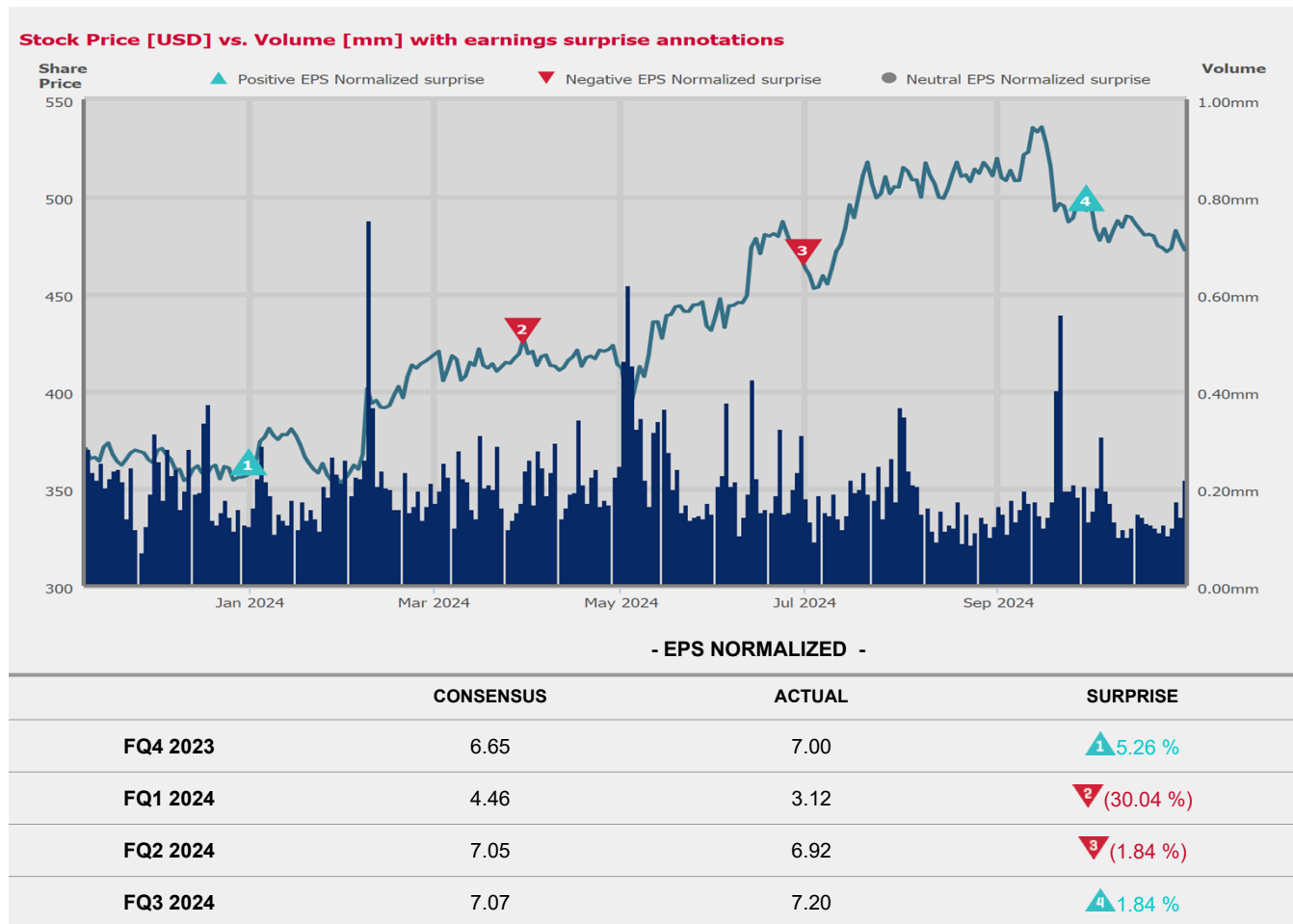
Thursday, October 31, 2024 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	7.07	7.20	▲ 1.84	7.31	24.40	NA
Revenue (mm)	5463.80	5238.40	▼ (4.13 %)	5280.99	20995.25	NA

Currency: USD

Consensus as of Oct-24-2024 12:22 PM GMT



# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	8

# Call Participants

## EXECUTIVES

**Christian Pikul**

*Vice President of Investor Relations & FP&A*

**Galagher Jeff**

*Executive VP & CFO*

**Malynda K. West**

*Executive VP & COO*

**R. Andrew Clyde**

*President, CEO & Director*

## ANALYSTS

**Anthony Bonadio**

*Wells Fargo Securities, LLC, Research Division*

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

**Robert Kenneth Griffin**

*Raymond James & Associates, Inc., Research Division*

# Presentation

## Operator

Thank you for standing by. I would like to welcome everyone to the Murphy USA Third Quarter 2024 Earnings Conference Call.  
[Operator Instructions]

I would now like to turn the call over to Christian Pikul, Vice President of Investor Relations. Please go ahead.

## Christian Pikul

*Vice President of Investor Relations & FP&A*

Thank you, Dustin. Good morning, everybody. Thanks for joining us. With me today are Andrew Clyde, Chief Executive Officer; Mindy West, Chief Operating Officer; Galagher Jeff, Chief Financial Officer; and Donnie Smith, Chief Accounting Officer. After some opening comments from Andrew, Galagher will provide an overview of the financial results, and then we will open up the call to Q&A.

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

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

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

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

## R. Andrew Clyde

*President, CEO & Director*

Thank you, Christian, and good morning, everyone.

Murphy USA continued to demonstrate the benefits of its advantaged business model as we delivered strong third quarter results from our core categories, once again benefiting from our distinctive everyday low price positioning with the growing segment of value-focused consumers.

In addition to our strong current period results, I'm very excited about the acceleration in organic growth as current construction projects underway put us in a great place for Q4 openings and sets the foundation for more new stores and earnings growth in 2025 and beyond. Our efforts to front load our real estate pipeline have paid off as we've seen more stores exit the permitting process than expected. As such, we are updating our CapEx projections for the year as we take advantage of this beneficial timing.

I want to acknowledge our asset development team who worked hard to build this high-quality pipeline and implement process improvements to ensure we would hit our goals this year and put us in a better position for ratable store growth going forward. Galagher will provide some more details on our CapEx and growth programs later in the call.

Unpacking third quarter results, we see continued outperformance in our core nondiscretionary categories, including fuel and nicotine. We grew both fuel volumes and retail margins with total in APSM volumes up 2% and 1.1%, respectively. Retail margins were up a little over \$0.03 versus the prior year, largely due to a modest falling price environment.

All-in fuel margins were about \$0.02 lower when combined with PS&W results, which behaved as we expected in a period of falling wholesale prices. In fact, the entire \$0.05 per gallon difference versus the prior year quarter is attributable to the accounting and timing variance associated, with our internal supply transactions and inventory positions impacted by the year-over-year difference in price movement. For the full year, we expect PS&W contribution to land closer to the low end of the \$0.02 to \$0.03 per gallon range we have told investors to expect over the long term as we continue to see a long supply market with lower volatility.

Looking at our merchandise results, notably, across the Murphy geographies, we are seeing the incremental benefit in basket-building categories from the customer trade down in our traffic-driving categories. In turn, we are leveraging the strengths of these core categories, including fuel, nicotine beer and lottery, to drive transactions and other more discretionary categories across the center of the store.

Performance within the nicotine ecosystem specifically remains exceptionally strong. We are continuing to grow our market share in combustible products eclipsing 20% share in Murphy markets. Similarly, we are taking share in driving sales and margin growth in traditional smokeless products and the fast-growing oral nicotine category, where collectively, we are seeing double-digit growth in sales and margin, further differentiating our performance versus peers.

Under the Murphy banner stores, we saw a total packaged beverage sales and margin growth of 2.9% and 6.2%, respectively. Further, we saw mid-high single-digit strength in general merchandise, candy and salty snacks, each of which grew share in our markets versus broader declines registered in the Nielsen data.

In total, Murphy stores grew non-nicotine total sales and margin 2.7% and 4.8%, respectively, underscoring both the strength of our core customers in our core geographies and the relative attractiveness of our offer. These results reflect the value of 2024 initiatives, including personalization of MDR offers to encourage customers to experience different elements of the Murphy USA offer, as well as analytics-driven pricing and assortment strategies to optimize our offer and leverage price elasticities at the SKU level.

On the QuickChek side, competition from QSR value pricing continued in Q3, continuing to pressure food and beverage traffic and margins and center of store baskets. Nevertheless, fuel had a great quarter in the Northeast, where total volumes were up 2.9% and fuel margin dollars were up 9.2%.

Coffee sales were a bright spot, up 4.3% on a per-store basis, with made-to-order specialty drinks up 14% on a per store basis as QuickChek placed second nationally in CSP's annual survey of coffee programs. Overall, food and beverage sales per store were essentially flat with center of store sales down 1.2%. Recognizing the inside traffic headwinds will likely persist into 2025, we are taking intentional action to drive QuickChek traffic and further increase the competitiveness of our value offer. In fact, inside transactions at QuickChek have improved throughout the third quarter from a 6% year-over-year decline in July to a 1% decline in September.

We kicked off the fourth quarter with new value offers and promotions in the breakfast and lunch dayparts, featuring a \$3.99 6-inch Italian spicy chicken or chicken tender sub sandwich. Additionally, we expanded our value offer in breakfast with a \$5 breakfast bundle, including a breakfast sandwich, spuds and any size coffee. And while it's early in the sandwich promotion, we are seeing significant customer uptake in the 6-inch sub offer, where volumes were up 63%. And perhaps more encouragingly, we are seeing a 16% increase in total sandwich units, meaning we are seeing cross-pollination across the category. Coupled with the higher traction in the New York Giants premium subs versus their inaugural launch last year, we are very encouraged by the trips and transactions we are seeing attached to this core traffic-driving category.

To further capitalize on this momentum, we expect the newly designed and relaunched QuickChek Rewards program, which went live earlier this week, to offer additional opportunities to engage with our customers and drive sales in 2025. The new app will feature mobile ordering and delivery, in-app payment options, the ability to earn points on fuel transactions and extends deeper into more center of store categories. This is another great example of a cross-functional capability we are bringing to QuickChek based on the huge success and impact of our own Murphy Drive Rewards program. Taking these initiatives together, we expect to show incremental improvement in transactions into the fourth quarter at QuickChek, setting the stage for a more robust recovery in 2025.

Turning to operating expense. Average per store month OpEx was up 4% in the third quarter, a sequential improvement versus the first half of 2024 as we start to lap some wage increases and other investments we made in the stores in the second half of 2023. Importantly, only half of this increase is attributable to same-store increases, meaning the other half of the growth reflects the impact of a higher mix of larger new stores and raze-and-rebuild stores in the network.

Given that we will be adding more new stores this year, next year and beyond, we expect this trend to continue and would therefore expect same-store costs to increase at about a 3% clip, which would translate into network-wide per store cost growth in the 5% to 6% range going forward. The team has done a great job this year of making QuickChek stores more efficient through demand planning and implementing a more sophisticated and efficient store labor model, a process we also expect to roll out at Murphy stores next year.

Before I turn the call over to Gallagher to provide more color on our store growth and capital allocation, I just want to reiterate, we are very pleased with third quarter results. We have a lot of irons in the fire to further optimize and grow the business in the fourth quarter, and the team is engaged and excited, all of which suggests 2025 will be another rewarding year for our team members and our shareholders.

**Galagher Jeff**  
*Executive VP & CFO*

Hello, everyone, and thank you, Andrew.

As Andrew mentioned, our asset development team is firing on all cylinders and on track to deliver our strategy of strong organic growth in 2024 and 2025. We opened 4 new stores in the third quarter, bringing our year-to-date openings to 10, including 1 QuickChek store. We also reopened 16 raze-and-rebuild stores, our ongoing program to transform small kiosks into 1,400 square foot stores in Q3, which brings us to 27 raze-and-rebuild projects opened year-to-date. Since quarter end, there are an additional 2 new stores and 4 raze-and-rebuild stores that have opened.

We've also accelerated our construction activity to its highest level in the past 10 years with 29 new stores and 15 raze-and-rebuilds currently under construction, and we've already started construction on some of our 2025 new builds. So when you add all that up, we are looking at up to 40 new stores and 47 raze-and-rebuilds scheduled for completion in 2024.

However, some of these projects could potentially slip into early 2025, so our new store and raze-and-rebuild guidance remains unchanged at this time at 30 to 35 new stores and more than 40 raze-and-rebuilds.

I want to again recognize our asset development team for finding efficiencies in the store development program and better managing risk, which has allowed us to not only achieve our 2024 new store guidance but also deliver more raze-and-rebuilds than we had planned. Additionally, the team has moved forward more projects into the fourth quarter and provided a meaningful head start to the 2025 new store class, where we will get more stores opened earlier in the year, helping to grow our EBITDA in 2025 and going forward.

As such, we are increasing our capital expenditure guidance to a range of \$500 million to \$525 million in 2024. Importantly, all of this increase is attributable to the stronger-than-expected organic growth, including the high level of raze-and-rebuild activities, more new stores under construction for 2024 and a head start on our 2025 new store program. We are moving toward our objective of sustainable run rate for the organization of about 50 new stores per year. And with that, we expect a similar level of capital spend in 2025.

To wrap up our new build program discussion, we're very pleased with both the quality of the pipeline and the performance of our new stores to provide predictable and consistent incremental EBITDA for the next several years as the stores begin their 3-year ramp to maturity. New Murphy USA stores are generating attractive returns with key performance metrics well above the network average.

For the 2022 and 2023 build classes, those 56 stores are having 292,000 gallons per store month and 43,000 merchandising contribution dollars per store month, which is 18% and 27% higher than the network averages, respectively. So we're building more new stores, and these stores are delivering more and outperforming our existing stores, which demonstrates why we are excited to accelerate this growth and that will be highly impactful to our company performance going forward.

Turning to share repurchase. We bought back 244,000 shares in the second quarter and remain committed to ongoing share repurchases. We continue to execute against the existing Board authorization to repurchase up to 1.5 billion of our stock, which extends through 2028. Through the third quarter, we have bought back nearly 700,000 shares for \$320 million, leaving about \$1.1 billion remaining under our Board authorization.

You may have noticed we ended the quarter with a \$41 million balance on our revolver. As we continue to allocate cash toward growth, share repurchases and operations, from time to time, we will access our revolver to manage our daily liquidity needs. As a reminder, we typically see \$400 million moving in and out of the business in any given week. And depending on the timing of receipts, vendor payments, tax payments and the day of the week the period ends, managing liquidity with the revolver becomes a more common place as we efficiently allocate funds for both growth and share repurchase.

One last guidance measure to address before I turn the call back over to Andrew. In addition to increasing our capital expenditure guidance, we're also tightly managing our expenses and investments. With our ongoing cost control efforts and more targeted investments, we are reducing our SG&A guidance to a range of \$240 million to \$250 million versus the prior range of \$255 million to \$265 million.

Thank you. And with that, I will turn the call back over to Andrew.

**R. Andrew Clyde**  
*President, CEO & Director*

Thanks, Galagher. As usual, I'll close with a preliminary view of October performance.

Per store fuel volumes are flat to prior year at retail-only margins of about \$0.27. October merchandise trends are showing performance broadly in line with the third quarter with total sales and margin up 2% to 3%. As mentioned, between our promotional activities at QuickChek and the relaunch of QC Rewards, we are looking to build momentum in Q4 as we head into 2025.

Looking at year-to-date performance, average per store month volumes are flat with retail margins about \$0.015 higher than last year or about \$0.28 versus \$0.265, while all-in fuel margins are about \$0.01 lower or just a little under \$0.30 per gallon year-to-date in 2024 versus \$0.31 per gallon in 2023.

A couple of thoughts to share as we put this into the context of the broader \$0.30 to \$0.34 per gallon fuel margin range we use for our modeling purposes. As we noted previously, the upper end of the range requires one or both of 2 market dynamics to occur.

First, a steeply falling price environment like the one we witnessed in Q3 of 2022, where retail margins are elevated, more than offsetting the timing variance in PS&W. This has occurred about once every 6 to 8 years, and you can certainly see this coming as prices run up.

[indiscernible] volatile environment where wholesale prices are well above our Opus load transfer price. This contrasts with the long oversupplied market where refiners discounted the rack. And again, there are indicators, like an increase in Colonial line space values, more significant prolonged refinery outages and the like.

In 2024, we have seen neither of these conditions despite the geopolitical headlines. As such, we would expect margins to remain in a tighter \$0.30 to \$0.32 per gallon range in a more normal, somewhat benign environment. And within this framework, we do continue to believe challenged in-store performance, declining fuel volumes and higher costs for marginal retailers will continue to result in higher equilibrium margins, and as such, we would expect to see structural upward pressure on margins over time.

As we put this in the context of a walk forward to our 2028 goal of \$1.3 billion in EBITDA, we don't require this upward pressure that creates higher industry margins to achieve our goal as new and rebuilt stores and capability investments at scale fully paved the way. Rather, it's an upside case, and we continue to believe there is significantly more upside on fuel margins than downside. And with that, I'll turn the call back to the operator for Q&A.

# Question and Answer

## Operator

[Operator Instructions] Your first question comes from the line of Anthony Bonadio from Wells Fargo.

### **Anthony Bonadio**

*Wells Fargo Securities, LLC, Research Division*

Nice quarter. So I want to start off with NTI stores. I think Gallagher, you mentioned as many as 40 NTI stores this year now versus that initial 30 to 35 number, which is not something we've been used to hearing from you guys. So can you maybe just talk about what went right this year that allowed you to contemplate beating your target? And then any early thoughts on how you're planning NTIs for '25 as we think about both magnitude and cadence?

### **R. Andrew Clyde**

*President, CEO & Director*

Yes, this is Andrew. Look, the first thing is we have been working on building up the pipeline. We've made the point on several calls that we've been a little disappointed in not hitting the number. Part of it was a function of the pipeline. Part of it was a process of stores moving through the pipeline, especially tied up in the permitting part of the process.

So we've built up a pipeline that gives us confidence of a 50-store per year build class in the future, and we are seeing some breaks in the permitting process. And we just had more to come as we use the term shovel-ready in the fourth quarter that we move forward and that really front loads Q1. And the benefit of running -- front-loading Q1 is you get that earnings for the entire 12-month period versus having your entire portfolio back-end loaded.

So confidence around the pipeline, a little more certainty around the permitting process, and importantly, a more ratable build throughout the year are things that we should look forward to. And on top of that, the increased performance of those per store metrics that Gallagher went over, all of which continue to get amplified with the improvement initiatives that we have underway.

### **Galagher Jeff**

*Executive VP & CFO*

Thanks, Anthony. The only thing I would add to that is, as Andrew mentioned, we are -- the cadence is very important. Getting more opened earlier in the year gives us confidence that we can deliver the number. We're not ready to give guidance for 2025 yet, but we are moving closer to our objective of 50 NTIs a year. So we'll move toward that in 2025, and you should see that soon.

### **Anthony Bonadio**

*Wells Fargo Securities, LLC, Research Division*

Got it. That's helpful. And then just on inside contribution, if I take the low end of your contribution guidance for the year, that now implies something like 3% to 4% growth in Q4, which does represent an acceleration from what you just [indiscernible]. So can you just talk about the drivers of that acceleration a little bit more? And then how to think about underlying contributions from same-store sales and margins?

### **R. Andrew Clyde**

*President, CEO & Director*

Yes. Well, I think, again, let's separate the Murphy banner from the QuickChek banner. I mean the Murphy banner continues to benefit from our traffic driving categories, fuel, nicotine, beer, and even lottery, even with the online gaming, et cetera, going on. That's helping center of the store on the Murphy side, which is really important. And we read the headlines around packaged beverage and salty snacks and what's happening there. We're not seeing that on the Murphy side. We're seeing the opposite because we're getting the flow through into the stores. And with more raze-and-rebuild stores, with a bigger center of store, with the new 2,800 center of the store, we feel really good about that.

The QuickChek business is food and beverage-led. And as we've talked and, again, we read about in the news constantly, a lot of value war is going on in that space, breakfast daypart, coffee daypart, lunch sandwiches, et cetera. And so having food and beverage sales flat essentially on a per store basis, I guess, feels good in this environment but certainly didn't meet our expectation and our plan going into the year where we just didn't anticipate the persistent inflation and the level of kind of price wars, some of which we're



reading about are alleviating. And I think as you see our coffee program and some of the numbers we talked about there, by being a value brand to start with, we didn't have to take some of the same steps to maintain traction in that environment.

Center of store has been an area at QC that, with the lighter traffic on the food and beverage side, has been down, and you see some of the more industry-type numbers on packaged beverage, salty snacks, et cetera. I think our promotional activity and the results we're seeing there, coupled with the launch of QuickChek rewards, which we think is going to be as impactful in its categories as Murphy Drive Rewards was within its core categories, is going to really allow us to build that momentum. So as we go into 2025, we're going to have a real clear picture. And so we'll have a higher level of confidence and certainty around the guidance we give in February, knowing that we missed our guidance that we gave in February this year.

**Operator**

Our next question comes from the line of Bonnie Herzog from Goldman Sachs.

**Bonnie Lee Herzog**  
*Goldman Sachs Group, Inc., Research Division*

All right. I wanted to ask about your fuel volumes, which were up by, I guess, a modest 50 bps on a same-store basis in the quarter. This is despite an easy year-over-year compare. So could you talk through the drivers of a bit of the slowdown that you're seeing? And really Andrew, your outlook for industry fuel volumes over the next few years.

Also, could you maybe talk about any benefit you might have seen in the quarter and possibly in October from the hurricanes, I guess, Helene and Milton?

**R. Andrew Clyde**  
*President, CEO & Director*

Yes. So look, I think if you go back on a 3-year stack, I mean, you look at 1-year numbers, 2-year numbers, 3-year numbers, in the period where we gained the most significant market share, we're still holding on to close to 5% on a 3-year stack basis. So we know in high prices and falling price environments, that's ultimately when we take the most share. And as we've said before, in low prices, like we're seeing now, we give a little bit of that back. And Murphy Drive Rewards has been a significant contributor into not giving as much back as we would have given back in, say, 2015 after the price falloff in 2014. So we're actually -- view this as positive, especially given kind of the macro trends around relatively flat fuel gallons.

With respect to the 2 hurricanes, first of all, our team did an incredible job keeping stores open to the last possible safe moment for our teams and getting them opened very quickly. And we saw the typical pre-storm buy followed by a dip in the days where maybe some stores couldn't reopen due to power being out, but with generators getting to the stores quickly, getting those volumes back up. So no real appreciable impact from the stores and minimum damage thankfully to the stores and no impact materially to our team members.

Our Tampa terminal, also, the team did an incredible job of preparing it. It was the last to close and the first to reopen. And our fuel transport providers, which we use third parties for, did a great job reallocating trucks. So despite all the headline news, there is really no material impact to us from a fuel gallons standpoint from the 2 storms.

**Bonnie Lee Herzog**  
*Goldman Sachs Group, Inc., Research Division*

Okay. That's helpful and good to hear. And then I had to make a comment and share that I absolutely love that you're rebranding your tobacco business to nicotine. So hoping to hear a little more color on some of the strength you're seeing there and if you have plans, I guess, to change your back bar, either this year still or early next year, to add essentially more space for smoke-free nicotine products. And in the context of that, ultimately, do you see further upside to your nicotine margins over the next few years?

**R. Andrew Clyde**  
*President, CEO & Director*

Sure. I mean when we talk to investors, many have taken the position that nicotine broadly or the tobacco category, as we called it previously, is a growing category. And certainly, oral nicotine, noncombustible products are a significant portion of that growth. So it's just changing the times. It's interesting when we acquired QuickChek, they had already deemed the category nicotine on their side.

So in terms of color, we'll continue to provide the same color that we have in the past, right? We're growing share across the categories. We're constantly making updates to our back bar, optimizing space there, working closely with the manufacturers on that.

So in terms of a complete revamp of our back bar, I don't see that coming. It will just be the continued evolution as we've been a leader on a lot of the products.

With respect to upside, I think there's going to be upside in at least 3 areas. One, as other retailers kind of deemphasized the traditional products and with the price increases that you see from the manufacturers, our everyday low price becomes more and more and more relevant. And so we will continue to pick up share and grow contribution margin dollars in the traditional products.

Two, especially with the oral nicotine products and their higher contribution margin per use equivalent, that change in -- from growth associated with that will be positive. And it may show up in a higher unit margin or it may not, depending on how much the traditional products grow in relation to that, but it will absolutely grow more contribution margin dollars.

And the third area of possible tailwinds for us would be if other retailers, manufacturers and distributors and the FDA and the DOJ would take a more responsible approach towards the illicit and illegal products in the marketplace. And as we mentioned, the state took [indiscernible] and we saw a significant uplift across the tobacco, nicotine categories in that state. And so we see that as an opportunity down the road as some have projected almost 80% of vapor products are considered illicit or illegal products.

### **Operator**

Our next question comes from the line of Bobby Griffin from Raymond James.

**Robert Kenneth Griffin**  
*Raymond James & Associates, Inc., Research Division*

Congrats on a good quarter. Andrew, I want to first circle back just on the consumer behavior. Clearly, a lot of different moving parts in today's economy. We've talked in past calls about the QSR promotional pressure and things like that. But on a high level, how would you characterize it all versus 2Q or 1Q? Is it starting to get stable when you look at the consumer pressure. Just curious kind of what you would characterize it on a sequential basis to help us frame it up as we're heading into 2025.

**R. Andrew Clyde**  
*President, CEO & Director*

On a sequential basis, it does feel like it's stabilizing somewhat. Certainly, the [indiscernible] promotional deal had been out there. So sequentially, as we see some of the retailers announcing, whether it's a coffee program or a sandwich program, backing away from some of those, that's going to be positive. We're having to make a trade-off with the \$3.99, 6-inch promotional subs. So we're seeing a shift in mix from 12-inch to 6-inch, but the uplift we're seeing on that is more than breakeven to positive. So the customer is definitely value-focused. We see some of that play off in the center of the store with the basket not being maybe as complete.

But I think with some uncertainty in the economy, we'll continue to see the value customer behaving as we've seen over the last couple of quarters. I think it's going to be some of the competitive relief that we certainly expect to see later in 2025, but Q1, Q2, we probably expect to continue to see competitive value offers from a broader set of QSRs.

Certainly, on the Murphy -- yes, I was going to say on the Murphy side, we continue to see the core fuel nicotine, beer, lottery categories driving consumers, and we're continuing to see the trade down to Murphy from other retailers as evidenced in our share growth there. And so -- the good news is it represents a higher proportion of our total network and a higher proportion of our future growth as well.

So while we're doing concrete steps to intentionally address some of the traffic headwinds at QuickChek, those same types of steps at Murphy are having even more compounding benefit.

**Robert Kenneth Griffin**  
*Raymond James & Associates, Inc., Research Division*

Okay. I appreciate that. And then can you talk about something we first talked about in March? I think you guys identified some opportunities, I believe you phrased it like pulling up the bottom quartile of each quartile of their stores and EBITDA. Just curious where we are in that journey? Are we still kind of in the identified stage of finding the stores and finding the opportunities? Are we moving towards more into the execution side of that where that starts to flow through in '25? Just anything there on one of those initiatives that we were talking about.

**Malynda K. West**  
*Executive VP & COO*

Bobby, this is Mindy. I'm happy to take that question. Thank you for remembering and asking. Actually, we have made progress on that initiative. We've done the work to really separate our stores into groups based on those structural factors that we can [indiscernible] stores on the like-for-like basis and assess the variability in performance. The good news is we do see variability.

We have 30 clusters of similar stores and because we now see variability in like-for-like stores that says that the variance should be controllable at least to some degree. And we're also now able to attribute most of that addressable variability to some 11 different performance drivers.

And of those drivers, fuel sales influenced by dispenser health represents our largest theoretical upside. So what we're going to be doing next is a proof-of-concept test beginning as early as actually next week to a small set of stores with a plan to roll out to a larger set [indiscernible].

And that proof of concept really will let us assess what is really feasible at the store, what gaps do we have getting that benefit both at the store and at the home office and will help to inform a larger rollout. So we're still in the testing and learning phases, and we're in the early days of that, but we will continue to be able to refine what's really possible for upside capture, what investments also are we going to have to put against that in order to get that benefit capture and also how do we make that benefit sustaining as we go forward.

So yes, we should see some benefit for that in the next year. But again, we're trying to keep our expectations conservative at this point because there is no perfect store. And even though you might find some theoretical opportunity, trying to figure out what is actually realistic to expect and what gaps do we have at the store and in home office to actually get that potential, we're still trying to figure that out.

But I think as we come into next year, after having done this pilot, we will be a lot more informed about what the actual potential is, and we will be able to start really putting some numbers behind this and giving you some more concrete guidance of what we can expect and when we can expect to get the benefit.

**R. Andrew Clyde**  
*President, CEO & Director*

Yes. Bobby, one thing I would add to that, those inherent structural, uncontrollable factors absolutely make up the top half of that range that we presented in our investor deck. So we're working on the bottom half of that range, and as Mindy said, proving that out.

The other thing is if there's one thing this incredible team of people does is they're always looking for the next opportunity and pushing it forward. But we also have a few things that we want to complete with excellence, like our digital transformation initiative that continues to roll into Q1 of next year, our in-store experience initiative where we've remodeled stores and taken the learnings of that into our store of tomorrow, and then some other common systems work that we're doing across the enterprise.

And so there's a pacing mechanism there, also reflecting things that we've started that are delivering real tangible benefits to the bottom line that we want to finish with excellence. And Mindy leading the initiative with Gallagher, rightly focusing on the biggest upside opportunity on fuel can make a huge difference because that is one of our traffic-driving categories that impacts the entire store at Murphy.

So more to come on that in February, but it's really something that we're not going to probably see fully baked in until 2026.

**Robert Kenneth Griffin**  
*Raymond James & Associates, Inc., Research Division*

Best of luck here in the fourth quarter.

**Operator**

Thank you. Seeing as there are no more questions in the queue, that concludes our question-and-answer session. I'll now turn the call back over to Andrew Clyde for closing remarks.

**R. Andrew Clyde**  
*President, CEO & Director*

Great. Well, thanks, everyone, for joining. It's great to see a quarter come together despite all the noise and uncertainty out there in the marketplace and with consumers. And I think it's just evidence that our brands are delivering on a value offer that just continues to resonate. Our capability investments are continuing to translate into real results that are meaningful to the business and the consumers.

And our teams across the enterprise are doing a great job in terms of preparing us for future growth in that walk to \$1.3 billion in 2028.

So big thanks to all the teams out there that have went through a lot in Q3 with the hurricanes and the initiatives and everything that's going on. So congratulations to them, and we look forward to speaking with investors soon. Thank you.

**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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