

Murphy USA Inc. NYSE:MUSA

FQ4 2018 Earnings Call Transcripts

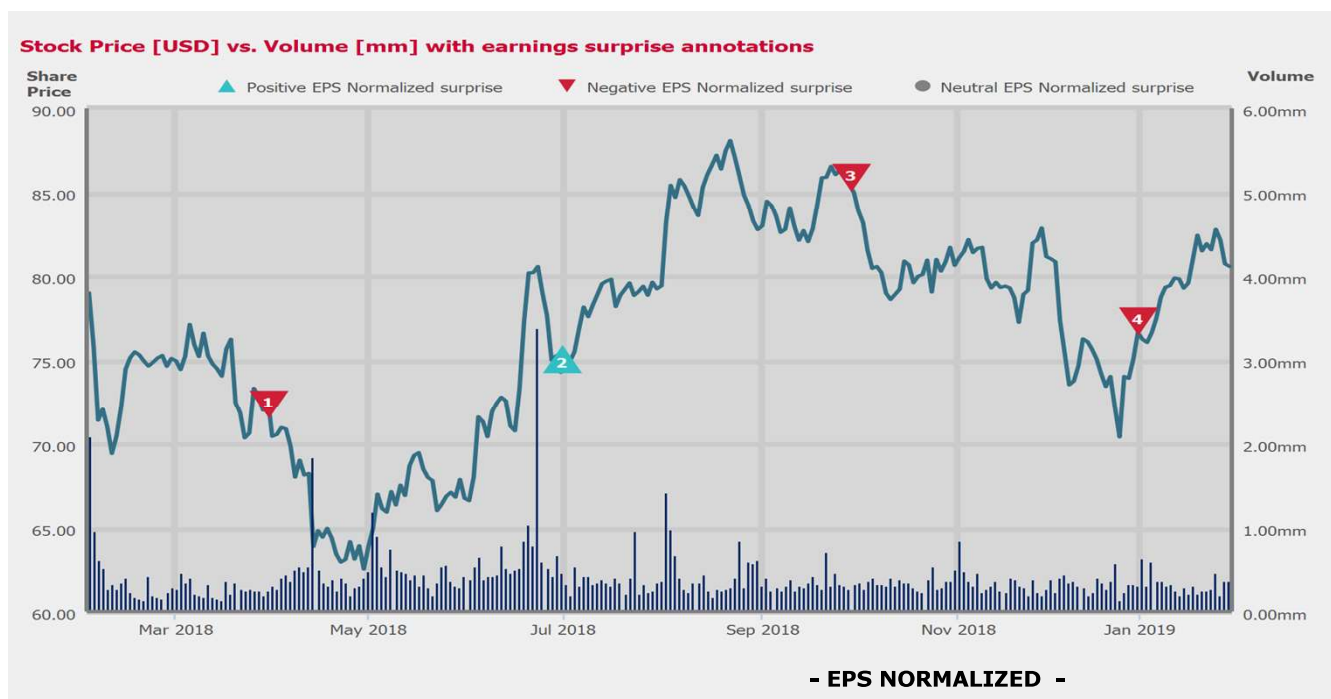
Thursday, January 31, 2019 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-			-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.64	2.40	▼ (8.71 %)	0.44	5.38	5.48	▲ 1.86	4.66
Revenue (mm)	3484.70	3501.70	▲ 0.49	3261.47	14365.80	14362.90	▼ (0.02 %)	14274.32

Currency: USD

Consensus as of Jan-30-2019 11:01 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.33	0.12	▼ 1 (63.64 %)
FQ2 2018	1.18	1.52	▲ 2 27.73 %
FQ3 2018	1.62	1.41	▼ 3 (12.96 %)
FQ4 2018	2.64	2.40	▼ 4 (8.71 %)

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Call Participants

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Presentation

Operator

At this time, I'd like to welcome everyone to the Murphy USA Q4 2018 Earnings Conference Call. [Operator Instructions] Christian Pikul, Senior Director of Investor Relations, you may begin your conference.

Christian Pikul

Senior Director of Investor Relations & Financial Planning and Analysis

Thank you, Stephanie, and good morning, everyone. Thanks for joining us today. With me as usual are Andrew Clyde, President and Chief Executive Officer; Mindy West, Executive Vice President and Chief Financial Officer; and Donnie Smith, Vice President and Controller. After some opening comments from Andrew, Mindy will give us an overview of the financial results and then we'll review our 2019 guidance and 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 relevant 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 Principals 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 Investor section of our website.

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

R. Andrew Clyde

President, CEO & Director

Thank you, Christian. Good morning, and thank you, all for joining the call. I will keep my comments brief in addressing the quarter and full year performance to make sure we have ample to ample time to discuss our 2019 guidance and accommodate as much as Q&A as time will allow.

Obviously, we had a very strong finish to the year. In the last call, I noted that the current trends we're observing in early November did not continue. We would fall below our annual EBITDA guidance. And that those trends did continue, we would meet that guidance. In fact, the trends not only continued, but continue to get better. And as a result, we ended 2018 with adjusted EBITDA of about \$412 million plus to the midpoint of our annual guidance range.

If I think about the company's performance in the fourth quarter and full year, I have a few key takeaways for you. First, we took advantage of market volatility when accounted and delivered strong financial performance. We took market share in Q4, growing average per store volumes nearly 3% at \$0.20 per gallon margins. We reinforced our low-price value position to customers and drove traffic to our stores and inside our stores, helping to surpass \$400 million of merchandise contribution for the full year. And we achieved these results by keeping cost in check.

Second, we are competing from a long-term and we're competing to win. With several transformative initiatives underway, we're positioning the business for further step level improvements in 2019 and beyond. We successfully launched our loyalty pilot Murphy Drive rewards, and we're excited to have this program completely rolled out nationally by early in the second quarter as we start to launch in March. We're making competitive investments in our network through the raise and rebuild program and by implementing BMB compliance at the dispensers across all of our stores.

Third, we remain disciplined and patient with our capital. New store growth is complemented by increasingly attractive returns from the raise and rebuild program. We remain committed to share repurchase as our preferred use of free cash flow. And while we remain opportunistic around repurchase

activity, we ended the year with a strong cash position, which when coupled with free cash flow, will give us ample flexibility to execute share repurchases in the coming year.

Our balance sheet remains conservative, it's well positioned to report incremental investments in growth, technology and other initiatives to make our business more competitive over the long term.

I will now briefly review fourth quarter results by value creation formula as this has been our custom in the past. We opened 11 new stores and reopened 15 raise and rebuild locations in the fourth quarter, growing the network to 1,472 stores as we enter 2019. We generated strong results from our fuel business in the fourth quarter. With the tailwinds surrounding a sharp selloff in refined product prices, we were delivering our tactics around pricing to help drive customers towards stores.

Bill volumes on average per store month basis and same-store sales basis were up 2.9% and 2.1%, respectively, in the fourth quarter and all-in margins of \$0.20 per gallon. I would like to point out, starting in the second half of 2018, our average per store month metric, or APSM, as shown on the table on the earnings release, began showing better fuel volume results than the same-store metric, which includes stores and service as of January 1 of the prior year. The APSM metric captures additional stores opened in the last 12 to 24 months, current period new stores when they open and the the raze-and-rebuild locations throughout the year. This is an important indicator about the significant ramp up in our 2017 build class, the quality of our 2018 new build and the positive impact we continue to see from stores reentering service after a raze-and-rebuild.

As we largely completed Walmart program in 2017, we're now seeing the benefits of being able to build stores and better strategic locations in markets where our offer is competitive. With more customers visiting our stores, we also saw lift in our merchandise business as more customers came inside cathing of phenomenal year resulting in EBITDA contributions the merchandise of over \$400 million.

Fourth quarter same-store sales were up 1.3%, driving 3.5% increase in margins with meaningful growth in both the tobacco and non-tobacco categories. Store level operating expenses were up 5.6% for the quarter, but only up 1.1% for the full year. We proactively incurred incremental maintenance expenses in 2018, as we prepare the network for the rollout of our loyalty program and other initiatives, which drove operating expenses higher in the second half of the year. However, we expect meaningful savings in 2019 as we continue our maintenance transformation efforts.

Taken together, we improved our fuel breakeven metric for the quarter to \$0.73 per gallon to 9 basis point improvement over \$0.82 per gallon in the fourth quarter of 2017. For the full year, our breakeven improved to \$0.83 per gallon, a 38 basis point improvement versus 2017. Importantly, this improvement more than offsets a 28 basis point increase in credit card fees, which means we continue to increase the competitiveness of this company even in a higher price environment, and we intend to continue this trend in 2019.

I want to thank our team for all their hard work in 2018. The company is actively engaged in several high potential initiatives that can be game changers in 2019, including the national launch of our loyalty program, our work on retail pricing and our continued quest towards zero breakeven. This management team is very excited about our prospects. And we look forward to updating you on our progress throughout the year.

And with that, I'll turn it over to Mindy.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

Thank you, Andrew. Firstly, let me apologize for my voice. This is not how I typically sound, but I'm trying to recover from an illness, with inconveniently with this call.

Revenue for the fourth quarter and full year 2018 was \$3.5 billion and \$14.4 billion, respectively. This compares to \$3.4 billion and \$12.8 billion in the year-ago period. These increases were largely attributable to higher retail gasoline prices, higher fuel volumes sold and higher merchandise sales. Average retail gasoline prices per gallon during the quarter were \$2.34 versus \$2.27 in 2017. And for the full year, retail

gasoline prices were \$2.48 per gallon versus \$2.19 in 2017. Adjusted earnings before interest taxes, depreciation and amortization, or EBITDA, was \$148.9 million in the fourth quarter versus \$99 million in 2017. And for the full year, adjusted EBITDA was \$411.8 million this year versus \$405.9 million last year.

Adjusted EBITDA for the fourth quarter was higher than the year ago period due to higher volume, higher margins in addition to higher merchandise contribution. And for the full year, EBITDA was above the prior-year period due to higher volume offsetting slightly lower margins and higher merchandise contribution dollars. However, due to the \$89 million deferred tax benefit recorded in the fourth quarter of last year, net income and earnings per share for both the fourth quarter and full year '18 are below the prior-year period.

The effective tax rate for the fourth quarter was 22.9% and 22% for the full year. And going forward we're planning on settling income tax rate of between 24% and 26%.

Total debt on the balance sheet as of December 31, 2018, \$862 million. Broken out as follows: Long-term debt of \$842 million, consisting of \$495 million carrying value of our due 2023. \$296 million, carrying value of due 2027. \$51 million remaining on our \$200 million term loan, and in addition, we're carrying \$20 million as expected amortization under the term loan and current liabilities on the balance sheet.

These figures result in adjusted leverage ratio that we report to our vendors of approximately 1.85x. Our ABL facility remains in place with \$450 million cap, subject to periodic borrowing-based determination. approximately \$177 million as of the end of the year. And at the present time, that facility is undrawn.

Cash and cash equivalents totaled \$184.5 million at the end of the year, resulting in net debt of approximately \$678 million. And there were 32.3 million common shares outstanding at the end of the quarter.

Looking at CapEx. Capital expenditures for the quarter approximately \$41 million, bringing our year-to-date spend to approximately \$194 million. Total spend are below our guided range of 3 25 to 3 75, primarily due to the timing around various corporate initiative. We will address our 2019 capital program in the guidance section later during the call.

Well, that concludes the financial update. So I will now turn it back to over to Andrew.

R. Andrew Clyde

President, CEO & Director

Thanks, Mindy. I'd like to wrap up the call with a quick review of our performance against 2018 guidance metrics and then discuss our outlook for 2019. Starting with our organic growth. We ended the year with 1,472 stores, representing 26 new to industry locations. Additionally, we've raised and rebuild 27 stores for the year, replacing the key in high-performing locations with 1,200 square-foot store while adding dispenser and the ability to offer and products.

Looking at fuel contribution. Total fuel contribution for the year -- contribution dollars for the year were \$686 million towards the upper end of the guided range of \$575 million to \$700 million. Annual and per store volumes of 4.32 billion gallons and 244 gallons per store month fell within our guidance range of 4.1 billion to 4.3 billion gallon and 235,000 to 245,000 gallons per store month, respectively.

On the cents per gallon basis, all-in margins ended up at \$0.162 per gallon, also closer to the high-end of our guided range of \$0.14 to \$0.165 per gallon.

Looking at other fuel breakeven components. Merchandise margin contribution saw \$400 million, just above our guided range of \$390 million to \$400 million. Merchandise sales of \$2.423 billion were right at the midpoint of our guided range of \$2.4 billion to \$2.45 billion. The retail space in OpEx, excluding credit cards on a per site basis was held to 1.1% increase, just above the midpoint of our guidance range of a flat to 2% increase.

From a corporate cost perspective, SG&A expense of \$136 million was at the low end of our guided range from \$135 million to \$140 million. Our effective tax rate came in at 22% for the full year, which should approximate 25% on a go-forward basis as Mindy mentioned. And all of these combined resulted in full

year adjusted EBITDA of \$412 million, just below the midpoint of our guided range of \$390 million to \$440 million.

As we looked at 2019, we intentionally restructured forward-looking guidance to encourage investors to view the business to a longer term wins and provide insight into operating metrics that we as a management team can influence and improve. Perhaps the most notable changes that we're no longer providing any guidance around all-in fuel margins, which can be volatile but ever resided within and arguably narrow range of \$0.15 to \$0.18 per gallon since the spin on the calendar year basis, averaging about \$0.163 per gallon over that time period.

If we look at quarterly margins, we see a much wider range of \$0.10 to \$0.23 per gallon. And if we broke that down even further to monthly basis, we would see an even wider range still. The point is, while the future results may and likely will fall outside these ranges, it's clear that margin variability in and of itself does not have a meaningful impact on our ability to create long-term sustainable shareholder value. While the change in our guidance format will render the market no less volatile going forward, investor should expect market to remain characterized by both very high margin periods as we saw in the fourth quarter of 2018 and very low margin periods, which we would in the first quarter of 2018. These periods of high low margins do not always coincide conveniently within 12-month calendar year. And as such, we encourage investors to evaluate the business based on their own outlook for the relative direction and long-term equilibrium level of fuel margins.

We believe our repackage guidance will help to mitigate short-term investor anxiety around margins, while encouraging a longer term view with a better understanding of how we will compete and how we will grow shareholder value. With that being said, let's review our new guidance metrics for 2019.

Starting with organic growth, for the next several years, we expect to maintain a 40 to 50 store pace of construction projects, consisting about new to industry stores and raising rebuilds that address both end-of-life assets, network optimization and enhancement opportunity to some of our higher performing stores. From a fuel contribution perspective, we will simply provide an average per store month range around our retail fuel volumes. Variances within this range will existing store performance into a lesser extent the timing and nubile construction and the number of the rates and rebuild opportunity we choose to undertake.

As I mentioned previously, we'll continue to drive traffic when it is economically viable to do so. Despite the strategy absent prolonged period of falling prices, we expect flat to slightly lower per store volumes in 2019 with our guided range of 240,000 to 245,000 gallons per store. For the other components of the fuel breakeven metric, we're guiding merchandise contribution margin to a range of \$410 million to \$415 million. Our target for per store operating expenses, excluding credit cards remains unchanged. We expect to beat inflation and forecast a flat to 2% increase in 2019.

For corporate cost, SG&A is expected to approximate \$145 million to \$150 million, as we continue to invest in appropriate technologies and capabilities that support our key strategic can initiatives to maintain competitiveness over the long term and provide both our home-office and our stores with the best tools to engage and win with our customers. For capital allocation, we expect to spend between \$225 million and \$275 million this year.

We're allocating roughly \$140 million for organic growth, representing 15 to 20 new to industry stores and 20 to 25 raise and rebuild locations. This represents 65,000 square feet of new retail space versus about 70,000 square feet of increase in 2017, with 26 new stores and 27 raise and rebuilds in 2017.

Although we're building fewer stores currently, the majority of the new to industry stores will be 2,800 square-foot stores or larger, which represent a higher push to our cost that comes with improved economics due to higher selling square footage and higher merchandise contribution margin for the incremental cost.

We expect to spend about \$30 million on maintenance capital, which is representative of our ongoing usual break fixed level of expenditures to keep the stores a running. And we've allocated another \$30

million for corporate initiatives, including technical systems and IT infrastructure upgrades, including some projects differed from 2018.

Last, we're also marking \$60 million for EMV compliance. This spend consist of major investment and new dispensers and dispenser upgrades to further secure our network and avoid fraudulent charge backs from the credit card companies. This amount includes roughly \$10 million of the spencer upgrades we would normally place on an annual basis.

Strictly from a modeling standpoint, to give you a frame of reference when considering various fuel margin scenarios, we make the following statement. At the midpoint of the above ranges and at \$0.16 per gallon all-in margin, we believe that this business will generate about \$405 million of adjusted EBITDA. Importantly, we're not guiding to \$0.16 margin nor are we guiding to \$405 million of adjusted EBITDA. This is simply a mathematical outcome of a single scenario around the \$0.16 per gallon fuel margin using the metrics for which we're providing guidance.

The point is, the margin environment is not the yardstick by which we measure company performance against our strategic goals. It obviously impacts financial performance, but you will see our commitment to continuous improvement show up consistently in different areas of the company over time, putting us in a better position to bring any margin environment like we saw in 2018. Equally important the guided ranges we have provided above do not include expected benefits from major improvement initiatives underway in 2019. These include the national rollout of our loyalty program, our retail pricing initiatives and ongoing cost savings we expect to realize as we invest internally to improving our network. While these initiatives do have both capital and expense associated with them, those expected costs are largely already baked into the above guidance.

As a result of the timing and a wide range of other variables on expected outcomes, we expect to see the bulk of these strategic initiatives benefit in the second half of 2019 with the full impact, less one time 2019 rollout cost realized in 2020.

To wrap up, we're very pleased with the progress we made in 2018. And we're very excited about the potential for the 2019 initiatives to continue to move Murphy USA business forward. And with that operator, we can open up the call to Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Chris Mandeville with Jeffries.

Unknown Analyst

This is on for Chris. I was wondering about your operating expenses per store looks like for the year you talked about they are up only 1.1%, but the 4Q is little higher, 5.6%. You talked about the higher maintenance. Now you're guiding growth of flat to 2%. So I was just wondering what would cause you to be able to hit that flat to lower part of that range? Any initiatives you can talk about or maybe expenses going away such as less maintenance?

R. Andrew Clyde

President, CEO & Director

So the maintenance cost in Q4 and frankly, for the full year represented step one of our maintenance transformation work. And we started the year with a lot of open tickets, work that hadn't been done at the stores and new leadership in that area proactively got caught up on all of those initiatives. And we also prepared the business for the national rollout of Murphy Drive rewards, et cetera. And so what you see is kind of the accumulation of that expense item. One of the benefits of the maintenance transformation initiative besides having backlog of work completed in 2018 is clear work standards for our vendors, new vendor, new windows for a lot of projects and a more disciplined process that work. So we actually expect savings relative to the maintenance in 2019. Labor and other cost for the quarter, we actually had a net benefit on a per store basis. And so I would say we have continued our trend of more than beating inflations as the spend. And we expect to be able to continue to do that in 2019 as well. Beyond the maintenance savings we expect in 2019, we have initiatives relative to loss provision shrink, LT. We have a new uniform program that saving money, but also providing a new branded uniform to our store associates. And we have other labor initiatives as well. So as we've talked about before, we still have line of sight to continuous improvement and believe that we will just simply continue our track record of beating inflation that we've done since the spin. Now we just encourage investors not to look at one quarter of maintenance as they tend to higher cost, but rather look at our track record for full year results in our guidance on this area.

Unknown Analyst

All right. And then just lastly, can you talk about the impact you expect an maybe on your business for IMO 2020 regulation, maybe from demand and maybe expense?

R. Andrew Clyde

President, CEO & Director

Yes. So as we've talked about with investors and others, we believe that the implementation of IMO 2020 in January of next year with full compliance, et cetera, is going to increase diesel prices, it will put pressure on light sweet crudes, which will raise the price of crude overall. You've seen a company price increase in gasoline as well. I think the key question we have about this towards the middle of 2018 is if you saw of \$0.50, \$0.60, \$0.70 per gallon increase in diesel prices and \$0.30, \$0.40 per gallon increase in gasoline prices, then what price level would that start from, right? Will they start from the higher level we call in August and September of last year or they will start from the lower levels that we saw at the end of 2018. And so if you think about a higher price environment that we will start seeing, getting line of sight on and probably late Q3 and early Q4, if you look into forward curve and other metrics, what does that mean for our business? Well, all you have to do is look back 2018, right. You will see higher credit card fees because it's based on the cent per gallon price you're buying. Well, we have initiatives in place implementing in 2019 that will actually help us reduce them of that. One of the other things by focusing on our fuel breakeven metrics as we more than offset the credit card increase that we saw in 2018, we were continuous effort. The other thing about higher price environment is customers become more price

sensitive. And I think we started to see some of the trends associated with that in Q3 in higher prices, as customers on the margin become more price sensitive and go to lower price retail outlets on the margin. And we still have the majority of our stores and more rural locations where we have absolute low-price leader was less competitive dynamic where we able to take share in that type of environment. So higher prices caused everybody. The winning firms higher cost to move continuous improvement and low-price volume layoff gain share in that type of environment I think that sets up nicely for us on a relative basis. What will be Q3 or Q4 look like. it will look like a rising price environment. And so what I would encourage all of you do is go back in history and look at rising price environment to see what that does to the relative fuel margin and other metrics, including PS&W and modeling that for our business. And we'll see the impact when it actually happens, but right now we're anticipating that it will be implemented on January 1 and we'll see higher prices.

Operator

Your next question comes from Bonnie Herzog with Wells Fargo.

Bonnie Lee Herzog

Wells Fargo Securities, LLC, Research Division

I have a question on your strategy. It seems like you're planning on building fewer new stores in the future, but not necessarily returning as much cash to shareholders right now, given your new buybacks. You've mentioned you've got the have cash balance pretty healthy. So maybe help us understand what the long-term goal is? And then in the context of that, what are your priorities for free cash flow? And how these priorities changed at all?

R. Andrew Clyde

President, CEO & Director

Bonnie, they really haven't. And I would just encourage everyone to kind of look back over the prior calls and how we articulated this. We're going to continue to be opportunistic around share price repurchases. Certainly in the last quarter, there were certain year period where there was a massive market correction and debt. And just because of where we have some trigger prices, we missed out. And you can say, maybe we're overly conservative on that. But it will certainly something we didn't anticipate. I think the fact that in prior calls we suggested like in 2018 we more than met market expectations, acquiring \$140 million of shares in the first half of the year, that it might be lumpy from quarter-to-quarter, that we're going to be opportunistic about doing so. So there's been absolutely no change in any of our discussions around our change in philosophy around capital allocation. Part of the lower number of stores this year as well as we move away from the Walmart stores, we build up our portfolio and land bank's doors that accommodate 2,800 square-foot stores, we target the handful of target markets that we referenced on other calls. Take a little bit of time and to build that up and get the permitting and everything in place for that. The majority of our stores built next year will be the larger formats in those target markets. And you could expect to see a higher number in future years associated with that, but it may be offset with slightly lower number of raise and rebuilds as we tried to modulate the amount of capital. And so I think you'll continue to see this balance capital allocation between growth and major improvements to the network and distributions to shareholders. And please, do not look at any one quarter of not buying back shares as they shift in the strategy. We've been very, very consistent in saying that as our primary method for returning cash to shareholders, and we'll do it in a opportunistic timing way across any time period during the year. And you know, we may get the little more right one quarter, we may get last one right quarter, but overall I think we've been pretty good at timing of the market.

Bonnie Lee Herzog

Wells Fargo Securities, LLC, Research Division

Okay. That makes sense. And then just in the context of that, in terms of price for, what about acquisitions? I don't think if you guys have necessarily going out and looking to acquire that is that something that this you're opened to doing?

R. Andrew Clyde

President, CEO & Director

Yes. So I think our stated priorities have been to focus on organic growth and continuing to build the capabilities that allow us to win with customers. Certainly there's a number of capabilities that we've been working hard on to have in place and there's some new ones that we're rolling out in 2019. But if you apply those to another business, you would be able to get that kind of a synergies that would justify control premiums, et cetera. We would also believe up at some point in time the market would recognize the improvement efforts that we've made to our business and award a higher multiple, which would make those acquisitions given the high state of multiple towards acquisitions of good stores today, more creative and less dilutive. So certainly building capabilities that allow you to add value to someone else's business could be a way to think about future M&A, but right now that certainly not in our plans for 2019 or 2020. We're looking to build strong capabilities, focused around improving the productivity of our existing stores and creating the significant upside from that.

Bonnie Lee Herzog

Wells Fargo Securities, LLC, Research Division

And then just maybe my final quick question is on your PS&W and RINs, the fuel contribution. It was negative in the quarter, which I expected, but fair amount, I guess, lower than what I was looking for. So could you walk through that for us? I'm thinking about the context of looking back in history for you guys, I think it was fourth quarter of '14 where you had to really outsize to retail fuel margins and certainly the negative contribution, but maybe not as negative back then. So just help us understand what went on there?

R. Andrew Clyde

President, CEO & Director

Bonnie, so here's the thing. If you and your peers had gone back in history like you said and said what is the most analogous period for what we're going through had the time you're winding your updates for our Q4 performance. And you would have done exactly what you did, you would 2014 fourth quarter looks remarkably similar. We got about \$0.40 price drop, et cetera. If you look back in performance for that period, you would have seen the following. You would have seen 2.7% volume growth on an average per store month basis, you'd have seen about \$0.24 retail margins and you'd have seen about \$0.04 per gallon in product supply in wholesale. And we would have gone to about the exact number we hit this quarter, 2.9% volume growth on an APS basis at a net \$0.20 margin. And instead of talking about some, what we would have done was, your estimate would have been a lot closer to our actual, while we would have been discussing little bit higher maintenance offset by little bit of SG&A. And we've been high discussion about the merchandise contribution from all the people going through the stores. And so I would suggest encourage we've gone through painstaking detail and many of the prior calls daily of the market condition around price structure falling, what did does from different parts of the business, our consistent strategy on taking share, certainly in a significantly sharp falloff in prices, how the PS&W offsets that. Now I think there's enough analogous quarters in our history, and we provided enough color around the quarters. And I think this quarter is very remarkably similar to that period and that might be a better way of helping your investors if you guide them towards your best estimate of what you think our actual is.

Operator

Your next question comes from Ben Bienvenu with Stephens.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

I want to ask about the tobacco sales results from the quarter, which better than we've seen year-to-date certainly. I wanted to ask about maybe what's driving that improvement? And then to what extent is your guidance for next year of continued strong merchandise contribution predicated on continued improvement in tobacco trends?

R. Andrew Clyde

President, CEO & Director

I'll tell you a couple of things. One, certainly the increased traffic helps to environment. Second, the programs that we're operating under with the manufacturers continue to benefit us in part because we've returned those -- through those programs higher sales and volumes to the manufacturers on the other tobacco products, including the vapor products, that continues to be strong. And frankly, we were later in sort of the jewel implementation versus a month or retailer as well. If you think about 2019, we expect to continue to have some strong traffic, we continue to have strong program, we continue to believe Murphy drive rewards is also unique way for Murphy USA to increase value additionally, for adult consumers of the product and in the very near term, we don't see any significant material impact from any of the FDA regulations. So we do believe that will continue to see good performance from that category in 2019 as we continue to execute against the programs, Murphy Drive rewards and other traffic-building activity.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

Okay. And then as it relates to the SG&A guidance for next year and I'm missed this in your prepared remarks, but how much of that spending is mark for Murphy Drive rewards loyalty program build out? Is that something synonymous with IT investments that you've mentioned in your press release? Or those two mutually exclusive?

R. Andrew Clyde

President, CEO & Director

No. So about \$5 million of the increase is associated with the Murphy Drive program and some of that represents one-time cost. And there is also about \$5 million associated with some of the other strategic initiatives. We're adding capabilities and in some cases human resources to those efforts.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

Okay. Great. Last quick question if I could, Malynda. I hate to be greedy because you just provide your CapEx guidance for this year, given a detailed background, I'm wondering if can we expect to see CapEx over the next several years moderate, I want to ask aspect question on Andrew's comments on we build versus previous stores and just managing your spend with returns and focus versus the absolute dollar necessary.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

That's a great question. And I would not expect to from the CapEx levels that we have seen. I think that our maintenance cost will likely go lower because we are sending some compliance. We're going to have dispensers under an extended warranty. So we will have less dispense replacements first of all. And then will be under rewards. So we won't see slight reduction. We were thinking that part of our maintenance budget. And then for growth, we're reloading our pipeline as Andrew said for new NPIs. We still have an extended raze-and-rebuild activities. So I would say certainly when see our CapEx \$200 million in future years. I think somewhere \$200 million, \$250 million would be a reasonable range to expect.

Operator

Your next question comes from Carla Casella with JP Morgan.

Carla Casella

JP Morgan Chase & Co, Research Division

You have been breaking out your expenses excluding the credit card. How should we think about the credit card going forward?

R. Andrew Clyde

President, CEO & Director

[indiscernible] one way to, sorry, one way to think about is it's about 1.1% of revenue. And certainly the revenue fluctuates with prices. And so that's probably the simplest way to think about that number.

Carla Casella

JP Morgan Chase & Co, Research Division

As a total revenue, not just petroleum products or it includes merchandise and the gas?

R. Andrew Clyde

President, CEO & Director

Yes.

Carla Casella

JP Morgan Chase & Co, Research Division

Okay. And are you seeing any impacts from this weather craziness we've had, just recently this cold whether, does that impacts the pipeline, the delivery anything within the supply chain?

R. Andrew Clyde

President, CEO & Director

No. It really hasn't. And in fact, if we think about January this year versus January last year, I mean, the winter storms that we saw last year impacted our markets in a much more significant manner. A lot more snow in the southern market that disrupted driver traffic and so forth. And so, while we've got cold temperatures in some of our markets, we have so many fewer stores in the markets hit most hard by this polar vortex. And we're not really experiencing same kind of supply chain disruptions that we did last year. In fact, if you want to look at where we are this year January to date versus last year, last year, we were starting at lower margins and raising prices in the major storms. We were down about 8% year-over-year last January. This January, we are up 10% year-over-year. And so we're not only offsetting the storm-related impacts from last year by having the effect from December and customer traffic rolling into January, stronger market et cetera, we're continuing to take shares we enter the year. So no customer deceptions, no supply change disruptors and certainly stronger performance year-over-year as we start the year.

Carla Casella

JP Morgan Chase & Co, Research Division

Okay. And then on the merchandise side, we're hearing from a lot of food and consumer product companies increasing the logistics cost. Have you had any of that being passed on to you through the year? And are you seeing any changes there as we go into 2019?

R. Andrew Clyde

President, CEO & Director

No. Look, other than fuel surcharges that are in our transportation contract, which we actually proactively renegotiated when price levels were lower, so when we returned to higher prices, we would be advantage relative to prior high price environment. We really don't see that. So we'll see price increases on packaged beverages for example, the same as in the industry. Some of that, I guess, is due to transportation cost, but other parts of it is due to the fact of declining broader demand for some of those products as the manufacturers manage unit decline with higher prices to continue to grow gross margin dollars. But kind of limited effect that we actually see in the pass-through.

Operator

Your next question comes from John Royall with JP Morgan.

John Macalister Royall

JP Morgan Chase & Co, Research Division

Just wanted to see if you have any color on our the fuel margin attract in January? You have rising crude prices all quarter, which I think compression in terms of your Q1 leveled by any other color would be helpful as we go through 1Q?

R. Andrew Clyde

President, CEO & Director

Yes. So for a month-to-date, we started with stronger margins coming out of December and following price environment. We saw an increase earlier in the month and we fall off and then we see are their increase but generally first stronger environment to the more steady increase in environment that started at the lower level for last year. For February and March, the next two months for the quarter do, I don't have a crystal ball and what Q2, Q3, Q4 do. This is why kind of out the fuel margin guidance business, because there's so many factors between the geopolitical, supply demand of crude, IMO 2020 and the demand for low sulfur crudes, et cetera. We know it's going to remain volatile. And there's certain environments we went in where we just can take advantage of those when they come.

John Macalister Royall

JP Morgan Chase & Co, Research Division

Okay. And then maybe just wanted to approach the capital allocation question from a different angle. You guys have a targeted level of cash and you try run the business. I think help us speak to generally how much you have available to deploy?

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

We don't really have a target level of cash. We always have a certain number -- amount of balances of cash in transit. But as long as we have capacity under our ABL, we really could operate on a zero cash basis as far as that goes. So we don't have a designated target of cash that we have to have.

Operator

Your next question comes from Ben Brownlow with Raymond James.

Benjamin Preston Brownlow

Raymond James & Associates, Inc., Research Division

On the loyalty program, I was just hoping you could give maybe some data points are updates around there? Can you -- and you may not want to give this out, but sense of of sales trends around the pilot stores? Just any data points are on the success of that program?

R. Andrew Clyde

President, CEO & Director

Yes. I'm just sure that same things that we've been seeing our most loyal customers are increasing trips, increasing gallons per trips on the tobacco side. We're running the unique program in Texas where you can earn points there. We're seeing a higher spend as well, as well as larger baskets. And so that's really encouraging from that standpoint. One of the other things that's a good measure of a loyalty program is our people accumulating all their points or they transactionally using up those points on a ratable basis. And they're actually using them on a very ratable basis, which we find very encouraging. So we've got a high level of engagement with customers on the program. The number of folks registered is well north of 1 million. The number that have actually gone through and become fully qualified members continues to go up. And the number of that gave us a lot more information for age verification purposes, so we can interact with them around certain age-restricted products, continues to go up. And so we're really excited about that potential as we roll out nationally. And just to be clear, our plan is to begin rolling this out nationally in March. And we expect to have the national rollout completed early in Q2. So if there is anything not clear about the timing, we're not we just got leadership conference in Orlando Orlando with 1,470-something store managers. And they are thrilled to have it coming to the market, their customers are asking when are we going to get it and our best store managers have already set the stage to sign up. Over 83% of our members signed up based on point-of-sale interaction with our store managers

and I always talked about them as one of the greatest assets and targets you think about all this rollout, spending millions and millions and millions on social media and digital advertising, we're not doing that. We're leveraging our greatest asset, which is our store associates.

Operator

Your next question comes from Damian Witkowski with Gabelli company.

Damian Andrew Witkowski

G. Research, LLC

I just had a question on the new larger stores. Are we going forward is building from now on the larger express stores?

R. Andrew Clyde

President, CEO & Director

That's our primary format. It's a modular building. So if you think about sort of our 12 1,400 store food stores today, this is also modular building. One of the bigger additions. It does have beer cave. It does have more prepared, major stock, food, it's got large fountain coffee beverage program as well. There are still locations we know about where it's in front of a supercenter and we're able to get that from a third party and it may be on a smaller we can't build 2,800 square-foot store. We would still be able to go 1,400 square-foot store. And by the way, most of our raise and rebuilds now are 1,400 square-foot store that has the bathrooms on the interiors versus the 1,200 that did on the exterior and trends. But hopefully, that helps.

Damian Andrew Witkowski

G. Research, LLC

Yes. And just in terms of the economics, how much are you spending for the stores against twice the size on average of the other ones? And then is there any change now if you're looking to buy the real estate or you still leasing in?

R. Andrew Clyde

President, CEO & Director

Yes. On the leasing is about 50-50 and that's just function of what is available out there. The 1,200 square-foot stores cost roughly \$2.5 million, \$2.6 million. 2,800 square foot stores really only about \$0.5 million lower a little over \$3 million. And so the incremental, space and merchandise margin from that more than covers that cost. You don't need that much more land to be able to do it. The labor cost aren't significantly different either.

Damian Andrew Witkowski

G. Research, LLC

And just then just in terms of what I mean obviously we had lost more merchandising, are you doing this from within the company? Or are you hiring from outside as well to get the expertise on running because stores?

R. Andrew Clyde

President, CEO & Director

Know. I mean, given that we haven't crossed that line around getting into prepared food, the stuff we're selling in these larger stores is consistent with the stuff we're selling in our existing 3,450 square-foot stores and 2,750 square-foot stores, of which we got a number in the portfolio. So I think the key thing is, are you changing your business model by getting into prepared food in which you got a kitchen and commissary and all of that? The answer is no. We're not doing that. It's a different capability. And if we did go down that path, we would probably be building even bigger stores and we would bring capabilities. But this is quite in the both of our capability asset today.

Damian Andrew Witkowski

G. Research, LLC

Then just draw lastly, reminders debt-to-EBITDA target, you said calmed a little lost when you pump at [indiscernible]

R. Andrew Clyde

President, CEO & Director

Our original volumes have 2.5x leverage. Our newer bonds have 3x leverage in terms of the restriction on share repurchases. And so we can operate the business comfortably within those levels.

Operator

There are no further questions at this time.

R. Andrew Clyde

President, CEO & Director

Right. Look, I'd like to wrap up the call and -- with one point about the guidance. I really do want you to look at your emphasis behind this. This is the focus on the long-term. I hope this thing, as a surprise to anyone. We've shared this on the last two conferences calls. We shared it in any of the conferences we've attended, any of the investor meetings we've attended as well. And we believe this will allow us to have less short-term anxiety around margins and really have us focus more around the long-term things of our business. And we're really excited about the long-term potential of the business, and look forward to sharing more as the initiatives rollout in 2019. Thank you very much.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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