

Murphy USA Inc. NYSE:MUSA

FQ1 2019 Earnings Call Transcripts

Tuesday, April 30, 2019 3:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.17	0.17	0.00	1.44	4.40	4.84
Revenue (mm)	3141.92	3116.40	▼ (0.81 %)	3637.50	14152.39	14696.10

Currency: USD

Consensus as of Apr-30-2019 1:20 AM GMT

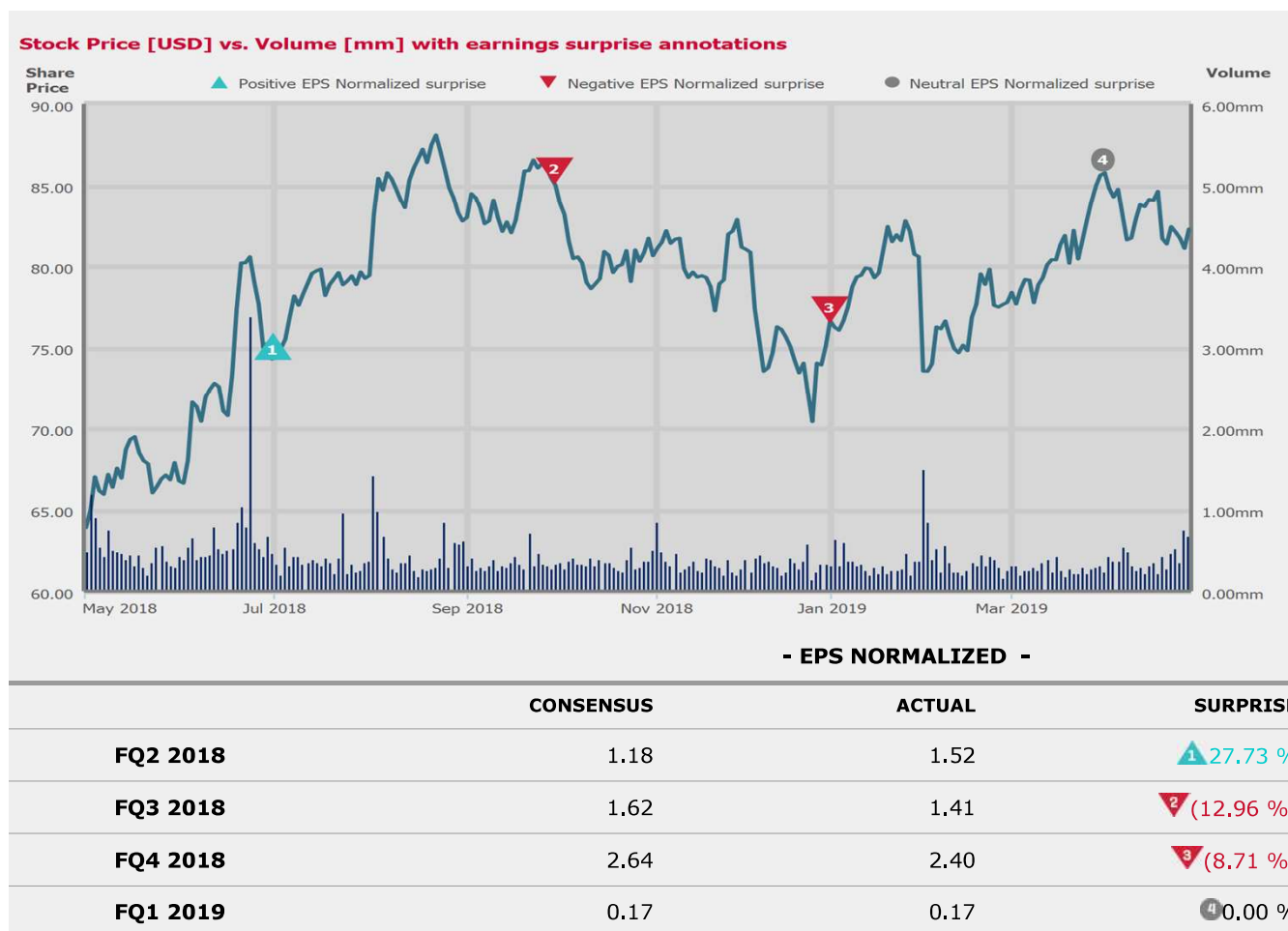


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Call Participants

EXECUTIVES

Christian Pikul

*Senior Director of Investor
Relations & Financial Planning and
Analysis*

Malynda K. West

*Executive VP of Fuels, CFO &
Treasurer*

R. Andrew Clyde

President, CEO & Director

ANALYSTS

Benjamin Preston Brownlow

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

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

Bryan Cecil Hunt

*Wells Fargo Securities, LLC,
Research Division*

Carla Casella

*JP Morgan Chase & Co, Research
Division*

Christopher Mandeville

Jefferies LLC, Research Division

John Macalister Royall

*JP Morgan Chase & Co, Research
Division*

Patrice Harumi Kanada

*Wells Fargo Securities, LLC,
Research Division*

Presentation

Operator

Good morning. My name is Simon, and I will be your conference operator today. At this time, I would like to welcome everyone to the Murphy USA First Quarter 2019 Earnings Conference Call. [Operator Instructions]

Thank you. Mr. Christian Pikul, you may begin your conference.

Christian Pikul

Senior Director of Investor Relations & Financial Planning and Analysis

Hey. Thank you, Simon. Good morning, everyone. Thanks for joining us today. With me are Andrew Clyde, President and CEO; Mindy West, Executive Vice President and CFO; 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 will open the call up 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 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 in 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. Good morning, and thank you all for joining our call. We're very pleased with our first quarter performance, and I'm excited to update you on our results and some key initiatives under way this year.

Let's start with a conversation with what we are most excited about this quarter, and that's the highly successful national rollout of our loyalty program, Murphy Drive Rewards, or MDR, as we call it for short. We implemented a phased rollout across our 3 regions, with the Southwest region on March 1, the Midwest region on March 15 and the Southeast region on March 29. The rollout was flawless from an execution standpoint, and the performance of the mobile app and all the systems supporting the program performed exceptionally well. Even better and far more important, customer adoption lived up to our expectations from the pilot as we now have more than 6.5 million total customers participating in the program in earning points. Conversion of full membership is high at 21%, which means over 1 million customers have downloaded the app and completed all the information required to begin redeeming rewards. While this rate is very favorable compared to other programs, this still means we have over 5 million registered customers we can communicate with and encourage them along their journey toward full membership, although many of them still use their MDR number to qualify for immediate discounts on tobacco products for instance.

But what does all that mean to the business? Let me first clear up a question some of you might be thinking, "Has the high level of customer engagement in MDR played a role in the strong merchandise results we are seeing in the first quarter?" The answer to that is no. All the benefit and the power of the MDR platform will impact results on a go-forward basis. What will that impact look like? I can't quantify

for you now, but let me give you one single yet very impactful example of the potential of this powerful capability that will play a key role in our customer offers going forward.

We already knew we are a destination for value-conscious tobacco customers. And given that we sell over 1 million packs a day, it also means that we have a lot of customers. What we didn't know is that nearly 20% of those regular tobacco customers have never bought a gallon of fuel from us. Imagine what might happen if we send a targeted offer that invites them to experience a discounted fill-up experience at Murphy USA. It would mean higher conversion between merchandise and fuel, a higher share of wallet and more sticky customers. And by targeting specific offers to drive specific behaviors with specific customer segments, we are making loyalty work for an everyday low-price retailer.

The future performance potential of MDR is limited only by our imagination and our ability to successfully appeal to our different customer segments in a manner that provides value to them, our supplier partners and our bottom line over the life of the customer. We now have countless examples of changing behaviors on a small scale, but the opportunities that lie before us to change behaviors across large groups of customers based on the segmented and targeted offers is immense.

The success of MDR as we have seen it is underpinned by our existing high-traffic locations, the popularity of which is attributable to our everyday low-price fuel over to value-seeking customers. Through our renewed commitment to better execution of that strategy, we have grown our same-store volumes on a year-over-year basis for 3 consecutive quarters now. Through targeted execution of pricing strategies and store-level tactics, we have increased our share in all 3 of our regions, with particular strength in the Midwest and Southwest markets. The team is continuing to refine our approach on a store-by-store basis, and the positive year-over-year volume trends we saw in the first quarter have continued through April where same-store volumes ended the month about 2% higher than the prior year and at much higher fuel margins.

From a margin perspective, I will say simply this. Never before have we experienced a \$0.65 per gallon price rise in a 90-day period, much less one that overlaps so evenly with the calendar reporting quarter and yet this is not our lowest-margin quarter as we might expect. If you told me that prices would be up this month, I might have said it would be very difficult to gain volume and share in that kind of environment at higher margins, and yet that is exactly the outcome we achieved with the total fuel margin nearly \$0.01 above prior year results at \$0.123 per gallon.

As with every first quarter commentary, let me repeat what I have probably said every year: we still have no idea what the rest of the year holds for the industry in our business with respect to margin capture potential, and there remains a lot of mixed views on what is priced in today or not for IMO 2020. What I will say is from a seasonal perspective, prices historically tend to rise through May and tend to fall off during the summer when volumes are highest, which maintains our potential to have another year of normal margins which, for Murphy USA over the past 5 years, has ranged between about \$0.15 and \$0.18 per gallon on an all-in basis.

Our competitive positioning also improved to support our low-price position, and I'm pleased to say we have once again improved our fuel margin breakeven metric by 19 basis points over the prior year quarter driven almost exclusively through higher merchandise contribution margin, which more than offset some higher costs this quarter. The merchandise results speak for themselves, but I do want to point out the strength we saw in the tobacco category in particular where our team has made great strides. While our market share results have improved sequentially for several quarters, for the first time since our spin, we grew market share in all tobacco categories, which include cigarettes, smokeless cigars and vapor products. How are we doing this? We're driving traffic to our stores, we're reaping the rewards of investing in capabilities to maximize vendor funding through innovative promotional activity and, as a result, we're taking share from the competition. And we expect this strength to continue for the next several quarters.

You will notice we did see an uptick in operating expenses excluding credit cards at the store level, which was up 3.5% on an average per store month basis. I will point out these increases we're seeing across multiple areas of the business, we consider some of these elements transitory in nature, and many of our newest cost-savings initiatives under way will not kick in until the second half of 2019.

Turning to store growth. We opened 1 new store during the quarter and construction is under way at 4 other locations. We are likely on pace to build closer to 15 new stores than 20 this year, if you referenced our investor slide deck that says, "Up to 20 new stores in 2019." If we think about the past 12- to 24-month effort to rebuild our new store pipeline that focuses on larger acre parcels in key markets where we believe our 2,800 square-foot model is competitive, 2019 will definitely represent the trough of new-to-industry store activity. In 2020 we were looking at growth closer to 30 to 40 new high-quality locations that will support a larger 2,800 square-foot larger store.

Our newest stores in this format are ramping up at better and faster rates than prior new year additions, so we remain excited about our market infill strategy.

From a raze-and-rebuild perspective, as of today, we have taken down 14 high-performing end-of-life sites, 2 of which have undergone their transformation from a kiosk and reopened as a 1,400 square-foot store. The remaining kiosk locations will go down in the second and third quarter and reopen in the fall as 1,400 square-foot stores. In contrast to our new build activity, we are closer to the high end of raze-and-rebuild projects this year at 25.

From a capital allocation perspective, we were able to execute some share repurchases albeit a relatively small amount, about 177,000 shares. We expect to continue to act opportunistically with respect to share repurchase going forward as we balance an increasing set of organic growth opportunities looking forward against any material weakness in the share prices. Both elements remain core to our value creation strategy, and we have the cash on hand, free cash flow and balance sheet to execute each of these components at scale.

Before I turn it over to Mindy, I want to make a few closing points. Our offer remains distinctive in markets we serve with the customers we serve, and we are winning with our customers in these markets where innovations in our offer like Murphy Drive Rewards are resonating with them. We continue to improve our core business and the productivity of our existing network, investing in new stores and new formats with an attractive return profile and we remain disciplined with our capital allocation. This value-creation formula has served us well in the past and will continue to serve us well in the future.

And with that, I will turn it over to Mindy.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

Thanks, Andrew, and hi, everyone.

Revenue for the first quarter was \$3.1 billion versus \$3.2 billion in the year ago period. This decrease was largely attributable to lower retail gasoline prices partially offset by higher merchandise sales. Average retail gasoline prices per gallon during the quarter were \$2.15 versus \$2.34 in 2018. Adjusted earnings before interest, taxes, depreciation and amortization or EBITDA was \$59 million versus \$45 million in 2018. Adjusted EBITDA for the first quarter was higher than the year ago period due to the higher fuel volumes and higher all-in fuel margin in addition to higher merchandise contribution, partially offset by higher operating expenses.

The effective tax rate for the quarter was 10.9% versus 16.8% in the year ago quarter.

Total debt on the balance sheet as of March 31, 2019 was \$858 million broken out as follows: long-term debt of \$838 million primarily consisting of \$495 million carrying value of our 6% note due 2023; \$296 million carrying value of our 5.625% notes due 2027; and \$47 million remaining on our \$200 million term loan. And in addition to that, we are carrying \$20 million of expected amortization under that term loan in current liabilities on the balance sheet. These figures results in an adjusted leverage ratio that we report to our lenders of approximately 2x.

Our ABL facility remains in place with a \$450 million cap subject to periodic borrowing base determination which currently limit us to approximately \$264 million as of the end of the first quarter. And at the present time, that facility is undrawn.

Cash and cash equivalents totaled \$180 million as of March 31 resulting in net debt of approximately \$678 million.

There were 32.1 million common shares outstanding at the end of the first quarter.

Capital expenditures for the quarter approximately \$31 million, and we do still plan to execute a total capital budget between \$225 million and \$275 million in 2019.

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

R. Andrew Clyde

President, CEO & Director

Thanks, Mindy, and I think we can go ahead and open up the call to Q&A. Operator?

Question and Answer

Operator

And your first question comes from the line of Christopher Manderville with Jefferies.

Christopher Manderville

Jefferies LLC, Research Division

Andrew, can we start off just on SG&A, with it being flat year-on-year. Any additional color that you can provide with respect to that? I believe at the start of the year, you had called out that there was going to be about \$5 million in incremental SG&A related to the loyalty rollout. So was that realized at all in the quarter or should we be kind of looking to that in the subsequent quarters?

R. Andrew Clyde

President, CEO & Director

Yes. So Chris, what we -- we'll continue to be within the guidance range that we set for years. Some of the MDR G&A cost will be spread throughout the year as we build enhancements to that program. Like we said before, our platform is very dynamic and so it's only going to get better and better and better as we add to it. It's highly flexible. So you should look for that throughout the year. So as of right now, we have no adjustments to that number.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

Chris, the specifics for MDR for the quarter where we spent approximately \$2 million, most of that however was CapEx. So about 100 -- \$1.5 million of CapEx, so really only \$500,000 of that would have been included in the G&A. So we expect to incur some more charges for MDR post the rollout for the rest of the year.

Christopher Manderville

Jefferies LLC, Research Division

Great. That's very helpful. And then my follow-up would be just on the merchandise margin being essentially flat year-on-year. Mindy, can you provide any additional color there just to help us understand the puts and takes, specifically how much was impacted by revenue recognition and accounting practices related to loyalty versus just simply doing so well in your lower-margin tobacco categories?

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

We did do very well in the lower-margin tobacco category, so that is certainly bringing that overall unit margin rate down. We did have a minor impact for the Murphy Drive Rewards referrals, which would have added 50 basis points -- 15, excuse me, 15 basis points to that number have we not had that. And then in addition to that, there's just the normal seasonality around merchandise unit margins that I approximate about 50 basis points between a winter month and a summer month. So we would definitely expect to see the normal seasonality repeat itself as we enter the summer, but we will still continue to be impacted by the Murphy Drive Rewards.

Operator

Your next question comes from the line of Bryan Hunt with Wells Fargo Securities.

Bryan Cecil Hunt

Wells Fargo Securities, LLC, Research Division

My question is when I look at your membership for MDR, you said you have 1 million customers or full members, where you have 6.4 million participants. Can you talk about the -- what you have to do to

become a full member versus a participant? And what type of data you gather between the 2 entities -- the 2 sets of groups there?

R. Andrew Clyde

President, CEO & Director

Got it. So to be a participant, you just have to sign up in -- your phone number, and you can do that at the point-of-sale inside the store or you can do that at the dispenser. And once you've done that, we start capturing points on behalf of that member. And we have a lot of members that do that and they're doing it because that's another way that they can earn immediate discounts on certain tobacco and other products. You then get a set of messages through your preferred form of getting messages from us, text, e-mail, et cetera, and you fill out a membership profile for which we get some information from you. And completing that allows you to start redeeming points. So we have a lot of members that are very active in that 5 million differential, but they haven't gone all the way through so they can't actually redeem points at that point. There's another stage for members where if you complete certain age verification information, that number is very high, close to 70%, you can receive information from us or vendor partners on age-restricted products and get discount offers, et cetera, on those. So that is the difference between the 6 million participants and the close to 1.2 million, 1.3 million enrolled members. We expect that enrolled member number as a percent to continue to go up over time as we did in the pilot. We are able to see the buying habits and behaviors of all of the customers regardless of whether they're just a participant or a full member. Obviously, if they're not a full member, their ability to redeem additional points, et cetera, would be limited. But we're able to see that type of behavior. And I think that's the unique part of the platform is by then being able to segment that into an infinite number of groupings, we can then approach our merchandising team, our supply partners, et cetera, for very distinctive offers that appeal just to those segments, and that allows us to provide the differentiation that makes this economic.

Bryan Cecil Hunt

Wells Fargo Securities, LLC, Research Division

And just a follow-on. Several retailers recently announced either pulling out of the vaping category altogether, such as Rite Aid as well as others raising the minimum age that they could purchase tobacco, up to 21 -- age of 21. Based on historical movements, like Walgreens exiting -- or CVS, I think it was one of them, which exited tobacco category altogether, do you expect to see accretion from this? And what have you seen historically as you've seen retail movement?

R. Andrew Clyde

President, CEO & Director

So I believe CVS was the first to exit the tobacco category. If you think about Murphy USA, our customer sees us as a destination for low-priced fuel, tobacco and other products. And so most of our customers weren't going to CVS in the first place for their adult tobacco products. And so similar to that, we don't expect a huge impact from other retailers getting out of the category. If they're already going to a higher-priced, highly convenient location, they will probably find the next high-priced, highly convenient location. That's not the customer that we're targeting and that we win with.

Operator

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

Patrice Harumi Kanada

Wells Fargo Securities, LLC, Research Division

This is Patty Kanada in for Bonnie. I just had a question on tobacco. Do you think the recent list price increase by cig manufacturers had any impact on your tobacco results this quarter given your exposure to the more value-conscious customer? And then maybe just a quick update on the tobacco points program in Texas that you mentioned last quarter?

R. Andrew Clyde

President, CEO & Director

So in terms of the tobacco price increase, it came earlier this year than last year, so it had a -- certainly, an impact from a margin side -- there is some period there. The other impact is relative pricing is how much do we raise prices in response to that versus the competition? So it certainly played a role from a margin standpoint. But I believe the more significant driver to performance were the initiatives that we put in place last year, including our quick hack program to access additional funding and high level of customer engagement around that, store-by-store price optimization and other initiatives by the team.

Patrice Harumi Kanada

Wells Fargo Securities, LLC, Research Division

Any update on the tobacco points program in Texas?

R. Andrew Clyde

President, CEO & Director

Yes. So the points program continues to do well for us, and it's accessed simply by entering your phone number which is one of the reasons why you have a lot of Murphy Drive Reward participants who enter their phone numbers. It's a very simple, easy, quick way to access those discounts. And I think that having that mechanism ahead of Murphy Drive Rewards probably accelerated our customer's ability to sign up. They trusted us that when entering that unique identification number, that we use that information appropriately and the like. So it continues to go well, and we're continuing to gain share.

Operator

Your next question comes from the line of Ben Bienvenu with Stephens Inc.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

I wanted to ask about the MDR program in the context of maybe what the reaction has been. Well, one, have you shared any of your insights with your vendor partners? And if so, what has their reaction been? And how do you think partnering with your vendors to drive increased awareness or engagement from your customers factors into the potential success you can realize from MDR? And I have a follow-up on MDR as well.

R. Andrew Clyde

President, CEO & Director

I would say their general reaction is wow, this is incredible insight that we're able to get. We've been sharing with them throughout the pilot program because as we noted, we've been trying a lot of small-scale behavior changes. So if you've never bought a 2-pack, 3-pack or carton of tobacco, you've only bought singles, can you target that specific customer and only that customer and then have a journey, set up an automated behind them to drive towards a certain set of behavior. So we have tried many, many things like that and what the manufacturers recognized as a result of that targeted, differentiated offer to change very specific behaviors is that we're going to be the highest marketing return on investment for their incremental dollar.

Benjamin Shelton Bienvenu

Stephens Inc., Research Division

That's great. And then kind of a two-part question follow-up on MDR. One is do you have a sense or an expectation of at what point you would expect contribution from the program to materially influence the results of your business? You mentioned that given the timing of the rollout, it hadn't influenced 1Q results. And then I'm curious, I always think of you guys, and I suspect the investment community does more broadly as well, of you guys as being really disciplined around capital returns. And I think one of the things that we're trying to figure out on our side is how does MDR evidence, from a returns perspective, improve the results whether it's improved margins or improved sales or improved engagement or cross-selling across your customer base. So I'd be curious to hear in what respect do you think MDR will manifest improved results in your business? Will it be better volumes, better margins? And how does it fit into your broader capital discipline around putting capital to work at an acceptable rate of return?

R. Andrew Clyde*President, CEO & Director*

Got it. So in terms of the results going from 1/7 of our network to 7/7 of our network just in the course of 1 month, it would be hard to strip out and allocate the performance from that. But let me give you a few pieces of information that give us a lot of confidence that this will have a material impact going forward, we're just not going to get out in front of our skis and give you the numbers. So 15% to 16% of our fuel transactions are now through customers using MDR. And what we know about our customers is 80% of those MDR users are our most loyal customers. And we're effectively seeing an extra trip out of them. And an average trip is 10 to 11 gallons. And on the other 20%, we're seeing an extra gallon out of them, right? And so if you extrapolated those numbers, 15% of your sales, 80% of those customers, 1 extra trip, another 10 gallons, you can do the math and see what sort of volume impact that would have over time at very little incremental discounting to get that volume. Similarly, from a tobacco standpoint, our largest merchandise category, some of the promotional activity programs that are going on, they're not for 12 months during the year. And so you choose the month you participate and you roll off. We're already seeing the stickiness in April of customers staying with us even though some of those programs are rolling off. And so our most loyal existing customers are being more loyal and sharing more of their wallet with us. Our lowest share of wallet customers are giving us extra business as well. Our very loyal tobacco customers are staying sticky at a time where they would usually be more promiscuous with their dollars and where they're going and they're staying with us as a result of that. And so those are the sort of things that over time are going to be adding up significantly. As it relates to capital returns, Ben, I think it's all of the above. We're going to see higher volumes, we're going to see higher sales of all of our products. Because we're promoting and discounting and making offers in a very differentiated, targeted way, we're avoiding the 2 biggest trap retailers have, spreading the peanut butter thinly across everybody or discounting heavily to everybody, some of which don't need that. And so that's going to translate into better margins, it's going to translate into more targeted incentives from the manufacturers because again, their last incremental \$1 is going to see a higher marketing ROI with us. And this is not a high-cost program. I know some of our competitors have over 100 people working on initiatives like this. We spent a lot of time on this strategy to get it right. We built a platform that's very flexible. And so along with our partners, we're able to do this in a low-cost way. And so what does that mean for capital returns? It means the performance we did a year ago on stores are going to achieve better results. In terms of raze-and-rebuild opportunities, an end-of-life store that might be right at the hurdle rate is now above the hurdle rate for making that investment. And that's going to allow us to just continue to boost returns on that. More importantly, all of those metrics, volumes, sales, margins, costs impact our fuel breakeven margin requirement, which allows us to be more and more competitive. And in this world of kind of haves and have-nots, we're going to be able to continue to gain share by driving traffic to our store with our everyday low price coupled with a very differentiated offer targeted to specific customers to make them more sticky in the event of price parity.

Operator

Your next question comes from the line of John Royall with JPMorgan.

John Macalister Royall*JP Morgan Chase & Co, Research Division*

Could you give a little detail on the strength in your PS&W plus RINs margin in 1Q? You're almost \$0.01 above your long-term range, so I just wanted to see what was driving that.

R. Andrew Clyde*President, CEO & Director*

What was driving it, John, was we had a \$0.65 price increase. And we talked about the uncontrollables and the controllables. The controllables is the supply margin net of the RINs, and that's behaving normally. The uncontrollable is the trading book and the accounting book. If I had to do it all over again, our first earnings release, Form-10, et cetera, we just combine the 2 together. And I really encourage everyone to think about our total fuel contribution margin because when retail margins are low, it's because we have a rising price environment. And when PS&W is high, it's because we had a rising price

environment assuming the other factors are at equilibrium, which between the supply margin and the RINs, they're pretty much in a normal state with not a lot of political, regulatory uncertainty. So just net the 2 together, and I think that will make it a lot easier for yourselves and your peers and investors to look at it that way.

Malynda K. West

Executive VP of Fuels, CFO & Treasurer

And John, if you looked back at the fourth quarter of 2018, you would have seen the exact opposite effect in that consistently falling price environment. So Andrew is right, the combination of product supply and retail provides a balancing impact that helps to smooth the volatility if you look at it on an integrated basis, which we would encourage you to do.

John Macalister Royall

JP Morgan Chase & Co, Research Division

That makes sense. And then any additional color you can give on the new stores running a little low and the raze-and-rebuild running a little high relative to your guidance? I know we're not talking about huge numbers here, but anything that's changed relative to 3 months ago when you rolled out your guide?

R. Andrew Clyde

President, CEO & Director

Yes, it's just the pipeline, so we say up to 20, but kind of up to 20, and 15 reflects that. And we're going from hanging around the hoop being the halo of the Walmart Supercenter to buying larger pads in a handful of target market with largely a new real estate development team. And so the timing of getting contracts through the system, permits, et cetera, just plays a role into that. We built up a nice pipeline for 2020 and 2021 and so that number of 30 to 40 for next year, if you average the 2 together, that probably exceeds expectations for new unit growth. But we want to do these right. We're not going to grow for growth's sake, and this offer can be very competitive in the right place and the right market for our customers. On the raze-and-rebuild, we do have a little more flexibility there. We actually accelerated a couple of stores that were impacted by the hurricane. And our partners at Walmart graciously allowed us to start raising and rebuilding those early despite the normal blackout period that we have with them. And we're happy to say both of those stores are back open, new, great-looking stores in those communities that were pretty hard to get. So we expect to be able to do some more of those. And that allows us to kind of balance our capital allocation towards growth. You may see next year a higher number of NTIs and a lower number of raze-and-rebuilds as we maintain kind of a balanced disciplined capital allocation.

Operator

Your next question comes from the line of Carla Casella with JPMorgan.

Carla Casella

JP Morgan Chase & Co, Research Division

I was wondering if you -- when you look at the conversion to smaller stores, how many in total can you do? I'm assuming you can't convert every store to a smaller store. Where do you stand in that process?

R. Andrew Clyde

President, CEO & Director

So we're still early in the process. We continue to update and build out our network optimization plan, but we have line of sight to continuing to do numbers like we've talked about for the next several years. And as been noted, if you continue to improve store productivity across the board with initiatives like Murphy Drive Reward or zero breakeven initiatives, retail pricing excellence, all those things we've been working on for a year that showed up in our results in Q1, you just extend the candidate list for raze-and-rebuild that are economic. So we've got a nice pipeline there. It's just about managing the capital and the capital discipline to do that.

Carla Casella

JP Morgan Chase & Co, Research Division

Okay. And then I guess given market conditions, are there more -- are you seeing any opportunities for M&A or buying a market -- a competitor in a certain market? And is that -- I guess if you could talk about your capital allocation priorities and then the M&A potential?

R. Andrew Clyde

President, CEO & Director

Got it. So I think MDR is a great example of M&A where we're able to acquisition competitors' customers or share of wallet and merge them with ours, and that's been our philosophy from the beginning. It's a lot easier. Just spend a few million dollars and get 6.5 million customers who are loyal and more sticky and more of their share of wallet than buying 2 or 3 stores in the marketplace. When we look at the transactions that are out there, many of them have performance that I would put in the next third or fourth quartile, and that just doesn't seem attractive to us. When we look at our EBITDA per store and compare that to some of the businesses not for sale, we may be 50% to 100% higher from an EBITDA per store standpoint and yet they're wanting very high multiples for those businesses. So -- unless there is just some unique differentiated capability that we would want to buy and then leverage that within our organic growth plans, we actually think the way the industry is evolving and the challenges that the kind of bottom half of the industry is facing, whether it's EMV, whether it's tobacco, whether it's labor, et cetera, there can be a lot of challenges facing those companies. And frankly, we're in a really, really good position to continue to take share and do M&A by acquiring customers as opposed to stores.

Operator

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

Benjamin Preston Brownlow

Raymond James & Associates, Inc., Research Division

Congrats on the quarter. On the tobacco same-store sales, the up 5.7%, can you just give a little more color around that sales driver? You kind of touched on it earlier in the call, but just trying to get a better idea of the driver in terms of manufacturer price increases versus -- it sounds like it's more of an increase in transactions, but just some color there.

R. Andrew Clyde

President, CEO & Director

Yes. So if you think about, one, just half the purchase, right, so you got more customers coming to the store buying fuel for 3 straight quarters that is bringing more people to the store. And if they're going there for their fuel and they're coming in and getting their tobacco, that's a driver. When you think about the manufacturer programs that we've been participating in after a very, very strong November and December, we roll those programs into January, February, March. Some other competitors may have decided to start those programs later. So we maintain continuity of those programs into Q1 even though seasonally, it might be lower time of year. I think with the MDR program and the stickiness of those, we're actually seeing that continue into April, which is very positive. The team has been working very hard on their store-by-store pricing optimizations and with what the fuel pricing team has been doing, so getting sharper every day on their pricing. And then some very specific manufacturer programs that really fit our business well. And certain tiers of products have allowed us to gain significant share in a few of those category. And so I would say those are the biggest drivers. The price increase allows us at times to expand our differential. Competitors raised their prices more as result of the increase than we do, but it's typically going to have a bigger impact on margins because the -- any prebuying-type activity gets washed out very, very quickly.

Benjamin Preston Brownlow

Raymond James & Associates, Inc., Research Division

That's helpful. And you mentioned the strength in April and specifically in the Midwest taking market share. Can you give some color around what you're seeing regionally?

R. Andrew Clyde*President, CEO & Director*

Yes. I'd say across all the regions, we have seen good growth. Certainly year-over-year, the polar vortex that hit the Upper Midwest this year was not anywhere near as impactful as the winter storms that hit as in the Southwest and Southeast last year. And so was Q1 an easier comp? Maybe. But when we think about April, I think a lot of it is just momentum, store-by-store pricing, consistency, leveraging some of the capabilities that we had built and systems we've put in place but not firing on all cylinders. And I think with the changes that we made in the second half of last year, that capability is now firing on many more cylinders than before. And when you're everyday low-priced and you're consistent and you've got the right differential and you're backing it up with other incentives like MDR and earnings points, I think we're going to be able to sustain that share.

Operator

[Operator Instructions] Your next question comes from the line of Christopher Mandeville with Jefferies.

Christopher Mandeville*Jefferies LLC, Research Division*

Andrew, going back to the merchandise margin. Can I just ask, as we think about that longer term, if you can continue what success you've seen on tobacco and then presumably loyalty becomes a greater driver, how do we think about the dynamics playing out? Is this more now a story of incremental gross profit dollars and maybe some consistent gross margin erosion? Or can you help us, give us a sense of how you're thinking about that?

R. Andrew Clyde*President, CEO & Director*

Right. So we take margin dollars to the bank. And at the end of the day, this is a margin-dollar business, whether it's fuel, tobacco or other merch. And so if you're trying to hone in -- and correct me if I missed the question, on the unit margin and what that means, there's a lot of drivers to that, right? We started with our strategy on day 1 saying, "We wanted to diversify our merchandise mix," because we had more exposure to tobacco. But nowhere along the way did we say we didn't like the tobacco category. We're going to grow that and take share in that and be a destination for that. So episodically, like with the Core-Mark contract and with some of the recent promotional programs going on, we'll see a kick in that and it lowers the unit margin. But behind the scenes is this engine that's continuing to grow nontobacco categories that have a higher gross margin associated with them. So I wouldn't let any kind of 1 quarter episode suggest that, hey, some numbers is flattening. The team is continuing to do a great job on the other categories and the manufacturers as well. Now energy drinks in our business exceed carbonated soft drinks. And so as we continue to see consumer choice and manufacturing innovation, we expect to see the margin from other products continue to grow. Another factor is the stores we're building. So every time we raze-and-rebuild a small kiosk and replace it with a 1,400 square-foot store, a couple of things happen, right? Tobacco takes a little bit longer to ramp up, but the higher-margin other products pick up quickly and end up having a higher portion of that mix. By the end of this year or next, we're going to be below 50% kiosk in our portfolio, right? And so even in the industry stat tables, we don't even get included sometimes because most people think of us as primarily kiosk, but we'll be less than 50% kiosk. Our 2,800 square-foot stores have twice the square footage, and so you'll continue to see that go up as well. Mindy mentioned the impact of Murphy Drive Rewards, 14, 15 basis points. I'd say probably half of that is a onetime sign-up promotional impact of that. So that's a little bit of an episodic blip in 1 quarter largely in 1 month signing those folks up. So by the end of second quarter or third quarter, we would expect to see that to start and level out. And the good news is our customers are burning their points as fast as they're earning them, which is a great sign of a successful loyalty program. So at the end of the day, Chris, it's all about the gross margin dollars. But we would expect to see from the things that I described continued growth in our unit margin and our sales to get there. We're going to sell more and we're going to have a more favorable mix over time.

Christopher Mandeville

Jefferies LLC, Research Division

That's all very helpful. And then on MDR, the 1.2 million to 1.3 million members that you mentioned, is that essentially similar to a daily active user rate? And is there any color you can provide with respect to percentage of transactions that are now going through the program? Maybe there's an ability to illustrate how things trended in Tennessee and/or Northern Texas that you started there versus some of the newer markets?

R. Andrew Clyde

President, CEO & Director

Yes. So on the whole, the 3 regions are performing very similar to North Texas and Tennessee results. We're continuing to see about 15% to 16% of fuel transactions on the app, 30% to 35% merchandise transactions on the app. I don't have a average daily user, but we did some analysis, and this is just based on the public information, but our users per store was higher than the next 3 public comps we're able to find combined. And that shouldn't be surprising given that we do 3x the industry average fuel sales, 4 to 5x the industry tobacco sales, that we would comp on a member-per-store basis or a participant-per-store basis, 3 or 4x higher than the next year. And you got to remember, some of those programs where we have the information had been around 5 years to 10 years. So we're pretty pleased with what we're able to do in about 30 days.

Operator

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

Patrice Harumi Kanada

Wells Fargo Securities, LLC, Research Division

It's Patty here again for Bonnie. can you talk about the health of the consumer overall, perhaps, in terms of traffic patterns? And how are your beverages doing? Any key innovations to call out?

R. Andrew Clyde

President, CEO & Director

I think the health of the consumer hasn't changed markedly since the last time Bonnie asked the question. I think the consumer base that we're targeting is probably getting bigger. So if you think about this consumer, it's typically going to be on the lower-income side, the lower education side, a little bit more rule in nature in terms of the markets we serve. Their household goods and services costs are increasing, probably a little bit faster than wage rates and there are probably more people joining their ranks. And so from our standpoint, we would call that a growing customer segment. And when we look at -- just proportionately how do we serve lower-income consumers of that segment? We over-index on them relative to our peers. And so by having an everyday low-price with additional bells and whistles and excitement associated with it like MDR, we're actually in a position where we're growing with the growing segment. Unfortunately, I don't know that, that customer segment's own internal network is growing, which is a challenge. But we're there with everyday low prices to try to help them out.

Patrice Harumi Kanada

Wells Fargo Securities, LLC, Research Division

Okay. And anything about your beverages and innovation?

R. Andrew Clyde

President, CEO & Director

As I said before, energy drinks have now surpassed carbonated soft drinks. I think the innovation we're seeing in the better-for-you products, the better ingredients in the sports drink products, et cetera, are what's driving increased sales and helping to offset some of the historical products. So getting -- sometimes you have some brand-new products. Some of the new energy drink products, we've got to make sure that we can get them distributed and stay in stock in our stores because once we get them in, in there through the distribution systems, they sell very well.

Operator

Ladies and gentlemen, this concludes the Q&A portion of today's call. I will pass the call back over to the presenters for closing remarks.

R. Andrew Clyde

President, CEO & Director

Right. Well certainly, you could tell we're very enthusiastic about Murphy Drive Rewards. And I can tell from your questions that you share some of that enthusiasm, so we appreciate it. We look forward to updating you on further examples of how we're going to use that to drive our business, grow share and create value for our shareholders on our next call. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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