Murphy USA Inc.
Form 10-Q
November 03, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission File Number 001-35914

MURPHY USA INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 46-2279221 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 200 Peach Street | |
| El Dorado, Arkansas | 71730-5836 |
| (Address of principal executive offices) | (Zip Code) |

(870) 875-7600
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes __ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes __ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer __ Non-accelerated filer __ Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
__Yes þ No
Number of shares of Common Stock, $0.01 par value, outstanding at September 30, 2016 was 38,599,541.

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MURPHY USA INC.

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ITEM 1. FINANCIAL STATEMENTS
Murphy USA Inc.
Consolidated Balance Sheets

| (Thousands of dollars) | September 30, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $206,692 | $ 102,335 |
| Accounts receivable—trade, less allowance for doubtful accounts of $1,988 in 2016 and $1,963 in 2015 | 139,692 | 136,253 |
| Inventories, at lower of cost or market | 152,542 | 155,906 |
| Prepaid expenses and other current assets | 29,153 | 41,173 |
| Total current assets | 528,079 | 435,667 |
| Property, plant and equipment, at cost less accumulated depreciation and amortization of $756,305 in 2016 and $724,486 in 2015 | 1,488,261 | 1,369,318 |
| Restricted cash | — | 68,571 |
| Other assets | 40,489 | 12,685 |
| Total assets | $2,056,829 | $ 1,886,241 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Current maturities of long-term debt | $40,471 | $ 222 |
| Trade accounts payable and accrued liabilities | 376,897 | 390,341 |
| Deferred income taxes | — | 1,729 |
| Total current liabilities | 417,368 | 392,292 |
| | | |
| Long-term debt, including capitalized lease obligations | 638,911 | 490,160 |
| Deferred income taxes | 200,601 | 161,236 |
| Asset retirement obligations | 25,637 | 24,345 |
| Deferred credits and other liabilities | 15,125 | 25,918 |
| Total liabilities | 1,297,642 | 1,093,951 |
| Stockholders' Equity | | |
| Preferred Stock, par $0.01 (authorized 20,000,000 shares, none outstanding) | — | — |
| Common Stock, par $0.01 (authorized 200,000,000 shares, 46,767,164 and 46,767,164 shares issued at 2016 and 2015, respectively) | 468 | 468 |
| Treasury stock (8,167,623 and 5,088,434 shares held at September 30, 2016 and December 31, 2015, respectively) | (497,111) | (294,139) |
| Additional paid in capital (APIC) | 550,376 | 558,182 |
| Retained earnings | 705,454 | 527,779 |
| Total stockholders' equity | 759,187 | 792,290 |
| Total liabilities and stockholders' equity | $2,056,829 | $ 1,886,241 |

See notes to consolidated financial statements.

Murphy USA Inc.
Consolidated Statements of Income
(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Thousands of dollars except per share amounts) | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Petroleum product sales (a) | $2,394,951 | $2,770,169 | $6,654,970 | $7,987,158 |
| Merchandise sales | 598,968 | 591,584 | 1,750,162 | 1,687,885 |
| Other operating revenues | 48,819 | 20,754 | 133,630 | 96,214 |
| Total revenues | 3,042,738 | 3,382,507 | 8,538,762 | 9,771,257 |
| Costs and Operating Expenses | | | | |
| Petroleum product cost of goods sold (a) | 2,275,487 | 2,594,273 | 6,301,552 | 7,605,961 |
| Merchandise cost of goods sold | 503,266 | 505,200 | 1,475,869 | 1,444,293 |
| Station and other operating expenses | 127,991 | 121,551 | 369,910 | 358,463 |
| Depreciation and amortization | 25,576 | 21,695 | 72,747 | 64,013 |
| Selling, general and administrative | 30,726 | 33,016 | 94,549 | 96,995 |
| Accretion of asset retirement obligations | 411 | 380 | 1,236 | 1,137 |
| Total costs and operating expenses | 2,963,457 | 3,276,115 | 8,315,863 | 9,570,862 |
| Income from operations | 79,281 | 106,392 | 222,899 | 200,395 |
| Other income (expense) | | | | |
| Interest income | 144 | 20 | 474 | 1,908 |
| Interest expense | (10,182) | (8,382) | (29,780) | (25,040) |
| Gain (loss) on sale of assets | (335) | (4,072) | 88,640 | (4,091) |
| Other nonoperating income (expense) | 2,848 | 106 | 2,966 | 616 |
| Total other income (expense) | (7,525) | (12,328) | 62,300 | (26,607) |
| Income before income taxes | 71,756 | 94,064 | 285,199 | 173,788 |
| Income tax expense | 26,265 | 34,043 | 107,524 | 65,430 |
| Income from continuing operations | 45,491 | 60,021 | 177,675 | 108,358 |
| Income (loss) from discontinued operations, net of taxes | — | 510 | — | 1,296 |
| Net Income | $45,491 | $60,531 | $177,675 | $109,654 |
| Earnings per share - basic: | | | | |
| Income from continuing operations | $1.17 | $1.41 | $4.47 | $2.46 |
| Income (loss) from discontinued operations | — | 0.01 | — | 0.03 |
| Net Income - basic | $1.17 | $1.42 | $4.47 | $2.49 |
| Earnings per share - diluted: | | | | |
| Income from continuing operations | $1.16 | $1.40 | $4.44 | $2.44 |
| Income (loss) from discontinued operations | — | 0.01 | — | 0.03 |
| Net Income - diluted | $1.16 | $1.41 | $4.44 | $2.47 |
| Weighted-average shares outstanding (in thousands): | | | | |
| Basic | 38,896 | 42,437 | 39,719 | 44,038 |
| Diluted | 39,174 | 42,760 | 39,989 | 44,389 |
| Supplemental information: | | | | |
| (a) Includes excise taxes of: | $505,814 | $513,427 | $1,466,347 | $1,459,871 |

See notes to consolidated financial statements.

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Murphy USA Inc.
Consolidated Statements of Cash Flows
(unaudited)

| (Thousands of dollars) | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|
| Operating Activities | | |
| Net income | $ 177,675 | $ 109,654 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| (Income) loss from discontinued operations, net of taxes | — | (1,296) |
| Depreciation and amortization | 72,747 | 64,013 |
| Deferred and noncurrent income tax charges (credits) | 37,636 | (11,939) |
| Accretion of asset retirement obligations | 1,236 | 1,137 |
| Pretax (gains) losses from sale of assets | (88,640) | 4,091 |
| Net (increase) decrease in noncash operating working capital | 5,382 | (33,194) |
| Other operating activities - net | 3,792 | 5,428 |
| Net cash provided by continuing operations | 209,828 | 137,894 |
| Net cash provided by discontinued operations | — | 10,948 |
| Net cash provided by operating activities | 209,828 | 148,842 |
| Investing Activities | | |
| Property additions | (198,911) | (151,521) |
| Proceeds from sale of assets | 85,001 | 725 |
| Changes in restricted cash | 68,571 | — |
| Other investing activities - net | (28,888) | (2,889) |
| Investing activities of discontinued | | |

| | | | | |
|---|---|---|---|---|
| operations | | | | |
| Other | — | | (4,945 | ) |
| Net cash required by investing activities | (74,227 | ) | (158,630 | ) |
| Financing Activities | | | | |
| Purchase of treasury stock | (212,328 | ) | (248,695 | ) |
| Borrowings of debt | 200,000 | | — | |
| Repayments of debt | (10,281 | ) | (89 | ) |
| Debt issuance costs | (3,240 | ) | (58 | ) |
| Amounts related to share-based compensation | (5,395 | ) | (3,036 | ) |
| Net cash required by financing activities | (31,244 | ) | (251,878 | ) |
| Net increase (decrease) in cash and cash equivalents | 104,357 | | (261,666 | ) |
| Cash and cash equivalents at January 1 | 102,335 | | 328,105 | |
| Cash and cash equivalents at September 30 | 206,692 | | 66,439 | |
| Less: Cash and cash equivalents held for sale | — | | 1,137 | |
| Cash and cash equivalents of continuing operations at September 30 | $ 206,692 | | $ 65,302 | |

See notes to consolidated financial statements.

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Murphy USA Inc.
Consolidated Statements of Changes in Equity
(unaudited)

| (Thousands of dollars, except share amounts) | Common Stock Shares | Par | Treasury Stock | APIC | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2014 | 46,767,164 | $468 | $(51,073) | $557,871 | $351,439 | $858,705 |
| Net income | — | — | — | — | 109,654 | 109,654 |
| Purchase of treasury stock | — | — | (248,695) | — | — | (248,695) |
| Issuance of common stock | — | — | — | — | — | — |
| Issuance of treasury stock | — | — | 5,562 | (5,562) | — | — |
| Amounts related to share-based compensation | — | — | — | (3,035) | — | (3,035) |
| Share-based compensation expense | — | — | — | 6,811 | — | 6,811 |
| Balance as of September 30, 2015 | 46,767,164 | $468 | $(294,206) | $556,085 | $461,093 | $723,440 |

| (Thousands of dollars, except share amounts) | Common Stock Shares | Par | Treasury Stock | APIC | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2015 | 46,767,164 | $468 | $(294,139) | $558,182 | $527,779 | $792,290 |
| Net income | — | — | — | — | 177,675 | 177,675 |
| Purchase of treasury stock | — | — | (212,328) | — | — | (212,328) |
| Issuance of common stock | — | — | — | — | — | — |
| Issuance of treasury stock | — | — | 9,356 | (9,356) | — | — |
| Amounts related to share-based compensation | — | — | — | (5,395) | — | (5,395) |
| Share-based compensation expense | — | — | — | 6,945 | — | 6,945 |
| Balance as of September 30, 2016 | 46,767,164 | $468 | $(497,111) | $550,376 | $705,454 | $759,187 |

See notes to consolidated financial statements.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Description of Business and Basis of Presentation

Description of business — Murphy USA Inc. (“Murphy USA” or the “Company”) markets refined products through a network of retail gasoline stations and to unbranded wholesale customers. Murphy USA’s owned retail stations are almost all located in close proximity to Walmart stores in 25 states and use the brand name Murphy USA®. Murphy USA also markets gasoline and other products at standalone stations under the Murphy Express brand. At September 30, 2016, Murphy USA had a total of 1,364 Company stations.

Basis of Presentation — Murphy USA was incorporated in March 2013 and, in connection with its incorporation, Murphy USA issued 100 shares of common stock, par value $0.01 per share, to Murphy Oil Corporation (“Murphy Oil”) for $1.00. On August 30, 2013, Murphy USA was separated from Murphy Oil through the distribution of 100% of the common stock of Murphy USA to holders of Murphy Oil stock.

In preparing the financial statements of Murphy USA in conformity with accounting principles generally accepted in the United States, management has made a number of estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Interim Financial Information — The interim period financial information presented in these consolidated financial statements is unaudited and includes all known accruals and adjustments, in the opinion of management, necessary for a fair presentation of the consolidated financial position of Murphy USA and its results of operations and cash flows for the periods presented. All such adjustments are of a normal and recurring nature.

These interim consolidated financial statements should be read together with our audited financial statements for the years ended December 31, 2015, 2014 and 2013, included in our Annual Report on Form 10-K (File No. 001-35914), as filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934 on February 26, 2016.

Recently Issued Accounting Standards— In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes," which amended existing accounting guidance related to the presentation of deferred tax liabilities and assets. The amended guidance requires that all deferred tax liabilities and assets be classified as noncurrent on the balance sheet. This guidance is effective for reporting periods beginning after December 15, 2016; however, early adoption is permitted at the beginning of a fiscal year. The Company adopted ASU No. 2015-17 during the quarter ended March 31, 2016 and has applied this guidance prospectively to its deferred tax liabilities and assets. For the period ended December 31, 2015, current deferred tax liabilities of $1.7 million remain classified as current in the accompanying balance sheet.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" (“ASU 2016-02”). ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. Lessor accounting will remain similar to lessor accounting under previous GAAP, while aligning with the FASB’s new revenue recognition guidance. ASU 2016-02 is effective for the Company beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. While this ASU will have impact on our internal processes and controls and result in a change to our accounting, we are still in the evaluation and information gathering stage of implementing the guidance and can not yet estimate the potential impact.

On March 30, 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting", which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company’s payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. While we do not anticipate this ASU having a significant financial impact, we are currently evaluating the adoption of this standard on our consolidated financial statements and expect to adopt the standard effective January 1, 2017.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Discontinued Operations

In September 2015, the Company determined that it had met held for sale criteria for its Hereford, Texas ethanol production facility. On September 25, 2015, the Company signed a letter of intent to sell this subsidiary for a gain and the transaction closed on November 12, 2015.

The financial results of our Hereford plant for the three and nine months ended September 30, 2015 are presented as income from discontinued operations, net of income taxes on our condensed consolidated statements of income. The results of the Hereford ethanol plant were previously included along with "Corporate" as a reconciling item within our segment footnote prior to third quarter 2015. The following table presents financial results of the Hereford business:

| (Thousands of dollars) | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2015 |
|---|---|---|
| Revenues | | |
| Ethanol sales | $ 45,187 | $ 136,173 |
| Total revenues | 45,187 | 136,173 |
| Costs and operating expenses | | |
| Ethanol cost of goods sold | 36,186 | 109,206 |
| Station and other operating expenses | 7,651 | 23,385 |
| Depreciation and amortization | 116 | 293 |
| Selling, general and administrative expenses | 373 | 1,100 |
| Total costs and operating expenses | 44,326 | 133,984 |
| Income (loss) from operations | 861 | 2,189 |
| Other income (expense) | | |
| Gain (loss) on sale of assets | — | — |
| Other nonoperating income (expense) | — | — |
| Total other income (expense) | — | — |
| Income (loss) before income taxes | 861 | 2,189 |
| Income tax expense (benefit) | 351 | 893 |
| Net income (loss) | $ 510 | $ 1,296 |

The following table presents cash flow of the Hereford ethanol plant:

| (Thousands of dollars) | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2015 |
|---|---|---|
| Net cash provided by (used in) discontinued operating activities | (1,804) | 10,948 |
| Net cash used in discontinued investing activities | (1,183) | (4,945) |

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Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 3 — Inventories

Inventories consisted of the following:

| (Thousands of dollars) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Finished products - FIFO basis | $ 188,771 | $ 159,774 |
| Less LIFO reserve - finished products | (131,505 ) | (102,849 ) |
| Finished products - LIFO basis | 57,266 | 56,925 |
| Store merchandise for resale | 90,673 | 94,925 |
| Materials and supplies | 4,603 | 4,056 |
| Total inventories | $ 152,542 | $ 155,906 |

At September 30, 2016 and December 31, 2015, the replacement cost (market value) of last-in, first-out (LIFO) inventories exceeded the LIFO carrying value by $131,505,000 and $102,849,000, respectively.

## Note 4 — Long-Term Debt

Long-term debt consisted of the following:

| (Thousands of dollars) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| 6% senior notes due 2023 (net of unamortized discount of $6,042 at September 2016 and $6,692 at December 2015) | $ 493,958 | $ 493,308 |
| Term loan due 2020 (effective rate of 3.59% at September 30, 2016) | 190,000 | — |
| Less unamortized debt issuance costs | (5,727 ) | (3,526 ) |
| Total notes payable, net | 678,231 | 489,782 |
| Capitalized lease obligations, vehicles, due through 2019 | 1,151 | 600 |
| Less current maturities | (40,471 ) | (222 ) |
| Total long-term debt | $ 638,911 | $ 490,160 |

### Senior Notes

On August 14, 2013, Murphy Oil USA, Inc., our primary operating subsidiary, issued 6.00% Senior Notes due 2023 (the “Senior Notes”) in an aggregate principal amount of $500 million. The Senior Notes are fully and unconditionally guaranteed by Murphy USA, and are guaranteed by certain 100% owned subsidiaries that guarantee our credit facilities. The indenture governing the Senior Notes contains restrictive covenants that limit, among other things, the ability of Murphy USA, Murphy Oil USA, Inc. and the restricted subsidiaries to incur additional indebtedness or liens, dispose of assets, make certain restricted payments or investments, enter into transactions with affiliates or merge with or into other entities.

The Senior Notes and the guarantees rank equally with all of our and the guarantors’ existing and future senior unsecured indebtedness and effectively junior to our and the guarantors’ existing and future secured indebtedness (including indebtedness with respect to the credit facilities) to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to all of the existing and future third-party liabilities, including trade payables, of our existing and future subsidiaries that do not guarantee the notes.

Credit Facilities

In March 2016, we amended and extended our existing credit agreement. The credit agreement provides for a committed $450 million asset-based loan (ABL) facility (with availability subject to the borrowing base described below) and a $200 million term loan facility. It also provides for a $150 million uncommitted incremental facility. On March 10, 2016, Murphy Oil USA, Inc. borrowed $200 million under the term loan facility that has a four-year term.

Murphy USA Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The borrowing base is, at any time of determination, the amount (net of reserves) equal to the sum of:

- 100% of eligible cash at such time, plus
- 90% of eligible credit card receivables at such time, plus
- 90% of eligible investment grade accounts, plus
- 85% of eligible other accounts, plus
- 80% of eligible product supply/wholesale refined products inventory at such time, plus
- 75% of eligible retail refined products inventory at such time, plus

the lesser of (i) 70% of the average cost of eligible retail merchandise inventory at such time and (ii) 85% of the net orderly liquidation value of eligible retail merchandise inventory at such time.

The ABL facility includes a $200 million sublimit for the issuance of letters of credit. Letters of credit issued under the ABL facility reduce availability under the ABL facility.

Interest payable on the credit facilities is based on either:

- the London interbank offered rate, adjusted for statutory reserve requirements (the “Adjusted LIBO Rate”); or
-