bp agreement to purchase leading travel centre operator, TravelCenters of America:

Webcast Q&A transcript

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Q&A TRANSCRIPT

Bernard Looney: Emma, Murray, and I are happy now to take any questions that you might have. So the first one we'll take Roger Read with Wells Fargo in the US. Roger, can you hear us?

Roger Read (Wells Fargo): As an American, I'm always happy to see an investment in on-road fuels. I guess what I want to understand is, as I read through it and we've seen some other transactions in the retail fuel area, TA doesn't own a lot of its property underneath, which probably partly explains a relatively lower multiple than I would've anticipated. And so as you look forward into whether that's the business model you want, how you choose to invest in terms of EV charging and some of the other opportunities here, biofuels, eventually hydrogen, how does owning or not owning the underlying real estate affect your decision making process, if at all?

Bernard Looney: Great, Roger, thank you. I'll ask Emma to comment on your specific question just on the multiples while I have the question, as I say, we paid about six times multiple. I think you're quite right. It's an attractive multiple. If you look at any of the recent transactions or the last couple of years, look at 7-Eleven and Speedway. Look at Casey's and Bucky's. Look at EG and Cumberland Farms. Look at Berkshire Hathaway did just very recently with Pilot Flying J. I think you'll find multiples in the 10x-12x range. So we feel good about the valuation. We feel good about the opportunity here. We feel good about the 15% returns. To your question specifically, Emma, owning the land or not does that change your investment thesis in any way? Emma?

Emma Delaney: Roger, thank you for the question. And we have, as part of the deal separately renegotiated lease arrangements with SVC, and we have options, long-term options, five, 10-year options to renew the leases. So, we have the ability to invest with confidence with a partner in SVC on the land sites to be able to put the offers that we deem appropriate for the markets on all of the sites. So, we're confident about the ability to develop, whether it's on the EV side or on the bio side over time. So, thank you.

Bernard Looney: Great. And I think when we met with Adam and the team, I mean, I think obviously this gives us the ability to renegotiate leases, give us the ability to do what we want, and obviously from their side as I said to them, we look at this as a 50-year plus investment. We'll be operating these sites in 2073 and beyond. So that's also obviously very attractive from their side as well. So thank you, Roger. And thanks for the vote of confidence. I'm going to go here to the UK to Giacomo Romeo at Jefferies. Giacomo?

Giacomo Romeo (Jefferies): Yes, thank you. First question is, it appears that TA has slot machines in some of their travel centers, and this typically requires a gaming license to operate. And usually, there's a change of control clause there, and do you need gaming approval as a condition for the merger? And do you see these as potentially a risk for the transaction or any sort of potential for timing delays there? And also, just wanted to see how you see that in terms from a more of an ethical perspective.

And second question is - I wanted to ask is on whether you have any sort of what, how many sites of the 280 that you mentioned there's any sort of overlap in terms of with your existing infrastructure in the US? And then if I may just squeeze one more is the $800 million EBITDA target. Obviously, you are adding back rents in there. Just wanted to check how that compares with the company, with TA's longer-term target of [mid-]$400 million with upside to $500 million in three to five years. Just wanted to check sort of how to bridge their original growth targets with your new one today.

Bernard Looney: Very good, Giacomo. As it's a quiet day, I'll give you the three. I'll ask Murray to take the third question around the EBITDA differences, and I'll ask Emma to take obviously the gaming question and the overlap question with our existing infrastructure.

Emma Delaney: Great, thank you. Thanks, Giacomo. To the gaming question. There are a small number of sites as we understand that exist in the network today that have those. It's not a core business for bp. It's also not a condition precedent to close or condition, rather, I should say, to close. And we will assess this further as we get closer to close. So give us a little bit more time on that. And your question about the overlap, we see these primarily as really complementary networks. So bp's network in the United States today is mainly off-highway, and TA's network is on-highway. So there's a great complement to both networks today.

Bernard Looney: I mean, there's basically no overlap at all, right? I mean, these are just very different.

Emma Delaney: Very different style networks.

Emma Delaney: That's right, very complementary for our customers, for our fleet customers in particular, because we'll be able to really offer them both on road, on highway, as well as off highway.

Bernard Looney: Great. Thanks, Emma. And Murray, just the EBITDA differences and so on.

Murray Auchincloss: Yeah, it's an accounting answer, Giacomo, but obviously, for IFRS we capitalise leases, for US GAAP TA expenses, their leases. So that's the difference between how we're quoting EBITDA between the two companies. And I won't comment on TA's long-term aspirations. That's obviously free to ask them about, but we feel pretty comfortable going from $600 million to $800 million of EBITDA [in 2025], excluding the leases as Bernard talked about.

Bernard Looney: Let's go now to Lydia Rainforth at Barclays. Hi, Lydia. I think it was Lydia's birthday yesterday or the day before. So happy post birthday, Lydia, and over to you. Hopefully that will be an easy question. Now. Lydia, can you hear us?

Lydia Rainforth (Barclays): Hi there, actually I've got lots of questions, but I'll try and take two. Just coming back to the lease payment sites side and the kind of re-negotiations for SVC, are you expecting the lease payments to be lower under bp's ownership than they are under than they were under TA's? And then secondly, and clearly from what I understand, this is a business that was going through its own transformation process and obviously because of the bp purchase will accelerate, that is the idea. What are the long run aspirations for you? You said you'd own it till 2073, but let's talk about more 2030, is the idea that these will be under bp branding, you're going to integrate the Thorntons. What I'm trying to do is kind of where exactly do we see that business coming through and where the valuations really like come through on that side.

Bernard Looney: Fantastic. Great. So I'll ask Murray will take the lease question and Emma will obviously take what are we going to do and what the business and branding and all of that good stuff. So, great. Murray?

Murray Auchincloss: SVC, the company that we'll be leasing from has put out a press release that has all the details you could possibly want, what the forward structure of the leases look like. So, suggest you grab their press release and you'll see exactly what's changed and what the forward profile looks like on the leases.

Bernard Looney: Great. And then, Emma, what are you going to do with this thing, particularly from branding and all of that other stuff that Lydia would love to talk about?

Emma Delaney: Great. Thanks, Lydia. So, this business has a brilliant strategic fit. As I said earlier, it's really a complementary network to ours because they're on the highway. And what I like about the business is it delivers earnings today and we see clear line of sight to be able to deliver value in the near-term already from three big buckets. Organic growth, we're impressed with what the TA team had as a pipeline. They've already been working on their pipeline, which we can get after in terms of organic growth.

The second bucket is on fuel and biofuel. We'll bring our global trading refining system and fuel supply and biofuel to bear already in the early years. And we see a big bucket of value associated with that. And of course, we'll be able to deliver synergies. On the convenience side, just to give you an example, our Thornton's business last year did almost 20% increase in sales last year from food alone.

So in the near term, you'll see us continuing to invest in this business, and you'll see us being able to deliver synergies on the fuel side as well as on convenience and an uplift in fleet revenues from the combination of on-highway and off-highway [sites]. And also, we expect to be able to deliver synergies from procurement. We'll be able to enter into negotiations on goods and services with bp's global reach and scale. So, we're very excited about the near term. And as I look out to 2030, that's really where it leans into this network, gives us the optionality to really develop the network of the future. So, EV charging, we're looking forward to rolling out EV charging with this network. Biofuels I've talked about already, potentially biogas on the RNG side, renewable natural gas, and as well later hydrogen.

These plots are huge. So, on average, 25 acres, Bernard, as you said in the presentation, which really gives us ample opportunity to deliver multiple energy offers for consumers. We're really excited about it. The TA brand has a very, very good standing among professional drivers today. So, we do not intend to de-brand, we intend to keep the TA brand. And as those of you who know our business well, we have multiple brands across our businesses because we really believe in responding to our customers in the national and in the local markets where they are.

Bernard Looney: Fantastic. The TA brand, I'm told, is indeed very, very strong. So, we will be keeping it and we'll be proud of it as we are with our other brands. So, Lydia, hopefully that helps. Let's go to Biraj Borkhataria at RBC. Biraj, can you hear us?

Biraj Borkhataria (RBC): Hi there. Yes, I can. Hopefully you can hear me. So, I've got two questions. The first one is on the synergies and the view to increase EBITDA. I know I think there's no debt in this business, but there are some outstanding bonds. Did you factor in any kind of redemptions in your synergy analysis? And also related to that, I guess through Macondo and various other things, you had built up a lot of tax losses in the US. Is that baked into your kind of synergies there as in more profits in the US? That's the first one.

The second one is just thinking about the convenience and retail business overall and the cycle. So, you referenced a couple of times about low multiples and what you paid. But I think at this point in the cycle, in, at least in my view, low multiples do make sense because convenience and retail has had some very strong years through the pandemic and into 2023. So, I would expect those multiples to be compressed because fuel margins are well above historical levels. So, could you just talk about is this a sort of strategic move in the direction you want to be, or do you feel this is a counter cyclical move? How should we think about it? Thank you.

Bernard Looney: Thank you very much. So, I'll ask Emma to take the second question, and Murray lead off on bonds and tax losses, please, and redemptions.

Murray Auchincloss: Yep. Hey, Biraj, we've been relatively conservative on this side of things inside the synergies. So I think you asked did we take the arbitrage on interest expense? The answer is no, we plan to retire the debt, so we didn't take any advantage of that. And then tax losses in the US, we continued to have some, but we didn't bring those into the calculation on synergies here. That's a synergy for the broader group, not for a transaction like this.

Bernard Looney: Great. Emma?

Emma Delaney: Yeah, thanks, Biraj. Let me talk about convenience first. And you asked about fuel and convenience. And convenience is 70% of the margin of this business. And under our definition of convenience, it's non-fuel. So, it's food, it's convenience, it's truck services. And so, we see this convenience and we've seen that both in the recession of 2008, 2009, and through COVID, we've seen the convenience sector very resilient throughout that time. And the US is the biggest convenience market in the world.

On fuel, the US is the largest transportation market in the world and is set to stay there. As you said, Bernard, almost 70% of tonnage travel by truck in the States. And when we look at projections, it's set to grow to 2030 by 12% and continued growth as we look ahead. In that diesel has also been resilient in recent years through COVID and diesel is also set to grow in the near term in the States. So, we see this business as strength today as well as huge potential as I said earlier about Lydia's question, huge potential in terms of our transition growth engines later on in the decade.

Bernard Looney: So deeply strategic in terms of what we're trying to do. And I think, Emma, from my memory last week, you'll correct me if I'm wrong, I think our convenience business [gross margin] grew 9% per annum over the last three years, right through the pandemic.

Emma Delaney: That's right.

Bernard Looney: So, some sectors, Biraj, may have suffered, but convenience was growing through that pandemic, and so this is a deeply strategic move. And the valuations are the valuations. Murray, you wanted to follow up.

Murray Auchincloss: I just have, Biraj, 15% returns post-acquisition and cash accretive in 2024, as well as a chance to almost double worldwide convenience [gross margin], which is obviously more durable income that goes through oil cycles, that goes through economic downturns. It is strategic and it's a very strong acquisition as well.

Bernard Looney: And you reminded me earlier in excess of 15% returns, I think you told me. So anyway, very good. Great. Biraj, thank you. Hopefully that's helpful. I think the last question is from Jason Gabelman of Cowen and company. Jason, can you hear us?

Jason Gabelman (Cowen): Great. Two questions for me. First, it sounds like the business won't, or the acquisition won't really generate any free cash until 2024. So how much capital are you, are you pumping into the business over the next couple years?

And then the second one is just on it doesn't seem like you've amended your convenience and mobility EBITDA targets for this transaction. And the implication is that those targets are predicated on acquisitions such as this. So, as you think about hitting those targets, is that in fact the case and do you need to acquire additional assets in order to realise those goals? Thanks.

Bernard Looney: Fantastic. Jason, thank you. Great questions. I'll ask Murray to take the free cash flow question, and Emma to take the second question around targets and acquisitions and inorganic and organic. Murray, first please.

Murray Auchincloss: Yes, Jason. Cash accretive in 2024, pretty difficult to be cash accretive in 2023 with the acquisition price of $1.3 billion, but cash accretive in 2024. So immediately once we're done the acquisition and current estimates are roughly $200 million a year capex into it, and you can see the EBITDA. So strongly cash accretive moving forward.

Bernard Looney: Great. Thanks, Murray. And Emma?

Emma Delaney: Yeah, great. Thank you. An inorganic such as this was always part of our plan in the $7 billion [C&M EBITDA target]. We did $4.3 billion EBITDA out of this part of the business in 2022. This takes us to around $5 billion. And so, we have $2 billion more to go to hit our $7 billion target. That's a combination of the rest of our portfolio in retail fuels and convenience, EV charging, which will be earnings positive by 2025. And as well of course Castrol, B2B, aviation contribute to that.

Bernard Looney: Great. And at the group level, I think we've said that our capital guidance is a mixture of largely organic of course, but also some inorganic opportunities in there. And we'll only do the organic and the inorganic if we find deals and investments that are meeting our hurdles. And I will close on that, which is we are very excited about this transaction. I thank Emma and her team for leading on this. This is their creation, so to speak, inside bp, and they've done a brilliant job on bringing us to this point, as have lots and lots of people across the company.

We're excited. I hope to go and visit one of these sites myself in Ohio on Monday. And we're looking forward to getting this business and seeing what we can do with it. But very strategic, to Biraj's question, very aligned with our transition growth engines and hopefully some great value to be created for bp. So, thanks everybody for joining at short notice.

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