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Valvoline Inc. (VVV) Analyst/Investor Day Transcript

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Valvoline Inc. ([VVV](#)) Analyst/Investor Day December 11, 2025 9:00 AM EST

Company Participants

Elizabeth Clevinger - Investor Relations Executive

Lori Flees - CEO, President & Director

Chris Calabrese

Linne Fulcher - Senior VP & COO

Adam Worsham - Senior VP & Chief Franchising Officer

John Willis - Senior VP & CFO

Brian Tabb - Chief Development Officer

Laura Carpenter - Senior VP & Chief Customer Officer

Presentation

Elizabeth Clevinger

Investor Relations Executive

Welcome to Valvoline's Investor update. Whether you are in the room or joining us virtually, I'm so glad to have you with us today. During our time together this morning, we'll show you how our strategy, execution and disciplined capital allocation delivers superior returns. This is about clarity in our plan and confidence in our future. Lori Flees, our President and CEO will kick off our presentations today, followed by Linne Fulcher, our Chief Operating Officer. After a short break, we'll be joined by Adam Worsham, our Chief Franchising Officer and Kevin Willis, our Chief Financial Officer. Following the presentations today, there will be time for Q&A. [Operator Instructions] The materials are available for download at our website, which is investors.valvoline.com.

Before we get started, I'll ask you to take note of our safe harbor statement. Today's presentations may include projections and expectations about future business performance. These forward-looking statements are based on current assumptions and beliefs and are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. I'd invite you to review our SEC filings at investors.valvoline.com for a detailed discussion of these risks and uncertainties. Unless otherwise noted, we will discuss adjusted results in today's presentation.

On our website, you'll also find a discussion of management's use of non-GAAP and key business measures and reconciliations between GAAP results and the non-GAAP measures included in today's presentation. Once again, thank you for joining us today. We'll start with an intro video, and then Lori will join us on stage.

[Presentation]

Lori Flees

CEO, President & Director

Good morning, and thank you for joining us, whether you're here in the room or you're joining us virtually. Built to win and built to last is a fitting topic for our investor update. Valvoline is a leader in its category, and we've built assets and capabilities over several years, many years. And those capabilities and assets have delivered industry-leading performance. We have a simple and focused strategy and how we'll strengthen our position and deliver stronger returns over time.

Joining me today to help tell more of our story, our members of our leadership team, and they're going to share with you why Valvoline wins how our flywheel generates increasing margins and returns and how that, combined with capital discipline will drive shareholder value. We've listened to your feedback over the last year and particularly in the last few weeks, and we're going to give you more information on the Breeze acquisition as well as share our financial commitments beyond fiscal 2026.

Our goal today is simple. We want to clarify our strategy, we want to clarify our financial plan, and we want to outline how we're creating long-term shareholder value. To simplify, we want you to leave this session with just as much confidence as we have about our future ahead.

So let's start at the beginning. Valvoline's history dates back almost 160 years when it's focused on quality and innovation in automotive care started. Fast forward to 1986, almost 40 years ago when we opened our first preventative maintenance service center. That was quickly followed by our first franchise location and that creating our blueprint for the retail model we operate today. 2016, almost 10 years ago, was a pivotal time for the company. We actually went public, and we crossed the 1,000 store threshold.

That combination unlocked capital, which really fueled the growth that you've seen since. And just 3 years ago, we simplified our business by divesting our Global Products business, we became a pure-play retail services provider. That enabled us to focus our people and our capital on this high-growth, high-margin business. And now with a network of over 2,300 locations, we're a proven retail model that's built to win and built to last. As we shifted to our focus in retail services, we assembled a leadership team that was purpose-built to drive high-quality profitable growth.

Our leadership team brings over 100 years of combined retail experience and 100 years of experience at Valvoline. This is a unique balance of industry know-how with institutional knowledge. And we've recruited talent from across retail industry to bring us the expertise that we needed to quickly further our scale and operate more efficiently. As for myself, I started my career in the GMC truck division of General Motors. I supported and worked at dealerships. From there, I spent 17 years in consulting, where a chunk of that time was advising convenience store retail companies.

After about a decade at Walmart, learning e-commerce, innovation and retail service business management, I came to Valvoline just over 3 years ago. Now the purpose at Valvoline is very straightforward. We simplify vehicle care so our customers can do what drives them. Whether that's a consumer who needs to get their -- get to work or get their family or whatever activity they have on their agenda or whether it's our fleet customers who want to make sure that their assets have the most productivity and drive their business results.

And we deliver on that purpose with 4 key core values: a people-first focus, a strive for greatness, doing the right thing always and committed to serve. These values are key to our culture. And our vision is simple. We want to be the preferred destination in automotive services for all of our stakeholders, whether that's consumers or customers, whether that's franchisees or employees. But let me get to what matters most to you as investors. We're committed to delivering attractive returns.

As this slide shows our financial commitments over the next 3 years. Everything else you'll hear today is about how we're going to achieve these numbers and why we have the confidence in our ability to do so. Kevin will walk through them in much more detail. But these targets tell a story about how we're driving productivity in our existing stores, how we're growing our network to capture attractive market share, how we're expanding our operating margins and how that translates into meaningful earnings growth. And we'll be disciplined about how we allocate capital to ensure that we're maximizing long-term shareholder value.

Our approach has 3 guiding principles. First, we'll invest in high-quality network growth that delivers high return on invested capital. We learned the hard way how the FTC is viewing large acquisitions in our space. The Breeze acquisition, which we announced much earlier this year was an A+ deal for us. But after the FTC required divestitures, it became a B to a B+ deal. I know you want to understand that math in more detail, and Kevin will take you through it. It's likely, given that process that Breeze will be the last large transaction across brands in our category.

Now we feel very fortunate Breeze was a very attractive asset that we have been following for quite some time, and we know we can deliver value from it. But what it means going forward is that our investment in growth is going to be pretty straightforward and look very similar to what we had been doing prior to Breeze. We're going to focus on small tuck-in acquisitions new construction builds and growth in our existing stores. After investing in growth, our second guideline will be to maintain a strong balance sheet. Financial flexibility matters. Keeping our balance sheet healthy will ensure we are operating from a position of strength regardless of any cycle.

And third, we will return excess cash to shareholders through share repurchases, reinforcing our commitment to shareholder value creation. It's a simple framework: invest wisely, operate from a position of strength and return capital to shareholders. And that's exactly what we'll be doing over the next 3 years.

Let me share why we have confidence in our ability to deliver on the financial commitments. Valvoline starts from a position of strength. We are the category leader, and that's driven by, first, our strong brand. Valvoline is a high-quality brand with high awareness that customers trust. And when customers want to maintain their vehicles, often a very significant capital expense on their portfolio or their balance sheets, a trusted and known brand matters. Two, we have a scaled and very productive network. We have the largest store footprint. We have the highest system-wide store sales, and our per store transactions are the highest in the industry. So very productive stores.

We have a strong and tenured store leadership team where virtually all of our store managers and above have been promoted from within, driving great experience and performance. Four, we have long-standing franchisee partnerships who are committed to driving their business, our brand standards and are committed to future growth. And five, but certainly not the last on the list, we have the best-in-class customer experience as rated by our customers.

Our post service NPS score, Net Promoter Score is above 80% across our 2,000-plus fleet, incredible. And we operate in a very attractive market. The market for do-it-for-me oil changes is highly fragmented. The customer has hundreds of thousands of options of where to get their oil changed. And over 70% of oil changes completed today are still done in dealerships and general automotive service providers. When we open a new location, that's the percentage that we pull our customers from. Then the car park is aging. The vehicle -- the average age of a vehicle is older than it has ever been and older vehicles require more maintenance. This drives up additional services opportunity for our business. Vehicles are also becoming more complex, really aiding in the shift from do-it-yourself to do-it-for-me. And as vehicles get more efficient, they require more premium products like premium synthetic lubricants. That creates ticket and margin opportunity for us.

And most importantly, for our category within oil changes. The customers are prioritizing convenience. When you ask any customer on what basis they make their choice of a retail provider, more than 3/4 of them will say it needs to be convenient. If you had told my 16-year-old self working at Taco Bell for my first job that people would spend as much on DoorDash delivery as they spend for their tacos, I never would have believed it. But the reality is convenience -- customers want quick easy service without a hassle. And that's exactly what our category does and why we're driving transactions.

Bottom line, we're in a durable market with substantial run rate for expansion, especially for providers like Valvoline who offer speed, quick, easy and are trusted. And our track record speaks for itself. As you can see on this slide, we've delivered consistent growth in both top and bottom line financials with double-digit compound annual growth rate since the time we became a pure-play retail business. We don't just see the opportunity. We are able and proven that we can execute against it.

We've built a formula that works, grow our store footprint, deliver operational excellence and maintain margin discipline. And our ability to scale profitably is what gives us confidence in the path ahead. So what drives our performance. I talked about our brand, but it does start with our brand. Valvoline is a trusted brand with strong awareness. That, combined with our quick easy trusted proposition leads to strong customer loyalty and high retention. Over 80% of the customers that come into our stores across our network are returning customers. That's on the basis of the experience that they've already had and a brand that they trust.

Second, we deliver that experience with a scalable playbook. We've built repeatable, proven operating model that drives consistency in experience and consistency in profitability across the network. It's really a combination of our service menu, our training, our SuperPro process and our store technology that all come together in every location with our brand to deliver consistently great customer experience.

And our customers over the past 12 months, over 1 million customer surveys are giving us a 4.7 stars across our network. It's the reason why we've been recognized 2 years in a row at Forbes Best Customer Service list, and we're incredibly proud of what we deliver to our customers every day. Third is our people. Our culture is really a secret sauce, and we have an apprenticeship model for our talent development. This leads to high retention and performance. We invest in training and intentional upboarding steps from day one. We have a culture centered around celebration and improvement.

Our teams love operating in a pit like environment -- a pit crew environment where they're operating with speed and they're working together as a team. And we love to celebrate their success. We offer our employees an incredible compelling career path. When you take our high internal promotion rate combined with the number of stores that we add every year, we -- it's a fantastic opportunity for advancement and growth of our people, and that drives retention.

Fourth is our robust data. When you combine the customer data that we've been built -- that has been building over a decade with our real estate data and detailed real estate data on over 2,000 store locations, the competitor benchmarking data, the vehicle data that we pull together to serve our customers our recruiting and employee data, we have over 9 billion points of data that we use to optimize everything we do, from how we price every service in every store to how we tailor customer reminders about their next visit. From every site we decide to build or acquire to how we plan a labor schedule for every hour of every day that store is open.

And including the tailoring of every aspect of the service provision when a customer comes in based on the vehicle they're driving, if they've been with us before and how much miles and what's required for their vehicle. Everything is tailored for that unique customer experience. This isn't just guesswork. This is data-driven decision-making at scale. And last but not least, our franchise partners. Our franchise partners have been critical to our growth, and they will continue to be so. These are experienced, committed multiunit operators who are deeply committed and driven to drive their business. And they have committed significant capital with the average tenure of 26 years, our franchise partners have committed to more than \$1 billion in future growth.

These aren't assets that we're hoping to build. These are assets that we have today, and they are driving results. As we look forward, our strategy is pretty straightforward. We have 3 strategic priorities that will drive shareholder value. One, will drive full potential of the core business; two, we'll deliver sustainable network growth; and three, we'll innovate to meet the changing needs of our customers in the car park. These aren't new, and that's intentional. We know that this is what will drive shareholder value.

So let me touch on each of these priorities and that the team will expand upon them in more detail. I'm driving full potential of the business. This is about expanding margins while continuing very strong top line growth. We expect our net sales to grow by 9% to 11% over the next 3 years. This will come from a healthy balance of same-store sales growth and new store growth. Kevin will take you through the same-store sales growth in more detail. But it will be a good balance of ticket and transaction.

Transactions will grow from welcoming new customers into both our immature and mature stores from both high return on ad spend marketing investments and also our fleet growth. So growing our fleets in terms of number accounts and the penetration within them. It will also come from increasing the efficiency of our service delivery in store so that we can increase the throughput in our mature stores. That allows us to welcome more guests.

All the while we do those 2 things, we want to maintain our very high customer retention rates that we enjoy today. Ticket growth will continue to be a contributor to same-store sales, and that will be driven by a healthy mix of increasing premium mix, net pricing increases and continued growth and penetration of non-oil-change revenue services. On the profit side, you're going to hear more from Linne about the drivers that will enable attractive margin expansion. They're really 4, and they're all meaningful.

First, the category tailwinds that I talked about will actually help grow margins. So aging vehicles and the shift to premium lubricant will bring more margin -- higher-margin business in our stores. Two, we've been driving operational efficiencies that we're in the early innings on. We've already started in areas like labor management and store expenses with more to come. And we get the benefits of portfolio shifts in our business as immature stores as a percentage of the total decrease and as franchise new units increase as a percentage of the total, our margin will have a benefit.

And last and certainly not least, we'll be leveraging our G&A because we will be growing that slower than our sales are growing. This isn't about chasing new opportunities. This is about driving consistent growth in a business that we know and have been operating in for 40 years. The next priority is around sustainable network growth. Despite 19 consecutive years of same-store sales growth and growing our store count by a considerable amount, we still only have 6% market share of oil changes.

And our stores are only within 10 minutes of about 40% of the car park. Just those 2 stats alone would tell you and underpin that there is still significant run rate to expand our footprint. And we're committed to a goal of 3,500 plus new stores. We expect to get over 2,900 by the end of 2028.

Now Kevin will talk a little more about how we're also decreasing the capital costs for the new units that we add, how we've done it, and we expect that to continue. He'll also talk how we've maintained and improved our return on capital for new stores. And when you combine the capital reduction with the margin expansion, you know that the return on sale -- the return on capital invested for new store is going to increase.

Last is around innovation to meet the evolving customer needs and needs of the car parc. Obviously, ICE and hybrid is our bread and butter business today. We know that the technology and customer expectations are going to continue to evolve and so will we. We expect the car parc to look different over time. I want to share some examples of how we're innovating in our core business today. And then I want to talk about how the car parc evolves and what we are doing.

So first is our fleet business. Since 2022, our fleet business has grown 17% compound annual growth rate, and we expect high-teens growth to continue. Now we've leveraged technology in those 3 years to make it easier to do account management and account sign-ups that has increased our base of fleet customers. But we've also put more control in the fleet managers' time to approve services. This ensures that when a fleet customer comes into our bay and we scan them VIN, we know what services to provide. We don't have to sell them. We don't have to wait for approvals. We just get to work.

That is a meaningful difference and is part of driving ticket for our fleet sales -- for our fleet customers. And we're going to continue to innovate in this area. We've recently just started piloting mobile service delivery as a low capital cost way of increasing our business with key fleet customers.

Second area is we've been investing in technology to drive the customer experience. This includes simple investments like upgrading the WiFi access and putting handheld devices in the hands of our technicians so that they can start the service in the parking lot and speed the process up through the bay.

And the replatforming work that we're doing on SuperPro will allow us to tailor the service experience based on how many times a customer has been in our store. A brand-new customer needs more education about what our service is and the needs of their vehicle than someone who's been with us more than 4x. That will allow us to optimize our process and speed will improve.

Another area that we have continued to look at is adapting our service menu in preventative maintenance. This isn't about getting into car wash. This isn't about getting into tires. This is about the normal preventative maintenance and how we evolve our service menu.

Over the past year, we actually started stocking a brand-new store based on the car park that was surrounding that store versus giving it an average stocking set of inventory. That ensures that we have the right parts for the right cars that are going to come into that location. And it's using the data that we already had to make ourselves more efficient. We also know that premium synthetic lubricants have been introduced in the market some time ago. And as customers continue to ask for that, we'll want to add it to our service menu. That will drive further ticket and margin expansion opportunity.

Now some of the innovations I've talked about here in the core business, we've already implemented and they're delivering great results. A few of them that I've talked about, premium synthetic lubricant, the mobile deliveries of services for fleet, those are not in our projections and they offer some upside to the commitments we've made. Now we'll scale those when we've proven out the return and operationally that we could do it, but we do think there's continued upside for profit expansion in our business.

Now let me lay on top of the graph you just saw, the penetration of battery electric vehicles into that graph. As you can see, EVs are still a very small part of the car park today and they're forecast to be about 4% in 2028. It's an even smaller percentage when you look at the core of where our customers are in years 4 through 8, it's even a smaller percentage. This gives us a really long runway in our core business while we prepare for the future. When you look at other industry transitions like e-commerce or media, the incumbents in those businesses started to see an impact to their business when penetration rates were at 20% thereabouts.

And the leaders who had the most traffic or the biggest customer list had the longest runway to evolve. We have that advantage and 20% penetration is a long way off given the tempering around EV demand and manufacturing that has occurred in the last 12 to 18 months. However, we have been and we'll continue to invest to learn. We've invested in R&D, market research and even pilots to expand our learnings around how we will serve EV customers with the assets and capabilities that we have.

Some of the research that we've done, some conclusions here are on the screen. We did a survey of 1,500 customers, of which half were EV customers to ask them their perspectives on maintenance and maintenance providers. First, very high percent, 98% believe that their vehicles or EVs would need preventative maintenance, and that would be beyond the battery health. Now it's early days, but if you look at what OEM providers charge for a service package, it is considerably higher than what an ICE and hybrid customer spends for maintenance today.

Second, 75% of them said that they would trust a non-OEM provider to deliver maintenance services. That's higher than the number that say that today or go to dealerships. Dealers have more than 25% of that market. So they're very open, and they want a better service provision. The service experience they have today is anything but quick, easy and trusted in some cases.

And third, when we ask them what would be important to them when picking a service provider, they said 3 things very consistently. They wanted it to be fast. They wanted it to be simple, and they wanted to ensure the provider they picked had expertise to do the work. So the electrification of the car park is going to require the way we evolve, but the runway to get there is quite long. And at the end of the day, our purpose remains Valvoline will simplify vehicle care for our customers so they can do what drives them regardless of the powertrain choice that they pick.

So let me bring this back together on why we believe Valvoline is a compelling investment opportunity. First, we're an established category leader with a track record of delivering industry-leading performance and growth.

Two, we have differentiated capabilities that drive and will continue to drive strong margin and cash generation.

Three, there is significant runway for growth, both in our current stores as well as in our network in a very fragmented category.

And fourth, we'll be disciplined in the way we allocate our capital to ensure that we're delivering very attractive shareholder returns.

Bottom line, we have the market position, operational excellence and financial strength to capitalize on the significant upside in front of us. This is a business that's proven, and we're just getting started.

Now in a moment, we're going to hear from Linne Fulcher, who'll share more about the operational excellence we have and the margin expansion path that we're on. But before he joins us, I'd like to turn to the video where Chris Calabrese, our VP of East Operations, will be giving you a store tour. Thank you.

Chris Calabrese

Welcome to Valvoline oil change. My name is Chris Calabrese. Vice President, Company Operations, and I support our great Canadian Oil Change in Canada as well. Really happy to have you here today, a little bit by myself. I've been 32 years with the company. I got to spend 8 years in the stores growing up, learning our operation system and then went on to a multiunit management and now supporting stores across the United States and Canada.

I love to show you around the store today. So come on and join me. Welcome the top side. This is where, as a guest, you get to experience things in full view. Transparency is really important to us to make sure you can see what's going on with your car and you have a full-time customer service representative to really walk you through what's needed for your car and make sure that you're satisfied before you leave. I'd like to show you over here as well.

Let's get started. Once our guests are safely in our bay, our customer service representative Kyle today, is here to engage the guests, see what their needs are, identify what we can help them with, walk through our recommendations for the vehicle and really get our bottom side services started or topside service started on the vehicle. Let's see what's going on in front. While Kyle is engaged with our guest, we're also doing our topside safety checks, includes 18-point safety inspection, lights, wipers, fluids and also tire pressure.

We're coordinating also with our bottom site technician. So we're trying to get you in and out as fast as possible. So we're going to go down and see what's going on bottom side next. Come with me. We're heading downstairs. If you see we got a really big basement down here. This allows us to store a lot of fluids involved. It's also a better work environment for our team. So let's go take a look at the bottom side. Welcome to bottom side, as you can see, we have a full pitted basement. This allows us for a few items that are really cool and unique to Valvoline Instant Oil Change. One, we have plenty of storage. That allows us to keep things downstairs, keeps the upstairs nice, neat, clean and organized. It creates a little bit better guest experience.

Also down here, unique to our system is we have a bottom side monitor. This keeps our bottom side technicians informed the vehicle that's on the bay, the right part numbers. So we'll make sure that we're servicing a vehicle correctly according to the manufacturer specifications. Our catwalk system is pretty neat. It allows our technicians to roam basically from bay-to-bay-to-bay. One employee can service 3 vehicles at a time. The whole time we're working in concert with our topside technicians who is doing our safety inspection and also our customer service representative. They're doing call-outs for this whole process. One, keep each other informed to keeps our team members safe as they're servicing the guests and to make sure that we're expediting because real time is important for our customers.

Let's go back up and let's see where we can finish off with our guest experience. All right. Welcome back to top side. We're wrapping up this oil change. Angelina is doing second-party checks, ensuring everything is secure beneath the hood. Kyle is reading the work order, answering any final questions I guest might have. Great job team, awesome job. Thanks for joining me today on a tour. I hope you enjoyed seeing a kind of a quick easy trusted, behind-the-scenes view of what our Valvoline Instant Oil Change process is all about. We hope to see in the future. Thank you.

Linne Fulcher

Senior VP & COO

Good morning. Good to see you. I love this video. It takes to hope you enjoyed the store tour. I've always thought that stores is where it happens in retail. That is where the rubber meets the road. And with us, it is definitely where the rubber meets the road. So first, my name is Linne Fulcher. It's nice to meet you. Many of you I've never met, so I look forward to getting to speak to you a little bit today and do some introductions. And thank you for your time investing in us. You probably had options, and we appreciate you being here to hear our story today.

I have been with Valvoline for 3 years. I joined 3 years ago, actually a couple of months back. And before then, I spent most of my career at the world's largest retailer. For about 1/3 of that time, I was responsible for stores, spent most of my time in and around the operations, multi-operation units across the United States and/or supporting the operations units. The second duration of my stay with them, actually had me support stores, and I had responsibility for technology. So for about 10 to 12 years, I was responsible for the U.S. store technology from the scheduling, labor pricing systems to the infrastructure that was needed in the store that brought the WiFi to the guests.

Then the last part of my stint with them actually had me spend time on customer services, focus really, I had responsibility for customer insight and strategy and do a lot of work around U.S. type strategies. And so I was excited to actually take all that I had gained there in the 33 years and actually bring it to the Valvoline. And I am as energized today as when I started, and I'm looking forward to kind of showing you why because the opportunity is in front of us and the things that we've already started to unpack since I've been here.

So let's just get started. Let's dive in. First, I want to talk about our operational story. It really comes down to these 3 key points. We have a proven track record. We're a category leader with a record of consistent industry-leading growth. Second is the fact that our performance isn't accidental. If you just look at the duration of time and how consistent it's been. But it's actually enabled by our differentiated approach to people, process and technology. And I'm going to take you a little deeper into what that means. And then third, the scale that we've got off of what we've built, you apply scale to that, and it actually gives us leverage for margin expansion. And we're going to dig into some of that today as well.

This scale advantage actually has a clear runway in front of it. that I hope you see clearly today when I'm finished. So let's start with the history of delivering the operational excellence that we've delivered. First is we shifted to a pure play retailer. Our transactions, we look at our metrics, the metrics have continued to grow since we've made that shift. Transactions are growing across both new stores and our existing store base, and we're capturing market share. We've seen an increase in market share in this duration of time.

Operationally, our 4-wall margin in mature stores has grown 270 basis points. So I would tell you, translation here is we're not just growing revenue, not just growing revenue, we're actually doing it more efficiently and growing margin at the same time. And we deliver the consistent profitable growth that I hope you see has given us a platform that will continue into the future. The results that you just saw were driven by really consistently high customer service, a focus on our guests. Our service accuracy, I think, is very impressive. 30 million oil changes last year, and we only had 0.3% service issues.

Now the world I come from, this is execution at the highest level regardless of the industry that you look at. I would argue that we've got a pretty consistent base here that allows us to deliver that level of execution. And customers are telling us this, too. Look at the NPS scores over 80%, look at our customer rating at 4.7%, and the customers are telling us that they are delighted by our quick, easy and trusted performance. And I'll tell you, it builds customer loyalty, retention, drives new customers to the box because it's a great referral program that our current customers have given us, right? When they're this happy and they give you this type marks, we have a great referral base in place.

Our differentiated approach starts with 3 elements. And I want to take you through a little deeper, this differentiated approach that we believe is a platform to our success. First, it does start with people, process and technology. Now these 3 elements were -- those 3 working together. And I'll dig into that here a little bit deeper as well. But these 3 elements enable our proven operating model that is replicable, scalable and it's been tested over the years that we've been here, a long period of time. And that operation model is what delivers the customer experience that you just saw on the previous slide.

So all of this connects together. You combine that with scale advantage that I want to show you today, you actually see the opportunity for us to get more efficient and unpack more margin expansion because of how this all works in tandem. So allow me to break down each part of this framework. First, let me start with our people, our foundation. We have a differentiated approach to how we look at our employees, our family members, if you will. And it starts really with how we onboard.

When we onboard, we've realized and we've learned there are 5 moments of truth for our employees as they start. Their first hour, their first day, their first week, their first paycheck in their first month. And we are purposeful with those time frames. We schedule connections with them at those moments in time because we see huge benefit of taking that moment in time when we're making sure everything is going as expected, answering their questions.

And I would underpin that we do this because onboarding is more than just filling a labor spot that you have. It's actually the beginning of a relationship, and we believe the beginning of a career. Second is our training. We have award-winning training over 270 hours of education that we give our employees. And even though it's award-winning, we're innovating. We haven't stopped with where we are. We're actually evolving to a new task-based training that we're testing right now, which will actually be even more engaged for our employees. Imagine being able to train, learn a segment of the job and then go do that job. It drives confidence and it drives execution.

And they feel like they're part of the team faster than sitting through 300 hours of training. So we're breaking it down into bite-size chunks, and we're already seeing benefits off of this. And then third and most important, I would tell you is our culture. I'm under no delusion that every company probably talks about their culture and how important it is. I have 30 years of culture somewhere else. And I can tell you, I've never seen culture like this. When we say it's about our people, it's about empowering them and letting them show up with who they are and be a part of the team, it is actually real at Valvoline.

We have a culture of healthy competition, whether it be March Madness competitions or Oilympics, which is where store submit teams around the nation. We come together once a year, and they do a -- think of a NASCAR type bake-off on who can drive the fastest oil change speed with accuracy, drives a lot of competition and fun in the workforce. But we also do a lot of celebration. And the highest of our celebration is our max horsepower winners. Every year, we take the best of the best of the best, and we herald them, we lift them up. They get special recognition over-the-top award. But the culture is one of competition and recognizing that success.

And at the heart of all of this, at the heart of all of this is a 9- to 11-person team in each store, a small nucleus that actually drives this culture, working together, rallying together to achieve the goals and to show what's possible. This culture again exceeds anything I knew where I came from, anything I've seen or touched, and it actually gives us, I believe, a very strong competitive advantage. Because what you also see is most of our hiring comes from within. Most of our promotions come from within. We source most of our field team and leadership from within our units, whether we're building new units or acquiring multi-units, we build the talent from within.

Not only is this good for morale, but think about the strategic advantages it gives us. Our team members have been trained in our system with our culture and our model. And the leadership, the field leadership actually came from within, started from the lower ranks know how to do the job, know how to teach it and know how -- know what's expected. And the muscle memory that we get from this organically grown is off the charts and delivers the consistency that we've got.

In the cycle, well, our best people stay. They continue to train the next generation in our operational knowledge, execution and culture gets stronger as we grow, not diffused. Later, you're going to hear from Kyle McMahon, our Vice President over the Western division about this very journey that he went through. So just remember that here momentarily. And I think you'll like his story. So now let's talk about process. We have a proprietary process, SuperPro, that drives the consistent execution that we see across the network. It's embedded in our training, our point of sale and our store operations.

And I would challenge you that whether you drive into a store in New York City, California or Kentucky, you will find the consistent process at every store. It's intentional, and the consistency is powerful. We see improved throughput. We see service with speed. We see higher customer satisfaction because of this consistency. And it also allows us to drive higher penetration of NOCR of non-oil change revenue services. And it's a process by which we can lean into as a field and drive the expectations and the execution that we want to. It's predictable, repeatable and very profitable.

And as we scale, it just continues the same pattern. Underpinning all this is the data and technology that we've got into the network. Our robust data environment captures data across our network. We are using millions of data points to determine everything from the OEM spec of what your vehicle uniquely needs to the best site to place our next store. You mix this with the best-in-class technologies that you see on the right, and these are some new entries into our tech portfolio. And what you actually get is a great mix of things that really increase our customer and our employee services and expectations -- our environment.

Let me give you some examples. For customers, Lori talked about fleet management. What we've been able to unpack here is every fleet has a different set of services that their fleet manager has approved. As a fleet unit comes into the store, and we scan it. We've actually built auto integrate that goes out into the repository of fleet cars, understands what fleet B versus C versus D services that have been approved are and quickly pulls that into our SuperPro point-of-sale, integration into the system so we can get on with speed in servicing that customer.

For our employees, we spent a lot of time, and I'll give you a little more here in a moment on the labor work that we've done, but Workday has allowed us to unpack efficiency for our field leadership. As we rolled Workday out mid-summer this last year, we've actually already seen more fine-tuned schedules, but 60% less time for our managers to have to do the schedule. So we've removed time from our leadership team to actually produce schedules that are better than we would have had a year ago. This data combination -- data and tech combination allows for higher return on capital and drives more efficiency in the operating model.

And all of this translates to financial performance here. On the left, you'll see meaningful margin improvement that we've seen in the last 3 years, while we've been investing in what you saw in the previous slide. So the strategic investments we've made, retail infrastructure, upgrading systems and strengthening our operating model, and I want to pause because most of what you see on the right-hand side, you'll understand. Cloud computing, CRM, fleet, but I want to shine a light on something that's not a system and that's central operations.

So we invested in a team that actually filled with leadership that comes from other retailers like Michaels, Harbor Freight, CVS. And this group responsibility is to go look for the gaps and our efficiencies in our store, look for the processes that need to change. And they're applying that diligence to SuperPro enhancements as well as managing our labor and scheduling systems. That central operations team, I believe, is the tip of the spear to help us find and drive the efficiencies that will still take us into the next few years.

When you look at the strategic investments we've made on the right, mixed with the margin growth that we've seen on the left, what you're not seeing here is the trade-off that most companies have to make. Most organizations decided to trade off between investments or margin. And it's a balancing act. We've actually been able to do both. And that margin expansion that we've seen with the technology investments we've made, I want to take you a little deeper to that now and show you why we believe it's not petering out, still has opportunity in front of it.

First, we're going to start with the car parc. Lori hinted at this earlier, but the car parc is aging. In the last decade, the car parc -- the average vehicle has gone from 11.5 years to 13 years in age. People are holding on to their vehicles longer. And when they do that, they require more maintenance. We're long past just oil changed. We're into transmission flushes, differential flushes, higher services at higher revenue and higher margins. The other piece of the car parc, though, is actually where the OEMs are shifting recommendations or requiring more premium products.

This past year, GM surprised everybody with a 040 premium that was hard to find. Very premier product, very high margin. And so you've got a twofer going on in the marketplace for the car parts. And we don't have to change customer behaviors here. It's organically happening in the car parc. It is happening with the car parc driving it itself, and there's organic margin that we're going to get off of this tailwind. The second margin driver is operational cost efficiencies.

We have multiple initiatives underway here, and I want to start with labor. And I keep coming back to labor because clearly, on any retailer's P&L, labor and inventory are your 2 highest cost factors. Three years ago, we started with labor with that central ops group. And it was about reporting and measuring and helping the field operators understand what really good needed to look like based on what we received. But with the infusion of Workday now, we're actually getting more granular and system-led. And it's not just up to educating the stores, we're creating parameters that they must live within.

This last year, in FY '25, we've seen about under 100 basis points of leverage on labor. Think about how big that is. And we're still not done because Workday has only been out for about 6 months for us. And Workday now is allowing us to take the engineering studies that we've done, the workload mappings and time studies that we've done on a store-by-store basis and actually pipe into Workday what's uniquely needed for that store based on the demand that it sees. Certain vehicles take different time to service in the stores. And as we dial into what we call workload drivers, we are loading that into the system at a store-by-store level, which is allowing us to more surgically drive labor down.

We still have labor leverage to get. SuperPro improvements. Lori mentioned this as well, and you saw Chris on the screen when he was giving you the store tour in bottom side, point to a monitor below. We are breaking apart SuperPro. We are bifurcating SuperPro, and we are actually creating the environment by which the workforce and the store is getting served their unique instance of what they need from SuperPro to do their job, which allows us to move even faster.

SKU optimization and store expense management, we will continue to drive as well. There's been a lot of up work underway with SKU optimization. I think retail 101, trading-out stores, what products needed where, what's your safety stock levels. So you never get out and give out on what you need for your guests. And all of this is work underway that I'm excited to watch as it comes to fruition.

The third driver, changing network mix. Immature stores as they increase their margin -- as immature stores increase their maturity, they increase their margin. Makes sense? When you look at the last few years of our growth and you look at the number of stores we've put on the street, new immature stores, then I give you the calculation that it takes about 3 to 5 years for an immature store to hit maturity. So when you look at the number of stores we've opened in the last few years, 3 to 5 years to hit maturity and 40% of our stores are not yet at maturity, it gives us the expectation of about 700 basis points in leverage that we're going to see in the next few years.

And the second, the store mix is changing. Our franchise stores contribute a higher margin to us than what our company-owned locations do. And as franchise additions become more of the mix, well, you're going to see natural margin expansion from this as well. Both of these things are already in motion. In fact, a lot of what I've told you, I'm just adding to the list, are things already underway and gives us increasing confidence in the margin expansion that we've got.

And fourth is SG&A or G&A. Now G&A, of course, you know there's a fixed portion and a variable portion. Our fixed portion is infrastructure, systems, leadership. And the variable portion really scales more with the business. And the power that we've got and the systems that we've built, the platforms that we built as we continue to scale, we're seeing a leveling off curve of what it takes to, invest wise, to support the mass. So you're actually going to start spreading the G&A across the boxes as we continue to open and get margin expansion and leverage here.

And all of what I've covered is recapped here on this adjusted EBITDA waterfall. These drivers coming together over the next few years, we expect 100 to 200 basis points in margin gains. And these aren't hopes and wishes. I'll say it one last time. These initiatives are already underway. We've already put on our P&L some of the leverage. I gave you a glimpse of that at the beginning, and there's just more to come.

So I'll end where I started. We have a proven track record of operational excellence. You see in our transactions, our sales. Hopefully, now you see it in our margin expansion. And it's enabled by our differentiated approach to people, process and technology. We've shown you the 4 margin expansions as a recap, aging car parc plays in our favor, operational efficiencies well underway, improved portfolio mix and G&A leverage.

All of this, combined with the scale that we continue to grow towards will deliver our future margin expansion. So our foundation is built. We'll continue to execute. And as we scale, you're going to see the full power of what we created. I look forward to meeting you as we go out the rest of the morning and afternoon. Thank you for having me. And I think at this moment, we're prep for a break. So I've been told to tell you, you've got about 10 minutes. If we can be back in our seats in 10 minutes, we'll go on with the program. Thank you so much.

[Break]

Adam Worsham

Senior VP & Chief Franchising Officer

I really appreciate Kyle shooting that video for us. Kyle is someone that really embodies the culture and why working at Valvoline is so special. While Kyle has immense operational experience. He also led our franchise division for some time. So he's certainly someone that's a resource for me and an asset to not just myself but the entire leadership team. Well, good morning.

I'm Adam Worsham, Chief Franchising Officer. It truly is a pleasure to be with you all today. In my nearly 2 decades at Valvoline, I've witnessed our company's transformation from a product-centric organization to a leading pure-play retailer. I've had the honor of leading our franchise business for the last 5 years. And today, I'm excited to share with you not just the important role that our franchise business has played in Valvoline's history. But more importantly, I want to share with you the critical role our franchise business will play in driving Valvoline's future growth and profitability.

So in this franchise section today, it's really going to be centered around the turnkey partnership and the best-in-class value proposition we provide to our franchise partners. It's incredible when you think about the average franchisee's tenure in our system exceeds 25 years. Their commitment to upholding Valvoline's people-first culture as well as their dedication to leveraging Valvoline's playbook, coupled with their commitment to not just meet but exceed the brand and operational standards that Valvoline has put in front of them has been essential to driving the consistent high-quality results we have experienced.

When you look at our strategic existing franchise partners as well as the new franchise partners we are bringing into our system, these folks and teams and companies are well capitalized, and they are committed to accelerating the unit growth for Valvoline. And as our franchise business accelerate its growth at a greater rate than our company-operated stores, we are able to multiply our growth in a capital-efficient manner.

In my opening, I highlighted the pivotal role that our franchisees have played in our success here at Valvoline. And I want to just provide you some context of this. When you look back at our franchise unit count going back to 2022 to now, our franchisees have expanded locations at an 8% compound annual growth rate, reaching 1,164 stores. The exciting thing, though, is when you look back over the last 2 years, our growth rate has been greater than 8%. And as we continue our acceleration efforts, as we continue that momentum, we fully expect to continue to deliver on this momentum in 2026 and beyond.

Remarkably, even as our franchise partners have started to really emphasize their focus on driving new unit growth, they've also been able to deliver extraordinary same-store sales growth. Over this same period, since 2022, our franchisees have grown their average unit volume at a 6% compound annual growth rate. What does that mean? That means that our Valvoline franchisees that we have on our system lead the entire Quick Lube industry with net revenues per store greater than \$1.8 million.

So when we look at the value proposition that Valvoline provides to our franchise partners, it's not just best in automotive. It's one of the best in all of retail. There are 4 differentiators that I want to highlight for you today. The first is the Valvoline brand. Valvoline is a high-valued brand that people know and trust. And that's important because when you look at the automotive industry, it's so fragmented, so that trust matters. With over 160 years of experience and one of the highest brand recalls in our category, our brand continues to provide a real advantage for our platform.

The next differentiator I want to highlight is our proprietary operating model. We call it SuperPro. SuperPro is what encompasses our operational process. It's what encompasses the award-winning training platform that Linne highlighted for us earlier as well as our in-store technology. SuperPro has been critical for us. As we continue to scale, it allows Valvoline to drive efficiencies, quality and consistent results.

The next differentiator I want to highlight is our marketing expertise. We use deep customer insights and data to strengthen retention as well as find new customers through awareness and performance marketing channels. Every strategy is tested and proved out in our 1,000-plus company-operated stores before we bring it to our franchise partners. That means that our franchisees benefit from proven programs that drive both transaction growth at a positive return on investment.

Last but not least, biggest differentiator for Valvoline is our unit economics. When investors from entrepreneurs to private equity firms are looking to make investments in a franchise system, they want strong returns with manageable risk. With 19 years of consecutive same-store sales growth in unit economics that outpace many leading QSR retail systems, Valvoline stands as the top choice for franchise investors. Because of the tremendous success of our 2 franchise platforms, both Valvoline Instant Oil Change and Great Canadian Oil Change, we continue to receive significant industry recognition.

In 2025, we are proud that Valvoline as an oil change earned the #37 spot on the Franchise Times Top 400 list. In addition, this year, Valvoline ranked number 24th overall and #1 in automotive on the Entrepreneur's Franchise 500 list. Lastly, in Canada, in the J.D. Power Customer Service Index, Great Canadian Oil Change earned the highest marks in customer satisfaction. These achievements truly reflect the dedication and excellence of our outstanding franchise partners across North America.

You know, when you look at our system, we feel Valvoline is very fortunate to be anchored by a group of strategic well-capitalized partners that have been with us for 3 decades. Over this 30 years, as these organizations have grown, they now today represent 74% of our system and our franchise base. Each of these systems have built exceptional scale businesses, but the neat thing for them is they remain committed as ever to advancing the Valvoline platform, and this is underscored by the continued investments they're making in their existing stores, as well as the fact that we now have robust development agreements with each of these partners.

I want to highlight one example here of about an extremely strong partner that we're fortunate to have in our system, and that's Henley Enterprises. Henley is Valvoline's largest franchise partner and their growth truly reflects our shared commitment to excellence. What began as a single location in Summerville, Massachusetts that opened in 1989 has evolved into an impressive network of over 260 locations across the United States, but they're not done yet. They've got commitments to add an additional 100 stores by the end of 2030.

I think the thing that's really neat and incredible about Henley is the owner of Henley has built an incredible team, but he remains so actively involved in managing the business. He's a trusted member on our franchise advisory council. And we've got many Henley leadership team members that are on various councils that we leverage to really engage with our franchise partners and really tackle the opportunities and initiatives and challenges that we have. So Henley has been a great partner as we continue to drive growth in our system.

Another great example of an extremely strong partner for us in our system is Quality Automotive Services or QAS. QAS has been a valued member of our system for more than 30 years. But in July of 2021, Carousel Capital acquired QAS. At the time of the transaction, QAS had 78 locations. Today, they've expanded locations of 220 across the Southeast and Mountain West with commitments to open an additional 100 locations by the end of 2030. QAS success is a powerful example of what is possible when you have a strategic sponsor that partners with an exceptional management team.

QAS is one of the first partners that -- or one of the first sponsors that we've had in our system in quite some time, and their management team has been critical in assisting us and looking at what's valuable for sponsors as they come into our system and ensuring that we're continuing to evolve the win-win partnership and win-win solutions we're bringing to them. So we truly push at everything Carousel Capital and QAS is doing for our system.

Over the past few years, we've also been intentional about attracting new partners into our system to diversify our network. Especially, we're targeting these new partners to really help us build out underpenetrated markets. These partners range from accomplished entrepreneurs to leading private equity firms, and they are projected to contribute about 1/3 of the new unit commitment that we have through 2030. We I've highlighted some of these partners here over the last couple of years, we've brought in franchise Equity Partners, which owns our system, Velocity Auto Care. ICV Partners recently entered our system through acquiring one of our long-tenured partners. And CMG Companies is an incredible family office that's helping us build out some underpenetrated markets as well.

And we're excited about the incredible impact that these new partners are going to have on driving growth for Valvoline in the future. As we looked at both existing and new partner growth, refranchising has been an important lever that we have used to accelerate our progress. Since 2022, we've refranchised over 65 locations and those partners have committed to tripling the unit count that we have projected in those markets. So far, we are extremely encouraged about the momentum that we are seeing across the refranchise markets.

At this time, we have no active plans in place to do additional refranchising, but looking ahead, refranchising opportunities will be evaluated thoughtfully and on a case-by-case basis. So when we set out to accelerate our network, we knew we're going to need acceleration from our existing franchise partners and new franchise partners that we would bring into the system, and that is exactly what has happened. I want to put our acceleration efforts into some context here. If you go back to 2021, that was the year that really the first round of legacy development agreements that we had in place that expired in '21.

We have 5-year commitments, and they all expired around 2021. When you look at all of those commitments, the total unit count that was committed in those agreements was around 150 units. In just the last 16 months, we've secured commitments of 4.5x that with franchise partners committing to investing more than \$1 billion in capital over the next 5 years. And we're not stopping there. The franchise team is actively pursuing additional development territory commitments that could add an additional 100 to 150 units on top of what's already been committed.

The strong development interest that we continue to receive from both our existing partners and new partners is really driven by the strong predictability of growth, the robust top line performance and the attractive EBITDA margins. Our franchise partners are generating cash-on-cash returns of greater than 25%. Valvoline's unit economics consistently outperforms peers across the Quick Lube service industry, consumer services and automotive retail sectors. This exceptional financial profile truly makes Valvoline the franchisor of choice for growth-minded investors and operators alike.

We've spent a lot of time today talking about the value proposition that we're bringing to our franchise partners that assist them in driving profitability. And I wanted to take a little bit of time talking about what our franchise partners deliver to Valvoline. On average, our franchise locations are generating approximately \$200,000 of net sales to Valvoline. We put that in context at maturity. That's about 10% of the average net revenue that they are generating. And it's a very strong -- sorry, it's a very strong return on invested capital of greater than 55%.

In closing, I'm incredibly proud of what we have accomplished with our franchise partners. Our partnership with our franchisees have delivered consistent, high-quality results, but the opportunity ahead is even greater. Valvoline's compelling value proposition continues to attract significant capital investment into our system, which allows battling to scale at a capital-light way. The combination of our strong franchise partners and the enduring strength of the Valvoline brand will continue to drive sustainable growth and long-term success.

With that, I'd like to invite Kevin Willis, our CFO, to this stage. And I really appreciate your time today. Thank you.

John Willis

Senior VP & CFO

Thanks, Adam. Good morning, everyone. Whether you're in the room, online, I appreciate your time today. Thanks for being with us. You've heard from Lori about our strategy, a durable financial flywheel, our commitment to capital allocation discipline. Linne talked about our history of operational excellence, driven by people, process and technology, and how these, along with our scale, team up to set the table for margin expansion going forward. And Adam provided insights into our very strong franchise partner network, our value proposition to those partners that compels their growing investment in the business and how franchise network fuels capital-light growth for us.

I'll spend a few minutes discussing our go-forward value proposition and lay out our financial commitments for the upcoming 3 years. Our business has nearly 40 years of history, delivering an excellent profitable growth trajectory, underpinned by 19 years of same-store sales growth. Today is about showcasing the business and the team, but it's also about making tangible commitments. I hope the road map you've seen today gives you confidence in our ability to deliver strong, profitable growth with attractive and growing returns. An important part of our commitment here today is to maintain capital allocation discipline and sharpen our pencils to grow margins and returns while continuing to invest in this excellent business.

We're going to maintain a strong balance sheet, as Lori indicated, and we will return capital to shareholders via share repurchase. As I'm sure you're aware, I'm relatively new to this role, but not at all new to this business. During my career at Ashland, I watched this business grow and grow. And since Valvoline became a public company in 2016, the store network has grown still by more than 120%. In my 13 years as a public company CFO, I've seen a lot, but this is a truly special company and a truly special team.

With that, I'd like to spend a few moments sharing some observations since rejoining the business about 7 months ago. Coming in with fresh eyes, a few things became clear very, very quickly. Our business is strong, well positioned in the market and poised to deliver strong and growing returns going forward. With only 6% market share in just over 40% of our stores within 10 minutes of the car parc, we continue to grow our network while generating strong and growing returns on those investments.

I enjoy coming to work every day because of the great team that I am privileged to be a part of, not just words. This team is purpose built, disciplined, focused, committed to winning together. I'm also realistic about where we've been. Since selling the products business, we've made much needed investments in the core business to create a solid platform for future growth.

And we've refranchised 3 territories. Adam talked a bit about that, which was the right thing to do given the growth opportunities that were created by those transactions, multiply that footprint times 3, with the investments of our franchise partners. These actions, along with a drawn out Breeze transaction due to the FTC review has really overshadowed the strength and the potential of this business.

To quote a shareholder I met with recently, this is a great business, but it hasn't been a great stock. We get that. In fact, the quote sums up the opportunity and why I'm so excited to be part of this team today. The fundamentals are there. Now it's about consistent execution, clear communication. We understand the need to remove the noise from the situation, make the story cleaner and clearer. And we're committed to doing exactly that. You've seen this slide today. Our strategic priorities are clear and unchanged. What I want to emphasize is that it's about commitments, execution and accountability, clear measures of success, both in the core business and our growing network while also addressing opportunities in the car parc.

These metrics are straightforward. We'll walk through the details, but the takeaway is simple. We have a focused strategy that will deliver disciplined execution, and we will be transparent with you about our performance. And the strategy is working, by the way. Over the last 3 years, our business has delivered impressive growth, increasing margins. This is a high-performance growth engine that is delivering across key metrics. This gives us significant confidence as we look to the future.

19 years of consecutive same-store sales growth. It puts us among the very elite group of retailers. In fact, in my research, there's only one other that I was able to find that actually matches our track record. Our business grew during recessions, the financial crisis, the pandemic. This speaks of the durability of our business as well as the nondiscretionary nature of what we do, the services we provide.

Just a few weeks ago, we provided the guidance that you see on the screen that reflects our confidence in the business while at the same time taking a measured approach to the overall metrics and inclusion of the Breeze acquisition. We expect continued growth in the core business based on the momentum we have, the pipeline we've built and the execution capabilities we've demonstrated. The addition of the Breeze stores will be an important part of what we do going forward.

We're just in our second week after closing the Breeze transaction. However, we do know that the business finished fiscal '25 well, and we are excited to welcome the Breeze team to Valvoline. The 162 stores that we added to our footprint of nearly 2,200 are well operated. And still, we see significant upside. Including Breeze, we expect to add 330 to 360 stores to the network in fiscal '26. The low end of the range implies that fiscal '26 store adds would be about the same as they were in fiscal '25. This is intentional. It gives us flexibility around company store additions as we work through the detailed planning integration for Breeze. Could require us to allocate our company resources a bit differently as we go through that process.

To be clear, we expect our franchise partners to continue to ramp their new store additions. I think Adam's presentation around that was very clear in terms of what our franchise partners have committed to. At the midpoint, we expect sales to grow about 20% in fiscal '26. Approximately \$160 million of this growth is expected to come from the 10 months that we will own Breeze. The EBITDA reflects our expectations around year 1 investments we'll need to make in the Breeze business to position it for future growth as we would with any acquisition, we've included approximately \$30 million in the outlook for fiscal '26 for Breeze.

That, along with the interest cost, in terms of the investments we'll make, the interest costs that we will incur to -- for the Breeze purchase will limit EPS growth in fiscal '26. I'll talk more in a bit about our view of the multiple we paid and how we expect Breeze to perform going forward. Our growth model creates a compounding effect through 4 reinforcing components. First, drive profitable revenue growth from new stores and same-store sales; second, expand our network with high-quality, high-return stores in strategic locations; third, increase margins through scale, mix shift and SG&A leverage; and finally, convert profitably into strong free cash flow, fueling reinvestment and shareholder returns with mid- to high-teens IRR.

Each element feeds the next. We grow, we get more profitable. We generate cash. We reinvest in the business, grow again and reward our shareholders with return of capital. This is our plan to create sustainable compounding value over the next 3 years. And the beauty of this plan is completely consistent with what this company has been doing for years. We expect to deliver 3% to 5% same-store sales growth over the medium term. This assumes normalized inflation and a continuation of the current macroeconomic backdrop that we have today. This does not change our fiscal '26 outlook of 4% to 6% same-store sales growth. I want to be very clear about that.

But it does reflect the growing mature store base as we move forward. Our same-store sales growth has a strong foundation in both ticket and transaction. And we see multiple levers across the system to add to that. We expect ticket to grow 2% to 4% from continued premiumization, additional service penetration in NOCR and net pricing. We plan for transactions to grow from 1% to 3% new stores entering the comp will be a tailwind to that. And as our mature stores have continued to improve, they're also driving transactions through both fleet expansion and ongoing growth in the customer base.

We have clear line of sight to the high end of that range. And we also fully expect to outperform the overall market, while setting solid but realistic and achievable performance expectations. In addition to solid same-store sales growth, we remain bullish on our overall network expansion opportunities. Our teams have vetted our store expansion opportunity from every direction, leveraging our proprietary data and real estate analytics tool, we have mapped, prioritized and strategized against every trade area in the U.S. and Canada. We are confident in our ability to continue to add high ROIC units to build out a network of 3,500-plus units over the coming years, in addition to the Breeze stores we just added, we expect to deliver unit growth north of 7% per year for the next 3 years with 50% to 60% of that growth coming from our franchise partners.

Every incremental dollar invested in new stores must clear a mid- to high teens IRR hurdle on maturity, non negotiable. Linne touched on this earlier. To be clear, margin expansion will be a core part of our growth story. We ended fiscal '25 with a robust 27.3% EBITDA margin, while Breeze integration creates some near-term headwinds with the addition of 162 immature stores that have not yet enjoyed the benefit of our time-tested playbook, multiple tailwinds position us for margin growth.

First, the car parc is aging and there's a clear shift to premium synthetic. Aging cars means higher need for preventive maintenance. As you've heard from both Lori and Linne. Our margins are more than 10% higher on a synthetic oil change due to the leverage we gain on labor and fixed assets at the higher ticket. Second, four-wall EBITDA margins have room to grow. We have stores today generating over 40% 4-wall margins while the system average is about 35%. So opportunity there. We're committed to optimizing returns on our mature assets.

Third, as of the end of fiscal 2025, we had over \$80 million of EBITDA to come from store investments that are still ramping to maturity. So these are immature stores that will mature over the course of time. This benefit will come in the form of gross margin expansion as well as the benefit from our franchise partner growth, which delivers nearly 100% gross margin rates to us.

Fourth, the compounding effect. Choiceful operating and capital investments will enable us to drive margin leverage while continuing to invest in the business. Our capital allocation priorities have not changed. And we're sharpening our execution focus. We will invest in the core business, specifically to expand our network with high-quality, high-return stores. You'll hear us talk about leverage in terms of net debt to EBITDA going forward. With the Breeze transaction, our leverage is about 3.2x.

As we integrate and grow Breeze and continue our core business growth, we'll be focused on getting our leverage back down to 2.5x as quickly as possible. Once there, excess cash will go back to shareholders in the form of share repurchases, unlocking value, not currently reflected in our share price. Driving down build cost is a critical lever to grow returns and generate more free cash flow. Strong business performance has enabled us to maintain and slightly improve margins in spite building cost inflation -- in spite of building cost inflation.

We're bending the curve on build costs. Over the last 2 years, we've taken 10% to 15% of cost out of the box. We're not done. We're targeting an additional 10% plus savings by fiscal '28. And lower capital costs, mean higher returns, more free cash flow, creating further margin expansion and return of capital opportunities ahead. No surprise to anyone that we fielded a lot of questions about the Breeze transaction.

Before I talk about Breeze specifically, we thought it would be helpful to take you through the life of an acquired store to highlight why we're confident the Breeze deal will create shareholder value. Our M&A approach is disciplined and strategic. We focus on scale, growth acceleration and strong returns. Our track record speaks for itself, successful integrations, expected returns delivered, competitive position strengthened. Whether one store or a large deal like Breeze, the criteria never change, strategic fit, integration capability and shareholder value creation.

Typically, we do invest early to accelerate returns. That's what we'll do with Breeze. This creates a modest year 1 profitability dip. Then we see step change in years 2 and 3, a maturity, usually by year 4, purchase price divided by run rate EBITDA is approximately 45% lower than an acquisition. While Breeze will likely take more time to integrate simply due to the number of new stores we're bringing in, 162 at once, it's almost a year's worth, we'll run the same playbook, and we should have the same results.

So what's that playbook mean for the Breeze transaction? So current Breeze revenue per store is about \$1.1 million, which is actually pretty consistent with year 1 revenue when we build a new store. We expect to expand top line significantly as we would with any acquisition. For example, areas such as NOCR, non-oil change revenue and fleet represent attractive growth opportunities with the Breeze transaction. At the same time, we'll gain leverage efficiencies, and we will capture synergies.

As a reminder, when we announced the Breeze transaction, the EBITDA multiple was around 11x. With acquired EBITDA of approximately \$45 million, our effective purchase multiple was around 13x. Through a combination of sales growth, margin expansion, synergy capture, we expect to more than double EBITDA at maturity, bringing the effective multiple down to closer to 7x. Despite the FTC-driven divestitures impacting the deal economics, this acquisition will still create significant value over time.

Organic profit growth and improved capital efficiency compounds into strong free cash flow, growing 4x to 5x over the next 3 years from \$48 million in fiscal '25 to \$200 million to \$250 million by fiscal '28. Near term, excess cash will be used to reduce Breeze related debt. We've committed to returning to 2.5 turns of leverage in 18 to 24 months, and we are going to work to accelerate the time line. Once within the range, we'll return capital to shareholders via share repurchases.

Combined profit growth and buybacks will drive mid-teens EPS -- mid- to high teens EPS growth over the period, and this includes our expectation of much more modest EPS growth in fiscal '26 due to the Breeze interest and the impact of integration costs. As I said at the outset, this is an outstanding business that has delivered incredible results for a very, very long time. And our team is committed to continue delivering on a set of financial targets that we feel are very attractive.

We expect to deliver 3% to 5% same-store sales growth and 7-plus percent network growth, generating 9% to 11% net sales growth that is after the 20% growth that we expect to see in fiscal '26 due to the Breeze acquisition. We expect 9% to 11% per year following that. The foundation is set, and we're on pace to expand margins by 100 to 200 basis points. Linne took you through that. We'll create leverage on the bottom line and deliver low to mid-teens EBITDA growth.

Free cash flow will grow to \$200 million to \$250 million, 4x to 5x of what we delivered in fiscal '25. Earnings growth and disciplined capital stewardship will deliver mid- to high teens EPS growth, positioning us for top quartile shareholder returns.

To close this out, we're the category leader with a proven track record. We have the scale and capabilities to capture significantly more market opportunity than we have today. We're executing a clear strategy with a road map to more profitable growth and higher returns. Fundamentals are strong and the team is fully committed. We'll continue to be disciplined capital stewards. I'm more excited to be a part of this company today than when I joined just 7 months ago. This is a compelling investment opportunity. And we're committed to unlocking value for all of our stakeholders. Really appreciate your time.

We're going to take a few moments to reset the stage for Q&A and then we'll get back to it. Please stay where you are. Thank you.

Question-and-Answer Session

Elizabeth Clevinger

Investor Relations Executive

Let's kick off our Q&A session today. First, I'd like to welcome back to the stage our management team that you've already heard from today. They are joined by Laura Carpenter, our Chief Customer Officer; and Brian Tabb, our Chief Development Officer. [Operator Instructions]

We'll start with our first question.

The medium-term outlook is 3% to 5% same-store sales, but the guidance for FY '26 is for 4% to 6%. Can you elaborate on the difference? Is it conservatism? Or is the business just stabilizing to lower organic growth?

Adam Worsham

Senior VP & Chief Franchising Officer

Thanks for the question. As we think about the algo, it's important to us to set targets from an overall growth perspective that are solid, but realistic and achievable. We have clear line of sight as we said, to the high end of that range, and we're committed to doing everything we can to deliver that. However, we're also realistic about our maturing store base. We're realistic about the macroeconomic backdrop that we're in today. And while we see no reason to not be able to deliver on that, at the high end, we want to give ourselves the flexibility and frankly, set, again, reasonable and realistic targets.

In terms of the 4% to 6%, that's much more near term. And again, we see clear line of sight to deliver on that, and we're committed to delivering on that.

Elizabeth Clevinger*Investor Relations Executive*

Okay. Our next question is on margin expansion. Margin expansion can stem from 3 drivers: one, same-store economics improve over time; two, mix of franchise versus corporate, three, as total company grows, leverage fixed costs and the margin expansion you laid out. What portion should stem from 1, 2 and 3? How should we think about the levers and where is the most risk?

Lori Flees*CEO, President & Director*

Overall, I think Linne covered it well in terms of 4 drivers. There's one missing, which is just the car parc evolution, which will drive some margin mix expansion. When you look at -- that will drive a bit, but the most comes from the 3, I think, that were mentioned. Operational efficiency is driven by both transaction growth with a lot of the fixed overhead in the stores remaining constant. So there's margin as we continue to grow our mature stores in transactions.

And just to remind you, in 2025, we grew our transactions across our entire network in Q4 and for the whole year, in our mature store base as well as across the network. So we have a track record of continuing to do that. But that, combined with the efficiency work around labor management and store operations that will be a big chunk of the margin improvement.

Our mix shift will drive naturally a good chunk, not -- probably not as much as the efficiency on the operational side and then SG&A. So I would say that the book ends will drive the more meaningful and then our portfolio will add to that as well as a car parc. I would also just say that the 100 to 200 basis points of growth as a management commitment. We see line of sight for higher than that. We also want to be a bit tempered same with the same-store sales growth that the macro environment continues to be something we want to be cautious about. One, as we think about -- we have great pricing power, but we want to be careful because it is a fragmented market and customers have a lot of options, not to overplay pricing in our algorithm and be tied to doing that in the detriment of long-term growth.

So I think similar to what Kevin was trying to outline, we're trying to be conservative. We see line of sight at the top end of the ranges, and we see upside. But we want to be tempered because there are downside risks. And so what you'll see is we've taken both of those into account, and we're laying out commitments that we feel highly confident we can achieve.

Elizabeth Clevinger*Investor Relations Executive*

Thanks, Lori. Next, we'll turn to a question on our franchisees. Can you discuss how conversations with new franchisees are progressing and provide any color how you expect the base will evolve over the next 3 years. As the system grows, how do you ensure that franchise and company-owned strategies remain aligned and consistent?

Adam Worsham*Senior VP & Chief Franchising Officer*

Yes. So I'll start with the first as far as conversations with new franchise partners. As you all can imagine, we're talking to a very diverse group of interested parties. So one, we've got a long, a very high tenured base, and those franchise owners have told us that they care about their legacy, they care about their people. They've asked us to engage various firms that we feel could be great partners if and when they look to exit. So those conversations are ongoing and there's significant interest there.

And then when you get down to more of the traditional family office funds, a lot of times being the industry leader, I think we've got the advantage where it's less about us selling them. I think they see it in the data. They see it in the performance, as I talked about earlier. It's more about can we carve out enough or can we give them enough territory that allows them to expand and meet their needs. So those conversations are ongoing. As I mentioned in my presentation earlier today, we're targeting an incremental 100 to 150 units. And it will come from those new partners that we're talking to.

There's significant interest there, and we're excited about bringing in those new partners to help diversify our network and help us generate that roughly 1/3 of the unit commitments. On the next question around how do we ensure that we align on -- I believe the question was around margin. What -- can you repeat the question, Elizabeth?

Elizabeth Clevinger*Investor Relations Executive*

Of course, as the system grows, how do you ensure that franchise and company-owned strategies remain aligned and consistent?

Adam Worsham

Senior VP & Chief Franchising Officer

Strategies remain aligned. Thank you. Yes. So I think it's more about at the highest level, valuing our primary -- our primary goal is to drive shareholder value. Our franchisees primary goal is to be more profitable tomorrow than they were today, right? And those are very much connected. I think the 3 items I would hit on, we talk about how we generate that alignment. One, it's about a relationship. I think Valvoline is very unique. We're in the business with our franchise partners. We've been working with them many times 25-plus years.

So there's significant trust. And I think that personal kind of relationship and commitment we have to each other goes a long way. I think the second thing we started doing this around 2 years ago, and I think it's worked really well for us is we've kind of -- we've adjusted our incentives that we have for our franchise partners to ensure they are aligned with our mutually established goals. So we have incentive in place for driving strong same-store sales growth.

We have incentives in place for franchisees to remain on top of or ahead of their development commitments. And those incentives are driving win-win solutions and partnerships for both Valvoline and our franchise partners. And the last thing I would hit on is the contractual commitments. So we know how profitable or how valuable, I should say, having exclusive development rights are. And we structured those agreements in a way where our franchisees continue to maintain those exclusive rights. But in order to have that, they have to stay on top of or ahead of their commitments. So I would say, again, the 3 things we use to generate alignment is our relationships, the incentives we have in place as well as the contractual commitments.

Elizabeth Clevinger

Investor Relations Executive

Thanks, Adam. The next question is on our network growth. What does the road map to 3,500 stores look like? And how many locations do you believe the market can ultimately support?

Brian Tabb

Chief Development Officer

So our current piece of growth will get us at 3,500 units sometime in early 2030s. But I think what we're most excited about is the work we're doing around driving down capital costs. And by driving on those capital costs, we see a path beyond that 3,500 and the path is pretty clear. I believe Kevin and both Lori mentioned some things that we can drive growth in their presentations. Lori mentioned that currently, we only have 6% market share. So a ton of room to grow and eat more market share as we expand.

Kevin also mentioned that only around 40% of the current car parc lived in 10 miles of existing Valvoline. So tremendous opportunity to grow that percentage upward as well. With the momentum we've had through Adam's leadership, the commitment from the franchisees to add 50% to 60% of growth going forward, along with over \$1 billion of committed growth from them. We see a way to expand our growth beyond 3,500, while certainly still driving higher return on invested capital.

Elizabeth Clevinger

Investor Relations Executive

Thanks, Brian. What role do you see technology playing in driving margin expansion over the next few years?

Linne Fulcher

Senior VP & COO

So much like I discussed earlier, technology is going to be critical to margin I'll give you some examples earlier around Workday. But let me back up just for a second. When I joined Valvoline, I was extremely impressed with the amount of data that we had. And we believe and we're pretty clear that we're leading in this industry around our technology and our data. But compared to other retailers, we still have some catch-up to do. And so I've discussed with you, we've done a lot with Workday using technology really dialing where the efficiencies are. And we see using technology to both manage efficiencies and gain more efficiencies out of the box to actually gain a little more control and/or forward view of what's happening inside the marketplace.

For example, one thing I didn't hint to is our data. We spent a lot of time taking the data that we had in cleansing it and really categorizing it in such a way where we can quickly get our hands on it and understand the patterns that are happening inside the environment, which allows us to forecast better and understand better when forecasts of what's occurring. But there's other things we're doing that I didn't share with you. We've rolled out a brand-new really high-tech digital camera systems, about 600 stores last year were finished out this year that is allowing us to hone into the stores and actually pick up gaps to use the technology more gaps in our processes.

And when we make a change to something we can actually dial into the stores and see is it behaving as we thought. Are we returning what we thought we would get back out of these type changes. So whether it be SuperPro that I've talked about, whether it be Workday that I know I exhausted in the presentation this morning on what we still have to gained in labor. We're using eyes in the sky in the stores to monitor and measure the efficiencies that we're expecting. And we've got a plethora of data really categorized in such a way to get our hands on that will both give us insight into what we expect to expect or expect instead what we expect as well as use the data to start building out new things around customer propositions and better ways to serve our guests.

Laura Carpenter

Senior VP & Chief Customer Officer

And if I can build on that, specifically from a marketing perspective, I think technology will certainly play a role in marketing efficiency. It already is. When you think about AI and machine learning, which we already are implementing in our marketing programs that creates the usage of that data that you referenced in a much more efficient way. And so I'll give you a couple of examples of things that are already happening. Campaign, automated billing, automated bidding and campaign -- I can't say the words. I'll start over. Sorry about that. Automated bidding and campaign management, particularly within search, right? That's already happening today.

Next best action within our life cycle programs, that's our retention program. So that's helping us to really understand and be efficient around delivering the right offer in the right channel at the right time to the consumer to not avoid waste and subsidy. And then finally, I would say everybody is expecting on the marketing front, a reduction in production costs. for content creation. And so those are some of the things that we're already implementing and we're already looking for those improvements.

Elizabeth Clevinger*Investor Relations Executive*

The next question stays in the marketing space. How do you decide where to allocate marketing dollars to optimize both customer acquisition and retention?

Laura Carpenter*Senior VP & Chief Customer Officer*

So I think the first thing I would say is we really think about our marketing spend as an investment versus just a spend line item on the P&L. And to that end, every investment we do has a measurement component, particularly within marketing, we're looking at return on ad spend against every performance channel and every campaign, whether that's acquisition or retention focused, and that's driving decision-making. And specifically around acquisition, I would give you an example because a lot of people are skeptical about the return on acquisition because it is more expensive to acquire a customer, obviously, then to retain.

And even our most -- our highest offer, a promotion to try to drive customer acquisition, it's still driving incremental profit on that first visit. And so those are some of the decisions that we make in terms of the balance of the spend between acquisition and retention. I would tell you, again, from an efficiency standpoint. As we continue to build on the strength of our brand and now scale to a national level, it affords us opportunities to buy in channels that we couldn't previously at that national spend level. And that will give us the opportunity, again, not only to expose our brand to more consumers from an acquisition perspective, but it also makes everything else from a retention or a demand capture perspective, much more efficient.

Elizabeth Clevinger*Investor Relations Executive*

Thank you, Laura. How is Valvoline addressing the inherent terminal value risk associated with the shift to EVs?

Lori Flees*CEO, President & Director*

I tried to cover this in the remarks I made earlier. The reality is the time frame with which EVs are going to grow as a percentage of the car parc and as of the percentage of the car parc that we typically serve. It's a pretty extended runway. We're looking at well into the 2030s before it would start to have an impact if we did nothing. And the reality is, is we're not standing still. So I think we have done pilots. We have been engaging EV customers. The technology is still evolving. But there are key maintenance requirements and our asset base, both our footprint, our relationship with fleet customers and the makeup of our stores, we can leverage our assets to serve EVs.

Now the menu is going to look different, and the way we price that menu will actually have to be fit for purpose for an EV. But everything right now as it's evolving, gives us great confidence that we are in a position, both brand and consumer trust in our brand that we will be able to evolve as necessary over time. It's quite easy to think about in a 2 or 3 base store as a car parc evolves around that store. You can start to customize a bay to serve a different vehicle powertrain. And so because we can actually start to flex our store base and the bays. And think about each bay is serving specific guests, we can actually make that evolution fairly seamlessly location by location.

Elizabeth Clevinger

Investor Relations Executive

Our next question is on the Breeze deal. On the Breeze deal, it was mentioned the divestitures pushed this from an A+ steal down to a B or a B+. Is that based solely on locations? And can you walk us through how those locations can get average unit volumes up to about \$1.7 million and in line with core Valvoline? How does it fit into this medium-term growth algorithm?

Lori Flees

CEO, President & Director

Yes, great question. I'll let you cover the impact on the medium-term growth algorithm. What I will say is, having to divest the number of stores that the FTC required in an auction timed process is what really changed the economics from an A+ deal to a B or B+ deal, the amount that we had to pay and then sold those stores for. And I think Kevin was quite clear on the multiple change is what changed the economics of that deal. And when we talk about a post-synergy multiple of 7, that multiple would have been much less had we not had to divest those stores at the prices that we did.

But looking at the store base that we have, it's not like we got rid of the best stores or they were stores that were roughly average. We've looked at every single store in their portfolio and run it against our real estate analytics, which has proven to be very robust forecasting mechanism of what our brand, our fleet and marketing capabilities and our playbook will generate in terms of volume and return. So we run that real estate model against every single site, the 162 that we've maintained.

And we know that there's significant upside on the sales line, when you take our marketing playbook plus our fleet penetration in those regions, plus the SuperPro process and technology, which enhances the service experience and the retention rates. We know that we can get it up to the system average. Now there'll be some stores, particularly in California, which will be higher than that average, and there will be some in smaller locations, that will be lower. But we feel quite confident that there's a significant upside that will drive margin improvement.

When you grow a store from \$1 million to \$1.1 million to \$1.7 million to \$1.8 million, that margin accretion is very attractive. There will be other synergies as well as we integrate that business more fully into Valvoline from a G&A perspective. But when we buy those stores, we also invest -- they do have to do some investment. They do spend money on marketing, but do not have the efficiency and/or the mechanisms that we do to drive the kind of volume. So there will be some investment in marketing.

We'll have to invest in technology and training as we integrate them into our portfolio. So there are some investments that we have to make in the short term, and that's the reason why you start with a higher EBITDA, it comes down a bit before it accelerates. That is the process that we use for every independent acquisition, whether it's 1 or 3 stores. We just happen to be taking on 160 over time. And the algorithm that we've placed and the commitments that we're making for FY '26 take into account a measured approach for how we integrate that business into ours over time.

We're not assuming we can get that all done in a short period of time. We still have a very active pipeline in the core business that we had before Breeze that we'll still want to move against. But it does create return even with the required FTC divestitures.

John Willis

Senior VP & CFO

Lori, I think you covered it really well. As I said in my remarks, we expect Breeze to add about \$160 million to our revenue in '26, about \$30 million in EBITDA, and that's for 10 months of ownership. As we think about what that means for the medium-term algorithm. I think Lori explained it very well. The short answer is we would expect those 162 stores to act much like any store that we acquire, and we tend to acquire 30 to 40 stores per year. We run the same playbook on those stores. We invest incrementally to integrate those stores into our system, into the training program, et cetera. And then we start to see that ramp year 2, year 3, year 4 as they grow towards maturity. We expect the same thing to come from the Breeze locations that we just acquired.

Elizabeth Clevinger

Investor Relations Executive

Our next question turns to our fleet business. On the fleet business, how large is that as a percentage of overall revenues? And can you help us understand the margin associated with that business relative to the overall company margin rate?

Laura Carpenter

Senior VP & Chief Customer Officer

Sure. I think Lori mentioned it in her comments. From FY '22 to now, we've seen a 17% compound growth rate in top line revenue for the fleet business. And yet, it still only represents less than 10% of our overall net sales. And so again, that's why we're bullish on the upside of that business. In terms of the margin question specifically, it is higher than consumer, and that's based on a couple of factors.

The average ticket, even with a discount for fleet is higher than consumer. And that's based on the fact that they have a higher attachment rate of non-oil-change revenue, and they have a higher penetration of synthetic based on the age of the vehicles that they're driving. And so those factors drive that higher ticket, which in essence gives us the efficiency and labor to create margin.

I would talk a little bit about why it's an area of focus and what we're doing just to build on that because, again, if you look at the fleet the car parc, the vehicles and operation growth as well as the miles driven growth is outpacing consumer. So again, there's a larger opportunity here in front of us based on the share of that business that we have today. And there's a couple of areas that we're really focused on. I would say we have made significant investments and continue to make significant investments in our sales and marketing capabilities and resources to support that business.

We are partnering in different ways with the fleet management companies. And we're also partnering with technology companies, as Linne mentioned, like auto integrate, to help drive our capabilities the way that we can service those customers in the fleet space.

The second area is franchise enablement. And so we've really started to expand our ability to help them with their sales capabilities at both the local and a national level so that we can bring the learnings that we've had in our company stores as the franchisor to the franchise business.

Elizabeth Clevinger

Investor Relations Executive

Thanks, Laura. Next question. How do you manage net sales and margin performance across the company-owned store system?

John Willis

Senior VP & CFO

Sorry, could you repeat the question, please, Elizabeth?

Elizabeth Clevinger

Investor Relations Executive

How do you manage net sales and margin performance across the company-owned store system?

John Willis

Senior VP & CFO

Sure. Well, first of all, robust technology and a lot of robust data gives us direct insight on a daily basis into exactly how each and every store in the network performs. And so we can take very quick action if we see dips in performance we can also take learnings from our top stores and drive that through the network. We've talked about it before. We do quartiling but we also do deciling so that we can understand the performance of each and every store in the network and using the data that Linne talked about, we can actually tease out what's driving better performance, what's driving lower performance and apply those learnings really across the network. And that's very, very powerful for us.

Linne Fulcher*Senior VP & COO*

I'll add to that. So like any retailer, what Kettle was just speaking of, we dial into today. We watch stores, we watch performance, we know our top, our bottom we learn from the top. We apply pressure to the bottom. We understand -- is it microeconomic factors? Or is it operational factors we got to get our hands around? Then there's a longer view that I want to add is that the data that I talked about earlier and understanding of the marketplace. We know what we project performance to be. We know where the rises and falls are throughout the cycle of the car parc annualized over 365 days.

We understand what our biggest time periods and time frames are. We watch the -- as the car parc evolves and mileage interval goes up, we know what to expect against our customer base. Are they hitting those intervals? And so we actually have the ability to watch and understand with the businesses that we are forecasting, we're projecting and how that's playing out to then if it doesn't, to dig in and understand why and make adjustments to our forecast.

So very close control on the day-to-day operations of it with also a macro view of how it's progressing and how we would apply those changes in the levers that we would pull for the longer-term view of the performance.

Elizabeth Clevinger*Investor Relations Executive*

The next question is on our build cost. How is the team progressing on initiatives to lower upfront capital? The slide describing franchisees' returns indicated that the initial investment was approximately \$2 million. Is that what franchisees are currently investing? Or is that the level you are targeting? Is the 10% reduction intended to offset likely inflation, keeping the build cost the same?

Lori Flees*CEO, President & Director*

So I think Brian cover the capital cost reduction to date as well as going and then you can talk to the franchise piece.

Brian Tabb*Chief Development Officer*

Sure. So as Kevin mentioned, we've reduced our capital spend on a per project basis by about 10% to 15% over the last couple of years. We do have clear line of sight to put another 10% to 15% going forward. So what I'll do, if you don't mind, I'll touch on a few things that we're working on that we've already to make the box little cleaner already and to drive higher returns.

Number one, we've introduced more 2 bays into the system. 2-bay buildings involve a lower upfront capital spend we build them in a manner that we can expand them to a 3-bay or a 4-bay in the future if the market dictates. Going forward in 2026, you'll see about 60% of our new builds will be those 2 bays. Secondly, with Adam's support and leadership, we've partnered with the franchise community, and to you to take a new look at our current prototype, really dug in anything from the specs to the designs, truly create a leaner, more efficient prototype that can deliver some significant savings.

What we'll see going forward is the number of builds of this new prototype will increase exponentially from '25 to '26. It generated a lot of savings there. We are also, which is exciting, working on a new prefab model that we will pilot in 2026. That will do a couple of different things. That will not only increase speed to market, but it will greatly reduce the spend that we spent with contractors.

And then lastly, we're working on another design to reduce the square footage of our basements to drive costs even lower. So we're really at the mindset of lowering and addressing capital spend, and we're not compromising customer or employee experience.

Adam Worsham

Senior VP & Chief Franchising Officer

Yes. And I think on the franchise side, one thing I'll say before Brian got into the organization, development was very much handled in isolation, meaning company was kind of focused on our own development opportunities. Each franchise system was focused on their own, and there wasn't a lot of collaboration. There wasn't a lot of sharing. And that's changed over the years. We now have a development council. We're actively meeting. And as you can imagine, our franchisees are very entrepreneurial in spirit and they continually work with us and look for ways to lower capital cost.

I think we were talking about capital cost, it becomes challenging, right, because across regions or certain local and regional requirements that are going to drive certain costs up, et cetera. But we are seeing costs from some of our franchise partners in certain markets below the \$2 million that was initially quoted.

Lori Flees*CEO, President & Director*

And I'll just add that we're early on in the Breeze discussions. With the FTC review, we couldn't get into anything competitively sensitive. But in the last 2 to 3 weeks, we've been really encouraged by the Oil Changers team and their site design and cost. And therefore, whenever you -- when we buy small acquisitions, these are not small operators that are building stores, but Oil Changers has been buying and converting and building stores. And so they have -- it's a fresh chance for us to look through what they're doing that we could actually port into our network.

The other thing that they've had good success on is build-to-suit. So they have a couple of build-to-suit partners where they lower the capital costs consistently, varies considerably with a high rent expense. And this is something that we have been trying to build some capability and partnerships for because we have small franchisees who do not have the size in order to have a dedicated real estate development team to manage those projects. So by giving them a build-to-suit partner, not only can they lower the capital cost but they have a turnkey solution with which to add units.

In our last 2 franchise workshops are smaller franchise partners, they may have 5 to 10 units. They have been asking for more solutions and more support so that they can double their units within their smaller systems. So I think some of the -- some of what we're seeing within the Breeze Oil Changers team is pretty exciting and will lead to more potential for us.

Elizabeth Clevinger*Investor Relations Executive*

Lori and Kevin, the next question is directed to you. From your perspective, why hasn't this been a better performing stock? And what do you think the market most misunderstands about Valvoline?

John Willis*Senior VP & CFO*

I'll start. Having been here 7 months, one of the things that, again, I was just so impressed with when I joined is the team and the quality of the business. I think as I look at it, and I said this in my remarks, I think there may be 3 things that contribute to the -- what I would call a misunderstood company. It's an exceptional company that is underappreciated, let's say. Number one, a lot of change has occurred since the separation of the products business. Investments have been made to really set a foundation for growth. And I don't think the market really appreciates the value in that focused more on the now, not on the future.

I think the second thing is the 3 refranchising transactions happened very close together. That wasn't originally the plan. Lori can talk to that. But those ideally would have been spread out more, but they did happen very coincident with one another. And I think that created a lot of noise in the system. While those will create value, those transactions will create value because of the development agreements that came with them. I think that contributes to, call it, an underappreciation of the company and the potential.

And I think the third part is the overhang from that extended Breeze transaction. I mean, that deal was announced in February. We just closed it a couple of weeks ago. I think that creates some overhang. Hopefully, by what we've been able to show you today, tell you today and maybe most importantly, commit to today, you can actually see that there is an incredibly bright future for this company and this organization that should translate into a much higher multiple and a much higher value from a stock price performance perspective.

Lori Flees

CEO, President & Director

Yes, I'll just add that apart from Breeze, everything that we have done since we became a pure-play retailer we've been talking about. So we talked about wanting to agitate franchisee unit growth because we were underpenetrated, not just in the company markets we operated, but on the franchise side. And we needed to increase the development commitments that they were putting which we have done, and I think Adam demonstrated that pretty well.

We talked about franchising white space markets. We've done that. We brought in partners like CMG and another couple in areas that weren't being developed at all. We talked about bringing in new capital to back existing franchise partners who had stopped developing because of where they were and their time horizon in career. We've done that with companies in the middle of the country, there's still more in discussions and underpin the additional opportunity that Adam talked about.

And we talked about the potential for refranchising. So all of the things we've said we were going to do, we've done. I think the refranchising piece came much faster than we thought because there was such demand, and the demand came from the economics and the returns that Adam shared relative to QSR, but it came very quickly. And I think our misstep was we did -- we were not as transparent in disclosing the information around those transactions to make it easier for you to follow the underlying business momentum versus the impacts of refranchising.

I think as we look at Breeze, obviously, with the FTC required divestiture, there would be concerns around how much value can be created. Our intent today was to share more information on that to share our commitment around what the business will do and how much upside there is. So I think part of this is us learning around how to provide more information so that investors can truly look at the business performance and hold us accountable.

Elizabeth Clevinger

Investor Relations Executive

Lori, one last question for you. What would you like investors to take from today's update?

Lori Flees

CEO, President & Director

I think it's a pretty simple message. One, we are the category leader, and we have built amazing moats from an asset and a capability standpoint that we have built over time, but that have also delivered industry-leading performance and we'll continue to do so. Two, there's still a lot of upside in our business, whether it's the margin expansion that Linne talked about or the network acceleration or network growth footprint growth and the acceleration on the franchise side for new unit delivery.

I think those things will drive profit faster than sales -- profit growth faster than sales over the medium term. And that, combined with disciplined capital allocation, will lead to top shareholder returns. So I think as you step back and look at where we stand today, we've done a bunch of the investment. Some of the lumpiness of the refranchising in Breeze is -- will move up -- will move -- continue to move forward from that. And as you look at '27 and '28, it will be a very attractive, high profitable and high cash growth generating business. So we think it's a great investment opportunity.

Elizabeth Clevinger*Investor Relations Executive*

Thanks, Lori. This concludes our presentation today. We appreciate your interest in our story, and thank you for joining us.

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