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Valvoline Inc. (VVV) Q1 2026 Earnings Call Transcript

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Q1: 2026-02-04 Earnings Summary

Insights

EPS of \$0.37 **beats by \$0.04** | Revenue of \$461.80M (11.47% Y/Y) **beats by \$780.25K**

Valvoline Inc. (VVV) Q1 2026 Earnings Call February 4, 2026 9:00 AM EST

Company Participants

Elizabeth Clevinger - Investor Relations Executive

Lori Flees - CEO, President & Director

John Willis - Senior VP & CFO

Conference Call Participants

Mark Jordan - Goldman Sachs Group, Inc., Research Division

Skylar Tennant - Morgan Stanley, Research Division

Maksim Rakhlenko - TD Cowen, Research Division

David Bellinger - Mizuho Securities USA LLC, Research Division

Steven Zacccone - Citigroup Inc., Research Division

Scott Stember - ROTH Capital Partners, LLC, Research Division

Steven Shemesh - RBC Capital Markets, Research Division

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Tom Wendler - Stephens Inc., Research Division

Sarah Morin - Piper Sandler & Co., Research Division

David Lantz - Wells Fargo Securities, LLC, Research Division

Presentation

Operator

Hello, everyone, and welcome to the Valvoline's First Quarter Fiscal 2026 Conference Call and Webcast. My name is James, and I'll be your operator for this call. [Operator Instructions] The conference call will now start, and I'll hand it over to our host, Elizabeth Clevinger with Investor Relations to begin.

Elizabeth Clevinger

Investor Relations Executive

Thank you. Good morning, and welcome to Valvoline's First Quarter Fiscal 2026 Conference Call and Webcast. This morning, Valvoline released results for the first quarter ended December 31, 2025. This presentation should be viewed in conjunction with that earnings release, a copy of which is available on our Investor Relations website at investors.valvoline.com. Please note that these results are preliminary until we file our Form 10-Q with the Securities and Exchange Commission. On this morning's call is Lori Flees, our President and CEO; and Kevin Willis, our CFO.

As shown in the accompanying presentation, any of our remarks today that are not statements of historical fact are forward-looking statements. These forward-looking statements are based on current assumptions as of the date of this presentation and are subject to certain risks and uncertainties that may cause actual results to differ materially from such statements. Valvoline assumes no obligation to update any forward-looking statements unless required by law. In this presentation and in our remarks, we will be discussing our results on an adjusted non-GAAP basis, unless otherwise noted. A reconciliation of our GAAP to adjusted non-GAAP results and a discussion of management's use of non-GAAP and key business measures is included in the presentation appendix.

With that, I will turn it over to Lori.

Lori Flees

CEO, President & Director

Thanks, Elizabeth, and good morning. Thank you all for joining us today to review our first quarter results. We delivered a strong quarter to start the fiscal year, driven by strong productivity gains in our stores, network expansion and margin improvement, which translated to meaningful earnings growth. I'd like to begin by thanking our team members and franchise partners for their execution in delivering these results. At our December investor update, we shared our targets and are focused on executing against those. Our first quarter performance reflects good progress against these commitments.

Starting with top line highlights. We saw another double-digit increase to both system-wide store sales and net sales. System-wide same-store sales grew 5.8% and 13.8% on a 2-year stack. This quarter, ticket contributed the majority of the comp with all 3 levers contributing. Net price and premiumization were the largest drivers. We also saw continued positive transaction growth despite a tougher year-over-year compare. As we look at same-store sales breakdown between company and franchise stores, franchise was slightly higher than the system average for the quarter and for the 2-year stack. We continue to grow our active customer base in line with what we expected, while bringing in new customers, including fleet to the network.

We continue to innovate our marketing to connect with new customers. We have some fun taking inspiration from college sports with our Instant Transfer portal, which was designed to invite drivers to transfer from their current oil change provider to Valvoline. Customer demand for our nondiscretionary services remains resilient, and we are not seeing signs of trade down or deferral. And our customers continue to tell us they are delighted by our quick easy trusted service and are giving us a 4.7 star rating across our network and NPS scores over 80%.

Looking at network growth, we saw significant store additions this quarter. The onetime contribution of 162 stores from the Breeze transaction is a noteworthy step forward in our path to a 3,500-plus store network. The Breeze business is performing as expected and integration activities are underway. Our teams are working well together as we integrate the organization. For example, the team has already consolidated and prioritized our acquisition and construction pipeline. We continue to be excited about both the growth potential of the Breeze stores as well as the opportunities to share best practices across the team.

Outside of Breeze, we added 38 net new stores with 10 coming from franchise. While franchise openings were more modest in Q1, we have a healthy pipeline for both company and franchise and are confident in our full year expectations. We're pleased to see expansion in both our gross and adjusted EBITDA margin, driven by the work we discussed at our December investor update. Kevin will cover the details. But as we think about the rest of the year, I'll remind you that Breeze is only reflected in our Q1 results for 1 month, and we still expect near-term headwinds on our margin rates with the addition of 162 immature stores.

Driving productivity within our stores, growing our network and expanding margin rate translates into meaningful profit growth. And in Q1, both adjusted EBITDA and EPS grew double digits year-over-year for the quarter and grew faster than top line sales. The first quarter demonstrated the strength of our business and the continued resiliency of customer demand. We executed our playbook to deliver meaningful profit growth to start the year. As we look to the remainder of the year, we feel it's too early to make changes to our guidance, but we are pleased with our Q1 performance.

While not directly in our financial results, I want to share a couple of team highlights. First, Valvoline earned the #1 ranking within the automotive services category for Entrepreneur Franchise 500 for the fourth year in a row. And we were also named one of Yelp's most loved brands. These recognitions highlight the strength of our franchise model and the strong customer trust and loyalty built across our network.

And second, I want to thank our customers, franchisees and teams for an incredible 16th annual campaign with Children's Miracle Network. Through funds donated by guests at the time of service, corporate-led fundraising efforts and contributions from franchisees, we raised more than \$1.8 million for local children's hospitals in the communities where we operate, a nearly 40% increase over the prior year.

With that, I'll turn the call over to Kevin to provide more detail on our financial performance.

John Willis

Senior VP & CFO

Thanks, Lori. We've provided a summary of our financial results on Slides 5 and 6. Let me spend a few moments to talk about some of the highlights. We saw strong top line growth with net sales of \$462 million, an increase of 11% on a reported basis and 15% when adjusted for the impacts of refranchising in Q1 of last year. The gross margin rate of 37.4% increased 50 basis points year-over-year, driven by leverage in labor and product cost, offset by increases in other service delivery costs, which includes rent, property taxes and depreciation. Leverage would have improved by an additional 50 basis points, excluding the impact of depreciation, primarily from new stores.

We remain committed to managing SG&A in the business. That said, SG&A as a percent of net sales increased 30 basis points year-over-year to 19.3%. The primary reason for this is related to a nonrecurring payroll-related benefit of about \$2.4 million in the prior year quarter. Absent this benefit, year-over-year SG&A as a percentage of sales would have declined by 30 basis points. Overall, adjusted EBITDA margin increased 60 basis points to 25.4%. On a GAAP basis, we reported a loss from continuing operations of \$32.2 million, largely driven by the loss on divestiture of certain Breeze stores that was required by the FTC. On an adjusted basis, income from continuing operations was \$47.6 million.

Turning to EPS. We saw an increase of 16%, 28% when adjusted for refranchising. As a reminder, we expect pretax interest expense to increase by about \$33 million in fiscal '26 versus fiscal '25 due to the new Term Loan B. Operating cash flows improved to \$64.8 million and free cash flow was \$7.4 million, improving approximately \$20 million compared to the prior year quarter. Taking into consideration the new term loan, our leverage ratio is 3.3x based on adjusted EBITDA for a trailing 12 months.

As a reminder, you'll now hear us talk about leverage in terms of net debt to adjusted EBITDA. As we continue our core business growth and integrate and grow Breeze, we are focused on getting our leverage back down to 2.5x as quickly as possible so we can resume share repurchase activity. All in all, the results for this quarter are strong with double-digit sales and profit growth, margin expansion and improved free cash flow.

I'll now turn it back over to Lori to wrap up.

Lori Flees

CEO, President & Director

Thanks, Kevin. We delivered a strong quarter to start the year and feel confident in our ability to deliver on the guidance we set for fiscal year 2026. The Breeze integration work is underway, and our teams are working well together. The fundamentals of our business remain strong. As we shared at our investor update in December, we're an established category leader with a track record of industry-leading performance and growth. That, along with our differentiated capabilities, will continue to drive strong margin and cash generation, positioning us to deliver long-term value to our shareholders.

I'll now turn it back over to Elizabeth to begin Q&A.

Question-and-Answer Session**Elizabeth Clevinger**

Investor Relations Executive

Thanks, Lori. Before we start the Q&A, I want to remind everyone to limit your questions to 1 and a follow-up. With that, operator, can you please open the line.

Operator

[Operator Instructions] And we now have our first question from Mark Jordan from Goldman Sachs.

Mark Jordan

Goldman Sachs Group, Inc., Research Division

This is Mark Jordan. I joined a minute late, so I apologize if this is already covered. But for same-store sales, it looks like some or all of the new Brakes revenue is now included in the calculation. And I'm just wondering what impact it had on 1Q? And then on the mobile channel in particular, how big is that business in terms of revenue?

Lori Flees

CEO, President & Director

Thanks, Mark. Yes, we mentioned during Investor Day that we were piloting opportunities to expand our reach with mobile service delivery. We want to be transparent about the definition of inclusion while we were early -- in the early stages of doing that. It is relatively small, limited to a couple of markets. And it's really tied to trying to meet the needs of both consumer and fleet demands for increasing convenience. In terms of the overall contribution into our comp this quarter, it was around 20 basis points.

Mark Jordan

Goldman Sachs Group, Inc., Research Division

Excellent. And then just one follow-up on franchise store growth. I know it usually ramps throughout the fiscal year, usually back half weighted. But can you just let us know how you feel about the pipeline for openings this year?

Lori Flees

CEO, President & Director

Yes, Mark, it's a great question. The quarter -- we had a good quarter overall for new unit additions, but it was light on the franchise side. I will note that we had 13 gross additions. We had some closures, which are unusual, relatively small for our fleet, but those netted out to 10. When we look at January, our franchise partners have opened 9 units in January. So again, a real indication that the pipeline is robust. And considering the Winter Storm Fern in the back half of January, 9 was a pretty good result. So when we look at our pipeline for the rest of the year, it's still very strong, both on the company and the franchise side. And we continue to build momentum to get to that 250 new units in fiscal year '27.

Operator

Moving on to our questions here. We have Simeon Gutman from Morgan Stanley.

Skylar Tennant*Morgan Stanley, Research Division*

This is Skylar Tennant on behalf of Simeon Gutman. First, can you speak to the complexion of sales this quarter in terms of how pricing and units are trending? Are you seeing certain trends by region or in newer, younger markets? Or do trends seem to generally be pretty broad-based?

John Willis*Senior VP & CFO*

Thanks for the question. We -- actually, in the quarter, from a cadence perspective, October, November were pretty much as expected. December was strong. We saw good growth on both ticket and transaction. Ticket was the larger contributor to our same-store sales growth in the quarter. But overall, the growth was quite balanced and good, both on the franchise side as well as the company side.

Lori Flees*CEO, President & Director*

I think the only thing we may have saw in November was a little bit of early weather in the Thanksgiving period in some of our geographies. But other than that, there weren't any notable differences or significant trends regionally across our network.

Skylar Tennant*Morgan Stanley, Research Division*

Okay. And Lori, maybe how much time do you think needs to be spent on Breeze? Can you kind of give us a sense on how much focus is needed there versus the core business?

Lori Flees*CEO, President & Director*

Yes, it's a great question. I think it's important to remember that while a sizable M&A, Breeze represents less than 10% of our financial commitments for FY '26. And you can see that the underlining business, given Breeze was only 1 month of the Q1 results is the momentum in that core business is really strong. Now we continue to be excited about the growth possible in the 162 Oil Changers stores that we've added, and we're certainly starting to share some good best practices. But I think we've got to keep context that Breeze is an important asset, and we are going to spend time to integrate it and integrate it well, but it is a small portion of the overall financial picture for us.

Operator

Moving on to our next question from Max Rakhlenko from TD Cowen.

Maksim Rakhlenko

TD Cowen, Research Division

Congrats on the nice quarter. So with the strong 1Q comps and easing compares the rest of the year, how should we think about the shape of the year in the context of your guide? And then just any comments on the first month of 2Q?

Lori Flees

CEO, President & Director

Do you want to start and then I can cover Q2.

John Willis

Senior VP & CFO

Sure, sure. Yes. Thanks for the question. I mean we're -- as we said at our Q1 call and on the investor update, we've taken a measured approach to the outlook for the full year. Really, really pleased with how Q1 played out. It was a strong quarter, and we're very happy about that. There's still a lot of year left, and we want to continue to see how that unfolds. But we're confident in the guide that we put up in Q1 and reiterated at the investor update in December. So again, we feel really good about where we are. There's a lot of year left. We're still working through the Breeze transaction, obviously, in terms of integration. But Breeze also performed as expected for the month that we owned it in Q1. And so overall, it's a great start to the year. And again, we're very confident in meeting our commitments for the year.

Lori Flees

CEO, President & Director

Max, as we think about Q2, apart from Winter Storm Fern, our start to the quarter was really strong. Now with the snow and ice conditions that hit many of the geographies that we operate in, particularly on the company side, momentum obviously slowed, and we're still, in many areas, Kentucky included, still not thought out completely, which has impacted consumers kind of return to normal activity. I think as you look at the forecast and the groundhog said we have another 6 weeks and the polar vortex that they expect coming and the storms that could follow with that, we think it's going to take a little bit more time to recoup the transactions that pushed out.

We don't see significant customer deferral when we look a couple of weeks at a time. But we do know from history that customers will return to get their cars serviced when their normal day-to-day activities resume. So we expect that as we go out through the balance of the quarter, we'll recoup some of the volume that we obviously missed as people stayed off the roads. But overall, Q2 just before the weather started very strong.

Maksim Rakhlenko

TD Cowen, Research Division

Got it. That's very helpful. And then on Breeze, what's the latest thinking around the timing of the store conversions? How many locations do you plan to convert this fiscal year? And then what could be left for year 2 or year 3? And then how should we think about both the revenue as well as the margin impacts the rest of the year sequentially?

Lori Flees

CEO, President & Director

Are you -- on the last question because I'll have Kevin answer it, are you talking Breeze specific or more broadly on the margin and the...

Maksim Rakhlenko

TD Cowen, Research Division

How do you factor Breeze on the P&L?

Lori Flees

CEO, President & Director

Okay. All right. Yes, I'll cover the first part, which is just really our integration overall. We closed the transaction in December and simultaneous with that had to complete the divestitures that were required by the FTC. And while that may sound simple, there's a lot of co-mingling of data in every part of the business that we had to start to separate and transition that out. And so a lot of the focus in the first month was really getting that business stood up within our portfolio and stabilizing the team to ensure that they continue to deliver. And as Kevin said, they delivered exactly as expected, and we feel really good about that business.

Our teams have been meeting, obviously, you have the holiday period, but we're 2 months into integration planning. And I would say we're having the discussions around how we integrate the Breeze stores into our network and all the things like systems, and I talked about pipelines being integrated just to make sure that we're not competing against each other in any market. So there's a lot of work underway with parts of our team, but it's a little premature for me to share the specifics on store conversions. We're obviously engaging the team specifically on that.

John Willis

Senior VP & CFO

As far as the financial impact, consistent with the commitments that we made at the investor update in December, we would expect the Breeze stores to add about \$160 million of top line for the 10 months that we will own the business in fiscal '26, around \$31 million of EBITDA. And I think as a reminder, obviously, we did take on leverage to do this transaction. We expect the cash interest to be about \$33 million on a pretax basis. And that we would expect to have about a \$0.20 per share impact on EPS for, again, the 10 months that we own the business.

Operator

Next question here is from David Bellinger from Mizuho.

David Bellinger

Mizuho Securities USA LLC, Research Division

Sort of macro related, we've been hearing a lot more about these affordability concerns across most of the consumer, high prices holding spending back to some degree. But Valvoline has consistently seen trade-up activity, product premiumization. Why do you think that's the case? And does it say something about the pricing potential of this business and maybe something more you can gradually tap into over time?

Lori Flees*CEO, President & Director*

Yes, David, it's a very good question. Valvoline is a strong brand and business in a category that, as you know, is nondiscretionary. And there are a lot of tailwinds that affect us. One is the aging car park that leads us to present more non-oil change revenue services on average per customer that then gives us that lift despite the macro may be running encounter because people feel like they need to maintain the vehicle they have such that they don't have to replace that vehicle. I also think that the car park has evolved. And as the new vehicles start to age into the car park, the automotive manufacturer is the one who specs the kind of lubricant that is required. Now as a customer has a high mileage vehicle starts to get over 100,000 miles, they really do want to maintain that vehicle rather than having to trade up into a new one or a newer one.

And so those are the things that are driving some of how we've been bucking the trend. Our team educates the customer on their choices. They educate them as to the choices for their vehicle based on the mileage and the age of the vehicle and what the OEM requires. So we just run our play and educate the customer, which builds trust, and I think that serves us well. We continue to look at pricing. I think we always want to be a little cautious given the macro environment to not move too quickly. But obviously, we continue and net pricing was a contributor to the comp this quarter, and we continue to adjust our pricing appropriately given our value proposition to the consumer.

David Bellinger*Mizuho Securities USA LLC, Research Division*

Great. Great. Second question, completely different topic, maybe for Kevin. But the material weakness for internal controls that's been in your filings, that's lasted somewhat longer than the time line you initially laid out. So how much of that is simply waiting for approvals with the new systems in place? Or is there more technical work you have to do to get all that cleaned up?

John Willis*Senior VP & CFO*

Yes. Thanks for the question. The team has put in a tremendous amount of work to get us to the point where we are. As a reminder, in fiscal '25, we really had 2 aspects of the material weakness that we were working on. The first was around systems, so call it, IT general controls that needed to be put in place, remediated, tested, proven to work and proven to be effective. And we passed that test as part of fiscal '25. That was in our 10-K disclosure.

The second part of the material weakness is around business process-related controls. That work remains underway, and we continue to work with both EY, our auditor, as well as several third parties who are helping us with this project. What it really comes down to is just a massive amount of work to get everything in place in terms of controls documented, making sure that we have the right controls in place and then proving to ourselves and to our auditors that those controls are working and that the overall control environment is effective.

And that's what the team is working on as we speak and has been working on for a while. But good progress has been made. We're still climbing the hill, and it's certainly our expectation that by the end of this fiscal year, we will be able to put this to bed. As a reminder, the test or the opinion is an annual opinion. And so we won't be out of the woods on this until we get through the fiscal year and EY has a chance to review the control environment in its entirety based on the work that's been done, the testing we've done, the testing they'll do to arrive at that conclusion and an opinion.

Lori Flees

CEO, President & Director

I'll just add that both us and E&Y have -- do not have concerns on any statement -- any risk of our financial statements not being accurate and reflective of the business. So this is around business process controls, making sure they're documented, making sure they're executed, making sure they're tested. It's not any concern around the financial reporting of the business.

Operator

Next up, we have Steven Zaccone from Citi.

Steven Zaccone

Citigroup Inc., Research Division

I wanted to start on the gross margin performance because it clearly came in stronger than expected. Can you elaborate a little bit more on the strength in the quarter? And then do you see this organic growth rate of kind of 50 basis points expansion as the right run rate for the balance of the year? And then help us understand how Breeze will impact that gross margin performance since you have better visibility at this point than when you first gave guidance a couple of months ago.

John Willis

Senior VP & CFO

Yes. Thanks for the question. We were pleased with the gross margin progress that we made in the quarter versus prior year. As indicated in the prepared remarks, we were up about 50 basis points year-over-year. Labor and product were the primary drivers of that. We've been working and continue to work on the labor piece of the equation. The team has done a great job with that as we've expected. We've not only held on to but been able to improve upon that labor leverage a bit, and we would expect that progress to continue. The team is really looking at all aspects of store spend, controllable store spend and labor has been a big focus because it's the largest piece of COGS. The product side, we did see some benefit in the quarter. We have seen base oil come down just a bit.

As a reminder, we get the benefit of that, but we also pass that benefit along to our franchise partners. So those 2 are the primary driver. On the flip side of that, we did see increases to other service delivery costs, which include things like rent, property taxes, depreciation. Those increases are largely driven by adding new stores, especially the depreciation part, which was about a 50 basis point negative versus prior year, but we did also see some increases in terms of both the rent and property taxes, again, primarily related to new stores, but also just ordinary course.

In terms of the full year and the Breeze impact, as we said, we're bringing -- or we brought 162 immature stores into the system that will have a negative impact on overall margin. I believe at the investor update, we indicated that we would expect it to be about 100 basis points of EBITDA margin impact. We continue to expect that to be the case, but obviously, are working with the Breeze team and with our internal team to improve the business, to grow the business so that we can increase those margins, both gross and EBITDA.

Steven Zaccone

Citigroup Inc., Research Division

Okay. And just a clarification, the 100 bps of pressure margin, is it more weighted to grosses than SG&A as we think about the model?

Lori Flees

CEO, President & Director

It's more on the EBITDA line. It's a bit of both, but 100 basis points on the EBITDA line. Because they do have a corporate center.

Steven Zaccone

Citigroup Inc., Research Division

Okay. Second question is just you talked about pricing and ticket in particular being a bigger contributor to the comp. Just remind us, how do you see the balance of the year for same-store sales between ticket and transaction?

John Willis

Senior VP & CFO

We'd expect on an overall basis to really be balanced as we have been. As you look at fiscal '25, as we talk through that, it's more heavily weighted to ticket, but transaction growth is also very important. And I think also importantly, we saw transaction growth across the system in Q1, just as we did in fiscal '25. We would expect to see that for the balance of the year really across the system, both franchise and company. And so both are important to the comp. It has been the case that ticket has been a bigger driver, and we would expect that to continue to be the case. But again, both are quite important to the comp.

Operator

Moving on, we now have Scott Stember from ROTH Capital Partners.

Scott Stember

ROTH Capital Partners, LLC, Research Division

A question about just bigger picture potential gains that the quick lube market, particularly Valvoline is seeing maybe for people trading down from car dealerships. Could that be a potential benefit in this very high inflationary environment? Are you seeing that? I'm just trying to get a sense of where things are coming from.

Lori Flees*CEO, President & Director*

Yes. When we open a new store, and we track where our customers last got their oil changed, we know that they come from where they're going in the marketplace. And about 40 -- 35% to 40% of customers still go back to a dealership. And so we know and track that when we open a new store and we bring in a new set of customers into our system, about that same proportion are coming from outside the Quick Lube market and within dealerships. Now I don't want to get into the psyche of the customers as to whether or not they're doing that to trade down.

I think the reality is we offer a much more convenient service where it's stay in your car, you don't have to make an appointment. You don't have to wait in a waiting room. You don't have to leave your car and come back for it. It's 15 minutes or less. It's a much more convenient experience for the consumer. And I think that's really what the consumer is making the decision on. I can't -- we don't get into the details of why they decided to pick us in enough detail across our system to be able to say it's much different than that. I am sure there are people who trade down, but I think convenience is likely the largest driver of switching.

Scott Stember*ROTH Capital Partners, LLC, Research Division*

Got it. And then last question. Obviously, store closures due to Winter Storm Fern. But once stores start opening up again, could you potentially talk about potential benefits that you guys will see, whether it's batteries, windshield wipers need to be replaced because of the ice. Just talk about any tailwinds we can get from that.

Lori Flees*CEO, President & Director*

Yes, absolutely. And this time of year, we always see that. So while this storm may have been broader in reach and maybe more prolonged in some areas, the things that you're talking about are the things that are driven during this time. So batteries, batteries that are older tend to falter during this time and need to be replaced, windshield wipers definitely need to be replaced. So these are things that we typically see in our business. And as we have these weather impacts, we do try to modulate our labor. So we won't add labor. We won't do new -- as much new customer marketing during this time, and we wait until the weather pattern has passed. And then we ramp that back up again in order to serve the customers who did not get service during the winter sort of storm period. But all the things you're talking about are exactly right. This time of year, we always have storms. It just depends on when in the quarter they happen and for how long they last.

Operator

And moving on to our next question here is from Steve Shemesh from RBC Capital Markets.

Steven Shemesh

RBC Capital Markets, Research Division

So as we think about the comp, it sounds like ticket was maybe 4.5 points given the tougher transaction compare. Any color you can share just on the breakdown of premiumization list price and non-oil change revenue?

John Willis

Senior VP & CFO

Yes. We don't normally get into the specific components of it. As we look at the mix between ticket and transaction, I would say that for the quarter, the ticket was roughly 3/4 of the comp is the way to think about it. But again, as we look at the comp, we saw growth in all those categories that you mentioned on the transaction side. And in terms of ticket, also positive in terms of price premiumization and NOCR for the quarter. So again, a good balance. But yes, ticket was a bit higher in the quarter than maybe what we saw in, say, Q4 of fiscal '25.

Steven Shemesh

RBC Capital Markets, Research Division

Got it. That's helpful. And maybe just as a follow-up on a different topic. So at the time the deal was announced, you talked about 18 to 24 months from deal close to delever to 2.5x to potentially resume share repurchases. As I just kind of look at the model, at least on my end, it seems like you could maybe get there by year-end. So I guess just from where you are today, 2 months of Breeze under your belt, is 18 months still the right way to think about it? Or do you think you can potentially get there sooner?

John Willis

Senior VP & CFO

Well, we wanted to frame it up in terms of a target that we felt very comfortable with, and we're still comfortable with that. To your point, we'll continue to monitor this. And as we make progress on the balance sheet as the top line and EBITDA continues to grow, our commitment is once we're back in the range, you should expect us to return to share repurchases. So if we get there sooner, then we will, in fact, start repurchasing shares sooner as well. Does that answer your question?

Operator

Moving on to our next question here. We have Chris O'Cull from Stifel.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Lori, we noticed in the FTD that the company may start a national ad fund in fiscal '27. Can you talk about why now may be the right time to launch a fund, but maybe you're learning about the potential efficiency of national advertising and maybe how quickly the system could grow this fund over the next few years, if that's the path you move forward with?

Lori Flees

CEO, President & Director

Absolutely. You hit on the main driver. As our network has grown and the reach and densification has improved, moving from a hyperlocal-only marketing spend to a national fund drives significant efficiency. And as it relates to some of the company store spending, we've already started shifting some of our company marketing spend for stores into more national funding. And as we've proven out and shown the benefits of that to our franchisees, that's the reason why we're moving towards that. In terms of how big it could get, I think it's premature to say, but we'll obviously just keep monitoring. And as we see more efficiency, we'll obviously balance our spend.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. When do you think you would have an estimate for what the contribution rate could be? I think the FTD mentioned like 0.25 point, but I assume it will be much larger than that.

Lori Flees

CEO, President & Director

Again, I think we're working in partnership with our franchisees. And I think the FTD spells out how we're going to start. And I think based on the results and the performance of the national fund, we'll continue to optimize across the marketing pools of spend.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then I know the average sales ramp of new stores is in that 3- to 5-year range. But can you talk about the variance around that average in markets where brand awareness is high versus markets maybe where brand awareness and penetration are relatively low?

Lori Flees

CEO, President & Director

I'm not sure I caught the first part of your question.

John Willis

Senior VP & CFO

3- to 5-year ramp.

Lori Flees*CEO, President & Director*

3- to 5-year ramp. Got it.

Christopher O'Cull*Stifel, Nicolaus & Company, Incorporated, Research Division*

How does it compare in markets where the awareness is high versus maybe expansion or greenfield markets?

Lori Flees*CEO, President & Director*

Yes. So what we typically see is the ramp in the first 3 years is a bit faster if we are adding a store to a market that has good brand awareness, and it would be a little slower. But we do modulate our marketing spend given that. And that's all factored into our new unit forecast, which continue to drive really strong IRR returns in the mid-teens. And so that's factored into those forecasts.

Operator

We now move on to our next question here from Tom Wendler from Stephens.

Tom Wendler*Stephens Inc., Research Division*

You've now lapped some of the larger refranchising activity in fiscal quarter 4Q '24 and 1Q '25. Can you give us a little bit of an idea of how much the 10 stores refranchised this last quarter impacted results?

Lori Flees*CEO, President & Director*

Yes. First, I'll just comment and restate what we have been saying for the better part of last year and in our December investor update that we really don't have any plans to do any further large-scale refranchising, but we do make transfers. And I think what you're referring to is we had a 10-store transfer in Q1 from franchise -- from company to franchise. Similarly, in Q3 of fiscal '25, we had a 6-store transfer from franchise to company. And we're really doing that to optimize market boundaries so that either the franchise or company can optimize our G&A and marketing spend in a geography. Now the specific transfers in Q1 were not really material from a financial standpoint, and we incorporated that into our guidance. So unlike the previous refranchising where there were 3 transactions that happened over a 2-quarter period and fairly sizable, we're not going to continue to adjust numbers or recast them going forward for these small transfers between.

Tom Wendler

Stephens Inc., Research Division

Perfect. Appreciate the color. Maybe on a separate note here, the Instant Transfer portal campaign, I think you mentioned you saw some early success in the first few weeks of this quarter before the storm. Can you maybe give us some early reads on the Instant Transfer portal? Is that the driver there?

Lori Flees

CEO, President & Director

I wouldn't -- I would say that all of the marketing activities that we do end up driving engagement in our brand and conversion into our stores. The transfer portal was a really creative opportunity that our marketing team and our marketing partners came up with to sort of capture on a lot of the frenzy and college sports. It created very strong creative engagement, which is around brand impressions and offers, which when we look at that relative to our other social performance, it benchmarked very well. So when you're trying to find new ways to reach new customers who haven't had the experience of your brand, this kind of creativity goes a long way. And that I'm really proud of the team for some of the things that they're working on and that they've done.

Operator

Moving on to our next question. This is from Peter Keith from Piper Sandler.

Sarah Morin

Piper Sandler & Co., Research Division

This is Sarah on for Peter. First, can you just give us an update on some of the progress with your technology initiatives? Are you finding the company's move to a cloud-based tech architecture providing any competitive advantages in the channel? And then if so, what are these?

Lori Flees

CEO, President & Director

As you know, we have -- since we became a pure-play high-growth retail services company, we have been investing in retail-specific technology. In the first year, we implemented a new CRM system for both our fleet business as well as our franchise and business development businesses or areas. We then implemented SAP or the first phase of SAP in 2024. And in fiscal '25, we implemented HRIS. We also, in fiscal '25, moved our customer data into the cloud, and we have been slowly working on replatforming our proprietary system we call SuperPro for our stores. We've upgraded our infrastructure in the stores so that it could support a cloud-based architecture. And so we're in the process of becoming more modern.

And with that, you typically see the maintenance cost from a technology standpoint go down. So you get efficiency as you get into more of the capabilities of SAP and HRIS, you get more efficiencies in your back office. And then on the customer side, you end up having a better, more consistent process where you can optimize and take time out of the service experience for the customer or take labor out as you apply more technology and tools to the store day-to-day operations. So I would say this is a journey for us, but we're through some of the basic parts of the technology replatforming.

And now we're getting into the more value-added efficiency and effectiveness driving initiatives. But we don't see the investment in technology continuing to need to go up, as we've mentioned in our Investor Day update. We did grow technology spend, and we will continue to spend in technology, but we don't see the year-over-year growth of that going faster than sales. In fact, we would expect that to moderate.

Sarah Morin

Piper Sandler & Co., Research Division

Okay. That's very helpful. And then just on advertising, where are you guys leaning in most here and then just early results that you're seeing?

Lori Flees

CEO, President & Director

We have a pretty sophisticated marketing playbook that includes both what we call our life cycle management, which is us keeping in touch with the customer. We can predict when the customer is going to need to come back in for not just an oil change, but for also added services based on their driving pattern and what we see or in doing look like analysis.

So we have a fairly robust process of keeping in touch with our customers. And that we just continue to optimize in terms of how and when we insert certain promotions to that communication process. And then as it relates to new customer acquisition and new store openings, we continue to modify to drive down our customer acquisition costs in those environments. We continue to test new channels. And I would say that the performance continues to improve. Our return on ad spend is very productive, and we continue to optimize that at the same time as optimizing the discounting or optimizing net pricing for every transaction that we have in our stores.

Operator

And moving on, we now have David Lantz from Wells Fargo.

David Lantz

Wells Fargo Securities, LLC, Research Division

So you guys called out the nonrecurring payroll-related item in SG&A in Q1, but curious if you can talk through some of the puts and takes through the balance of the year.

John Willis

Senior VP & CFO

Yes. Happy to answer that. Yes, we did have a nonrecurring item in Q1 of last year. Taking that out of the equation, we did see SG&A leverage of 30 basis points year-over-year, which our commitment is to continue to do that throughout the balance of the year and going forward. As we look at the rest of the year, we should continue to see overall improvement from a core business perspective. We're very focused on scrutinizing spend across really all categories, not just SG&A, but also capital costs around store builds as well as cost of goods sold as we've talked about with labor improvement and other areas. So we're continuing to really bear down on these categories and would expect to continue to see improvement as we go throughout the course of the year.

David Lantz

Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then clearly, Winter Storm Fern is driving some choppiness around transactions. But curious if you guys could help us parse out the potential impact to Q1 comps that, that will have. Excuse me, Q2.

Lori Flees

CEO, President & Director

You mean Q2. Yes, I think it's a little too early to say. We had a strong start to the year, and our expectations really are not changing for Q2 through Q4. Obviously, we're monitoring the weather and we make adjustments. But again, if you look at history for our business, as we have a weather pattern cycle through, it just shifts around when we capture the demand and serve the guests. It doesn't have a long-term impact or downward impact on our business. So again, we have to be smart to manage labor cost and manage our marketing spend. And when we do that, and we've proven we're getting better at doing that as we apply more tools and technology, we can manage our -- both our sales line and our profit line pretty effectively.

Operator

Thank you, David, for that question, and that is it. Our questions queue are now clear, which concludes today's call. Thank you all for joining, and you can now disconnect your lines. Everyone, have a great day. Bye for now.

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