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Valvoline Inc. (VVV) Q2 2024 Earnings Call Transcript

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EPS of \$0.37 **beats** by \$0.02 | Revenue of \$388.70M (12.83% Y/Y) **misses** by \$1.55MValvoline Inc. (NYSE:[VVV](#)) Q2 2024 Earnings Conference Call May 8, 2024 9:00 AM ET

Company Participants

Elizabeth Russell - Investor Relations

Lori Flees - President & Chief Executive Officer

Mary Meixelsperger - Chief Financial Officer

Conference Call Participants

David Bellinger - Mizuho

Simeon Gutman - Morgan Stanley

Kate McShane - Goldman Sachs

Avanti Cheruvallath - Citi

Mike Harrison - Seaport Research Partners

Lydia Huang - JPMorgan

Bret Jordan - Jefferies

Operator

Hello, and welcome to the Valvoline's 2Q 2024 Earnings Conference Call and Webcast. My name is Elliot, and I will be coordinating your call today. [Operator Instructions]

I'd now like to hand over to, Elizabeth Russell, the floor is yours. Please go ahead.

Elizabeth Russell

Thank you. Good morning, and welcome to Valvoline's Second Quarter Fiscal 2024 Conference Call and Webcast. This morning, Valvoline released results for the first quarter ended March 31, 2024. 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 CEO and President; and Mary Meixelsperger, our CFO.

As shown on Slide 2, 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. Non-GAAP results are adjusted for key items, which are unusual, non-operational or restructuring in nature. We believe this approach enhances the understanding of our ongoing business. A reconciliation of our adjusted non-GAAP results to amounts reported under GAAP in a discussion of management's use of non-GAAP and key business measures is included in the presentation appendix.

The information provided is used by our management and may not be comparable to similar measures used by other companies. As a reminder, the Retail Services business represents the company's continuing operations, and the former Global Products segment is classified as discontinued operations for the purposes of GAAP reporting.

Today, Lori will begin with a look at the key highlights from our second quarter, and Mary will then cover our financial results.

With that, I will turn it over to Lori.

Lori Flees

Thanks, Elizabeth, and thank you all for joining us today. For the second quarter of 2024, we saw growth at the top line across the network with system-wide store sales growing over 13% to \$746 million. Profitability was strong, with adjusted EBITDA improving 21% to \$105 million and adjusted EPS improving over 60% to \$0.37 per share. We added 38 net new stores to the network this quarter with 14 coming from franchise. This brings our year-to-date additions to 76 in total with 33 from franchise.

Also this quarter we purchased approximately 1 million shares returning just over \$40 million to shareholders through share repurchases. This completes the \$1.6 billion share repurchase authorization well ahead of the 18-month commitment we made at the time we closed the sale of the Global Products business.

Before Mary covers the details of the quarterly results, I'd like to share some additional insights on how these results fit into our strategy. We continue to focus on driving the full potential of the existing business. One of the key metrics to this strategic pillar is same-store sales growth. As I mentioned, this quarter we saw a 7.7% system-wide same-store sales growth. NAV will change revenue was the largest contributor to this growth across the system mostly driven by increased service penetration. The team's focused on employee retention and best practice sharing continues to improve how we educate our guests on the additional services their vehicles need.

The automotive manufacturer recommended services saw the highest improvement in service penetration in Q2, which is a testament to the training and tenure we built across our stores. On the transaction side, after a choppy start to January, due to weather events across the country, we've recouped the volume in February and ended the quarter with modest improvement. Year-to-date, we have performed over 13.7 million services for customers system-wide.

The other part of driving full potential is managing our cost to improve profitability. We're pleased with our Q2 performance in this regard. Specifically, strong labor management created significant benefit in the second quarter in our company store operations which exceeded our expectations. Our ability to manage scheduling, especially during the weather events that happened in the quarter continues to improve. We also saw a benefit from improved supply chain costs and store expenses for company stores this quarter.

As we enter the back half of the year, we typically see significant labor leverage due to the increase in volume during the summer drive season. While we'll continue to use the labor management tools that have benefited us year-to-date, we do not expect to have as strong of a year-over-year improvement in labor efficiency for the remaining half of the year.

Now I'd like to touch quickly on accelerating network growth. We're really pleased with the 38 net store additions this quarter. It brings our total network to 1,928 stores, an 8% growth over the prior year.

We continue to see a balanced mix of ground-up builds and acquisitions. On the franchise side half of the net additions this quarter were ground-ups. As we look at our pipeline for the remainder of the year, we're on track to have the store additions in line with our original guidance of 140 to 170 total additions with 55 to 70 coming from franchise.

Now I'll turn it over to Mary, to walk us through our Q2 financial results.

Mary Meixelsperger

Thanks, Lori. On Slide 5 we'll take a closer look at our top line growth for the quarter. Adjusted net sales grew to \$389 million a 13% increase over prior year. System-wide same-store sales grew 7.7% over prior year and 21.2% on a two-year stack basis.

The growth for the quarter continues to be consistent and balanced between company and franchise was 7.4% and 8% respectively this quarter. Ticket growth contributed just over 70% to the comp. As Lori shared, increased non-oil-change revenue was the largest driver of ticket growth with the balance coming from net pricing and premiumization.

Transaction growth contributed about 30% to the comp. This includes a contribution of just over 1% to the overall comp mix, coming from the net impact of Leap Day the Easter holiday shift and day mix.

Slide 6 has a look at other drivers of the financial results. First, let's look at our gross margin rate. We saw expansion from 36.8% to 37.6%, an 80 basis point improvement year-over-year. This was largely driven by leverage at the labor line coming from the improvements, as Lori discussed earlier.

Sequentially, we saw a 150 basis point expansion. This was driven by labor improvements and lower supply chain costs. SG&A as a percentage of net sales, decreased modestly over prior year, while we saw a 140 basis point sequential decline.

Top line growth drove additional leverage, while we also saw benefit sequentially from lower travel and meeting costs from the company meetings which are held in the first quarter each year.

Depreciation and amortization increased by \$5 million year-over-year, causing about 50 basis points of deleverage in the gross margin rate. Overall, adjusted EBITDA margin improved 170 basis points over the prior year and 280 basis points sequentially.

For the back half of the year, we expect to capture the SG&A leverage that comes with the seasonality of our business. However, we expect the gross margin labor leverage to moderate.

On Slide 7, we'll take a look at our profitability metrics. For Q2, adjusted net income increased 20% to \$48.3 million, driven by sales growth and margin rate improvement which was partially offset by increased investments in SG&A.

Sequentially adjusted net income grew 25%, largely driven by improvements in gross margin and lower SG&A as we just discussed. Adjusted EPS grew 61% from \$0.23 to \$0.37 per share.

The increase in operating income contributed about half of the EPS growth. The balance of the change came from lower net interest expense and the reduction in average share count of about 42 million shares, compared to the prior year.

Turning to Slide 8, we'll look at the balance sheet and cash position. During the quarter we returned just over \$40 million to shareholders via share repurchases. As Lori mentioned earlier, that completes the \$1.6 billion authorization.

In March, we also announced a tender offer to repurchase the \$600 million of 2030 senior notes. That tender offer was completed following the end of the quarter with final settlement made in April utilizing cash and cash equivalents and borrowings under the revolving line of credit.

In Q2, we earned interest income of \$4.6 million on the remaining invested net proceeds from the sale of the Global Products business. This is not expected to recur in the back half of the year now that the debt tender offer is complete. This fulfills the remaining commitments we made regarding the uses of the proceeds, from the sale of the Global Products business.

Turning to the cash flow statement, year-to-date cash flows from operating activities were \$92.1 million, a decline of \$81 million over the prior year. As a reminder, the establishment of the supply agreement with Valvoline Global Operations in the prior year drove a one-time benefit which represents most of this decline.

Additionally, the implementation of our new ERP system during the quarter, delayed billings to our franchise partners creating a short-term increase in accounts receivable that we expect will normalize in the back half of the year.

As we noted in our press release, we expect to report a material weakness related to the ERP system implementation that went live on January 1. We have implemented enhanced manual controls intended to ensure the financial statements for Q2 are accurate. A plan to remediate is already underway, and we expect this to be completed by fiscal year-end.

Turning to slide 9. We'll take a look at our guidance for fiscal year 2024, which we are narrowing from our original outlook. With half the year complete, substantially in line with our expectations, we believe it is appropriate to narrow our guidance.

For same-store sales growth, we expect 6% to 8% for the year, with net revenue of \$1.6 billion to \$1.65 billion. For adjusted EBITDA, we are narrowing the range to \$430 million to \$455 million. Finally, for adjusted EPS, the updated range is \$1.45 to \$1.65 per share.

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

Lori Flees

Thanks, Mary. We delivered strong profit growth for the quarter, added 38 new stores and completed the \$1.6 billion share repurchase authorization. I'd like to take a minute to thank our team and our franchise partners for their continued hard work in the first half of fiscal 2024. I also want to give a special shout out to the team in Ottawa, Tennessee. I've recently spent time working and training alongside that team, so I could officially achieve my topside certification.

Now, I'll turn the call back over to Elizabeth to begin Q&A.

Elizabeth Russell

Thanks, Lori. Before we start the Q&A, I want to remind everyone to limit your questions to one and a follow-up, so that we can get to everyone on the line.

With that, operator, please open the line.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] First question comes from David Bellinger with Mizuho. Your line is open. Please go ahead.

David Bellinger

Hey, good morning. Thanks for the question. First one is on the comp guidance and trimming the upper end of the range. Is that simply reflective of a continuation you've seen in the first half of the year and not something indicative of any deceleration you've seen in Q3 to date? Just help us frame the reasoning behind the guidance change on the comp sales line?

Mary Meixelsperger

Thanks, David, for your question. So the year-to-date same-store sales comp of 7.4% did reflect about a 60 basis point benefit from leap day. And we're not expecting any change, nor have we seen any underlying change in the business tempo with the start of our third quarter. We're really just adjusting down the top end of the range in order to set expectations for pretty consistent performance in the back half versus the front half. I would say that the back half, we are comping up against some really strong transaction growth from the prior year back half. And so we're going to monitor that closely. But overall, we're really expecting pretty consistent performance expectations in the back half versus the front half.

David Bellinger

That's helpful. Thank you. Appreciate that. And then just my second question is longer term in nature, on the go-forward use of capital here, so the buyback exhausted in this Q2 period. Can you talk through any potential new buyback capacity with the senior notes now potentially out of the way? And also how you would think about any potential trade-offs in terms of repurchasing equity versus added new store growth or even some kind of acquisition strategy? Just help us think through all of that.

Mary Meixelsperger

A really good question, David, again, I'll just reiterate our capital allocation priorities. We're first focused on growth. That growth is coming through new store builds, acquisitions of new stores and we're certainly open to looking at accretive growth opportunities in terms of -- that are synergistic with the underlying business.

The second capital priority is around our leverage on our balance sheet. We've stated that we want a 2.5 times to 3.5 times leverage ratio that's kind of rating agency adjusted that basically takes into account leases and employee benefit obligations. And so we're currently trending just at the higher end of the range at about 3.7 times leverage relative to our goal of 2.5 times to 3.5 times. So we're going to continue to monitor that in relationship to the opportunity for future share repurchases.

And of course, our third capital allocation priority is return of excess capital to shareholders via share repurchases. So we'll continue to monitor that closely with our Board and report to our investors on a quarterly basis.

David Bellinger

Great. Thanks so much.

Operator

We now turn to Simeon Gutman with Morgan Stanley. Your line is open. Please go ahead.

Simeon Gutman

Hey, everyone. One first on geographies. Were there any markets that didn't have curious if there's a difference in spread in run rate? And then this is an unrelated follow-up. You mentioned less or less strong labor efficiency in the second half. Is that because of a lap or because you just have forecasted higher labor costs coming through?

Lori Flees

I'll cover the first one and ask Mary to join. Thanks Simeon for the questions. On geography, it was very unusual in January. It actually hit across the board across most, I would say, majority of our geographies. So when you look at the comp performance, there weren't significant swings across the network.

So I would just say, it was unusual and I think most retailers have the same experience as we did in January. I would say, we were very pleased with the return of the traffic in February. And so as I mentioned when we closed out the quarter, we had modest growth just given that. So I think we felt very pleased with the traffic across the geographies and the same-store sales performance.

Mary Meixelsperger

So, on the labor side, Simeon, we are expecting to see labor leverage in the back half. Really very consistent with what we saw in the prior year. We just don't expect to see the incremental leverage that we've seen here in the second quarter. Relative to our -- we had strong labor performance in the back half of prior year. And so while we expect that we're going to continue to sequentially see labor leverage, we're not expecting anything unusual from a labor perspective.

We expect our teams to continue to do the excellent job they've been doing in labor management. It's just that the opportunity for the kind of leverage we saw in the first quarter, we think is smaller in the back half of the year -- excuse me the second quarter is smaller in the back half of the year.

Lori Flees

Yes. I'll just add Simeon. In Q1, we expect -- we shared and expected to see some improvement year-over-year. In Q2 given the weather impacts are typically more sporadic in across the quarter and across regions at different times. It is a bit more challenging to manage labor. And what we -- what the teams did an excellent job and it exceeded expectations was they were able to manage or trim down schedules around the labor.

So as the forecasts are coming in trim those schedules and then the week following when we typically see the traffic come back add that labor to ensure we could serve the customers when they came back into the store. So it's just a really proactive approach in managing around the season winter effects. And I'm really pleased and it exceeded our expectations. Frankly, we weren't expecting to perform as well. But our teams really used the tools that we've put in place and we were able to capture that benefit.

To Mary's point, the back half of the year we always get leverage from the traffic increase. And we'll continue to use the tools for the benefit of our business and the margin. It's just when you look year-over-year -- when we look at Q2 quarter-over-quarter, it was quite an impressive labor leverage that we're -- we just do not believe is possible given the leverage that we typically get in the season.

Simeon Gutman

As a follow-up, can I ask on price cost on oil? Where you are in terms of pricing? It looks like base oil as a proxy is sort of stable. Curious where you are in corporate stores? And I think pricing the franchisees there. But is there any lag meaning catch-up to go and/or benefit that's on the comp based on where your prices are?

Mary Meixelsperger

Yes. It's been interesting. We've seen some pretty modest changes in our underlying supply chain costs, product costs in the lubricants area. We benefited from some modest declines in the first half of the year. We've seen -- we're going to see some modest increases in the back half of the year. But we just recently saw another modest decline announcement.

So there's nothing. It has to be a pretty material change for it to have a meaningful impact on our business. And so we're not really expecting to see anything that would have a really material impact on the business in the back half of the year. Now we continue to monitor the macro situation. With the kind of macro political issues that we're seeing in the Middle East, that's something that we keep a really close eye on. But right now and in terms of the updated guidance we're providing, we're not expecting to see anything unusual in the back half.

Simeon Gutman

Thanks. Good luck.

Mary Meixelsperger

Thanks Simeon.

Operator

Our next question comes from Kate McShane with Goldman Sachs. Your line is open. Please go ahead.

Kate McShane

Hi, good morning. Thank you for taking our question. We were wondering how we should think about the pace of store openings for the remainder of the year? And are you hearing of any issues from franchisees in opening stores just due to higher cost?

Lori Flees

Yes. Thanks Kate. Good morning and thanks for the question. We typically -- last year certainly is not something I would model against on the franchisee side. As you recall, in Q3, we had one net new opening and a lot of that was due to supply chain delays that pushed some openings from Q3 into Q4. But we feel we've been really excited about the engagement of our franchise partners. Year-to-date, they've delivered 33 new units, and that's compared to 24 last year.

And in this most recent quarter, 50% of the net new openings were ground-ups. And ground-ups, I think we feel much better about how we're forecasting those to open given some of the things that we put in place from a supply chain standpoint.

As an example, most recently, we've been talking to our franchise partners around holding some signs in a general warehouse so that, that wouldn't be a gate-limiting move to opening a store. So just getting really proactive and collaborative with our franchise partners and how we can keep their openings on track.

As I mentioned, given where we're at the start -- as the first half, we really do expect to be well within the range on the 140 [ph] to 170 [ph] and 55 to 70 coming from franchise. Now we do expect Q3 and Q4 to be more balanced than it was last year. So we don't expect any hiccups or anomalies at this stage.

I will say that sort of getting things into the ground, because of some of the weather impacts in January, we'll have both us and our franchise partners, there'll be some ground-ups, which will come a little later in the year than we would have liked. But in general, we feel really good about where we are relative to guidance.

Kate McShane

Great. Thank you for that. And just as a second question. I wondered if you could talk just between the difference between the company operated and the franchise stores, just the difference in comp there in the second quarter?

Lori Flees

In terms of general performance, what's interesting is the comps between our franchise partners and us is more consistent than what it has been in terms of the split between ticket and oil changes. And Mary, maybe you can comment more on that.

Mary Meixelsperger

Sure. So we did see a little bit of outperformance in the quarter by our franchise partners. And we saw a little bit stronger ticket performance there. But else it's been very, very consistent overall in terms of the performance. And one of the interesting things is that we see really consistent performance on both ticket and transactions between franchise and company across all four quartiles of stores with all of them improving both ticket and transactions across the -- again, the quartiles in terms of how we think about store level performance.

And so that's really encouraging to see just the consistent -- consistency of performance. So I think that will likely continue to see that going forward. There's very consistent systems and adoption of our SuperPro process across our franchise system and in company stores. And we think that's a really critical factor in driving the consistency of the comp store sales performance. We do occasionally see some differences related to marketing cadence between franchise and company. But for the most part, that's pretty consistent as well.

Kate McShane

Okay.

Operator

We now turn to Steven Zaccone with Citi. Your line is open. Please go ahead.

Avanti Cheruvallath

Good morning This is Avanti Cheruvallath on for Steve. Thanks so much for taking our question. We wanted to ask on the low-income consumer. We've heard some commentary on tighter budgets among that cohort. Are you seeing any sort of trade down in your business or slowdown in non-oil-change revenue attached to sales? And then along those same lines, can you talk about how you provide value relative to peers if consumers are on tighter budgets?

Mary Meixelsperger

So we've spent a lot of time looking to understand whether or not we're seeing any impacts from kind of the lingering inflationary effects in the broader macroeconomic environment in the U.S. And frankly, we're not seeing any impact. We're not seeing any trade down. We're not seeing lower income consumers, having a lower retention rate in terms of their returning to our stores versus higher income consumers. And so no -- nothing to report in terms of our year-to-date results and for the second quarter, but we're going to continue to keep a really close eye on it.

We've heard some of those commentary as well from some other fast food and other types of retail service businesses. And so we're going to monitor it closely, but we're really not seeing an impact on our business. And we've got incredibly great good debt to be able to help us understand in terms of demographic data on our consumers and the frequency of their visiting our stores, et cetera. We have a very, very strong data analytic capabilities. And as I said we're not seeing any trade down or any differences in retention related to those lower income consumers.

Lori Flees

Yes, I'll just add when she talks about no trade down that would be on services or premium service. And then as we look at transactions when you look at miles driven or days – interval days between visits, those are not changing. And we've been – because of some of the economic tones that you hear we've been looking and analyzing customers at different income levels to just make sure we're not missing anything. We typically put our stores in certain economic demographic clusters and we look at them in those clusters and haven't seen anything but we've now started even looking at a customer level to make sure that we're again getting ahead of those and making sure that we adapt our business to serve the customers.

Avanti Cheruvallath

Great. Thank you so much for that color. And then as a follow-up, can you talk a little bit about how slower electric vehicle adoption factors into your discussions with franchise partners? You have some big partners but are you seeing any new franchise partners that have more interest in working with you?

Lori Flees

So your first question is around EVs. In general obviously, the current temperature and the current sales around EVs has definitely moderated relative to where it would have been last year. But I think if you look at the long-term forecast for penetration of EVs or the car parc I don't anticipate that's going to change materially. And we continue to do research and incubation of services that would be appropriate for a battery electric vehicle.

We're obviously doing the same with hybrid. We serve hybrids today actually at a higher percentage of the car parc than we do ICE vehicles. And there are a number of maintenance services that we provide hybrids and we always look at additional services as that car parc grows.

As it relates to our franchise partners the impact of EV on any franchise partner is different in some of the middle of the country areas where the preponderance of EV sales is quite low they obviously have no impact and very little interest. But even those that are more in geographies where EV sales is higher, some of those geographies are also underserved from an ICE preventative maintenance perspective. And so our franchisees really are as entrepreneurs wanting to make sure they maximize the return on invested capital that they're placing into their business they don't see the – they see a lot more upside in serving the existing car parc, although they remain interested and connected to us on work that we're doing on EV-related services.

In terms of the last part of your question which was around interest levels, I don't think EV is impacting the interest levels of new partners. We have continue to have very productive dialogue with potential new partners. We've signed a couple of smaller partners as we've shared before and are in conversations with more scale partners around joining in the Valvoline franchise business. So continued great progress nothing more to report at this stage, but I wouldn't say EV is a high factor right now on the franchisee side.

Avanti Cheruvallath

Thank you.

Operator

Our next question comes from Mike Harrison with Seaport Research Partners. Your line is open. Please go ahead.

Mike Harrison

Hi, good morning and congrats to Lori on getting your topside certification. I'll keep an eye out for you the next time when I'm in one of your stores.

Lori Flees

Thanks, Mike.

Mike Harrison

Now that we're kind of past the winter months I was wondering if we could get an update on the battery offering and how that performed during those winter months relative to your expectations? And just curious if there's some additional upside next year from the battery offering as you make that available at more of your locations?

Lori Flees

Yes, it's a good question Mike and something that we've been spending a lot of time on as a management team. The battery offering is probably a more complicated service because the variety of batteries is just as they diverse as the number of air filters but they take a lot more space in the stores to store and you certainly can't let them sit for a long time if you're not placing them in service.

And so we have a last mile delivery partner that has to deliver the batteries and frequency relative to the car parc. It also requires that we test the batteries every time they come in because not every time will a battery register red or yellow in terms of its health. And if we don't test the battery every time, we don't earn that trust to complete the service with the guest. And then the last one is that the testing devices we continue to look at improved testing devices because as the OEMs continue to change the design of the vehicles and lower the cost, so putting more plastic around some of the nodes, it makes some of the testing devices a little bit more tricky to ensure that you can get a really accurate read.

So, these are all things I'm explaining because we believe there is more opportunity in battery. We have fantastic pricing relative to comparable service providers in the market. And it's an area that we're working on because we do believe there's more opportunity there and it will be part of our plan for the remainder of this year and into next year for sure.

Mike Harrison

All right. Thank you for that. And then you mentioned the internal control issue and I understand you may not want to get into too much detail here. But if you can provide any color or help us understand what the problem was and what needs to be done to fix it that would be helpful? And maybe just give us a broader update on where you are in that ERP implementation process?

Mary Meixelsperger

Sure Mike. So, the issue from an internal control perspective was primarily around our information technology general controls in the quarter. We went live with the new system on January 1st. That system implementation was really driven by the sale of the Global Products business. And the good news is we're implementing a system that's very retail specific versus our legacy system, which was much more driven by chemical/materials supply chain requirements.

But in the new system implementation we saw challenges in the quarter around user access controls and some monitoring controls documentation-related to -- and monitoring-related to IT changes and job scheduling around the ERP system. And then we also saw some system design issues around business processes. I had mentioned that we saw some invoicing delays in the quarter to our franchisees.

And that relates to some of the design issues that we're addressing to ensure that the system is more highly automated. I would say that we've had no material day-to-day impact on our business operations. And we've been consistently able to serve our customers and support our franchisees. The systems that directly support operating our store operations were not impacted by the implementation. So, mostly as I said around the IT general controls.

Mike Harrison

And is that implementation complete at this point? Or is there still a lot of stores where it needs to be rolled out?

Mary Meixelsperger

No, it's complete. And again it didn't affect the store level systems that we operate. It's really the financial systems and then some of the supply chain operations. And those -- the system implementation is complete, but we're continuing to provide enhancements to the system.

And as we go forward over the longer term we'll be able to leverage some of the new capabilities in the system to provide for increased efficiencies and improved analytics and reporting over the longer term, there's some real benefits to the new platform.

But shorter term, we're focused on the remediation plan for the IT general control environment, which we expect to complete by the end of the fiscal year and also just focused on making certain that the core system capabilities are functioning as intended.

Mike Harrison

All right. Thank you very much.

Operator

Our next question comes from Jeff Zekauskas with JPMorgan. Your line is open, please go ahead.

Lydia Huang

Hi, this is Lydia Huang on for Jeff. Could you break down your volume growth in the quarter by volume from oil change and volume from other product sales? Thank you.

Lori Flees

So, if you look at are you -- I think you're talking about our same-store sales breakdown, which I think Mary covered in her comments that ticket represented about 70% of our same-store sales system-wide and transaction was about 30%.

Within the ticket side, NOCR, both price and penetration, was the largest contributor overall and that was followed by pricing and premium mix. So, I think in general, we feel great because we continue to drive very strong growth in the added services or non-oil-change revenue. And it's not coming just from our bottom quartile stores. It's actually coming from all of our quartiles, which means there's continued opportunity.

So, we continue to set the bar for best practice higher within our system and the average keeps increasing. And the team, they put together a competition in this last quarter. And what it did is it reenergized the learning of our team around the added services and best practices to presenting them effectively to our guests. And we're really pleased, because sometimes when you run those competition it gives you a short-term burst, but this really did up the game of our talent and just to increase the best practice level that they carry out the services, and the services presentation. So we continue to see that performance, which we're pleased with.

Lydia Huang

Thank you.

Operator

[Operator Instructions] We now turn to Bret Jordan with Jefferies. Your line is open. Please go ahead.

Q – Bret Jordan

Hi, good morning, guys.

Lori Flees

Good morning. Good morning.

Q – Bret Jordan

Could you talk in services where you thought -- Hi, good morning. Could you talk about in the services category sort of specifically where you saw the most traction? And I know you've been sort of looking at expanding the services menu, what you're saying that you might add from here.

Lori Flees

Yes. So we -- just the last year 1.5 years, we've been focusing on the basics. And in this year -- in this last quarter, we sort of increased it beyond that. So visuals is what we would consider the basics. That's cabin air filter, air filter, wiper blades and light bulbs and batteries. Those are the things that are visuals meaning, we visually show the customer how those things are performing. We can visually inspect them. And we share that information with the guests and it comes down to making sure that we offer to pull every cabin air filter and explain why.

During COVID, we had removed that from our service process. And when you are operating 1,900 stores to try to get that back into the process for every single technician that's in the window of a customer, it takes time. And I think that we're just getting back to the basics on things like that.

The other thing with air filters is, taking it out showing the customer side by side with a brand new one, so they can actually see whether or not they should be changing it. These are just simple basics that we've been reinvigorating across our team and they have provided a very big part of the lift.

Now I did mention in my talking points that this quarter, we saw an increase on OEM recommended services or automotive manufacturer recommendations. These are things that are not required every visit or every year. They typically are required at certain intervals say, a 30,000-mile 50,000-mile checkpoint. And we saw the biggest increase of penetration on the OEM services this quarter.

And it's a real testament to both the training, that we've made sure our team has and the retention, because they're a little bit trickier to perform than just those basic visual items. So things like transmission service was one that we saw, a big increase on -- and that's something that we have trained and ensure we have the right equipment in every store that was operational.

And then when we reenergized the team around added services in this last quarter, again, it's a combination of tenure, training and just a little bit of energy around it and we got really great results.

Q – Bret Jordan

Great.

Lori Flees

You had asked – So sorry

Q – Bret Jordan

Go ahead.

Lori Flees

You had asked about added services and I forgot I wanted to mention that as well. We have an R&D team that is looking at additional services that can be provided in our store. We don't have anything yet to report.

I will say that we keep a, very clear guardrails around quick, easy, trusted. Meaning, we have to perform the -- we have to make it easy and quick not just for just the guest but for our team and by doing that we can be trusted to deliver that service at a high quality. And so those are the bars that we raise. And we continue to look at added services.

We need to make sure that, there are enough opportunities across the car parc, for us to add it to every store. Because you want to make sure that the team has enough reps in order to perform the service again quick, easy, trusted. So nothing to report but we continue to look at our service menu and how we'll expand it.

Bret Jordan

Okay. Great. And I think you were also looking at -- maybe looking at store formats that are lower build-out cost. Could you talk about where you are in that process?

Lori Flees

Yeah. So the team has been working -- our real estate and development team combined with our operations team and our franchise teams have been working together to re-look at the store design.

One of the things I would say is, we went some time ago to saying we would only build a three-bay store. And I think part of that is because the volume that we see a three book-bay store is operational the right place to eventually be in certain car parc.

But there are some areas where you probably don't need the third-bay for four or five years. So the team has created a modular design where they can build the two-bay store but build it where the electricity and the water are not on the store and that you would want to add a third-bay.

But instead of building that out and spending the capital at the start of a project leading designing it such that that could be easily acted added as a without impacting the day-to-day operation of the store minimizing that impact. And that's something that our company operation has started to move to.

Now we won't see the impact of that immediately, because the stores that we're opening this year we were -- we had designs for those well before the year ever started. But as we move into next year, we'll start to see some of that and I know we'll share more of that, as we talk about next year's guidance. But this year, I wouldn't expect any material changes. But it is an active conversation that we've engaged our developing franchisees in pretty heavily with a lot of energy.

Mary Meixelsperger

And Lori, I would add to that, we've also that same team has been very focused on taking cost out of the transition capital that's required when we acquire a store. And so we've seen some really good cost reductions there in relationship to the required investments when we're acquiring a store that's helping to drive improved return on invested capital related to those acquisitions.

Bret Jordan

Great. Thank you.

Operator

This concludes our Q&A. I'll now hand back to Elizabeth Russell, for closing remarks.

Elizabeth Russell

Thank you all for your time today. We look forward to our ongoing discussions, following today's call. This concludes our call for today.

Operator

Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.

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