

Valvoline Inc. (VVV) Q2 2026 Earnings Call Transcript

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Q2: 2026-05-07 Earnings Summary

Insights



EPS of \$0.41 **beats by \$0.07** | Revenue of \$503.80M (24.95% Y/Y) **beats by \$8.69M**

Valvoline Inc. (VVV) Q2 2026 Earnings Call May 7, 2026 9:00 AM EDT

Company Participants

Elizabeth Clevinger - Investor Relations Executive

Lori Flees - CEO, President & Director

John Willis - Senior VP & CFO

Conference Call Participants

David Bellinger - Mizuho Securities USA LLC, Research Division
Simeon Gutman - Morgan Stanley, Research Division
Mark Jordan - Goldman Sachs Group, Inc., Research Division
Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division
Steven Shemesh - RBC Capital Markets, Research Division
Scott Sember - ROTH Capital Partners, LLC, Research Division
Peter Keith - Piper Sandler & Co., Research Division
Steven Zaccone - Citigroup Inc., Research Division
David Lantz - Wells Fargo Securities, LLC, Research Division
Bret Jordan - Jefferies LLC, Research Division
Tom Wendler - Stephens Inc., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for joining us, and welcome to Valvoline's Second Quarter 2026 Earnings Conference Call and Webcast.

[Operator Instructions]

I will now hand the conference over to Elizabeth Clevinger, Investor Relations at Valvoline. Please go ahead.

Elizabeth Clevinger

Investor Relations Executive

Thank you. Good morning, and welcome to Valvoline's Second Quarter Fiscal 2026 Conference Call and Webcast. This morning, raveling released results for the second quarter ended March 31, 2026. 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 facts 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'll turn it over to Lori.

Lori Flees

CEO, President & Director

Thanks, Elizabeth, and thank you all for joining us this morning. We delivered strong second quarter results that reflect consistent execution across our business. Our results included robust top line growth EBITDA margin expansion and improved cash flow generation. On the top line, performance was strong across the system.

Systemwide store sales increased nearly 20% and net sales grew 25%. System-wide same-store sales outperformed our expectations and grew 8.2% and 14% on a 2-year stack. Ticket drove about 2/3 of the comp with net price, premiumization and NOCR service penetration all contributing. Transactions also grew across the network. Moving to profit. We improved SG&A leverage in the quarter, resulting in our EBITDA growing faster than sales. Kevin will cover those details.

We remain confident in our proven business model, resilient customer demand and execution track record. Preventive maintenance is a nondiscretionary purchase and Valvoline makes it quick easy and trusted for every guest. We have not seen any signs of trade down or deferrals, and we expect to see this continued resilience. Despite the increases in crude oil prices, we did not see a material increase on product costs during the second quarter. As we enter the third quarter, however, we have started to see costs increase, and we anticipate this will continue depending on the length of the Middle East conflict.

We're working closely with our suppliers to ensure we mitigate any supply constraints and both company and some franchisees have taken pricing actions, which we expect will mitigate the cost increases on a dollar basis. We continue to make steady progress integrating Breeze Auto Care into our platform. The financial contributions from Breeze were better than expected for the quarter. Driven largely by improved execution related to store level expenses and early delivery of G&A synergies specific to payroll and procurement. We continue to approach integration deliberately. Prioritizing operational stability and capturing learnings to support long-term value creation.

Turning to network growth. We added 31 new stores for the quarter with 20 coming from franchise and 11 on the company side. We did have 2 closures and 4 transfers from franchise to company in the quarter. We finished the quarter with a total store count of 2,409. The timing of the new store additions continues to weigh towards the back half of the year, especially on the franchise side. Overall, our development pipeline for both company and franchise remains healthy, and we expect to deliver new store growth within our full year guidance.

Q2 was another strong quarter for Valvoline. We're executing our playbook to deliver meaningful growth at both the top and the bottom line. Our business model continues to demonstrate resiliency and scalability. We're pleased with the momentum of the business, and we're updating our guidance for the full year to reflect that. Before I wrap up, I want to take a moment to recognize a couple of achievements that reflect the values of our company and the strength of our team and our franchise partners. We are very proud to have been named one of America's most trustworthy companies by Newsweek. We strive to provide a quick, easy and trusted service to our guests, and this recognition speaks directly to the trust our customers place in us every day.

I'm also pleased to share that 97% of all Valvoline Instant Oil Change locations were named a CARFAX top-rated service center for 2025. Across our network, our service center teams deliver a V-class service every day with care, consistency and pride. It's rewarding to see that dedication being recognized by the customers we serve.

With that, I'll turn the call over to Kevin to provide more details on our financial performance and updated guidance.

John Willis

Senior VP & CFO

Thanks, Lori, and good morning, everyone. A summary of our financial results is included on Slides 5 and 6. Let's take a look at the highlights. We delivered strong top line growth with net sales of \$504 million, a 25% increase over the prior year with a balanced contribution from the core business and the inclusion of Breeze Auto Care for the full quarter. The gross margin rate of 37.1% and decreased 20 basis points year-over-year with leverage and product costs, offset by an increase in other service delivery costs, including the impact of new store depreciation. Excluding the impact of depreciation, the gross margin rate would have improved by 40 basis points. Also, as Lori indicated, Breeze performed better than expected in the quarter.

SG&A as a percent of sales decreased 70 basis points year-over-year to 18% with the substantial planned investments largely behind us, we will continue to focus on cost efficiencies and operating leverage while still supporting the business. As a result, EBITDA increased 28% and to \$134 million with margin expanding 60 basis points to 26.5%. And EPS increased 21% to \$0.41 per share which includes \$0.06 per share of impact from interest expense. Year-to-date, operating cash flows improved to \$160 million and free cash flow was \$45 million, an increase of approximately \$57 million over last year. We're making good progress on leverage reduction. Net debt to adjusted EBITDA was down 20 basis points sequentially to 3.1x. We remain focused on getting to our target leverage as quickly as possible so we can resume our share repurchase program. We had a strong quarter and are delivering on our commitments for sales and profit growth, EBITDA margin expansion and improved free cash flow.

Now let's look at our expectations for the remainder of the year. We enter the back half of the year with strong momentum. On Slide 7, you'll see our updated guidance, which includes raising same-store sales, EBITDA and EPS outlook for the full year. To provide more color on the outlook, we are seeing increased costs in the third quarter, and we expect that to continue. The severity and duration of those will be impacted by the length of the Middle East conflict. As Lori mentioned, both company and some franchisees have taken pricing actions already, which should mitigate the impact. I'll also remind you that product cost changes in either direction are passed through to the franchisees based on moves in the base oil index. Also, the Breeze Auto Care contribution was stronger than we expected. While integration remains in its early stages, we're encouraged by the initial performance.

The updated outlook reflects the momentum and execution we've seen in the first half of the year, which has continued into April and confidence in our ability to deliver on our financial commitments.

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

Lori Flees

CEO, President & Director

Thanks, Kevin. We delivered another strong quarter. I have to thank our team members and our franchise partners for the work that they're doing to deliver these results. Our performance for the first half of the year gives us confidence in our strategy and our team's ability to execute. Therefore, while we're mindful of an ever-changing macro environment, we're updating our full year guidance. The fundamentals of our business model are strong, and we have confidence in the resiliency of customer demand. As a result, we expect to continue to deliver strong profitable growth.

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

Question-and-Answer Session**Operator**

[Operator Instructions]

Your first question is from David Bellinger with Mizuho.

David Bellinger

Mizuho Securities USA LLC, Research Division

Very nice results here. Maybe we could start on the top line, same-store sales super strong, above 8%. Can you tell us where the outperformance came in the quarter, whether a company or franchise or geographical? And then as you went through the quarter, did you see any pockets of the country or any indications of demand softening, maybe where spending on gas makes up a higher proportion of discretionary spend. I mean have you seen anything like that as you move through the quarter and so far into early May?

Lori Flees

CEO, President & Director

Thanks, David. Yes, we had really strong same-store sales growth at 8.2%. And as I mentioned, it did exceed our expectations. About 2/3 of that came from ticket with actually all things contributing healthy amounts on the ticket side, net pricing was good, premiumization and then OCR penetration all positive. There were some pricing moves that happened in the quarter for our franchisees and that was not expected, some of that tied to the forward-looking cost increases on lubricants. So some of that would have been higher than what we would have expected.

And then on the transaction side, which made up the remainder really good growth across the network. So when we look across all the metrics, all geographies there's always puts and takes, but some of that is given where lapping is happening. So for example, California, transaction growth was really strong because we were lapping some California wildfires. Some of the other systems had more new stores contributing to the transaction growth. Some of those things we know, just the outperformance sort of happened across the board, with really the only notable thing being some of the pricing changes on the franchisee, which were modest overall. So really good on that.

In terms of demand, we continue to look for trade down and deferrals, and we do not see it the customer demand for preventive maintenance is very resilient. So we're not seeing that happen. If you look at history, going back to COVID, gas prices can have an impact on miles driven, but it takes a long time to change consumers' day-to-day behavior. And so we don't see any impacts of that, and we don't expect them. Now if the Middle East conflict were incredibly protracted, then we may see a little bit. But even in COVID, where miles driven was down considerably there's a habitual nature of preventative maintenance, particularly around key driving patterns. So we're not expecting to have any significant impact.

David Bellinger

Mizuho Securities USA LLC, Research Division

Very thorough. And then just a follow-up on the oil pricing and the impact on your cost of goods. Is there a way to quantify the expected impact you're looking for in Q3 and Q4? And understanding there's a bit of a lag until your price increases catch up to that. How should we think about the offsets and particularly gross margin rate? Is that something you could hold as you move pricing throughout the system and onto the consumer at some point?

John Willis

Senior VP & CFO

Sure. I'll address that. So first, as Lori indicated, we didn't see any cost pressure in Q2. As we've moved into Q3, base oil indexes have moved and we're starting to the impact of that in product cost. As a reminder, we tend to have about a month or so worth of inventory on hand. So we'll take a little bit of time for that to flow through on a complete basis, but we do expect it to flow through. And we also expect some of the cost increases to continue.

To mitigate that, we have implemented price increases to cover those cost increases on a dollar basis. Most of our franchise partners have done the same or in the process of doing the same. So we feel like we will fully cover any cost impacts. In terms of overall margin recovery, we would expect that the margin rate to be modestly impacted based upon the cost that's rolling through. But to put it in perspective, for us, first of all, we passed through on pretty much a dollar-for-dollar basis, increased cost to our franchise partners for the product that we sell them. So that's more than half of the volume that we would purchase in a year.

Second part is you look at lubricant or overall product as a percent of COGS, it's 20%, 25% and the lubricant is by far the largest piece of that. Rule of thumb for us is if base oil goes up \$1 a gallon, we need to raise price \$0.50 to \$0.60 per oil change to cover that. So it's not a huge impact given that we and the franchise partners are north of \$100 per ticket today. And so again, it's not a huge impact, but it is something that we have to be proactive about and we are being proactive with it to make sure that we do maintain dollar profit.

The last piece of that will be waste oil we do get paid for waste oil. Typically, we see waste oil move more or less in line with crude. There can be a lag. We didn't see any movement in waste oil we have seen very modest movement in waste oil that we sell so far in Q3, but that is a partial offset to any kind of cost increase that we see around base oil.

Operator

Your next question is from Simeon Gutman with Morgan Stanley.

Simeon Gutman

Morgan Stanley, Research Division

I wanted to ask about Breeze for a second. Can you talk about milestones, integration, anything good or anything less than good.

Lori Flees*CEO, President & Director*

Thanks, Simeon. Yes, our integration efforts are progressing well. We're pleased with the performance of Breeze as both Kevin and I talked about in our prepared remarks, we delivered some of the SG&A synergies earlier than planned. So as we brought and integrated our corporate support teams, we were expecting to have a good fit between the teams, and we had some open roles, which we were able to not fill with outside hires and instead use the Breeze talent. So those were some of the things that we had hoped but hadn't exactly planned for. And then the team has worked really hard across all the procurement contracts to look for opportunities. Those are things that when we did the planning, we did not have the detail and the team has worked really quickly to deliver some procurement savings earlier than what we would have expected. So all of those are really great.

Our focus -- we're still only 4, 5 months into this process, which we know will be a multiyear integration effort. And our focus really is on operational stability of the stores, making sure that we retain the talent in the stores, particularly as the FTC required some divestitures in and around the stores we maintained. So that's been a big focus of our team, making sure that we get out and talk about our plans for the business and for the people in that business, so they get excited about staying on with Valvoline.

And then we've completely integrated and aligned all the support teams and the management team members making sure that our financial reporting line cadence that we have eyes on and more detailed understanding of their business. So I think it's -- the integration effort is going very well, and the business is performing very well. The Breeze team did a nice job managing store operating expenses in this quarter and delivered well against their plan.

Simeon Gutman*Morgan Stanley, Research Division*

And a follow-up on the demand and maybe the macro. It looks like your spread versus at least one of the public peers that we can track, widen. Can you talk about market share in the quarter? And then if demand slows because of price of oil, that's just deferral, right? I mean that's a business that just has to come back unless miles driven takes a step down. But I would assume you're looking at this backdrop is more temporal than structural.

Lori Flees*CEO, President & Director*

Yes. When you look at market share, Simeon, to your first question, we definitely grew share across our business. Even when you take the impact of Breeze out of the numbers, which obviously was a share capture we still had really strong growth across our system, not just in same-store sales, but also the new store contribution. So 25% growth overall with a healthy mix coming from the business that we had, not including Breeze just shows you the power of our proposition and our real estate placement and execution. So feel really good about that.

In terms of deferral, you're exactly right. Miles driven and more timing interval as I always like to remind people, when you're going to take a long car drive, people want peace of mind. And given the complexity of the vehicles today, they want somebody with eyes on, hands on their vehicle just to do safety checks. And in our proposition of quick easy trusted it's also thorough. We do a comprehensive safety check. And oftentimes, people will go ahead and get their oil changed at the same time even if they're not exactly due because they're timing it with a road trip with their family or a significant drive for other reasons. So when we look at drive interval, there's very little deferral on drive interval and our miles driven is fairly consistent across the network.

Again, it takes a protracted duration of high gas prices to start to impact miles driven. People can't change their daily habits and routines that quickly or it's done very much on the margin. You also have trade down activities of people choosing not to fly instead to drive that all bodes well for our business.

Operator

Your next question is from Mark Jordan with Goldman Sachs.

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

Congrats on great quarter. Just wondering if you can talk a little bit about same-store sales trends, how they progressed throughout the quarter. And maybe what kind of momentum we're seeing thus far during 3Q? Because I think if we take the updated guidance and couple that with the fact that 2/3 of the comp in the 2Q were driven by ticket kind of implies things slow down a little bit in 3Q. So just any commentary you can provide there?

Lori Flees*CEO, President & Director*

Sure. I'll cover Q2 and then I'll ask Kevin talk about how Q3 has started. The comps overall, there were some puts and takes by month in the quarter. We talked about January in our last earnings call, we ended that month fairly light because there was weather in the last week that pushed demand into February. We talked about the fact that we expected to get that volume back. I think we did February was very strong given the January push, but it was also strong because last year in February is when we had weather, which pushed volume to March. So we had kind of a double whammy really driving volume in February. And our teams across franchise and company did a great job responding and ensuring that we have labor in the stores to deliver on that demand. And then March, we saw good growth, but it was more modest, given the comp from last year's Feb push to March, we expected a lower comp on the transaction side for March, and we saw that, but still really good growth across the quarter when you take out some of those puts and takes.

John Willis*Senior VP & CFO*

And Mark, looking at Q3, we're still early, but we do have a full month end plus a week in May. And we're seeing no change in behavior. We're seeing no change in how the business is performing. April was a good month to start the quarter. Net sales and same-store sales growth were both solid. Consumer behavior remains very consistent with what we've been seeing. NOCR is performing pretty much as it has been as well. So we're not seeing any trade down or deferral on really anything in our customer base.

As we think about the full year we're really pleased with how the first half landed. Company and franchise performed really well. Breeze is performing ahead of expectations as well. So we've got good momentum going into the remainder of the year. We did raise the guide as indicated, same-store sales growth profit metrics. That reflects the strong first half we had. But just to be transparent, we're still being a bit measured as we consider the uncertainties that exist in the back half. with the Middle East conflict and nobody knows what the duration of that is going to be or the overall impact. And so we do continue to be measured.

That said, we remain incredibly focused on delivering on the financial commitments that we discussed at the December investor update. And thus far, I think we're doing a good job of that. As we think about the rest of the year, we do typically see operating leverage across our store base in the second half of the year. We'd expect to see that this year as well. More specifically, we should see some labor leverage for the full year, but that's going to be a bit muted for two reasons. Number one, we had some big wins last year, and that's hard to comp. Also Breeze is a negative impact to margin, albeit less than we expected so far, and we expect that to continue. So that's really a lot of what we're thinking about when we think about the overall guide and the second half of the year.

Mark Jordan

Goldman Sachs Group, Inc., Research Division

Okay. Perfect. And then just last one, if I could. The competitive landscape, it's changed a little bit here, I think, in recent months with one of your larger competitors announcing the sale. I guess with that, do you expect any changes to the competitive environment either intensity or maybe impacts to your white space projections?

Lori Flees

CEO, President & Director

Yes. No, I think our industry is still incredibly fragmented, and we haven't seen nor do we expect at least in the near term to see any material changes in the competitive environment? Obviously, with -- there's a lot of distraction in our category. But I do think that we compete against the players that exist today. And we performed very well. So when you look at our stores proximate to the next largest players, we've been competing against these brands for a long time. We continue to add stores in markets where we compete against these brands. We deliver -- we're delivering very good returns still maintaining mid-teens or higher returns on invested capital in the stores that we build and our franchisees are still building.

So it's unclear how new ownership and some of the turmoil is going to impact or change, but we're confident in the strength of our business model. Our customer proposition, our marketing execution and just our overall store execution across the network.

Operator

Your next question is from Chris O'Cull with Stifel.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Congrats on the great report. Lori, could you elaborate a bit more on the risk of lubricant shortages?

Lori Flees

CEO, President & Director

Yes, I'll do a little bit at a high level and Kevin, you can add on to it. The lubricants that we use in our business are blended from a number of different base oils. Our supplier who develops that is always looking on its formulation to meet the OEM specs. And so this is something that they're always looking at in terms of managing supply and demand across the base of products that they produce. When you look at the Middle East conflict, it's really base oil trees. That tend to be -- are potentially being impacted, and we're working very proactively as our supplier is to make sure that we mitigate any risk. But that -- that is something that will depend on how long the conflict continues. But at least as it relates to the guidance that we've updated, we believe we've been very measured to outline more of the bottom end would have that taken into account to the extent we see any risk.

John Willis

Senior VP & CFO

Yes. I think Lori said it really well, but we've got very adequate supply today and for the foreseeable future. And it really will be about the duration of the conflict. But again, in very close contact with our supplier on this, and they get it and are doing everything they can to ensure that we remain and continue to remain supplied.

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then Kevin, I had a question on the guidance. The comp range was raised meaningfully, but the full year revenue range wasn't changed. I was hoping maybe you could just elaborate on what else changed in the underlying assumptions. And then I wanted to clarify, the EBITDA range was also increased on the same revenue range. Is that because Breeze margin is better than initially expected?

John Willis

Senior VP & CFO

So, Breeze is performing better than initially expected, and we would expect that to continue based on how they're executing. So that does certainly play some part in it. As we look at the overall revenue range, I would say at this point, we were comfortable with the range, which is why we didn't change it. I would say that we are trending above the midpoint. I think another point worth making here is depending on how much price movement we need to do there could be a need to change that range down the road. But we're comfortable with where it is right now and feel like there's room in there based on our current forecast of the business.

Operator

Your next question is from Steve Shemesh with RBC Capital Markets.

Steven Shemesh

RBC Capital Markets, Research Division

Nice results. Just a follow-up on cost inflation and pricing and kind of where that pricing has gone into the market company operated versus franchise. And then just thinking about have you priced to where you think inflation is going to go or based on what you've seen in the market today? And could we see additional pricing throughout the year?

Lori Flees

CEO, President & Director

Yes, great question. So as we mentioned, we started to see our cost forecast for lubricants go up for the third quarter. And therefore, on a company basis, we did take some pricing actions within this third quarter to mitigate. We are trying to stay measured with that to make sure that we cover the cost increases, but we're also putting those into the market in an appropriate way, much like we do our pricing all the time. So we've been running in test and some of this pricing, we feel very comfortable and confident in the customer elasticity benefit or a net benefit that we would receive. So we feel very good about the company side.

Our franchisees, not all of them, have taken pricing actions. Some took some pricing action already in the second quarter. Some are still reviewing. Some have decided or are in the middle of deciding what they will do in the month of May. So we're really in a transition phase as we're looking at cost increase wanting to make sure that we are appropriately pricing to pass that through to the consumer where we can't mitigate it otherwise.

Steven Shemesh*RBC Capital Markets, Research Division*

Understood. And then just a follow-up. I mean, presumably, as price goes into the market, your list price contribution to same-store sales should increase as well. So I guess just as we think about the contribution of traffic versus ticket for the back half of the year, should it be a little bit more weighted towards ticket? Or do you expect it to be balanced with what we saw in the first half?

John Willis*Senior VP & CFO*

Yes. It most likely will be a bit more weighted towards ticket. I think the other piece of the equation, though, is especially in the non-Breeze part of the business. We do tend to have a pretty high transaction level in the second half of the year compared to the first half of the year just due to the seasonality of the business. So we would expect the transactions will also remain a meaningful contributor in the back half of the year. But I think the way the math will work is we will see incremental improvement to the comp more on the ticket side.

Operator

Your next question is from Scott Stember with Roth Capital.

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

Well, and congrats on the very strong results. I'm not sure if you mentioned this in the call already, but could you talk about whether there is any meaningful difference in same-store performance versus franchisees versus company-owned stores?

Lori Flees*CEO, President & Director*

Yes, I did mention this, but I'll go ahead and cover it again. Overall, same-store sales across the network of 8.2% was really strong. The franchise stores did outperform company relative to the average. That was higher driven primarily by transaction growth. There were puts and takes on the ticket, but ticket was largely the same. So the majority was coming from transaction growth. And there are a number of different factors I mentioned. One is new store contribution. We had a couple of our franchise system, fairly larger ones that had more new builds and they're coming into their cost than they would have had a year ago.

Another system is lapping weather with the wildfires in California. And so there are different puts and takes that drive some of that transaction growth that we know and can point to. But overall, when you step back and you look at company store performance and franchise store performance, averaging out to 8.2%, it's meaningful, and the comp was strong on both. So we're really pleased with where Q2 landed.

Scott Stember

ROTH Capital Partners, LLC, Research Division

Got it. And could you talk about how fleet did in the quarter? Any meaningful improvements over what we've been seeing over the last few quarters?

John Willis

Senior VP & CFO

Fleet continues to perform very consistently across the board, and we would expect that to continue. Just as a reminder, fleet continues to make up less than 10% of our system-wide sales, but growing at a very rapid rate. We have a lot of room to run in the fleet business, both on the company and the franchise side. We have resources devoted to those customers to not only serve them, but also to continue to build that business. Again, both for us and our franchise partners. And we're very bullish on not only where that is, but where we expect it to go.

Lori Flees

CEO, President & Director

Yes. When we look at fleet growth -- when we look at fleet growth, just to chime in there a little bit, there was a little bit slightly higher fleet contribution on the franchise side, the same store sales and company, it was small but meaningful on its base. I think the other thing that's happened that we're really pleased about is our last large franchise system has just decided to move their fleet business to be managed in our managed sales group, which we do on behalf of all of the other large franchisees, but this was the last one, which will allow us to really go after meaningful business across the nation when you look at key regions. So we're really excited about the opportunity to grow fleet. There will likely be meaningful fleet growth. On the franchise side, just because we've started to focus on that on behalf of our franchisees more recently.

Operator

Your next question is from Peter Keith with Piper Sandler.

Peter Keith

Piper Sandler & Co., Research Division

Good morning, everyone. Great results. With the guidance range I'm curious if you've touched the back half of the year, the guidance seems to imply a bit of a step down in the comp trend despite the continued momentum, certainly can understand being conservative, but maybe just help us understand the guidance raise is it mostly flowing through what's happened in the first half? And has there been any changes to the second half?

John Willis

Senior VP & CFO

Again, we are being measured in the second half in terms of the overall guide. You're right, the second half guide remains largely unchanged. We started off strong in Q3. We feel very, very good about where we are, the momentum of the business and how it's performing. But again, we did want to be measured based on the things that we don't know and that we can't control. And as we get through Q3, we'll take a fresh look at it again. And if we need to adjust, we will. But you are correct. The second half is largely unchanged from where we started.

Peter Keith

Piper Sandler & Co., Research Division

Okay. That's very helpful. And then for Lori, I'm always curious around the efficiencies you're getting from moving your tech architecture to the cloud. And you've talked in the past around improved marketing analytics. Is there anything you could update us on that front where you've made some recent progress.

Lori Flees

CEO, President & Director

Yes. We continue to look at our net pricing and the efficiency of our discounting activity. And I would say that we've made a lot of progress in that as we continue to grow ticket, we're managing the discount levels very effectively. We've been able to pilot some different offers in a very targeted way to figure out if there are things we want to do more broadly. Probably nothing too early to share the impact. Some of the things that we have are in our plan. Some of them would be upsides to the plan, which obviously, we're always working to deliver.

We're very early in the shift of some of our budget from local media spend and national media spend, that's driving our cost per impression down or increasing the number of impressions for the spend that we're using. And we're seeing increased organic traffic to our brand assets, which obviously lowers our customer acquisition cost. So overall, probably too early to share some of the metrics, but we're seeing some very promising results of the investments that we've made both to move our marketing data and assets into the cloud, but also in the early stages, very early stages of the shift to more of the national media spend.

Operator

Your next question is from Steven Zacccone with Citi.

Steven Zacccone

Citigroup Inc., Research Division

Congrats on the strong results. Most of my questions are answered, so I wanted to follow up on a couple of model things. First on -- let's talk about gross margin for the second half of the year. So you talked about 2Q being up 40 bps ex the depreciation. How should we think about the second half because you still have Breeze being dilutive? And then it sounds like labor efficiencies will kind of be a bad guide. So just can you talk about second half gross margin expectations?

John Willis*Senior VP & CFO*

Yes, Steve, we would expect gross margin in the second half to improve as it normally does, given that we do tend to have higher volume in the second half with the summer drive season and just general seasonality in the business on an overall basis for, call it, the non-Breeze part of the business and we fully expect that to continue. On the labor piece of the equation, we were really, really strong on labor leverage in the second half last year. And so we don't expect a lot of improvement on the labor side, but we would expect some nominal improvement there, partially offset by Breeze. Because just as a reminder, they do have lower volume stores. And so their labor as a percent of sales does run higher than ours. It's one of the advantages that we'll gain as we build momentum in that system.

But on an overall basis, we'd expect to get a bit of leverage from most store expenses, again, just through the throughput that we'll see in the second half. And while you didn't ask the question, I will also say we would expect to see continued SG&A leverage in the second half, again, as that is a stronger part of the year for us.

Steven Zaccone*Citigroup Inc., Research Division*

Okay. When you say improved, do you mean sequentially gross margin rate, not necessarily year-on-year?

John Willis*Senior VP & CFO*

That's right. And part of that is due to the fact -- just to clarify, remember, we do have Breeze included in the equation, and that is a bit of a margin headwind much less in Q2 than we expected, and we would expect it to be less for the full year than where we thought it was going to be, but it will be directionally a small headwind to margin in the second half as well.

Lori Flees*CEO, President & Director*

And part of that is because when you look at the volume in our stores, and the way that it ramps during drive season for much of the country, it's less so in states like California, though there is some. And when you look at their volume per store, just the amount of leverage that we'll get because it will take time to drive that demand curve on the Breeze sites.

Steven Zaccone

Citigroup Inc., Research Division

Okay. Understood. And then the other follow-up I had is I may have this wrong, but the original thinking for Breeze dilution was about 100 basis points to EBITDA, that one was that right? And two, what should we be thinking about as the dilution from Breeze on an EBITDA basis?

John Willis

Senior VP & CFO

Yes, that was right. We expected about 100 basis points of overall EBITDA margin dilution. We didn't really talk about the gross profit piece of that. But it was much less in Q2 than 100 basis points. That said, we did have synergy capture that was earlier than expected. So on an overall basis, it will be less than 100 basis points for the full year. Not really prepared to disclose exactly what we think it's going to be, but it will be less than 100 basis points.

Operator

Your next question is from David Lantz with Wells Fargo.

David Lantz

Wells Fargo Securities, LLC, Research Division

On your expectations for second half SG&A leverage, Curious if you can parse out how we should think through some of the moving pieces within advertising, payroll and G&A?

John Willis

Senior VP & CFO

Sure. Advertising as a percent of sales will be fairly consistent sales will be higher, advertising will be higher in the second half as it normally is. But on a percent of sales basis, it doesn't change very much typically. May move around a little bit on a month-to-month basis, but for a quarter or the full year, it's pretty consistent. As far as the rest of SG&A, goes. As we think about the full year, we'll talk about Q2 first. We had about 60, 70 basis points of leverage. And I think most of the big tech investments are behind us. We've lapped that, and we're seeing that come to fruition.

But one of the things we're really pleased with is that the improvement is really coming across a broad range of categories. which is how it should happen. So we're not seeing outsized impact from any one area like labor or what have you, kind of all the big areas are improving a bit. And we would expect that to continue. There's -- there will be a natural amount of that again in the second half because it's busier for us. We'll see more sales and the labor and other costs to support those sales really won't change very much. And so we should naturally see leverage higher leverage in the back half.

That said, we are also very focused on making the business more efficient every day. we're looking at ways to do more with less to employ technology in new and better ways and to generate as many ideas as possible to continue to create and build SG&A leverage going forward.

David Lantz

Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then could you also talk about the cadence of new unit openings in the second half and provide an update around new unit economics as well?

Lori Flees

CEO, President & Director

Sure. I'll talk about the new unit profile of openings and Kevin can talk about capital. Obviously, we added 31 stores to our network, 29 netting out the 2 closures. The new units continue to wait to the back half. It's typical given the geographies that we serve and the weather patterns of when construction and conversion can happen. We actually had 14 openings in April, 9 of which were franchise. So again, we continue to feel really good about the health of our pipeline, both on the company and the franchise side.

That includes both ground-up builds and independent Quick Lube acquisitions. So overall, you can expect to see a weighting of unit openings in the back half, particularly on the franchise side.

John Willis*Senior VP & CFO*

As we think about unit economics, we and our franchise partners have been very focused on reducing the amount of capital that it takes to build a ground-up store as well as the capital required to convert an acquired store to Valvoline Instant Oil Change. And the team has been pretty successful with that, bringing that cost down, call it, 10%, 15% with line of sight to do another 10% to 15% over the course of time. It will take some time for that build cost to roll through as -- especially with ground ups because there is a certain amount of time it takes to open one of those from start to finish.

That said, as we look at unit economics, it really hasn't changed. From an IRR perspective, we see mid- to high teens. That's why we continue to invest in the units. It's why our franchise partners have increased their investment in the units and made commitments around that with new development agreements. So we really see no change there, and we will continue to invest in new units for the foreseeable future.

Operator

Your next question is from Bret Jordan with Jefferies.

Bret Jordan*Jefferies LLC, Research Division*

In the non-oil change revenue mix, did you see anything of note there, whether customers either push back on some of the higher ticket stuff like a differential flush as the quarter progressed? And I guess if you could talk about sort of strengths or weaknesses in that category.

John Willis*Senior VP & CFO*

NOCR was a good contributor in the quarter. And as we look at the trending of NOCR -- I think we've said this in the past. NOCR tends to run around 25% of ticket, give or take. As we looked at that in Q1 versus Q2, April versus Q2 and Q1, et cetera, it remains very consistent, both across the company and the franchise partners. So there's been no change there thus far.

Bret Jordan*Jefferies LLC, Research Division*

Okay. And then I guess when you think about past oil volatility, as you take prices up, and obviously, they might come down if we resolve the Middle East, can you capture margin as you hold price for a bit against the lower input cost? Or does it ratchet down pretty quickly with competition?

John Willis

Senior VP & CFO

Lori can correct me if I'm wrong, but I don't think we've ever lowered list price on our oil changes. And that's just -- that's an industry standard, I would say. So there is potential opportunity for some margin recapture going forward as a result of that if we do see declines in the cost of lubricants.

Operator

Your next question is from Thomas Wendler with Stephens.

Tom Wendler

Stephens Inc., Research Division

Great quarter. Most of my questions have been answered, maybe 1 more quick one for me. With the Breeze acquisition, I think there was an expectation from any rollout of additional services there at the Breeze locations. Can you give us an update there?

Lori Flees

CEO, President & Director

Yes. We're in the process of looking at the menu and understanding what equipment would be required to expand the menu of offering between an oil changers location and a Valvoline Instant Oil Change is fairly consistent. Obviously, the lubricant offering has some differences that we're working through. And then they don't offer tire rotations. And so we're working through what equipment that would be required in training as we look at that opportunity and the oil changers, there are pretty small other changes here and there still an opportunity for upside, which is factored into our overall growth expectation for Breeze.

Operator

There are no further questions at this time. This concludes today's call. Thank you for attending, and you may now disconnect.

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