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Valvoline Inc. (NYSE:[VVV](#)) Q3 2025 Earnings Conference Call August 6, 2025 9:00 AM ET

Company Participants

Elizabeth B. Clevinger - Corporate Participant

Investor Relations Executive - Corporate Participant

John Kevin Willis - Chief Financial Officer

Lori A. Flees - CEO, President & Director

Conference Call Participants

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

David Leonard Bellinger - Mizuho Securities USA LLC, Research Division

David Michael Lantz - Wells Fargo Securities, LLC, Research Division

Justin E. Kleber - Robert W. Baird & Co. Incorporated, Research Division

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

Michael Joseph Harrison - Seaport Research Partners

Peter Jacob Keith - Piper Sandler & Co., Research Division

Simeon Ari Gutman - Morgan Stanley, Research Division

Steven Emanuel Zaccone - Citigroup Inc., Research Division

Steven Jared Shemesh - RBC Capital Markets, Research Division

Thomas Alexander Wendler - Stephens Inc., Research Division

Operator

Hello, and welcome, everyone, to the Valvoline's Third Quarter Earnings Conference Call and Webcast. My name is Becky, and I'll be your operator today. [Operator Instructions]. I will now hand over to your host, Elizabeth Clevinger, with Investor Relations team to begin. Please go ahead.

Elizabeth B. Clevinger

Investor Relations Executive

Thanks. Good morning, and welcome to Valvoline's Third Quarter Fiscal 2025 Conference Call and Webcast. This morning, Valvoline released results for the third quarter ended June 30, 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 on Slide 2, 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. Non-GAAP results are adjusted for key items, which are unusual, nonoperational or restructuring in nature.

We believe this approach enhances the understanding of our ongoing business. 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. The information provided is used by our management and may not be comparable to similar measures used by other companies.

With that, I will turn it over to Lori.

Lori A. Flees

Thanks, Elizabeth, and thank you for joining us today. I'd like to start with a quick look at our third quarter highlights on Slide 3. We are pleased to have delivered strong sales, profit and store growth for the third quarter. System-wide sales increased 10% to \$890 million and adjusted EBITDA increased 12%, considering the impacts of refranchising. We delivered good same-store sales comps of 4.9%, including an 80 basis point impact for Easter, and we added 46 new stores in the quarter. As we continue to drive the full potential of the core business, we benefit from the resiliency of our customer demand.

We continue to see no evidence of customers trading down or delaying services. In fact, the percentage of customers using our premium products grew both sequentially and year-over-year across the network. We're pleased to see continued transaction growth for our same-store base. We also saw transaction growth in our mature store base for the quarter. Our ticket growth was benefited by premiumization, net pricing and improvements in NOCR service penetration. While we had a good comp result of 4.9%, we believe June, while positive, was impacted by a slower-than-normal start to the summer holidays.

We remain confident in our same-store sales expectations for the full year and are narrowing our guidance range to 5.8% to 6.4%. Our team continues to manage our cost of sales to deliver long-term margin expansion and enhance shareholder value. Labor improvement drove the gross margin rate expansion this quarter through better labor management, especially from enhanced scheduling practices. In Q2, we discussed the expected impact of tariffs in detail. While there continues to be uncertainty in the global trade discussions, our expectations of any impact to our financials are minimal and unchanged.

As it relates to network growth, this quarter, we added 46 new stores, bringing our year-to-date total for gross store additions to 116, 114 net of the 2 closures in Q2. During Q3, we had a transfer of 6 stores from franchise to company ownership. This transfer was driven by strategic considerations to align markets and enable our franchise partners to concentrate their development efforts in markets where they are best positioned for growth. The strong delivery of stores this quarter, along with the stores already in construction and in the acquisition pipeline, gives us confidence in meeting our store addition targets for the year.

We continue to track to the midpoint of the range while recognizing consistent with what we shared last quarter that our pipeline is more back-end loaded this fiscal year. We're pleased with the continued momentum of new store pipeline growth, including

our recently refranchised markets. The progress of both our company and franchisee development teams reinforce our confidence in delivering our network growth targets and improving return on invested capital. I'd also like to give an update on the Breeze transaction. We continue to work diligently with the FTC on a path to close this transaction.

This path to close could include a plan to divest certain stores subject to FTC approval, but we're still too early in the process to know the specifics, and there is uncertainty around the timing. We hope to close in late Q4 or early fiscal 2026, and we'll provide more information as soon as we're able. Before handing it over to Kevin to review our financial results, I want to officially welcome him to his first Valvoline earnings call. As expected, he's quickly getting up to speed on how Valvoline's business looks today, and I appreciate the strong financial expertise he brings to the team.

With that, I'll turn it over to Kevin.

John Kevin Willis

Thanks, Lori. Glad to be with everyone today. Since joining, I've spent considerable time with our teams and on the road meeting with investors. This is a great company with a lot of growth opportunity to drive shareholder value, and I'm excited to be a part of it. Let's turn to Slide 6 and take a more detailed look at our financial results for the third quarter. Net sales increased 4% on a reported basis and 12% when adjusted for the impacts of refranchising.

System-wide same-store sales increased 4.9% and 12% on a 2-year stack. The majority of the comp growth for the quarter came from increased ticket with premiumization, net pricing and increased NOCR service penetration all contributing. Transactions also continue to grow. And without the Easter headwind, transactions would have contributed roughly 1/3 to the comp. Similar to Q2, we're seeing stronger same-store sales growth from the franchise stores.

Pricing actions taken by some of our large franchisees continue to be a key driver. Turning to the next slide, we'll take a look at the financial drivers for the quarter. Gross margin rate increased 80 basis points year-over-year to 40.5%. This was primarily driven by labor leverage of more than 100 basis points, partially offset by increased depreciation from the addition of new stores of about 50 basis points. As Lori mentioned, we continue to improve our labor management through enhanced demand planning, which leads to improved schedule.

SG&A as a percent of sales increased 80 basis points year-over-year to 18.5%, reflecting our previously discussed investments in technology infrastructure. Our technology investments accounted for about 1/3 of the SG&A increase over prior year. Year-over-year, when adjusted for refranchising, SG&A increased generally in line with the sales increase. We expect year-over-year SG&A leverage to return in fiscal year 2026. Sequentially, SG&A as a percentage of sales decreased 80 basis points. On an absolute basis, sales growth outpaced SG&A growth in the quarter. Adjusted EBITDA margin increased 30 basis points to 29.5%.

On Slide 8, we'll take a look at overall profitability. Similar to the previous quarters this year, the refranchising transactions impact the comparisons to the prior year. We delivered strong profit growth with adjusted EBITDA of \$130 million, a 12% increase over the prior year, considering the impacts of refranchising and adjusted net income of \$61 million. Adjusted EPS of \$0.47 increased 18%, considering the refranchising impacts. We finished the quarter with approximately \$68 million in cash and the leverage ratio on a rating agency adjusted basis of 3.3x.

Turning to Slide 9, you will see our updated outlook for the year. Across the board, we expect to fall within the prior outlook and have tightened most ranges. Lori already covered same-store sales and network growth. Share repurchases are \$60 million year-to-date, having been paused following the Breeze announcement. For sales and EPS, we narrowed the ranges around the midpoint, and we raised the low end of the adjusted EBITDA range based on performance to date.

With that, I'll turn it back over to Lori.

Lori A. Flees

Thanks, Kevin. Before we wrap, I want to thank our 11,000-plus team members and our franchise partners whose hard work helped deliver the strong revenue, profit and store growth this quarter. We're grateful for their ongoing dedication as we are fully into the summer drive season. We feel good about where our performance will land for the year and are narrowing most of our guidance ranges. We have a resilient and durable business model that positions us well to deliver strong performance and long-term shareholder value. Now I'll turn it back over to Elizabeth for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Mark Jordan from Goldman Sachs.

Mark David Jordan

I guess as we think about going forward, full year same-store sales growth guidance implies a pretty wide range of outcomes for 4Q. Can you talk about the different scenarios you see playing out there that might lead you to the high end and low end of the range?

John Kevin Willis

Sure, Mark. First, just a little bit about the comp for the quarter. We're definitely pleased with the financial performance of the business in the quarter. Good growth across the board for every key metric. We're happy about that. April and May performed in line with our expectations with good comps. As Lori mentioned, we did see a slow start in June or slower start to the summer holiday season.

And that said, we did see consistent transaction growth across the entire system each month, including tour stores. Transaction growth accounted for about 25% of the comp. Going forward, and we've talked about this a fair bit, we expect to see good impact and good growth, both in terms of transaction and ticket. As we look at Q4, we narrowed the range. And while you're right, the absolute math would imply a pretty wide range of outcomes. We're pretty focused on the midpoint of that range, and that would be our overall expectation for the quarter.

Mark David Jordan

Okay. Perfect. And then I think on -- so transactions were 25% of the comp there, so 75% or so were ticket. Can you break out the drivers of ticket, the magnitudes there, NOCR, net pricing and premiumization?

John Kevin Willis

Yes. All were contributors to ticket in the quarter. We don't really break those out specifically in terms of exact numbers, but all were contributors in the quarter, both for company stores as well as for franchise stores. So we were pleased with that, I would say, across the board on an overall basis.

Operator

Our next question comes from Steven Zaccone from Citi.

Steven Emanuel Zaccone

I wanted to follow up on the previous question. Can you just help us understand a bit more maybe what you saw in June? Do you think it was weather? Do you think it's some macro impact? And then just given the guidance for the fourth quarter, we can kind of do the range. What are you seeing thus far in July? Like have you seen a bit of an improvement versus what you saw in June?

Lori A. Flees

Yes. Thanks, Steve. Overall, we feel June started a little slow relative to the summer holiday season. But when we step back, the resiliency of the customer base is still incredibly strong. We're not seeing customers trade down or defer service, but there was some timing. And I think some of that could have been the mild weather and the rain. We typically see that just slide volume around. And I think that was a contributor for June. However, as we went into July, those -- not that weather went away completely, but the high weather came back.

I think the summer holiday season and the driving picked up, we saw good traffic. Obviously, we have some benefit in July because of CrowdStrike last year. So we have a bit of tailwind. But if we take that impact out, we feel really good around transaction performance

as we move through the month of July, and we feel very good about the momentum of the business, which is why our guide and narrowing is slightly up from the previous midpoint.

Steven Emanuel Zaccone

Okay. That's helpful detail. And then I'm going to ask a question just how should we start to think about same-store sales planning for next year since you clearly have confidence you're going to be able to return to SG&A leverage. Maybe just help us think about the preliminary planning for same-store sales growth next year.

John Kevin Willis

Sure. While it's a bit too early to comment on fiscal '26, I can say that we and the entire team are engaged in and working on plans for the upcoming year, and we'll be excited to share those plans a little bit later at a more appropriate time. In terms of SG&A, we're definitely pleased that SG&A growth has moderated as we expected it to. And as we indicated in the comments, technology investments are mostly done, I would say, and accounted for about 1/3 of the year-over-year SG&A growth. As we fully lap those investments, which should happen early in fiscal '26, we should expect SG&A leverage to return in 2026.

Lori A. Flees

And I'll just add, Steve, I was just going to add to what Kevin said, the fundamentals of the business have not changed. We've been talking about the same drivers here since I joined the company. And really, the only significant change is really the inflationary environment. And so the fundamentals that we're seeing around ticket contribution and having a healthy mix of that coming from ticket -- sorry, ticket and transaction on the ticket side from continued opportunities in NOCR, pricing and premiumization, combined with the growth in our customer base, the fundamentals of our business hasn't changed. for the most part.

The biggest thing is the inflationary environment. So I think considering what we're seeing in the market today, which is just the continuation of great tailwinds, great execution, I think you'll continue to see strong same-store sales growth from us and continuation of growing share.

Operator

Our next question is from Simeon Gutman from Morgan Stanley.

Simeon Ari Gutman

My first question on transactions and ticket, so this 1/3, 2/3, we've been, I think, in this mode for a bit. It used to be a little more balanced. So could it get to be more balanced? And then getting to a slightly higher sustainable comp rate, do you need the transactions to lift? And is that expected to happen? Or is this the new normal?

John Kevin Willis

So I think as we see newer stores start to, we will see transactions tick up. We do want to continue to work towards striking that balance between ticket and transaction. As Lori indicated, in the past few years, we've been in a very inflationary environment. And by default, ticket has played a larger role in comp. I think as we go forward and assuming a more moderate inflationary environment, we should see a more balanced view in combination of ticket and transaction. That's our expectation. And again, it's maturing the existing network. It's working with mature stores to continue to grow. It's growing the base footprint as well.

Lori A. Flees

And Simeon, I'd just say that adding to what Kevin is saying, in this quarter, we did have the headwind of Easter, which impacts transactions. So at north of 25% of our comp being from transaction. When you take that out, it was significantly higher when you factor in the Easter flip. And we're consistent with what we've seen in the first half of the year. So we're not quite always hitting a 50-50 balance. And I think that is -- that's hard to strike exactly, but we would be hoping to be more in that balanced range over time. We do have some headwinds on the ticket side, which will continue in our favor.

Premiumization is going to continue as we see the car park evolve and the number of cars where the OEM is recommending a full synthetic lubricant is growing. So we do have some tailwinds, which will continue to keep that ticket momentum strong. But again, I think we are getting to much more balance than what you've seen from us over the last 3 years.

Simeon Ari Gutman

And then a follow-up and it's related. If you look at the immature stores that are ramping, the oil changes per day, so I guess that would be your -- the transaction gate. Those ramps are normal, below average, above average? How do you -- how would you characterize them?

Lori A. Flees

So Simeon, it's a great question and something that we review on a regular basis, looking at what plan do we put in place for each of the stores that we put -- that we went to build or to buy and are they on track? And the good news -- and by the way, we approved those based on the return on invested capital that we're going to -- that we expect to get.

And again, there's incredible consistency around the performance of our new store ramps relative to that set plan at the time we make the approvals. So we continue to see very good performance from our new store base. And those stores are expected to return, again, mid- to high mid-teens in terms of return on invested capital. So still really positive performance from our new store base.

Operator

Our next question comes from Mike Harrison from Seaport Research Partners.

Michael Joseph Harrison

Welcome to Kevin. Looking forward to working with you again. To the extent that average ticket is going up, I was hoping we could dig in a little bit on how much of that is pure pricing. Presumably, you guys are responding to some higher costs for parts or filters or maybe some increases in labor costs and trying to push pricing. You also noted some incremental pricing actions by your franchisees as well. So I was just wondering if you could give us any help around quantifying that pure pricing component of average ticket? Really just trying to get a sense of how much pricing momentum could be reflected in average ticket into next year.

John Kevin Willis

Sure, Mike. First, I'll address the franchisee question. We did have one large franchisee that made some price adjustments. We talked about that last quarter. That's continuing to impact the comp on the franchise side versus the company side. Over time, we'll lap that, but we do still see that. I think as you look at the price portion of the equation for the comp, where we see a lot of opportunity is in continued growth in premiumization as well as NOCR. And NOCR has a lot of room to grow, both on an overall basis within company and system as well as improving the gap between our lower quartile performers in our system versus the higher quartile performers. In terms of price-related and potential cost headwinds, we talked about tariff impact last quarter.

Nothing's really changed there. And we did give an indication of expected impact to operating costs based on the environment at the time, it hasn't changed all that much. And certainly, this is an industry that tends to take inflation, get inflation back via price, and that would be our expectation. But in the end, the larger contributors to ticket are going to be those actions that we take within the store from an execution perspective around premiumization, which again, car park impacts that and of course, NOCR with pricing just on an absolute basis being a much smaller component of that typically.

Lori A. Flees

Yes. I would just say, Mike, we've always talked about there being balanced across the 3. I think where Kevin is coming from is the car park evolution driving the premiumness and the NOCR penetration upside. It's certainly been strong contributors for us over the past 12 to 18 months, but pricing has been a contributor. And we continue to review our pricing and do pricing tests actively in the marketplace. And price was a very good contributor, not out of line of the expectations that we talked about in our long-term algorithm minus significant inflation.

So we'll continue to look at our pricing. I do think we have taken at least one regional action relative to cost in that region, but that was not pervasive yet. So while in my comments, we talked about no significant tariff impacts as we have those, we will either find ways to mitigate them through other cost reductions or we will pass this through to consumer. But right now, we haven't taken pricing across the board to mitigate any new labor and/or product costs.

Michael Joseph Harrison

All right. Very helpful. And then I had a couple of questions related to acquisitions. I see that you acquired 8 stores in the quarter. Was that one transaction or multiple transactions -- and I'm just hoping that maybe you can give us some color on what the pipeline of store acquisitions looks like. It seems like maybe you're still moving forward on some of these smaller deals even with the Breeze transaction kind of pending here.

Lori A. Flees

Yes. Great question, Mike. So during Q3, we purchased 6 stores from a franchisee. It was one transaction. The transfer was driven by really us stepping back, looking at how the markets were aligned geographically as well as where the franchise partners' development efforts in markets were best positioned. And this was a mutual decision between us and the franchisee that they actually wanted to focus their development in other areas. And so got to a very good outcome to transition those stores to company ownership. They are in the Louisiana market. It's a market that we think there's a lot of opportunity.

And we actually have company markets that are adjacent. So from a G&A standpoint, it's actually synergistic with the company side versus the -- that was isolated from the franchisee that was operating. And so we'll continue to, I think, look at -- they're really just small opportunities, and they'll go in both directions, but it will never be more than a handful of stores. I think as it relates to our pipeline, we continue to have -- there are over 4,000 independent group operators -- and there is always from time to time, independent players who want to make a transition and they don't have -- they're not going to pass it on to the next generation.

And they want to make sure their people are taken care of. So they look to companies like Valvoline who can step into that business, pay them a fair market price and take care of their people. We continue to use that strategy. The returns on invested capital for acquisitions are incredibly strong, and we have a playbook. So we know how to convert those stores. We continue to build our pipeline. The Breeze transaction is still pending, and we're still working hard toward it. But we continue to talk to the independent players that we've been talking to about their timing and where it makes sense for us to invest in growth and get a good return, we'll do that.

Michael Joseph Harrison

All right. I did just want to clarify, though, there were 6 conversions from franchisees, but it looks like there were also 8 acquired stores. Was that one transaction or multiple?

Lori A. Flees

Multiple on the 8 -- sorry, Mike, I was just focused on the transfers. There were multiple. Most of the acquisitions that we do now are -- majority of them are single-store operators or a couple of store operators.

Operator

Our next question comes from Steve Shemesh from RBC Capital Markets.

Steven Jared Shemesh

I wanted to ask 2 on Breeze, and I'll throw them both out there. First, -- the Breeze stores do about \$1 million in sales per store versus an average Valvoline about \$1.7 million. So first one is, structurally, is there any reason for that gap? And then secondly, as we think about integrating Breeze onto the platform, from an SG&A standpoint, we're lapping over the tech. We're talking about getting back to leverage. Are there any costs associated with the deal that might throw a wrench in that plan?

Lori A. Flees

Yes. Good question. Thanks for asking it, Steve. So first of all, when we look at the performance of the Breeze stores, they've been building that network relatively quickly. So the level of maturity of those stores varies. But given its size, would be more heavily weighted to less mature stores. So that will obviously be an impact. Second is the amount that is being invested in marketing and fleet activities is different. And that's because they're building a brand. While that brand has been in the marketplace for a long time as they expand geographically, if they're not rightsizing the marketing and have the technology, the tools and the customer data and the things that we've invested in building over many years, it's going to take more time to build that volume across those base of stores.

So we think those are all contributors, and it's part of the reason why the acquisition was attractive to us, and we believe that it will provide a very strong long-term shareholder value return. In terms of the cost, -- the good side about the Breeze business is it actually operates very similarly to Valvoline. So these are pitted stores. They -- in the way their service menu is largely similar, although they don't provide all of the services that we do in our the IOC business.

So there's some upside there, too. But in terms of costs, we'll have the normal -- we'll want to make sure we look at safety, but this is a team that focuses on our people. So we don't expect to have -- I'm sure there will be small surprises as we get the okay to move forward. But we don't see any major significant stumbling blocks or capital investments at this time and based where we are in the process.

Operator

Our next question comes from David Bellinger from Mizuho.

David Leonard Bellinger

I want to follow up on the franchise side. It seems like at least one of these large franchisees was taking more price. You spoke to that, maybe more price just across the board on the franchise platform. Can you speak to the magnitude of that differential versus company-owned? Any consumer pushback in those markets? And if not, should the company-owned pricing close that gap over the next several quarters? Is that an opportunity for the core company-owned to push price a bit more forcefully going forward?

Lori A. Flees

Yes. Thanks, David, for the question. When we look at our franchisee pricing, some of that is geographically based. So we look at our franchisees that are a big portion of them are in the Northeast and in California. And so that does create some pricing differential -- labor cost and rent expense is higher, and it typically runs a higher ticket also because of the car park. So that is a difference. In this last year, our franchisees are independent price setters. So we do not tell them what they need to price.

They do their own market studies based on the markets that are involved. And we had one fairly large franchisee who hired some new talent in their organization in the middle of last year and did some work and recognize that they were not priced with the market. They were below the market. And so they did adjust their pricing in the fall, and it was across the board, and it was I wouldn't say massive price, but it was significant. And they were not the only one to adjust price. company, we had price adjustments and in other franchisees, they made price adjustments. But that one was an outlier and is creating a significant part of the difference in the pricing contribution to same-store sales between franchise and company.

David Leonard Bellinger

Got it. And then just to pivot over to the tech investments. I think you mentioned 1/3 of the SG&A growth this quarter. That could equate to something like 20 to 30 basis point impact. Is that the right level of SG&A margin we should get back next year as we move behind this smaller investment cycle within OpEx? Any way to frame what that potential could be into next year?

John Kevin Willis

Yes. I think directionally, that's the right way to think about it. I think it's important to note that we would expect the leverage to improve throughout the course of the year. We do still have to lap some of those investments early in fiscal '26 that were done earlier in this fiscal year. So we'll see, I would say, less leverage early in the year and growing throughout the course of the year.

Again, I think the quantum is probably pretty close. But as we look forward, I think historically, based on sales growth, we've seen SG&A growth grow kind of high single digits to low. In the end, it's too early -- it's really too early to say what fiscal '26 is going to

bring. But directionally, as we see SG&A moderate this year, it would generally be our expectation to see leverage improve over the course of '26. Again, too early to actually size it at this stage of the game, and we'll provide more on that most likely on the next call.

Operator

Our next question comes from Peter Keith from Piper Sandler.

Peter Jacob Keith

Elizabeth, Kevin, nice to you. I wanted to ask about the labor leverage. You saw 100 basis points of gross margin benefit. So that was fairly impressive. You're talking about taking advantage of new demand planning tools. So is there something unique to this quarter? Or is this some -- in the ballpark of the type of labor leverage you could see on a go-forward basis with similar comp performance?

John Kevin Willis

Yes. I think what's unique about this quarter is we're starting to see the impact of a lot of work that has happened over the course of prior quarters in terms of developing an approach and really driving overall better execution. And I think another key aspect of this as part of that tech investment stack that we've done was the implementation of Workday. As we continue to mature Workday, that should continue to provide us with opportunities to take a different look at how we're implementing labor across our store footprint, which should ultimately provide us with some opportunities to continue to improve that over the course of time.

Lori A. Flees

And some of that demand planning that's done is more sophisticated. So really thinking about the level of technician that's required and the mix of technician skills. As you get more sophisticated in the tools, you can start to rightsize the wage rates that you need to cover the shifts. And I think our team has been working through some of that demand planning, which then allows for the better scheduling. So it's really just a continuation of some of the things we've talked about, but just getting more sophisticated based on the tools that we have, exactly what Kevin said.

Peter Jacob Keith

Okay. That sounds exciting. And then I guess with Kevin on board, so I don't know if it's a question for Lori or for Kevin, but I think a lot of investors have been eager to see if you're going to put in place a new long-term comp growth framework. Is that still the plan? And is that something maybe you're thinking about with the fiscal Q4 print?

Lori A. Flees

Yes, absolutely. We continue to evaluate the market environment. I think at the beginning of this year, there was so much uncertainty around how the macro environment was going to progress. Things have certainly been more stable for us than what we might have anticipated, though there's still some uncertainty. We feel really good about the momentum of the business. Obviously, the inflationary environment still holds some uncertainty.

And having Kevin on board really allows us to take a fresh perspective and figure out how we guide a long-term algorithm despite some of that uncertainty. So really having him on board has been a great time to help us think through that. We are looking forward to sharing more at the right time and in the near future.

John Kevin Willis

Being relatively new to the story or at least new to this version of the story, it has given me an opportunity to really step back and take more of a holistic look at the business and the company and the growth potential. And it really is a tremendous organization, a tremendous company, and there's a lot of growth ahead for this organization. And we are working to really size that and get the algorithm right so that we can communicate it and then very importantly deliver on it going forward.

Operator

Our next question comes from Chris O'Cull from Stifel.

Christopher Thomas O'Cull

Lori, are you surprised that you may need to sell some of the Breeze shops to get approval, just given how fragmented the market is today? And does that influence your thinking about future opportunities, acquisition opportunities?

Lori A. Flees

So first of all, I'll just say that the FTC is -- has a normal approach that's not unique to us that looks at competition in the market. And this is the first acquisition of any scale in any recent years that they've looked at. So they really are looking to make sure that there's enough competition in the market to serve customers best.

So I think their intentions are very consistent with where they have always focused. It's just -- I think this is the first time it's been something in our space. In terms of the discussions are really ongoing, and we're working with the FTC. One of the paths forward could be to sell a certain number of stores. We're obviously still working through those details. And I think it's a very constructive process. Now we have to get the FTC to approve.

And so there is a process and requirements of that. But I think I'm encouraged by the progress that we've made today, the level of engagement that we're having. And ultimately, the path forward will -- assuming the FTC agrees, will be consistent with our strategy, will drive long-term shareholder value and have the benefit of extending our reach consistent with the overall growth strategy. So as I mentioned, I think, on one of the fireside chats, were we surprised? Yes. But when you actually get into the conversation, we shouldn't have been surprised. And it certainly doesn't change our growth story and the way that we will grow going forward. We're not getting any indication that there will need to be a change in our strategy going forward.

Christopher Thomas O'Cull

Okay. And then do you see any -- I'm assuming you're going to be converting the brand to Valvoline. And I'm just curious, do you see any risk in converting the brand to Valvoline, just given the equity I'm sure that chain has in several other markets?

Lori A. Flees

It's a great question. We're really focused on the FTC process to get to the closing of the transaction. And that has actually limited some of the discussion that we've had with Eric and his team. But we absolutely recognize that there is a loyalty that has been built up across that chain, not just with customers, but with the people. And at the end of the day, the people are what drives the experience for those customers.

So we absolutely have to be thoughtful around how we integrate, but that's not new for us. So we -- as was mentioned in a previous question, we acquire independent operators and have acquired previous chains. And so really thinking through how we make those conversions is something that we have experience in, and it's something that we work with the teams that will be coming on board with our company. And so I feel very good about how that can progress given our experience. But obviously, every situation is unique.

Operator

Our next question comes from Justin Kleber from Baird.

Justin E. Kleber

I wanted to follow up on the tech spend. Just given investors have been so focused on the cost and the deleverage in the model and not as much on what the paybacks are. So nice to see the labor leverage showing up in margin. Can you remind us some of the other benefits or efficiencies you expect to realize from all these tech investments?

John Kevin Willis

Yes. I think one of the more obvious is moving a lot of information, both information that we generate internally as well as external information to cloud-based platforms so that we can make more real-time decisions around how and when we interact with our guests,

both existing and potential. I think we've already seen some advantage come from that as well, and we would expect to see that grow into the future. And I don't want to imply that there will be no tech investment going forward because there always is.

And I think for us, what's going to be really critical is developing those business cases that will give us clarity and confidence in our ability to generate a strong return from those investments as we debate and consider them internally and then ultimately execute on them. So it's actually a pretty exciting opportunity for us going forward, both with what we've done already as well as some of the things that we could certainly do in the future.

Lori A. Flees

And I'll just build on what Kevin said because I couldn't be more passionate about the opportunity that's in front of us. So -- when you think about the ERP and the HRIS, we talked about HRIS in terms of even some of the early wins on labor and that there is more opportunity there. That comes from the tech investment and how we both combine the tech as well as the employee experience together in a way that drives that kind of benefit. On the ERP, we know that there's automation and more retail-centric capabilities that the company has not had before that will make us more efficient on the G&A side over time as we scale.

Kevin rightly pointed out that as we move things to the cloud, like we've done with our customer data, it allows our marketing team to be more sophisticated, more real-time oriented and shifting marketing spend between different channels, which just makes our cost of customer acquisition and our life cycle management relationship building with our customers more efficient.

And then as we focus on store technology, like the replatforming of our SuperPro Tag or even just the technology that we have in stores, that improves the ability to train our techs and get them up to speed more quickly, but it also most significantly benefits the customer experience. And when we benefit the customer experience, that positively impacts customer retention. It impacts throughput in the store. It impacts ticket because they're able to present an OCR services better. So we see a lot of opportunity that tech will unlock, and we're in the early stages.

Justin E. Kleber

Super helpful. Just an unrelated follow-up, and I apologize if I missed this, but -- your prior guidance for the full year assumed I think a flattish gross margin. Just curious how you would have us be thinking about gross margin in 4Q? Should we expect to see continued year-over-year margin rate expansion similar to what we saw here in fiscal 3Q?

John Kevin Willis

Yes. For Q4, we would currently expect margins to be at or modestly above prior year as reported. Obviously, we're still early in the quarter. But based upon our forecast, that's what we'd expect for the quarter.

Operator

Our next question comes from Thomas Wendler from Stephens.

Thomas Alexander Wendler

I wanted to kick it off here with the \$740 million of the Term Loan B, \$625 million of that's kind of accounted for the Breeze acquisition, leaving \$115 million remaining kind of to be deployed. How are you thinking about utilizing that?

John Kevin Willis

The current thought process around that would be a revolver paydown. We do have a draw on the revolver currently. Pricing to is very, very similar. So by putting it in the Term Loan B, we'll just increase our optionality without really changing our cost of capital, cost of debt. So it really is -- it's no more complicated than that.

Thomas Alexander Wendler

Okay. I appreciate that. And then kind of an unrelated one for me here. There's been a little bit of discussion about premiumization kind of impacting last quarter. Can you give us an idea of what the current premium mix is for the oil changes?

Lori A. Flees

So I think overall, we've been open to say that our premium mix is around 80%, and that is a combination of both the blended synthetic Max Life and the full synthetic. And so what we see is that there is a shift into premium from conventional, but that's drawing against the 20% of our car park, give or take. And then you have a change up from Max Life into full synthetic. Most of that is driven that switch up between Max Life and full synthetic is when you have older cars where they were high mileage and a customer had switched up because of the high mileage to a blend and they switch to a new vehicle and the vehicle OEM recommends a full synthetic. So that there's still more upside.

What we look at is the car park we're serving and the car park on the coast is higher premium than the car park in the middle of the country. So that obviously has a driving effect of where premium mix has more upside across our network than not. But it's really car park driven. And as the car park continues to age, people move into premium mix. And as they switch out to newer vehicles, it switches up more dramatically.

Operator

Our next question comes from David Lantz from Wells Fargo.

David Michael Lantz

Any early indications on how we should think about franchise unit growth in '26? Just trying to get a bit more color on thinking through the ramp to 150 per year by '27.

Lori A. Flees

Yes. We continue to accelerate the pipeline, which is the most important. And there's still a lot of opportunity to grow stores given how fragmented the market is and the fact that our stores only reach about 35% of the population. With the refranchising effort, we talked about the fact that those new franchisees or new owners of territories, they'll take some time to build up the pipeline.

So we knew that the current franchisees would contribute about 2/3 of the 150 new units per year, and that continues to grow and pace nicely and that the new franchisees would then contribute the rest, and that would be pretty back-end loaded in the ramp. And that definitely is proving to be true. But -- so you'll continue to see us moving towards that 150 target overall. But I think we still feel very good around the development agreements that have been signed with our franchisees and the pace with which they're building the pipeline to deliver on those.

David Michael Lantz

Got it. That's helpful. And then just one more. Any update on fleet performance and how that looks today and if it's still outperforming the company average?

Lori A. Flees

Yes. The investments that we're making in fleet continue to pay off as growth in our fleet customer base continues to outpace the consumer transactional and ticket growth. The partner -- we -- our partnerships with the franchisees has grown this year. So we put a big effort on this for company markets, obviously, working with national fleet companies, but also many fleet management or fleet owners are regional or even local in nature. And so as we expand our partnership with franchisees, it allows us to drive growth in that area. But it continues to be a very strong contributor to our overall.

Operator

This marks the end of today's Q&A session and therefore, concludes today's call. Thank you for joining us today. You may now disconnect your lines.

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