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Valvoline Inc. (VVV) Q3 2026 Earnings Call Transcript

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Q3: 2026-08-05 Earnings Summary

EPS of $0.57 beats by $0.07 | Revenue of $544.60M (24.05% Y/Y) beats by $986.47K

Valvoline Inc. (VVV) Q3 2026 Earnings Call August 5, 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

Mark Jordan - Goldman Sachs Group, Inc., Research Division
Ariana Warden - Citigroup Inc. Exchange Research
Skylar Tennant - Morgan Stanley, Research Division
David Bellinger - Mizuho Securities USA LLC, Research Division
John Babcock - Barclays Bank PLC, Research Division
Tom Wendler - Stephens Inc., Research Division
Scott Stember - ROTH Capital Partners, LLC, Research Division
Maksim Rakhlenko - TD Cowen, Research Division
Bret Jordan - Jefferies LLC, Research Division
Craig Kennison - Robert W. Baird & Co. Incorporated, Research Division
David Lantz - Wells Fargo Securities, LLC, Research Division
Peter Keith - Piper Sandler & Co., Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to Valvoline's Third Quarter 2026 Earnings Conference Call. [Operator Instructions] I will now hand the conference over to Elizabeth Clevinger, Investor Relations. Elizabeth, please go ahead.

Elizabeth Clevinger
Investor Relations Executive

Thank you. Good morning, and welcome to Valvoline's Third Quarter Fiscal 2026 Conference Call and Webcast. This morning, Valvoline released results for the third quarter ended June 30, 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 will turn it over to Lori.

Lori Flees
CEO, President & Director

Thanks, Elizabeth, and thank you all for joining us this morning. We delivered another good quarter with sales and profit growth in line with our expectations. The team continues to manage the business effectively through the changing supply and macro environment. Our results demonstrate the strength, resilience and growth in our business. On the top line, system-wide store sales increased 19%, crossing the $1 billion mark for the first time in a quarter. System-wide same-store sales grew 8%. Across the system, we saw growth in both transactions and ticket, with ticket contributing more than 3/4 of the comp. All 3 components of ticket, net pricing, premiumization and NOCR service penetration contributed. Net price was the largest contributor, given the pricing actions that were taken.

Similar to last quarter, franchise was above the system average. For the quarter, EBITDA grew faster than sales with SG&A leverage improving.

Before Kevin talks through the financials, I want to spend a moment on the operating environment as it relates to supply. The closure of the Strait of Hormuz has disrupted the global oil supply chain. And specific to our category has constrained the supply of Group III base oil, a key component of full synthetic lubricants. We expect this industry-wide supply constraint to persist over the medium term and beyond the initial reopening of the Strait. However, we are in a differentiated position. Our scale, combined with the strategic relationship we have with our supplier, gives us reliable access to product. Absent a significant change in the environment, we do not have supply concerns today, and we do not anticipate any in the near term.

That said, constrained supply across the market has elevated finished lubricant costs. We saw costs begin to rise in the third quarter, and they continued to increase as we moved into the fourth quarter. Based on the current forecast, we expect finished lubricant costs could be approximately 60% above where they were in March. While that sounds significant, let me clarify that means we expect a total increase of approximately $5 to $7 per oil change depending on the lubricant type relative to the March period.

Our teams are actively managing this cost dynamic through consumer pricing and operational discipline. Both company and franchisees have taken pricing actions in the third quarter. While we wait for the Strait to fully reopen, we are managing through the current environment effectively with both the short and long term in mind.

On the customer front, we feel good about the overall health of the business. Across the system, we saw transaction growth in the quarter and broadly no signs of trade down or deferral of services. That said, we did see pockets of pressure in June with more moderate growth among lower-income households and some softness in NOCR penetration, similar to what we typically see in the summer drive season. Overall, our customer has remained resilient and we continue to see steady demand for the nondiscretionary services we provide, but we are watching consumer behavior closely across the network. And we continue to invest in strengthening our brand and attracting new customers.

As the summer drive season got underway, we launched a new marketing campaign, The Ride Wrangler. This fresh platform reinforces Valvoline as a trusted preventative maintenance partner. Anchored by the tagline Change Wisely, the campaign increases brand relevance and consumer engagement while highlighting the quick easy trusted service we offer. It can be seen and heard across our full marketing mix from national advertising to local marketing, giving us broad reach as we invite more drivers to change wisely and choose Valvoline.

A quick update on Breeze. The overall performance of the Breeze business continues to be at or above expectations and the overall deal thesis and return expectations we shared at the December investor update remain intact. As of Q3, we have converted 12 stores to the Valvoline Instant Oil Change brand. And while it's still early, the performance of the converted stores is slightly ahead of expectations.

Turning to network growth. We added 47 net new stores in the quarter, bringing our overall network to 2,456 stores. We continue to have a strong pipeline for both company and franchise additions.

In summary, we delivered a good quarter. I'm proud of our team's strong execution as we navigate a challenging macro backdrop. We remain focused on delivering quick, easy, trusted service to our guests while creating value for our shareholders. The actions we're taking to mitigate the current environment are strengthening profitability across the system, enhancing free cash flow generation and positioning Valvoline for sustainable long-term growth.

With that, I'll turn the call over to Kevin to provide more detail on our Q3 financial performance and rest of year guidance.

John Willis
Senior VP & CFO

Thanks, Lori, and good morning, everyone. A summary of our financial results is included in the presentation. Let's talk through the highlights. We delivered top line growth in line with our expectations with net sales of $545 million, a 24% increase over the prior year. This growth reflects a combination of continued momentum in our core business and the contribution from Breeze, which performed in line with our expectations. The gross margin rate of 40% decreased 50 basis points year-over-year. We saw favorability in product costs this quarter, offset by higher other service delivery costs, including the impact of new store depreciation. Excluding the impact of depreciation, the gross margin rate would have improved by 10 basis points.

As Lori mentioned, we continue to see finished lubricant costs increase. Our focus remains on protecting gross profit dollars while maintaining reliable supply across the system. The product cost favorability we realized in the quarter reflects pricing actions taken slightly ahead of the impact of finished lubricant cost increases, and we have taken additional pricing actions as lubricant costs have continued to increase. It's also important to recognize that finished lubricant costs are currently increasing at a faster rate than movements in the base oil index would suggest. While the index remains a useful market reference point, supplier costs today reflect broader industry conditions, including tight Group III base oil supply, inventory replenishment and other factors across the supply chain. As a result, the index is understating the cost pressure the industry is seeing in the market today.

SG&A as a percent of net sales decreased 90 basis points year-over-year to 17% from a combination of increased transactions from the summer drive season and continued cost discipline across the business. We remain focused on improving operating leverage while continuing to support the growth of the business and navigating the macro environment. EBITDA increased 25% to $162 million with margin expanding 30 basis points to 29.8%, while EPS increased 21% to $0.57 per share. We had planned for about 100 basis points of EBITDA margin compression for the full year and now expect closer to half that amount. Year-to-date, operating cash flows improved $105 million to $285 million, and free cash flow was $112 million, an increase of approximately $93 million over last year. We used a portion of that cash to pay down debt in the June quarter, reflecting our continued focus on strengthening the balance sheet. Our leverage ratio now stands at 2.8x on a net debt to adjusted EBITDA basis, a sequential decline of approximately 10%. We remain focused on bringing leverage back within our target range and restarting share repurchases.

We also completed a repricing of our Term Loan B during the quarter, which will improve our annual cash interest expense by approximately $1.8 million based on the current balance. We delivered a strong quarter, reflecting disciplined execution, profitable growth, EBITDA margin expansion and improved free cash flow.

Let's turn to our outlook for the remainder of the year, which includes our expectations for the fourth quarter. First, we are raising our full year system-wide same store sales expectations to a range of 7.5% to 8%. This increase reflects the pricing measures we've taken so far. We are narrowing our adjusted EBITDA and EPS ranges to $550 million to $560 million and $1.70 to $1.75 per share, respectively. While the macro and supply environment remains dynamic, the fundamentals of our business have not changed. Preventive maintenance is a nondiscretionary service. Our customer has remained resilient, and our team continues to execute well. We are confident in the durability of our model and our ability to deliver profitable growth and long-term value for our shareholders even as we navigate near-term cost pressure.

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

Lori Flees
CEO, President & Director

Thanks, Kevin. To wrap up, we delivered a strong quarter. I'm proud of how our team continues to manage the business effectively through a changing supply and macro environment. We remain confident in the resilience of our business model and the durability of customer demand. I want to thank our team members and franchisees. Their dedication and execution are what enables us to keep delivering V-Class service to our guests quarter after quarter.

As we look forward to the end of the year, we're also celebrating 2 important milestones. This year marks the 40th anniversary of Valvoline being in the retail services business and the 10th anniversary of becoming a stand-alone publicly traded company. Over the past decade alone, we've grown our network from just over 1,000 stores to nearly 2,500, a testament to the strength of our model, the long-term value we've built for our shareholders and the passion of our people and franchisees. I'll now turn it back over to Elizabeth to begin Q&A.

Elizabeth Clevinger
Investor Relations Executive

Thanks, Lori. [Operator Instructions] With that, the operator can please open the line.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Mark Jordan with Goldman Sachs.

Mark Jordan
Goldman Sachs Group, Inc., Research Division

Congrats on another great quarter here. To start, can we just dig into the full year guidance a little bit? I think it implies 4Q comp trends are roughly similar to 3Q, maybe a little bit better there. But the EBITDA margins are in the 25% range and understanding there's some seasonality in 4Q, but what are the big drivers of the sequentially softer margins there?

John Willis
Senior VP & CFO

Mark, this is Kevin. Thanks for the question. I would say that we're really pleased with how the team has executed year-to-date and continues to execute in Q4 as I think we can all appreciate the macro remains very dynamic. That said, the fundamentals of the business haven't changed. We're very pleased with where we are. As we look at Q4, really the math is all around what we have baked into the full year guide around product cost increases, us covering those with price that we started taking in the June quarter and continued into this quarter as well. And it's really about our focus on protecting gross profit dollars and the impact of that is, as you correctly calculated at the midpoint of the range, that would imply 300 to 400 basis points of margin compression in the September quarter, and that would be really all product cost related impacts. We don't really see any other significant impacts to the business.

As we look at SG&A year-over-year, we would expect to gain some leverage on the SG&A front as we have been doing throughout the course of the year. We're managing costs very well when it comes to that. So it really comes down to what Lori mentioned. As much as 60% finished lubricant costs increase, $5 to $7 per oil change and making sure that we do what we need to do to cover that in the quarter. So that's what's driving the margin.

Mark Jordan

Goldman Sachs Group, Inc., Research Division

Excellent. And then just as one follow-up. Can you talk about the SG&A leverage in 3Q? It looks like the largest benefit maybe came from the other G&A expenses. Can you break down what's included in that bucket? And maybe how we should think about it in 4Q?

John Willis

Senior VP & CFO

Yes. Just as a reminder, Q3 tends to be our strongest quarter every year. We drive more transactions. It's the peak of the summer drive season. And so -- that does tend to help us on the leverage front. The team did a really nice job from an execution perspective around SG&A. We've been really focused on that. Since we got through and past making the SG&A investments that we needed to make in the business. And really, it's just -- it's been a concerted effort to manage our overall cost profile across the board, and the team has done a really nice job with that.

Operator

Your next question comes from the line of Steven Zaccone with Citi.

Ariana Warden

Citigroup Inc. Exchange Research

This is Ariana on for Steven Zaccone. My first question is, can you provide more detail on the extent to which pricing actions can continue to offset these increases without negatively impacting customer traffic?

Lori Flees

CEO, President & Director

Yes. Thanks for the question. Overall, when we look at, at least on the product cost side, there's 2 things that we do. One is we try to time pricing increases on the company store side as well as the franchise product cost pass-through to offset those increases. We always do pricing elasticity work to know exactly what we expect consumers to do. Now -- but we're not doing this in a vacuum. The entire industry is facing the same product cost -- product constraints that I talked about and the commensurate product inflation that comes with constrained supply. So we're not doing that in a vacuum.

And as you look at the $5 to $7 number that I talked about on a base ticket of $115 on average or higher for some of our franchisees. That's actually a very small percentage of increase. And given our customers come back to us twice a year on an annual basis, it's not a significant out-of-pocket cost when you compare that to foregoing maintenance and the potential risk that you take for bigger repairs.

So obviously, we look at that and we watch consumer sentiment, and we watch consumer return rates. So -- and we use -- and we watch consumer discount usage, all of those things factor into it as we look at passing price on to consumers.

Ariana Warden

Citigroup Inc. Exchange Research

And my follow-up is despite raising the floor for same-store sales by 250 basis points, the top end of the total revenue remains the same. So I guess what specific revenue offsets are preventing a corresponding increase in the net revenue?

John Willis

Senior VP & CFO

Yes. What I would point out is we actually did raise the midpoint of the full year sales guide from $2 billion to $2.1 billion to $2.05 billion to $2.1 billion. So effectively, it's a $25 million increase in the midpoint. Again, we're very focused on providing an update that we feel confident and comfortable with based upon what we know is happening in the broader marketplace with the macro and with our own business. And while we feel really, really good about the things we can control inside the business, the macro environment does remain dynamic. And so we did raise the midpoint, but we wanted to put numbers out there that we feel very comfortable with.

Operator

Your next question comes from the line of Simeon Gutman with Morgan Stanley.

Skylar Tennant
Morgan Stanley, Research Division

This is Skylar Tennant on for Simeon Gutman. I guess with some of the margin compression previously talked about, how temporary do you think that is? And do you think it can be fully resolved by Q1?

Lori Flees
CEO, President & Director

Sure. It's a great question. I want to just reaffirm that as product costs remain elevated given constrained supply base, we feel really good about the supply position that we're in. We have an advantaged position given our scale and size, not just on a location basis but on a network basis. And the constraint is being felt across the system. When the Strait reopens, it will take some time for product to flow through to the next stream of lubricant manufacturing steps. And so we do expect that the elevated costs will persist for some time.

Our understanding in working with the supplier is 4 to 6 months at a minimum once the Strait is fully reopened. Now obviously, we have a supplier that has a very strong network of supply and they've already been working with alternate sources, et cetera. But for cost to come down, you'd need the supply chain to be back fully inventoried. And we know that, that will take some time just given how long the Strait has been closed and some of the damage that's happened within the overall network.

Skylar Tennant
Morgan Stanley, Research Division

Okay. Great. And then I guess on the cost increases, how much more pressure would you expect to flow through the P&L into the near term and future quarters?

John Willis

Senior VP & CFO

Yes. We've -- we projected what we know today. And I think it will depend on really the macro, how things play out in the Strait, how things play out in the broader supply chain. But we have factored in everything that we know to date in terms of cost increases and related pricing action that we need to take. And we'll continue to do that as the situation unfolds. But we've taken action around what we know today.

Operator

Your next question comes from the line of David Bellinger from Mizuho.

David Bellinger

Mizuho Securities USA LLC, Research Division

Just another clarification on the gross margin line. So you had about 6 percentage points of ticket or more in this quarter. It doesn't seem like that the product cost hit the gross margin line in Q3. So is this more of a timing issue where the higher cost will land in the Q4 period? And why is there such a lag between the cost increase versus the price increase to the consumers? Is there a way you can tighten that?

John Willis

Senior VP & CFO

It's a good question. I would say that we were proactive around pricing in the June quarter. And intentionally so, as we were being informed of a lot of cost increase that was coming. And the timing of that can be difficult to get perfectly right, especially the timing between when we actually see the cost flow and when we take price. But we've tried to be proactive on the price side to protect those gross profit dollars. And we were successful in doing that in the June quarter. I would say, as we're in Q4, we face some of those same challenges around the timing of pricing and seeing the cost flow through.

And I think in normal times, there is much better alignment around that because it's a more systematized process, whereas right now, we're in an incredibly dynamic environment with a lot of things going on and a lot of changes happening. And we're just trying to be as proactive as we can, given where we are right now.

David Bellinger
Mizuho Securities USA LLC, Research Division

Got it. Got it. And then my follow-up, just on the implied guidance for Q4. The system-wide same store sales number is about 8% to 10% implied there. You also talked about some of these pockets of pressure in June. So can you tell us a little more about how sales have recovered? Are you seeing more transaction growth? Or is that incremental uplift, is that mainly from more pricing?

Lori Flees
CEO, President & Director

Yes, it's a good question. I think we expect the fundamentals of the business to remain intact from a transaction growth, from a premiumization and NOCR. And that we do see the difference really being around price, both in terms of what company store pass-through on pricing is, but also what our franchisees do. I think that was a piece that was hard for us to forecast last quarter is how quickly our franchisees would take price at the time. At the time we had the call that last quarter, we didn't -- we hadn't had a pass-through yet with the franchisee base because of where the indexes and costs were. So some of that is real time and dynamic as Kevin talked out.

But you're right in terms of the applied guidance, it's around 8% to 10% with the difference being around what is assumed on the price side.

Operator

Your next question comes from the line of John Babcock with Barclays.

John Babcock
Barclays Bank PLC, Research Division

Just the first one, what are your partners telling you about the supply and demand in the base oil market? And also, I don't know what they've said around like the Strait of Hormuz, but I'm just kind of curious, have they -- did the loosening that occurred in May or June, did that help at all?

John Willis
Senior VP & CFO

So in terms of the supply-demand dynamic, obviously, still remains challenged. There's very little product going through the Strait. Lori talked about the supply chain taking 4 to 6 months to start to normalize, and that's very real. A lot of base oil is made in Asia, specifically South Korea. And it's been challenging for those companies to get crude oil so that they can do what they need to do to make base oil that eventually will make its way back here and be converted into finished lubricant.

Group III base oil, which is the primary ingredient for full synthetic, has been the most challenged and continues to be. Group II less so, but also challenged, partly because of refiners managing their own mix. But this is -- and this is industry-wide. This is not a Valvoline phenomenon. Where we are right now, though, with our supplier arrangement, we do feel that we are advantaged on an overall basis and continue to work very, very closely with them to ensure that we remain supplied. If you don't mind repeating the second question, I didn't catch it.

John Babcock
Barclays Bank PLC, Research Division

Yes. I mean the second half of the question was really just around the Strait of Hormuz because it opened up a little bit. And I'm just kind of curious if that ended up helping the market or if that was a relatively nonevent.

Lori Flees
CEO, President & Director

I think for -- as it relates to Group IIIs, that was at least from our understanding, pretty limited relief -- limited to little relief. And part of that is when you look at other uses for Group IIIs, it also goes into jet fuel. And obviously, summer season is high peak travel season. So the demand for Group III base oils is high, and that constraint is what's driving the price of that up, which then drives the cost of our finished lubricant up. So I would say there was a little bit of loosening in a few ships that came through in May, but I don't think broadly that was much relief.

John Babcock
Barclays Bank PLC, Research Division

Got you. That's helpful. And then I guess just a quick follow-on here. I'm just kind of curious, are your suppliers preparing for any contingency plans? And what are those plans?

Lori Flees

CEO, President & Director

Yes, I don't want to speak for our suppliers, obviously. But what I would say is we work with a company that we -- used to be part of our company, and they have always been very forward-looking on reformulating product to meet the requirements of the product and the quality standards. And as there is -- whether it was tariffs on other products and/or now this lubricant base oil III constraint, they are very forward-looking at reformulating using new sources of base III group as well as others.

So I would just say our supplier is in the business of creating lubricant, not just for us, but for others. And they do everything they can to keep their customers, including us, which we are one of their largest customers in stock so that we can continue to serve our guests. So I think I'll harken back to what Kevin said and that we are strategically advantaged given our relationship with our supplier.

Operator

Your next question comes from the line of Thomas Wendler with Stephens Inc.

Tom Wendler

Stephens Inc., Research Division

Apologies if I missed this, but could you give us a breakdown of the traffic and ticket in 3Q? And then you had mentioned additional pricing actions being taken this quarter. Can you maybe help us gauge the price increases taken in 4Q?

Lori Flees

CEO, President & Director

Yes. So as I mentioned in the remarks, our same-store sales was very strong across the quarter, both for franchise and company. Ticket drove about 3/4 of the comp and transaction was the remainder. Ticket was slightly more of a contributor in Q3 versus Q2. But I think Q2, it was 2/3 and this quarter, it was 3/4. So not significantly different. And that was because of the net pricing contribution that we got within the quarter, both on the franchise and the company side. It was offset by slightly less growth in NOCR penetration, which we typically see in the summer drive season. So those are the dynamics for Q3.

Tom Wendler

Stephens Inc., Research Division

Perfect. And then understanding this is probably a ways out, but once base oil costs move lower, should we be expecting prices to move down or maybe some gross margin expansion?

Lori Flees
CEO, President & Director

Yes. If you look at historical industry norms around price. We have not been an industry that has rolled back pricing as base oil and finished lubricant costs move up or down. So we would expect that as the product costs start to moderate, and again, it will be some time before we see that. We would expect margin expansion, which then gets us back to a margin rate that would be more in keeping with our historical pattern and our objectives for margin expansion overall.

Operator

Your next question comes from the line of Scott Stember with ROTH Capital.

Scott Stember
ROTH Capital Partners, LLC, Research Division

Just talking about the competitive pricing environment as you roll out this $5 to $7 increase for oil change, what are you seeing from your direct Quick Lube customers? And just trying to get a sense of if anybody is trying to use this as an opportunity to gain share across the industry by maintaining price?

Lori Flees
CEO, President & Director

Yes, it is something that we watch. Yes, Scott, it's a good question. We are constantly monitoring competitor pricing, particularly in this environment where the landscape is changing. I will remind you, it is a very fragmented competitor base. And so for us to have true visibility of what independents are doing, what dealers are doing, et cetera, is very challenging.

But we are looking at those players who offer a more consistent service that we do from a convenience standpoint. And we are seeing price movements happening, happening in different ways and at different tiers, but we are seeing pricing moves. Now some of it has been more recent, and we're not sure if it's pervasive across all geographies, that's the work that we constantly do to monitor geographic changes versus whole of network changes on our competitor side.

Scott Stember

ROTH Capital Partners, LLC, Research Division

Got it. And then just digging into that $5 to $7 increase per oil change. In the past, you've talked about some offsets being increased price of waste oil that you farm out. How does that factor into this net equation?

John Willis

Senior VP & CFO

Sure. Historically, waste oil sales back to collectors have been an offset, especially as we've seen crude oil costs increase, waste oil has tended to move up some. I would say in the June quarter, we saw very little movement in the price of waste oil. Where we sit in the September quarter, we have started to see some movement upwards. So we do expect that, that will be a bit of an offset.

But as a reminder, with the pace and the quantum of increases that we have seen, the industry has seen, it will be an offset, but we -- there's still a gap, and we're addressing that gap with pricing. All that said, I would say that the team has been executing really, really well around all of that. Generating really strong results as part of it and continues to do that, and we would expect that to continue into the future and drive strong business fundamentals.

Operator

Your next question comes from the line of Maksim Rakhlenko with TD Cowen.

Maksim Rakhlenko

TD Cowen, Research Division

So first, on gross margin, can you speak to the philosophy around Valvoline potentially starting to take price to maintain margins, not just profit dollars and whether there's opportunity to get a little bit more aggressive to protect the P&L? And then where you sit today, assuming everything holds, do we sort of roll the 4Q pressure into early fiscal '27? Or how do we think about that?

Lori Flees

CEO, President & Director

Thanks, Max. So I'll take the first one, and then I'll have Kevin talk through the last part. As we have looked at historical practice, both for Valvoline and what has worked very well is as we see cost inflate and we pass those through to consumers, we typically then -- we do have headwind on a margin rate perspective, but maintain margin dollar performance. And then we do know that the normal cycle for finished lubricant likely will come back down, and that's when you end up having the margin expansion back to a more normalized rate. I think where we want to be careful is in a macro environment where the consumer is having a lot of inflationary impacts, if you raise your prices significantly higher than competitors, there will be an elasticity trade-off.

And therefore, we just want to make sure that we're managing that in line because transaction volume drives margin in our business. So to take short-term pricing positive wins, you may not like the consequences long term with volume if a competitor comes in with a promotional or lower pricing. So it's just a dynamic we have to watch very carefully, and we do and we have. And we do expect margin rate will expand back as we get through this period of supply constraint.

John Willis
Senior VP & CFO

And Max, as for the second part of the question, I think it's still a little early to start talking about fiscal '27. But I mean, what I will say is a lot of the dynamic that we face is really tied to the -- it's tied to the macro. It's tied to what goes on with the Strait and what's happening with the supply chain and how that could ebb or flow. And so we will react and even proact to that as that continues to play out. But we will -- we and the industry will have to continue to navigate that. And we certainly feel like we're as well or better equipped than anyone else in the industry to do that.

Maksim Rakhlenko
TD Cowen, Research Division

Got it. That's helpful. And then can you speak to progress you're making around the Breeze integration? How are synergies tracking? Do you potentially now see more versus less opportunities to achieve, whether it's top line or cost synergies? And then just any help around the store conversion time lines?

Lori Flees
CEO, President & Director

Sure. Thanks. We continue to be really happy with our integration efforts as we look at all the metrics that we track and having them be within or above our initial expectations. We've seen some early positive momentum on the stores we've converted to date. Obviously, it's early and the ramp is significant. So I don't want to overstate, but it is ahead of where we would have expected in the early months of that process.

And it's a real testament because when we typically buy, we are buying 30 roughly 30 stores from independent operators every year. And so this is not new in terms of converting stores over to a Valvoline Instant Oil Change brand. But we typically have employee fallout when that happens. And I think because we were very clear in the first quarter that our focus was to settle down the teams to connect with them, we have seen very little attrition in the process of converting the stores.

And I think that has bode well for the early on performance. Now that said, there are many actions that we're taking from a marketing and a fleet sales perspective that is not waiting for the Valvoline brand conversion. And so we are getting the benefit of that. On SG&A, we did talk last time of having some early synergy capture. So when we look at where we are year-to-date, we're definitely ahead on the cost, on the G&A synergy capture that we are expecting, although it's low numbers, but we continue to pace positive.

So when we step back overall, the Breeze business is performing without the changes we made at or about where we expected. And then the changes that we've made are adding some fuel to their performance, which we're really pleased with. And we continue to have more interactions with their leadership team, their support teams, and it's a very strong team with a very strong culture. And so we continue to be really pleased and have no concerns about the business case and the return on capital invested to be very much in line with what we talked about in the December investor update.

Operator

Your next question comes from the line of Bret Jordan with Jefferies.

Bret Jordan
Jefferies LLC, Research Division

With all the refunds from IEEPA tariffs being thrown around in the aftermarket and probably a lot of imported filters in the mix, do you see yourself in a position to pick up any IEEPA refund?

John Willis
Senior VP & CFO

Yes, I'll take that one. As we look at the tariff impact, that was sized last year as being pretty modest. And frankly, a lot of action was taken to mitigate or avoid a lot of the tariff -- a lot of the tariffs that could have come. Frankly, we saw very little impact from tariff actions. Last year, there was no impact when it came to finished lubricants. Those were excluded from any tariff impact, which is obviously a large component of what we purchase. So we saw very little. And to date, we have not received any refunds, but I just want to emphasize that those would be very, very modest if and when they come.

Bret Jordan
Jefferies LLC, Research Division

So the filters are not imported in your mix?

John Willis
Senior VP & CFO

They are. And our supplier changed their filter supplier geographically to significantly mitigate any tariff impact. And so again, we experienced very little cost headwind from the tariff actions that were taken. It just didn't impact the business very much at all.

Bret Jordan
Jefferies LLC, Research Division

Okay. Great. And then I guess you talked about preferred supply chain relative to competitors on base level -- base IIIs. Do you have any competitors that are sort of disadvantaged from a price standpoint? Would Shell have to do more sort of working backwards to get supply that would add cost to that oil? Or is everybody pretty much same footing?

John Willis
Senior VP & CFO

Yes, it's a good question. And a lot of the information that we have is, frankly, somewhat anecdotal. But what we have heard in the marketplace is everyone is kind of in the same situation. I think in terms of -- from a price perspective, everybody is seeing cost increase. And I think where we're advantaged is with the relationship we have, I think we have a lot more surety of supply than probably a lot of others in the marketplace do. And I don't think there's a whole lot else to say about it, and that's going to just continue to play out.

Operator

Your next question comes from the line of Craig Kennison from Baird.

Craig Kennison
Robert W. Baird & Co. Incorporated, Research Division

It's been a helpful call so far. I wanted to ask about non-oil change revenue and whether you expect maybe attachment rates to drop as a result of higher prices as consumers realize it costs them a little bit more just to get the car oil change.

Lori Flees
CEO, President & Director

Yes. We -- as I mentioned, we're not seeing any trade down or deferral, and that includes on the non-oil change revenue. We typically, as we get into the summer drive season, as our stores get busier, sometimes the execution may drop just as people are trying to get cars through our base. And also customers that they've had to wait to get into the bay, they won't take additional services. So this is not new. And so where we see pressure is on continued growth in penetration.

In the summer drive season, we're not seeing any trade down or deferral. We're still seeing positive contribution in the same-store sales from NOCR, just slightly less than what we've seen in the past 2 quarters. But we're not seeing any consumer demand fall off. I would say consumers remain very resilient, and this is a nondiscretionary category. So people want to take care of their vehicles, particularly as they're getting into the summer months and they drive -- they're doing more summer road trips.

Craig Kennison
Robert W. Baird & Co. Incorporated, Research Division

And then maybe just a follow-up on that. What is the inflation trend outside of your base oil impact? So just the inflation trend you're seeing on some of that non-oil change revenue business?

Lori Flees

CEO, President & Director

Are you talking about cost inflation or price inflation?

Craig Kennison

Robert W. Baird & Co. Incorporated, Research Division

I was thinking about price inflation, what your consumers face, but I'll take both.

Lori Flees

CEO, President & Director

Yes. Yes. I would say that our normal pricing, so we have 2 types of NOCR services. We have what we call our OEM recommended services, that's radiator flushes and differentials and things like that, that not all of our competitors in the Quick Lube channel offer. But we typically -- dealers -- we look at our dealer pricing, and we offer a value relative to that. So we're always looking at where dealer pricing is to ensure that we maximize the dollars that we get for those services, but still offer value relative to a dealer. And then as it relates to visuals, we continue to just look at what the customer is willing to pay, what our penetration rates are and margin levels, and we take regular pricing on those items in due course. I don't think we've done anything significantly different from our normal course on those items.

Operator

Your next question comes from the line of David Lantz with Wells Fargo.

David Lantz

Wells Fargo Securities, LLC, Research Division

On the SG&A front, can you walk through some of the puts and takes that we should keep in mind for fiscal Q4 and how to think through the impact of advertising at the World Cup, both on a top line and expense front?

John Willis

Senior VP & CFO

Yes. I think as we have gotten into Q4, like I said, we expect to have year-over-year SG&A leverage in Q4 versus last year. So continued focus on the cost dynamic and how we're managing our cost profile from an SG&A perspective. On the marketing piece, there can certainly be a little bit of seasonality to that, et cetera. But I would say from a general approach perspective, the marketing program tends to be planned well in advance, and we execute against those plans. And so I wouldn't expect anything particularly out of the ordinary from a marketing perspective in Q4 either.

David Lantz
Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then there's a fairly wide range of store openings implied for Q4. So can you walk through how we should think through that and the split between company-operated and franchised?

Lori Flees
CEO, President & Director

Yes. We did have a good healthy number of additions in Q3. We opened 47 net new additions for the quarter, 26 openings coming from franchise growth with 1 closure and company opened 20 and had 2 transfers from the Express Care platform for a total of 22. So overall, good Q3. Q4 always, if you look in history, is always a heavy new addition. Part of that is driven by the construction time frame for both us and our franchise partners. So we do expect to be within the range. I think some of this is timing of when things fall in September. It depends on where in the range will fall, but we're very confident that we'll be within the range after we finish Q4.

Operator

Your next question comes from the line of Peter Keith with Piper Sandler.

Peter Keith
Piper Sandler & Co., Research Division

I wanted to follow up on a question, I think it was from Bret earlier just around the base oil cost increases and shortages. So while it does seem like everyone is in the same camp from a cost perspective, I don't think everyone is in the same camp from a supply perspective. So we're hearing about smaller players out there facing some shortages being put on allocation. It sounds like you guys will be better positioned than anyone. Does this present a market share opportunity? Or can you market around it? Or conversely, maybe people just substitute other types of oil unbeknown to the consumer?

Lori Flees

CEO, President & Director

Yes, it's a great question and one that the team is actively working on. Peter, again, anecdotally, and it's such a fragmented market. We do know that there are players that are either on allocation or are facing some shortages of product. And part of the marketing work we're doing is trying to figure out how we tease that out and take advantage. It's very similar to during COVID when we stayed open because people could stay in their cars and we could safely deliver the service in a time of uncertainty and others could not. We stole share during that period.

And this is a little different in that there are a lot of customers who would typically go elsewhere and they may not get service. How do we make sure that we are top of mind at those times and in places that they're searching? So obviously, from a marketing lower funnel perspective, being in the right place at the right time, but also augmenting that with our brand messaging such that we are continually increasing brand awareness and consideration such that when they're in the market to look for a new place because the place they have gone before cannot serve them, we are top of mind and ready to serve. So that is very much a focus within our marketing team.

And we are trying to be proactive in getting new customers to trial our brand. So all of that work is well underway, and we do see opportunity. Hard to size it, but we are definitely -- that's one of the reasons why Kevin is saying we're not pulling back on marketing because this is the time when you just have to be razor sharp on where you spend your marketing to capitalize on those opportunities.

Peter Keith

Piper Sandler & Co., Research Division

Okay. All right. Sounds interesting. And I guess my follow-up to Kevin would just be on the cost increases related to base oil. So I can appreciate a steady ramp of your own price increases to be competitive. Is the goal right now to basically have that price/cost ratio be neutral by the end of fiscal Q4, assuming base oil prices were to stay steady from here?

John Willis

Senior VP & CFO

Yes, that's a fair assumption. As we've tried to be clear that we want to protect gross profit dollars. We want to be mindful of the consumer and where the consumer is in an inflationary environment. And so we're being as proactive as we can from a price/cost dynamic. Q3, very pleased that we were able to do what we did and get out a little bit ahead of where the cost increases rolled through. But yes, our plan, our expectation is to have those 2 dynamics match from a price/cost perspective.

Operator

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

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