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Valvoline Inc. (VVV) Q4 2025 Earnings Call November 19, 2025 9:00 AM EST

Company Participants

Elizabeth Clevinger - Investor Relations Executive

Lori Flees - CEO, President & Director

John Willis - Chief Financial Officer

Conference Call Participants

Justin Kleber - Robert W. Baird & Co. Incorporated, Research Division
Simeon Gutman - Morgan Stanley, Research Division
Steven Zaccone - Citigroup Inc., Research Division
Mark Jordan - Goldman Sachs Group, Inc., Research Division
Patrick Johnson - Stifel, Nicolaus & Company, Incorporated, Research Division
Peter Keith - Piper Sandler & Co., Research Division

Presentation

Operator

Hello, and welcome, everyone, to the Valvoline's 4Q 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 to begin. Please go ahead.

Elizabeth Clevinger

Investor Relations Executive

Thank you. Good morning, and welcome to Valvoline's Fourth Quarter Fiscal 2025 Conference Call and Webcast. This morning, Valvoline released results for the fourth quarter and fiscal year ended September 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-K 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 fact are forward-looking statements. These forward-looking statements are based on current assumptions as of the date of this presentation and are subject to certain risks and uncertainties that may cause actual results to differ materially from such statements. Valvoline assumes no obligation to update any forward-looking statements unless required by law.

In this presentation and in our remarks, we will be discussing our results on an adjusted non-GAAP basis, unless otherwise noted. Non-GAAP results are adjusted for key items, which are unusual, 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 Flees

CEO, President & Director

Thank you, Elizabeth, and thank you for joining us today. Let's start with a look at some key highlights for fiscal year 2025 on Slide 3. System-wide store sales again saw a double-digit increase to \$3.5 billion, and we delivered our 19th consecutive year of system-wide same-store sales growth. This nearly 2-decade-long streak accounts for almost half of our retail business' history and puts us in a special category of retailers. The network continues to grow with the addition of 170 system-wide stores this year, bringing the total to 2,180 across the U.S. and Canada. We also saw double-digit growth in adjusted EBITDA, taking into account the impacts of franchising and including the investments in technology we made this year. This would not be possible without our team and our strong franchise partners, and I'd like to thank both groups for all of their work that went into driving these results.

Slide 4 shows our performance over time on key metrics. Our historical performance shows our track record of steady new store growth, strong same-store sales comps and compelling net sales and profit growth. This performance is a function of the attractive market we operate in and the capabilities we've built over time, which allow us to deliver best-in-class customer, employee and franchisee experiences.

Turning to Slide 5. We'll take a look at our fiscal year 2025 performance compared to our updated guidance from August. Net revenues and system-wide same-store sales growth came in at the midpoint of the guidance range, while adjusted EBITDA landed above the midpoint. System-wide store additions of 170 demonstrate meaningful progress in new franchise store growth. They added 71 net new stores and 104 total stores this year, including transfers. Adjusted EPS came in at the low end of the range at \$1.59 per share, and our capital expenditures were above the range, driven by the timing and mix of new store additions at the end of the year. Overall, we're pleased with our fiscal year 2025 results and the continued growth of our business.

Now I'd like to provide an update on the progress we've made against our strategic priorities this year. Our strategic priorities remain the same. First, drive the full potential of our core business. We are the retail leader in automotive preventative maintenance services and will continue to drive transaction and ticket growth with increased store level efficiency. Second, deliver sustainable network growth. We'll continue to extend our reach to more customers across North America, and we'll do that in a way that maximizes return on invested capital. And last, we will continue to innovate to meet the evolving needs of our customers and the car parc.

We made very good progress in fiscal 2025 to drive the full potential of our core business, and we continue to believe we have a lot more opportunity in front of us. This past year, we saw strong same-store sales growth with a healthy balance from the transaction and ticket. Transaction growth continued across the network, including in our mature store base. We also saw ticket growth across the network with contributions from premiumization, net pricing and increased NOCR penetration. Our efficiency initiatives within company-operated stores in fiscal 2025 included a continued focus on labor productivity.

Workday implementation, combined with scheduling process improvements already underway drove meaningful efficiencies in our largest cost category. As of Q4, all U.S. company-owned stores have migrated to use Workday's forecasting and automated scheduling tools that enable our field leadership to more easily monitor and optimize schedules to match both team member availability and experience with expected customer demand.

We recently spent time with both our operations, leadership team and our franchise partners across the U.S. and Canada. We spent time celebrating our accomplishments in 2025 and getting focused on 2026. Our core business remains focused on four key things. One, consistent process execution. Our technology-enabled SuperPro process earns a 4.7 star rating from customers, and this builds loyalty. Two, increased store efficiency, by leveraging fully the work started in FY '25 in both labor and store level expense management. Three, enhanced return on marketing spend, as we gain benefits from our network, scale and reach. And four, continued team member retention, to help improve store throughput and NOCR penetration.

As it relates to network growth, we closed fiscal 2025 with a strong Q4, delivering 56 net new system-wide stores in the quarter and bringing our total to 170 additions for the year. Over 60% of this year's new stores across the system were ground-up builds, a testament to our real estate analytics capabilities and our proven playbook for successfully opened new construction sites. Franchise ground-ups drove much of the increase year-over-year as they had 41 greenfield additions this year.

At the end of 2024 and beginning of fiscal 2025, we've refranchised three markets: Denver, Las Vegas and West Texas. Our franchise partners for these markets committed to significant development agreements to grow the markets by 2 to 3x in size. Since the closing of the refranchising transactions, we have seen the new store additions in these markets grow by more than 150% over prior year, and these franchise partners' pipelines continue to grow. And our new store growth will continue to ramp in FY '26 with continued momentum across our franchise partners.

Fiscal '26 will also include the expected closing of the Breeze Autocare acquisition. As we shared previously, bringing a year's worth of store growth in one step will allow us to leverage many of the investments we've already put in place across a larger store base, including retail-specific technology investments and fleet sales expansion. At the end of last week, we've received regulatory clearance from the FTC and plan to close the transaction on December 1. As part of the agreement with the FTC, we will divest 45 stores, bringing the net additions to 162. Although we had to reduce the number of store additions in order to gain FTC approval, we believe this is still a good use of capital and will create long-term shareholder value.

Turning to the third priority. Fleet growth continues to outpace the growth in our consumer business. Our fleet customers tell us that they value the speed and convenience of our service to maximize the productivity of their assets. This year, we've increased our work with our franchise partners to grow our fleet business across their geographies. Early days, but significant opportunity for growth.

Before I turn it over to Kevin to discuss our financial results in more detail, I want to invite you to a planned Investor Update on December 11. We'll introduce you to more of our management team and provide a deeper look at our strategic priorities, long-term growth targets and the initiatives driving our business forward.

Now I'll turn it over to Kevin.

John Willis

Chief Financial Officer

Thanks, Lori. Let's turn to Slide 8 and start with a more detailed look at our financial results. For the fourth quarter, net sales grew to \$454 million, increasing 4% on a reported basis and 10% when adjusted for the impacts of refranchising. System-wide same-store sales increased 6% with about 1/3 coming from transaction growth. We do continue to see transaction growth across the portfolio. For the fiscal year, net sales grew 12% when adjusted for the impacts of refranchising to \$1.7 billion. System-wide same-store sales grew 6.1% and over 13% on a 2-year stack. For the year, transaction growth accounted for just over 1/3 of the comp also across the portfolio. On the ticket side, we saw contributions from all three levers: premiumization, net price and NOCR service penetration.

Slide 9 looks at the other drivers of the financial results for the quarter. The gross margin rate of 39.1% was flat year-over-year, driven by leverage at the labor line of about 120 basis points, offset by increased product costs. We continue to drive operating leverage, generating a 60 basis point year-over-year improvement, excluding increased depreciation expense. SG&A as a percentage of sales increased 40 basis points year-over-year to 18.2%. Sequentially, SG&A as a percentage of sales decreased 30 basis points as we continue to see our SG&A growth moderate. Overall, adjusted EBITDA margin increased 20 basis points to 28.7%.

Turning to the next slide, we'll take a look at the financial drivers for the full fiscal year. We'll start with gross margin. We are very pleased with the benefit coming from labor leverage for the year, which drove 90 basis points of margin expansion. Operating leverage improved 70 basis points year-over-year, excluding increased depreciation expense. SG&A as a percentage of net sales increased 80 basis points from the investments in both teams and technology to support growth and provide a better operational foundation for the future. As we look forward to fiscal 2026, we will continue to invest in growth, but do continue to expect SG&A growth to moderate. Adjusted EBITDA margin was flat with SG&A investments offsetting gross margin expansion.

On Slide 11, we'll take a look at our overall profitability for the year adjusted for refranchising. In fiscal 2025, adjusted EBITDA increased 11%, adjusted net income increased 6%, impacted by increased new store depreciation. On a recast basis, adjusted EPS increased 8%.

Turning to Slide 12. We'll take a look at the details of our balance sheet and cash flow and cover the Breeze acquisition. We ended fiscal 2025 with a leverage ratio of 3.4x on a rating agency adjusted basis. Our capital allocation priorities have not changed. First, fund growth, with a focus on strong returns on invested capital; second, to stay within our target leverage ratio; and third, to use share repurchase as a way to return value to shareholders. Turning to cash. Our CapEx for the year was \$259 million. About 70% of the spend was for new store additions.

Now let's take a look at some details of the Breeze acquisition. As Lori mentioned, we planned to close on December 1. We will acquire 162 stores following the divestitures required by the FTC for a net purchase price of \$593 million, subject to adjustments for acquisitions and sale-leaseback transactions completed by Breeze since signing and customary closing adjustments. We will fund the purchase price entirely with a newly issued \$740 million Term Loan B. The excess proceeds will initially be used to pay down the revolving credit facility. The additional debt will increase our leverage ratio to approximately 4.2x. We expect it to take approximately 18 to 24 months to return to the target leverage ratio through a combination of EBITDA growth and debt reduction.

Now let's take a look at our outlook for fiscal year '26 on the next slide. These amounts include the Breeze acquisition, which makes some of the ranges broader than they might normally be. We expect system-wide same-store sales growth of 4% to 6% and overall network growth of 330 to 360 new stores. The low end of this range reflects the need to carefully consider our overall capacity in light of the Breeze acquisition. At the midpoint, we expect sales to grow by about 20%, with EBITDA growth of approximately 15%. Including Breeze and our planned company store growth, we expect fiscal 2026 CapEx of \$250 million to \$280 million. We expect adjusted EPS of \$1.60 to \$1.70 per share. At the midpoint, this represents a 4% growth over the prior year, including an impact of approximately \$0.20 per share related to interest expense for the acquisition.

Similar to prior years, we anticipate approximately 40% to 45% of adjusted EBITDA dollars to come in the front half of the year. As we move into fiscal 2026, we are excited by the opportunities in front of us and are confident in our ability to execute. We look forward to sharing more details about our long-term outlook at our planned Investor Update on December 11.

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

Lori Flees

CEO, President & Director

Thanks, Kevin. As we wrap up this fiscal year, I want to again thank our team and our franchise partners. Their dedication to delivering a quick, easy and trusted experience to our guests remains a key driver of our long-term growth. In fiscal year 2025, we delivered compelling growth and financial results while making investments to support our future. The fiscal year 2026 guidance Kevin laid out underscores our commitment to drive continued financial performance. Our resilient and durable business model positions us for ongoing growth in fiscal year '26 and beyond. We look forward to sharing more with you at our planned Investor Update.

With that, I'll turn it over to Elizabeth to begin Q&A.

Elizabeth Clevinger*Investor Relations Executive*

Before we start the Q&A, I'd like to remind everyone to limit your question to one and a follow-up, so that we can get to everyone on the line. With that, can the operator please open the line?

Question-and-Answer Session**Operator**

[Operator Instructions] Our first question comes from Justin Kleber from Baird.

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

Just a few on the outlook. I was hoping you could maybe frame the revenue and EBITDA contribution from Breeze just so we can understand how the core Valvoline business is expected to perform. And then a follow-up related to the guidance. Just what's driving the decline in EBITDA margins in fiscal '26? It looks like about 100 basis points. How much of that is kind of core Valvoline versus simply including the Breeze business in your consolidated results?

John Willis*Chief Financial Officer*

Yes, I'll take that one. First, we do expect the core business to continue to perform well in fiscal '26, really no change in that. In terms of how we considered what to include for the Breeze transaction, it's still early days. We haven't closed on the deal yet. We have received recent financial updates on how the business is doing. And as part of the conclusion of the FTC second request process, we're getting reengaged with the team. And we tried to take all of that into account and be measured in our approach in terms of what we included in the outlook for Breeze. And that's partly why -- some of the ranges are admittedly a little bit broader than we would normally make them without the inclusion of an acquisition like this. So we're not prepared at this point to really talk specifically about Breeze in terms of what exactly is included in there. But rest assured, we did take a measured approach and consider that very carefully as we included Breeze into the numbers for the 10 months we expect to own that business in fiscal '26.

Justin Kleber

Robert W. Baird & Co. Incorporated, Research Division

Okay. And then just as it relates to the acquisition, I'm not sure how much you could share given you haven't closed the deal yet, but it looks like the divested locations, right, if we compare the net purchase price relative to what was discussed back in February, it seems like you're divesting those locations for less than \$1 million a box and you're acquiring the remaining stores at close to \$4 million a box. So can you just help us reconcile those two numbers and maybe why the divested locations look like you're selling them at such a lower price relative to what you're buying the remaining outlets for?

Lori Flees

CEO, President & Director

Yes. The FTC, when they do their review, they really were looking at maintaining a level of competition across all the markets that Oil Changers is located. And they defined competition significantly more narrowly than what we do and what we see when we open stores or when we operate stores in the market. However, we had the process that requires us to go out and divest the 45 stores that have been agreed to with the FTC. And so we conducted that process. It was a competitive process. And that's where the outcome is and where the numbers that Kevin shared where the net acquisition price is \$593, which reflects the sale price of the locations that we have to divest.

I will just underscore what I said in my prepared remarks is that we know where the stores are that we will be integrating them into our portfolio. We've assessed them with our real estate analytics capability. And when you take that analysis with our proven playbook around integrating acquisitions, which we have been doing pretty much since we started the business, we have confidence that we're going to deliver long-term shareholder returns.

At the outset, as Kevin mentioned, we do have the latest information through August of the performance of the business that we will be integrating. But we have not been able to spend time in detail with their leadership team because of the FTC review. So as Kevin mentioned, we've tried to incorporate what we know and what we believe we can accomplish in this fiscal year with the new assets that we'll be adding to our portfolio. But we have been appropriately measured in how we incorporated them in the ranges that we're providing.

Operator

Our next question comes from Simeon Gutman from Morgan Stanley.

Simeon Gutman

Morgan Stanley, Research Division

Lori, my question is we have, I guess, a slightly lower outlook or algo than what we're used to. And frankly, I think the market has been hoping to have something that's like a little bit more conservative. So we are getting together, it sounds like in a few weeks. So can you talk about expectations for the core business? It sounds like nothing is changing. I want to confirm, but how do you think about the core business? Is the algo change reflective of anything structural or tactical? Or it is just being prudent in setting up a reasonable range for the business to grow off of?

Lori Flees

CEO, President & Director

Yes. Thanks, Simeon. The same-store sales guide has really been the material difference in our longer-term algorithm and our current year algorithm. And as we look at FY '26, we're very confident in the 4% to 6% range. We will be sharing more of the longer-term algorithm, probably more medium term. But the fundamentals of our business remain incredibly strong. And when you compare it to where we were in 2022, the material difference is twofold. One is the percentage of new stores within our network. Obviously, new store ramping contributes to higher same-store sales for those stores than our mature stores. And so as we continue to scale our business and the new stores become a smaller part of the overall same-store sales, you would expect that to naturally come down.

The second is the interest in the inflation environment. When we were coming off of the COVID era, there was significant inflation that was running through our same-store sales comp, and we're back down to a more moderate normal level. Now obviously, that could change. We don't expect it to change. But we expect if that changes, it will only go up. So I think we feel very good about the 4% to 6% guide. I think we'll be able to share our longer-term outlook in December, and we'll be able to break down why we have confidence in that longer perspective.

Simeon Gutman

Morgan Stanley, Research Division

And then a follow-up. Can you talk about the, I guess, the number of stores in market and expansion by you and others? It looks like capacity or number of Oil Changers is increasing steadily. Curious how you look at that, how your own cannibalization rates look. And if there are any markets that you are not going to enter or you have thinking twice because a competitor is already well positioned there?

Lori Flees

CEO, President & Director

Yes. Simeon, we look at every new unit, both in terms of the demographics of that geographic area, the travel patterns, the household growth, the income and what's been happening with the income levels. We look at broad competition, not just quick-lube competition, but others that are competing for customers' preventative maintenance business. And we look at where our stores are in proximity with any location. We know that customers will seek out quick easy trusted service in the most convenient locations. So we know when we add a store, we're pretty high precision around knowing what transfers will happen from our existing stores. And we also know what the impact of potential competitive entry are.

Sometimes we have a pretty long lead time with that with construction timing and sometimes a little less so if it's an acquisition. But what's been happening in the market is not changing. So the competitive environment that we operate has been relatively consistent. The competitive -- it's very fragmented. There's still a significant number of customers that are not going to the most convenient stay-in-your-car, quick, easy, trusted service. So whenever we add a site, 70% or more of the customers are coming from outside our specific category, our specific channel.

But we see normal behaviors from our competitors as it relates to adding sites. And we know what the impact is in the short term. They typically have high promotions, and we may have customers that go and try it in order to get -- take advantage of a new store opening promotion, but then they return. They return back to their trusted service provider. So there's really not any changes that we're seeing. And there are no markets that we stay away from because of the competitive environment. Again, the quick-lube channel has such a small percentage of the preventative maintenance market that there is a lot of share to be captured by the category, and we have been capturing that share right along with it or more so.

Operator

Our next question comes from Steven Zaccone from Citi.

Steven Zaccone

Citigroup Inc., Research Division

Can you help us think through the margin outlook for '26 with the new 4% to 6% same-store sales guidance?

There was some prior commentary that you were hopeful to see SG&A leverage at some point in '26. So how does that stack up with the new guidance?

John Willis

Chief Financial Officer

I'll take that one. And we were really pleased with how we continue to saw -- to see SG&A growth improvement or SG&A growth moderate in Q4, continue to moderate versus what we saw in Q3. And that's -- we think that's a very good sign. We're going to continue to invest in the growth of the business. But as we said before, we do expect to return to leverage in fiscal '26. I think a comment though worth making is that with the inclusion of the Breeze acquisition in the numbers, that's going to be more difficult to tease out, and we'll continue to provide color around that. As we've said before, we would expect to lap the technology investments that we've made sometime in Q1, again, while continuing to invest in the growth of the overall business. So we do see some opportunities there.

I think from a gross margin perspective, we continue to see opportunities. Good progress, great progress really has been made from a labor perspective. But we continue to see room to improve in the overall store operating profit as well. And we're focused on that. We're going to continue to work that fiscal '26 and beyond as we operate the business and find new ways to improve the profitability.

Lori Flees

CEO, President & Director

The key thing, Steve, just to add on to -- sorry, the key thing to add on to what Kevin is saying is whenever we do acquisitions or start new stores, it typically has a lower margin four-wall EBITDA in any new store we acquire or we build, and that ramps over time. In this case, we are adding 162 stores that have a lower margin profile than our existing base. And so as those stores, as we can apply our playbook, you should fully expect that margin improvement to happen. We're just taking on a significant increase in new stores in the overall mix. But from an SG&A standpoint, we will be leveraging relative to the business without the Breeze addition, and we'll work through continuing to leverage SG&A as we integrate.

Steven Zaccone

Citigroup Inc., Research Division

Okay. That's helpful. The follow-up I had is just on the same-store sales guidance. Last year, you faced a difficult compare in the first quarter. So if we think about the quarterly cadence of comps, is there anything to be mindful of below or above that guidance range as we go each quarter?

John Willis

Chief Financial Officer

As we look at it based upon our current view of the fiscal year, we would expect the same-store sales growth to be pretty consistent across all 4 quarters. We don't really see any reason for there to be much variance around that throughout the course of the year. Obviously, weather can be an impact if it happens. But typically, that just changes timing. It doesn't necessarily change what our guests actually do. As we look at where we are, obviously, it's still relatively early in Q1. We're seeing that play out. So far, the core business is operating as we would expect it to in Q1. So that does help support the commentary, I think.

Operator

Our next question comes from Mark Jordan from Goldman Sachs.

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

I'm looking forward to the Investor Update. For the same-store sales guidance, we've gone to a little bit, but how do you build to that 4% to 6%? What's the mix like between traffic and ticket? Is it more ticket heavy? And how should we think about the mix of franchise versus company-operated?

John Willis*Chief Financial Officer*

Yes. I'll try to give you a little bit of color on that. As we look at both Q4 and the year, we had a nice balance between transactions and ticket across the system. Q4, it was about 1/3. The same-store sales growth was about 1/3 transaction and 2/3 is ticket. And again, that's consistent with both company and franchise. As you look at the full year, very similar. Again, the core business is operating and performing as we'd expect it to. And so as we look at fiscal '26 on an overall basis, I wouldn't really expect that to change materially over the course of the year for the business as we're operating it today.

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

Okay, perfect. And then just one quick follow-up, I guess, kind of on the current trends, health of the consumer you're seeing. We've heard a little bit about concerns around deferral in non-oil change services or just an extension in oil change intervals. Is there anything you're seeing there in your current business?

Lori Flees*CEO, President & Director*

Yes. Thanks, Mark. Automotive maintenance is a nondiscretionary spend for consumers, and the demand for our services has been very resilient over this more uncertain macro environment. We continue to see the same dynamics. So we are not seeing customers trade down or defer. Premiumization is up across all customer types, which is a reflection of the car parc. And we saw growth in customers across all levels of household income. I think the interesting thing when we look at the past 5 years, intervals between service have been largely stable. Although in FY '25, we saw slightly less days and miles between oil changes for our customers. Again, we've been talking about car maintenance in almost like a peace of mind becomes a seasonal or time of year sort of consideration, less than an exact number of miles. And so what we've seen in FY '25 is slightly less days and miles between oil changes. Now we are not expecting that to hold or continue to go down. We would expect for the days and miles to be more consistent. But in '25, it was interesting that we did see a shortening of the cycle.

Operator

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

Patrick Johnson

Stifel, Nicolaus & Company, Incorporated, Research Division

This is Patrick on for Chris. I had a quick follow-up on the comp guidance. Lori, the company guided to 4% to 6% this year. And I'm just curious what factors you're seeing in the business that could get you to the lower end of that range given kind of where you exited 4Q?

Lori Flees

CEO, President & Director

Yes. I think what we've talked about is at the low end, we would assume fairly more even balance between transaction and ticket. And on the high end, it might be a little bit more weighted to ticket. So some of the things that would factor in is the NOCR improvement year-over-year. We've got a few things that our teams are executing against. But that would sort of -- depending on how that plays out, that would get us to the higher end of the range, just specifically on NOCR.

And then there are some -- we are always doing pricing tests. So again, assuming that our pricing tests show both from a competitive positioning as well as elasticity of demand that we would move forward with some of the pricing that we have planned and that our franchisees would do the same. So those are the two things that I think pull you up to the high end of the range, but the other fundamentals are consistent across the low and bottom end.

Patrick Johnson

Stifel, Nicolaus & Company, Incorporated, Research Division

Got it. That's helpful. And then can you provide an update on the company's efforts to improve new unit build costs? And just maybe help us understand how much savings you think you can achieve relative to current levels. And is there any other opportunity you see in terms of improving the new unit economics outside of improving the build costs?

Lori Flees

CEO, President & Director

Yes. Great question. And this is something that I know we'll spend more time on in December because it has been an area of focus for us for the past 2 years. When you look at our new unit costs relative to 2 years ago, we've actually reduced those costs by about 10% in this year, and we're fairly early in our journey. Some of the things that we've done like we've got -- I talked about it in the last quarter, we had a new prototype design, which would reduce the cost of the building. We had bids out the last time we spoke, and we just opened our first new prototype design in June, which does deliver nice savings relative to the old building design. And so that was the first one in June. So when you look at where we will be in this year, those factor into our CapEx numbers. And we're in the early days. There's still additional work that we're doing. And so we look forward to sharing more of those plans and the impact that, that will have on CapEx.

I will just state, though, that when we look at returns, we've always talked about 30% cash-on-cash returns and/or mid- to high teens IRR on a new unit. Even through the period of our CapEx or new unit capital costs going up, our returns have stayed high and improved in many cases. And this is because the fundamentals of the core business have gotten stronger. So each box is returning a higher four-wall EBITDA margin, again, over a slightly elevated CapEx has still delivered a really fantastic return for both us and franchisees. Now that will continue to improve as that denominator starts to get more optimized. So really excited to share more information on that in December.

John Willis

Chief Financial Officer

The only thing I would add to that is there's also the aspect of converting acquired stores. There's been a lot of focus also on really sharpening the pencil around what we spend when we buy a store, which we typically do buy 30 to 40 stores in a normal year. Obviously, we'll be taking that into consideration as we think through the Breeze stores as well once that deal is closed.

Operator

Our next question comes from Peter Keith from Piper Sandler.

Peter Keith*Piper Sandler & Co., Research Division*

Congratulations on getting the Breeze acquisition done. Just on a separate topic, I wanted to dig into a little bit on the higher product cost impact. It looked pretty impactful at around 120 basis point drag for the quarter. Could you give a little more detail on what this was and if we're going to see this headwind continue or if there's any potential offsets as we step into the new fiscal year?

John Willis*Chief Financial Officer*

Yes. As we look at product costs, there are several components to that. As we all know, crude oil pricing continues to be down versus prior year. And typically, we would expect to see base oil pricing come down as well. That typically takes some time, 3 or 4 months is not uncommon for that curve to catch up. And unfortunately, we really haven't seen much there yet. And in the case of supply chain costs, we continue to see inflation there, which does create a drag on the product cost side. When base oil pricing does decline, and we would expect it to at some point, we would see some benefit from that as well as our franchise partners, and since our franchise partners will benefit from this as well as we pass those savings along to them.

Another component to this that has also been a drag and I would say, marginally gotten worse would be used oil pricing. It's also a component of product cost. Historically, it's been more of an offset as we sell the used oil. Used oil prices do tend to move with crude oil pricing, and that has been the case even more so than the case. I would say, to the extreme, we've seen used oil pricing come down considerably to the point that some providers out there are starting to charge customers to pick up used oil versus actually buying that.

It's just a function of the market dynamics. As crude has gone down and stayed down, there's just less demand on the used oil side. And so it becomes more of a drag. But we've seen an outsized impact to that as well. We are not currently paying providers to pick up our oil, but we're also not realizing very much in terms of the sale of our used oil either. And we expect to see that trend continue for the time being and would expect to see that in fiscal '26. And we've included that in the consideration around our outlook as well.

Peter Keith

Piper Sandler & Co., Research Division

Okay. All right. That's helpful. And then I guess a simplistic question on optics. So the comp was quite good for the quarter, the EBITDA at the high end and then the EPS at the low end. So I guess optics do matter. You did miss the EPS consensus estimates a bit. To me, it looks like you had \$0.02 headwind from higher interest expense. Maybe you can comment if -- why did the interest expense jump up so much, and if there's anything in your model that maybe caused the drag on the EPS.

John Willis

Chief Financial Officer

Yes. There were a couple of things in there. Depreciation in the quarter was a little higher than we expected because of the timing and mix of new store additions in the quarter. So that's part of it. The effective tax rate is also just a bit higher than what we expected as well. And I would say probably from an interest perspective, I would say net interest is probably a little bit higher, meaning interest income that we would have expected to see was a bit lower as well. So it's really pieces of all of that, that I would say contributed to us landing at the bottom end of the range for the full year.

Operator

This marks the end of our Q&A session for today. So I'll hand back to Lori for closing remarks.

Lori Flees*CEO, President & Director*

Well, thank you, everyone, for joining and for the questions. As we step back and look at FY '25, we feel really good about what we delivered from compelling growth and financial results. And as we look at FY '26, we know there's more to come as we continue to drive the core business and moderate the G&A growth and spend in our existing business. Now with Breeze, while we're adding 162 stores to our network, this is not something that is new to us. We have been doing bolt-on acquisitions for a long time. This is obviously larger scale, but we have the playbook and the team ready, and we will -- following the close on December 1, we'll start our integration process. And I feel really good about the Breeze team. And again, the strategic rationale for that acquisition remains the same.

When we close the transaction, Valvoline will be the category leader in store count, revenue and transactions, both on an absolute and an average per store basis. We'll have over 2,300 -- well over 2,300 stores, which we can leverage our investments against. So using our playbook, we'll bring these stores into the portfolio, and we do see significant growth opportunities ahead. Our resilient business model remains unchanged, and it will continue to position us for momentum in FY '26 and beyond.

So I want to thank you all again for joining us today, and I look forward to seeing you either virtually or in person at our Investor Update in December. Thanks all.

Operator

This concludes today's call. Thank you for joining us. You may now disconnect your lines.

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