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Valvoline Inc. (VVV) Q4 2026 Earnings Call Transcript

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Q4: 2026-11-19 Earnings Summary

Insights

EPS of $0.42 misses by $0.00 | Revenue of $554.10M (22.10% Y/Y) misses by $14.17M

Valvoline Inc. (VVV) Q4 2026 Earnings Call November 19, 2026 9:00 AM EST

Company Participants

Elizabeth Clevinger - Investor Relations Executive
Lori Flees - CEO, President & Director
John Willis - Senior VP & CFO

Conference Call Participants

Steven Shemesh - RBC Capital Markets, Research Division
David Bellinger - Mizuho Securities USA LLC, Research Division
Mark Jordan - Goldman Sachs Group, Inc., Research Division
Maksim Rakhlenko - TD Cowen, Research Division
Bret Jordan - Jefferies LLC, Research Division
Michael Albanese - StoneX Financial, Inc., Research Division
Kevin Condon - Robert W. Baird & Co. Incorporated, Research Division
Scott Stember - ROTH Capital Partners, LLC, Research Division
David Lantz - Wells Fargo Securities, LLC, Research Division
John Babcock - Barclays Bank PLC, Research Division
Steven Zaccone - Citigroup Inc., Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to Valvoline's Third (sic) [Fourth] 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 Fourth Quarter Fiscal 2026 Conference Call and Webcast. This morning, Valvoline released results for the fourth quarter and fiscal year ended September 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-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 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.

I'll now turn it over to Lori to begin today's call.

Lori Flees
CEO, President & Director

Thanks, Elizabeth, and thank you all for joining us this morning. 2026 is a milestone year for Valvoline. We delivered our 20th consecutive year of same-store sales growth, an achievement that few retailers can claim. That consistency has endured through a financial crisis, a global pandemic and a wide range of economic conditions.

This year also marks our 40th year in retail services. And for the first time, we surpassed $4 billion in annual system-wide store sales. These milestones reflect the strength of what we've built and the durability of our business model. Our growth track record is a credit to our team members and franchise partners who deliver the quick, easy and trusted service our guests count on every day. To everyone across our system, I want to thank you.

We delivered strong results in fiscal 2026, and we did so while managing through a dynamic macro environment. Let's first look at what we saw in the fourth quarter. Starting with supply. Despite broad industry disruption, we maintained the product availability we needed to serve our guests throughout the quarter. Given our scale and strong strategic supplier relationship, we continue to feel good about our supply position.

As expected, the Group III base oil supply constraints drove a significant increase in finished lubricant costs in Q4. The company pricing actions we discussed on our last call were sufficient to cover the additional product costs we experienced during the quarter on a dollar basis. And our franchisees took additional pricing actions to offset their higher costs in the quarter.

Outside of product costs, we remain disciplined in managing labor, store expenses and SG&A. Consumer behavior has been consistent. The demand for our services remains resilient. We continue to see transaction growth across the system. That reflects the essential nature of vehicle maintenance and the strength of our value proposition. Even as customers become more value conscious, they understand the importance of maintaining their vehicles.

Our customer retention improved year-over-year for each customer type, including our existing customers, new customers and fleet customers. Our customer satisfaction was also up. Net Promoter Scores are above 80, and we've earned an average 4.8 Google star rating across our network. We're encouraged by the strength of our existing customer relationships and our ability to keep guests coming back.

Our premium lubricant mix continued to grow, and we've seen no changes in trade down behavior. Also, the rate at which customers added non-oil change services held stable year-over-year. However, as we shared in August, we continue to see pockets of softness in growth, most notably at stores in lower-income areas where households are facing tighter budgets. This is largely attributable to slightly lower levels of new customer acquisition.

On the network side, our growth was strong in the quarter with 61 additions, 33 company-operated locations and 28 franchise locations, which brings our network total to 2,517. As we approach the 1-year mark, we're pleased with the progress we're making on the Breeze integration. This quarter, we converted another 16 stores to the Valvoline brand, and we remain confident in the value this acquisition is expected to deliver.

With that, I'll turn it over to Kevin to walk through more detail on our fourth quarter and full year adjusted results.

John Willis
Senior VP & CFO

Thanks, Lori, and good morning, everyone. I'll start with the financial highlights for the fourth quarter, all of which were in line with our expectations. Net sales increased 22% to $555 million. This growth reflects momentum in the core business and the contribution from Breeze. Same-store sales growth for the quarter was 9.4%. Transaction growth was flat to slightly positive. Ticket delivered a majority of the comp. Net pricing, premiumization and NOCR were all positive contributors.

Gross profit margin decreased 300 basis points year-over-year at the low end of the expected decline we shared on our last earnings call. About 1/4 of the decline came from a temporary lag in passing the full cost increases through to franchisees, which was resolved in the quarter.

Labor was slightly higher as a percent of net sales, although we saw labor leverage in our company-operated stores. SG&A as a percent of net sales improved 50 basis points year-over-year to 17.2%. That reflects the benefit of top line growth, along with continued cost discipline across the business.

We continue to focus on improving operating leverage while supporting the growth of the business and navigating the macro environment. EBITDA increased 10% to $144 million, with adjusted EBITDA margin decreasing 280 basis points year-over-year to 25.9%. EPS decreased to $0.42 per share, primarily due to higher interest expense related to the Breeze acquisition and a higher tax rate, which included state taxes tied in part to our network expansion.

For the full year, we delivered strong results, meeting or exceeding our updated guidance. These results reflect solid execution throughout the year, including our ability to manage the significant product cost increases while delivering on our financial commitments. System-wide same-store sales grew 7.9% at the upper end of our guidance range. Across the system, we saw modest transaction growth while ticket drove the majority of the comp. We added 337 stores across the system.

Net sales reached $2.1 billion, within our guidance range. Adjusted EBITDA of $557 million was above the midpoint and adjusted EPS of $1.76 per share exceeded the top end. Capital expenditures were below the low end of the range at $228 million. This reflects the timing of store additions and conversions as well as lower store conversion costs. Free cash flow was $204 million, more than 4x our fiscal 2025 level.

Breeze performed ahead of our expectations for the year with revenue and EBITDA contribution exceeding our outlook. The headwind to EBITDA margin was about 20 basis points, well below what we initially anticipated, reflecting operational improvements, early delivery of G&A synergies and the impact of early marketing and fleet initiatives.

We made meaningful progress to strengthen our balance sheet. We ended the year at 2.6x net debt to adjusted EBITDA from the combination of adjusted EBITDA growth during fiscal 2026 and debt reduction. Our recent leverage-neutral refinancing extended our debt maturity profile and enhanced our liquidity, leaving us with meaningful financial flexibility and no near-term debt maturities.

We also increased the share repurchase authorization to $500 million and are committed to resume repurchases following this earnings release subject to market conditions. We made significant progress towards remediating the previously disclosed material weakness, and we expect to report in our upcoming Form 10-K that it has been remediated.

Overall, we exited fiscal 2026 with strong earnings, significantly improving cash generation and a healthy balance sheet, positioning us well as we enter fiscal 2027.

With that, I'll turn it back to Lori to talk about our priorities for fiscal 2027.

Lori Flees
CEO, President & Director

Thank you, Kevin. As we look ahead to fiscal 2027, we remain confident in the fundamentals of our business and our ability to execute in a dynamic environment. Our strategy is unchanged. We're focused on driving the full potential of the core business, delivering sustainable network growth and innovating as customer and vehicle needs evolve.

So let me spend some time on our focus areas for fiscal 2027. Within the core business, our work is straightforward: drive transactions, grow ticket and improve margin. Our outlook assumes no change in the supply environment, stable product availability and continuation of elevated product costs. Our team will keep executing with discipline and staying focused on serving our customers.

We expect customer demand will remain resilient. While the fundamental need for preventative vehicle maintenance is unchanged, we are planning for an environment where consumers remain value-conscious. Therefore, we'll continue to adapt our approach to drive transaction growth as market conditions evolve. In 2027, we will launch our national advertising fund across the system, which we expect to increase brand awareness and improve marketing efficiency and driving more traffic to our stores.

Regarding ticket, we'll be disciplined in our pricing actions. In the near term, we'll protect gross profit dollars while supporting long-term customer relationships. We have a long track record of managing price through changing cost environments, and we'll monitor consumer behavior and adjust as appropriate. Beyond price, we expect premiumization to support ticket growth as the car parc evolves, and we'll continue to benefit from non-oil change service penetration opportunities.

On margin, while the cost environment will continue to put pressure on our margin rate, we'll advance the margin improvement work already underway across the business, including G&A, labor management and store operating efficiencies. We expect these efforts to improve productivity as we scale and to deliver improved performance over the longer term.

Network growth remains a priority across both our company-operated and franchise businesses. Our pipeline remains strong, and we are making progress on our commitment to lower new unit and conversion capital costs. In fiscal 2027, we plan to add 190 to 220 new stores across the system with franchise locations representing roughly half of those additions. We'll complement that growth with the conversion of Breeze stores to the Valvoline brand.

Looking at the evolving needs of our customers in the car parc, fleet continues to be an important growth opportunity for us. In fiscal 2026, fleet revenue saw high teens growth, driven from both higher ticket and healthy transaction growth. That transaction growth is coming from both our expanded store network and increased fleet penetration at existing stores. We expect to build on that momentum in fiscal 2027.

We're confident in the fundamentals of the business and the opportunities ahead. We've demonstrated our ability to execute through challenging conditions, and that discipline will remain important in the year ahead.

I'll turn it back over to Kevin to walk through our financial outlook.

John Willis
Senior VP & CFO

Thanks, Lori. Our outlook calls for continued growth in fiscal 2027. We expect same-store sales growth of 5% to 7% on a full year basis. At the beginning of the year, we expect same-store sales to run at the high end or potentially above our range before moderating toward the low end as we lap pricing actions taken in fiscal 2026. Our guidance for net sales is $2.25 billion to $2.35 billion. Our adjusted EBITDA range is $595 million to $625 million with adjusted EPS of $1.85 to $2.05 per share. Capital expenditures are expected to be $245 million to $265 million.

This outlook reflects a few key assumptions. On the top line, we expect same-store sales transaction growth across the system to be roughly flat for the year. We assume product costs will remain elevated throughout the year and expect pricing adjustments to offset any further increases on a dollar basis.

For the full year, gross margin deleverage is expected to be approximately 100 basis points with product cost pressure partially offset by labor leverage. In the first half, we expect margin deleverage to be approximately 200 to 250 basis points, moderating throughout the year. Below the gross profit line, we are planning for SG&A leverage.

At the midpoint of the ranges, implied EBITDA margin is about 50 basis points lower compared to fiscal 2026. Similar to prior years, we expect to deliver approximately 40% to 45% of adjusted EBITDA in the first half of the year.

Our profit guidance reflects a range of outcomes for the year. The high end of the range incorporates improving consumer trends, leading to higher transaction growth and positive NOCR penetration growth. Moderating product costs would also be a benefit. The low end contemplates softness expanding into higher income households which could cause lower transaction growth and/or lower penetration of non-oil change services.

Our capital allocation commitments remain the same: invest in the business, maintain a healthy balance sheet and return capital to shareholders. We remain committed to the free cash flow target we shared at our investor update, 4 to 5x our fiscal 2025 level. Consistent with this, I'm pleased to confirm that subject to market conditions, we will resume share repurchases once our trading window opens following today's release. Returning capital to shareholders remains a priority and resuming repurchases reflects the strength of our balance sheet and our confidence in the cash and earnings generation of the business.

I'll mention a couple of additional items for modeling purposes. Interest expense is projected to be $105 million to $110 million for the year, and we expect our adjusted tax rate to be approximately 26.5%, which is in line with fiscal 2026.

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

Lori Flees
CEO, President & Director

Before we open the call to questions, I'd like to make a few closing points. The fundamentals of our business are strong. Our services keep vehicles on the road and our guests continue to trust us to deliver those services. Our results this year show the durability of the model.

We'll continue to navigate a dynamic macro and cost environment in fiscal 2027. We'll remain focused on execution to deliver profitable growth. That means taking care of our guests, supporting our team members and franchise partners and delivering on the commitments we've made to shareholders. I'm confident in the strength of our business, and I'm confident in our ability to keep creating long-term value for our shareholders.

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

Elizabeth Clevinger
Investor Relations Executive

Thanks, Lori. [Operator Instructions]

With that, the operator can open the line.

Question-and-Answer Session

Operator

Your first question is from the line of Steven Shemesh with RBC Capital Markets.

Steven Shemesh
RBC Capital Markets, Research Division

Congrats on a strong print. I wanted to ask on demand elasticity. Maybe if you could just comment on -- you put a good -- a fair amount of pricing into the market. I know it's less than you did a couple of years ago, but how is the consumer responding to that? And I guess, specifically, as we think about transactions, if you could give us any color on how those trended throughout the quarter? And when we look to 2027, if you expect those to stay positive? And then I just have a follow-up.

Lori Flees
CEO, President & Director

Sure. I'll cover some of the elasticity and then, Kevin, you can cover the cadence question.

It's a good question, Steve. I think you have to step back and remember that Valvoline competes on convenience, speed and trust. And we have to certainly watch our pricing, but it's not the first driver for consumers and for fleet customers on the brand that they choose. That said, whenever you take pricing increases and we look back at history, when we've taken pricing increases over 5%, you do expect some elasticity. But that's there. It's been very, very small in our historical events, and we would expect the same to be true.

When you raise price, there are a couple of things you look for right away as indicators. You look for trade downs, meaning customers whose OEM does not require or recommend full synthetic, but the customer is getting it anyway. Do they choose to trade down to something lower? Or do they change the number of services that they add on to the oil change? And that's the piece that we've been watching very closely. And as I commented on in the prepared remarks, we're not seeing that trade down or the NOCR fall off. So deferral and switching comes within 4 and 6 months.

When we look at our retention rates, again, as I mentioned in the prepared remarks, our retention rates are up year-over-year. And every month since we've taken the price increases, they're up year-over-year. So we're not seeing any elasticity effects yet. We obviously will continue to watch them. But in the past, when we've had them, they're very minor. They're not material. And when you look at the net impact of the price increase plus a little bit of transaction fall off, you end up driving more growth, both on the top and the bottom line. So we're feeling pretty good right now around elasticity. It's not to say that we won't see it and we're not expecting it, but we fully put that in our expectations.

John Willis
Senior VP & CFO

And I'd comment on the transaction side. We commented in the prepared remarks for Q4 and kind of a continuation into fiscal '27 that ticket drove the majority of the comp. Transactions were up modestly. As we commented last quarter, we did see softness in stores that have a lower-income customer cohort around them. That softness continued into Q4. And our outlook presumes that, that continues into fiscal '27 as well. So that's really what we see from a transaction perspective. On a gross transaction view, we would expect to grow transactions in '27 at or slightly above where we grew total transactions in fiscal '26.

Steven Shemesh
RBC Capital Markets, Research Division

That's great. And separately, it's been almost a year now since you closed on Breeze. Maybe if you could just give us an update on how those stores are performing to -- relative to initial expectations.

Lori Flees
CEO, President & Director

Yes. Thanks. Breeze has obviously been a big focus for us this year, having acquired over 160 stores that we added to the portfolio. I think we've been pretty transparent the entire year since we've closed that we're making really good progress, that we're actually pleased with the progress, both in terms of the underlining business, but also the talent. We've converted another 16 stores in Q4, obviously, very early on, but the performance of those stores is in line with our expectations.

And the performance, overall, of Breeze has been driven by operating efficiency. We have had to take pricing actions just like the entire industry within Breeze, and we were able to do those in advance of the cost increases that were coming. And then we have had really good progress in the synergy capture. And that will continue as we continue to convert stores and pull that team and the systems more fully into Valvoline. So really pleased with the progress so far, both of the store performance pre-conversion, post-conversion and then just the overall integration and synergy.

John Willis
Senior VP & CFO

And just to add a bit to that. When we closed the transaction, for the full year, we expected Breeze to be about a 100 basis point drag on the EBITDA margin. We're really pleased that as we finished out the year, there was only about a 20 basis point impact, which reflects the solid performance of the business, some of those early G&A synergies that Lori talked about. And it gives us really just even more confidence in the value creation opportunity that the business offers as we continue to convert those stores and integrate them into the Valvoline system.

Operator

Your next question is from the line of David Bellinger with Mizuho.

John Willis
Senior VP & CFO

We can't hear you, David.

David Bellinger
Mizuho Securities USA LLC, Research Division

Can you hear me now?

John Willis
Senior VP & CFO

We can.

Lori Flees
CEO, President & Director

Yes.

David Bellinger
Mizuho Securities USA LLC, Research Division

I want to ask about gross margins, which were down pretty meaningfully in the quarter. How should we think about the Q1 gross margin rate versus Q2 if the first half is supposed to be down between 200 and 250 bps? And then what's bridging the gap to get to the full year down 100 bps? Is that something internal? Or is it more external just given the movement in base oil prices?

John Willis
Senior VP & CFO

So the outlook presumes that base oil prices, finished lubricant prices cost remains elevated throughout all of fiscal '27. So we're basically assuming that the environment we've been in and that we are in right now continues throughout the full fiscal year. As we think about margin progression, we would expect that -- Q1 is typically -- it's our seasonally lowest quarter generally. So we would expect that margin compression to be bigger in Q1 and then moderating throughout the course of the year. But for the first half, as indicated, approximately 200 to 250 basis points. So think of it as probably toward the high end of that early on and then moderating over the course of the year.

I think as you look at it for the full year, the 100 basis points of gross margin compression is pretty much all around product cost. We're not presuming that we take significantly more price than we have seen costs, while obviously, we look at price very consistently and do price testing, et cetera. And kind of setting that aside for the moment, it's kind of in all things being equal. As we look at fiscal '27, we think that as we do the math for the full year, we'll see the margin continuing to improve. It's always better in the second half simply because that's our busier time of year. But as you look at it on a full year basis, primarily due to product cost and the compression related to that based on the price we've taken, which offsets that product cost, we just expect the full year to be about 100 basis points.

David Bellinger
Mizuho Securities USA LLC, Research Division

Great. Great. I wanted to follow up on maybe a bigger picture question about agentic commerce and how this is playing into lead generation. I mean, have you seen any impact in traffic coming into your site, maybe in terms of new customers? And how is Valvoline thinking about LLMs and the way your brand surfaces in this new channel?

Lori Flees
CEO, President & Director

Yes, it's a great question, David. One is we are doing a lot of work making sure that we have content, which the LLMs will source. And so, one, making sure that our site presents itself in a way that the LLMs will use. But another big piece of that is the Google star ratings and the customer feedback that comes through with that. And that's something we've been really focused on.

We used to do our own surveys to get customer satisfaction. And what we recognize is that Google star ratings is such a key influence of new customers. And it definitely is the piece that runs into the agentic AI tools. And so we are very well positioned on that front, and we're now working to augment the other pieces of content that the LLMs will turn to.

Operator

Your next question is from the line of Mark Jordan with Goldman Sachs.

Mark Jordan
Goldman Sachs Group, Inc., Research Division

Looking at SG&A in 4Q, it came in much better than expected. Can you talk about what drove the improvement there? And maybe how we should think about incremental drivers of improvement as we move into '27?

John Willis
Senior VP & CFO

Sure, Mark. Yes, there's been a lot of disciplined execution around SG&A and that's been helpful, and we expect that to continue to be helpful as we grow our SG&A leverage into fiscal '27. It's been a big focus for the team. A lot of work has gone into that, and there's still room to improve, and we fully expect to improve in '27.

I think to be balanced, obviously, we have taken price. And so we've seen top line growth, which actually helps with that SG&A leverage as well. But on an overall basis, it's just been a lot of really hard detailed work by the team to focus on areas where we can become more efficient, we can take work out of the system, do more with less, et cetera. And the team has done a really, really good job with that, and we expect that to continue. We do expect there's room to continue to build that leverage.

Mark Jordan
Goldman Sachs Group, Inc., Research Division

Perfect. And then just following up, one on the store growth expectations for '27. Commentary implies about 100 or so openings on the franchise side. And I think that compares to a previous target that was out there of 150 for '27. So can you just talk about maybe what factors are contributing to lower growth there?

Lori Flees
CEO, President & Director

Yes. Overall, Mark, I would say that we're really pleased with where we landed last year. Even in the quarter 4, we had a really strong quarter of 61 new adds, and it was a very strong quarter for our franchise partners. Still a lot of white space. The pipeline of our franchisees and the company side, but on the franchisees, in particular, is very strong. And we -- our franchise partners continue to invest in capital to build out their markets.

This past year was a record year for the year in terms of new store additions, excluding transfers. And we have been working with our franchise partners to build up their new real estate and construction capability because ground-ups have to be a critical component to getting to the target new additions for them of 150. And really good news in FY '26, when you look at the new adds, given it was an outsized year, the ground-ups were 70% of those new units, which is really a positive trajectory for us and the brand.

And when we set the goal of getting to 150 new units on the franchise side, we did that 4 years ago, and we had a lot of work to do, which I think we've made a lot of progress. One, we had to lock in new development agreements, which we did, and we just locked in 4 more for Canada, which is the first time we've had development agreements for Canada and commitments of capital in the country with incentives all tied around it like we've done in the U.S. We've had to bring on new partners into our system, both to take over systems that already exist and to create new ones, which we've done.

And then we've really been focused on working with them to build up their real estate and construction capability. And I think that's the piece that has proven a little bit more challenging. We've got a couple of franchise partners that have had to reset their team capabilities. But I think we've got good teams in place. We've been working very collaboratively with them. And so we have line of sight of getting to the 250 units. I think in this year, the 190 to 220 with half coming from franchise, means 100 to 110 on the franchise side. And we do have the commitments to get there. Now we just have to support them to execute to get them.

Operator

Your next question is from the line of Max Rakhlenko with TD Cowen.

Maksim Rakhlenko
TD Cowen, Research Division

Congrats on a nice quarter. So first question, can you discuss any changes to the frequency of how you price to franchisees given this unique period and if now we should think about gross margin purely as mathematical on pricing to maintain dollars and not rate? And then ahead that there shouldn't be any sort of timing impacts that you saw previously? And then just where do we stand now compared to the prior comments of $5 to $7 of price that you've taken?

John Willis
Senior VP & CFO

I'll take that one, Max. In terms of the changes that we've made around how we price to franchisees, the concept is unchanged. We are protecting, what I would call, the dollar margin there. We did make a change in terms of that process. We did that in Q4. As we talked about, we did get a little bit behind because the run-up in cost was faster than the pass-through, and we've changed that process so that we have very, very little lag. I would say, right now, it's very, very small.

And I think another key point, while this isn't a predictor of the future, we've actually seen product costs remain pretty stable for the past few weeks, which is encouraging. Again, not necessarily a predictor of what may come, but we're happy about that. Stable product cost is kind of good for us all the way around. It's good for our franchise partners, too. And so we don't really expect any kind of meaningful timing difference in terms of what and when we pass through to the franchise partners to the extent that we see our cost go up or down. And so I think we feel really good about that. We had a small lag in Q4, which we corrected with process change, and we feel good about that going forward.

In terms of the $5 to $7 per oil change, there's really no difference. We expect the finished lubricant costs to go up about 60%. We priced accordingly for that. And our pricing actions have recovered all of that cost, and that's been pretty stable as well. So we're at parity today versus where we thought we would be.

Lori Flees
CEO, President & Director

And Max, the only thing I would add to that is our franchisees, as we passed on cost to them in the quarter, in Q4, they also took pricing. So their pricing increases on a percentage basis were in line with where company had taken and we talked about last quarter.

Maksim Rakhlenko
TD Cowen, Research Division

Got it. That's very helpful. And then just bigger picture, how are you thinking about the medium-term EBITDA margin power of the business compared to the Analyst Day if we assume that eventually base oil prices do come down and you hold on to price? And then as you mentioned earlier on the call, the headwind from Breeze has also been meaningfully less than you previously expected. So just any comments there as we think medium to longer term.

John Willis
Senior VP & CFO

Max, we continue to feel good about our medium-term outlook that we gave not quite a year ago at our investor update. We feel like we're on track. We're still executing against all the things we talked about at the investor update in terms of margin expansion, et cetera. Obviously, the math where we are today with product cost and the pricing we've taken has caused margin compression on a percentage basis. Again, a reminder, we are protecting margin dollars and growing margin dollars as we grow the business. And we continue to feel good about the actions that we're taking. The results of those actions and how that's going to drive us to those numbers, those commitments we made back in December of last year.

Lori Flees
CEO, President & Director

Yes. So Max, we made a commitment of 100 to 200 basis points of improvement in EBITDA margins. When you take out the impact of the cost and price changes that have been made, we're still on track to have those leverage points. And I think if you assume that product costs start to dissipate and we, again, have historically, the industry doesn't move backwards on price, assuming that, that holds, which we have no reason to believe otherwise, that margin improvement should be towards the high end of that range, if not more. But it's going to take time for the supply situation to get to a point where the product costs start to come down.

So we'll be ready for that. We're still delivering the leverage items, the work that we're doing to get more leverage on G&A and operating costs. So that is making a meaningful difference. Obviously, the product costs sort of cloud the issue on the actual calculation.

Operator

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

Bret Jordan
Jefferies LLC, Research Division

So in line with the last question, I guess, are you still feeling as if, if product costs come down, you will not have to give back all of the price that has been taken? I mean, obviously, I think you said finished lube costs were up 60%. You've largely offset that. I think last quarter, we sort of talked about prices don't generally come down as much as the input lag. So does the budget feel like it's rational?

Lori Flees
CEO, President & Director

Yes. So far, as I mentioned in the prepared remarks, the consumer behavior has remained consistent despite the pricing increases. So when we look at our retention rate, when we look at our NOCR attach rate, et cetera, things are very stable. I think the question will be around -- I don't think we'll want to bring prices down. The question is, will we want to use some of the margin to drive more customer acquisition in the environment? That's going to drive more top line and more profit. So I think we'll always be weighing those things off and what's going to drive the long-term value of the business.

The reality is when we go out and acquire customers, the whole point is we get them back and we get them back repeatedly over time, and that becomes a flywheel to drive more earnings through the growth. So I don't -- based on everything we're seeing, we wouldn't see a need to pull back on price. We can drop that to margin without doing promotional activities or we could drive some promotional marketing spend to acquire more customers, which is going to drive more profit. So net-net, it's going to be a positive.

Bret Jordan
Jefferies LLC, Research Division

Okay. I guess my question is more like from a competitor standpoint, you're out-comping your peers pretty significantly. Do you see them using price as a tool to try to catch back up? Or will there be discounting in the broader market? That sounds like, no.

Lori Flees
CEO, President & Director

Yes. I mean, I just remember that the oil change category is very fragmented. So there are very few competitors who, if they decided to do promotional impacts that would -- or promotional kind of activities that will impact our entire network. We see discount levels in Q4 were relatively consistent, and that was through the pricing cycles on a percentage basis, which is actually pretty typical in our industry.

As dollars per ticket goes up, the discounting percentage typically stays relatively flat for a period of time and then you can optimize within. And some of that is because in the store, you'll have a customer react and the team wants to maintain that relationship. And again, these are things that we have a long track record in managing. And we've factored that in, and that was factored into our Q4 number and guidance, and it's factored into our fiscal '27.

We have heard of discounting activities, but we're not seeing anything major or broad across the network. I would say that we're pretty well positioned to take share in the supply environment. And to be honest, what we're hearing is others are not growing transactions, and we're still having very healthy transaction growth and even positive on a same-store sales basis. I'm not sure we're hearing that from our competitors.

Bret Jordan
Jefferies LLC, Research Division

Okay. And then non-oil change revenue, you said it was sort of flat year-over-year. Is there anything new on the non-oil change menu? Or is -- have you trotted anything else out? Or is it pretty much the same offerings?

Lori Flees
CEO, President & Director

Yes. NOCR penetration rates are relatively stable. And that takes a lot of work from our team in really executing on the process and educating customers. The fact that so much of our business comes from repeat business, our customers actually know what to expect, and they've been educated on the needs of their vehicle. When we look at fleet penetration, our fleet penetration continues to grow, and they are less inclined to defer on any of those services. So all of those things really bode well.

We have a few things that we're testing. In terms of -- we've had -- customers and franchise partners have already offered some premium filters. Oil Changers had that offering as well. And so we have started to pilot offering premium filters for customers who again want to invest in taking care of the maintenance of their vehicles. That presents a very small upside. I wouldn't say it's all in our numbers. It's not meaningful. Obviously, if it is, we'll let you know, and we'll update our numbers accordingly. But overall, we continue to learn from Breeze. We continue to learn from our franchisees and listen to our customers, and we'll adapt some of our services as a result.

Operator

Your next question is from the line of Mike Albanese with StoneX.

Michael Albanese
StoneX Financial, Inc., Research Division

Yes. Just another quick one here on pricing. I mean, I think you laid out your expectations pretty good, plan to kind of hold price and rebuild margins if oil costs come down. And historically, this model has been able to do that. I guess I just want to take it one level deeper here and just get some sense on what you would need to see that would make you kind of take pause or change your strategy and say, hold on, we need to give back some price and rebuild traffic? I mean, is it simply flipping negative? I think you said your midpoint on transactions next year is flat. Is it going negative and staying negative for consecutive months or quarters? I mean, how do you think about what you would need to see to kind of shift gears?

Lori Flees
CEO, President & Director

Yes. Good question. So really, we look at retention. And if we start to see any significant changes out of the ordinary on customer retention, that's when I think we have to look at our pricing and whether or not that's a driver or whether it's other issues. Again, our retention has improved year-over-year.

The promotional side or how you discount, and we've been doing a lot of work on offering the right discount at the right time to the right potential customer. And obviously, with new customers, when you are facing customers that feel very constrained from a spend perspective, it's typically not the time that they're going to try something new unless you give them something compelling, a compelling reason to do it. And that's the area where we have to continue to adapt and figure out the right approach to new customer acquisition in the environment and in those markets that have more value -- higher value-conscious consumer base.

Michael Albanese
StoneX Financial, Inc., Research Division

So just to kind of frame that, I mean, it sounds like the first lever you would pull would be from a marketing standpoint or maybe an incentive standpoint, but less so about price. Is that fair?

Lori Flees
CEO, President & Director

Yes, that has been the historical operating approach for us, but also in the industry.

Michael Albanese
StoneX Financial, Inc., Research Division

Okay. All right. And then just a follow-up, quick one on Breeze here. Obviously, you said it's running in line with your expectations, if not better. I think when you first bought the 160 stores, they were doing about $1.1 million in average AUVs. Can we kind of maybe quantify this a little bit? I'd be curious as to maybe some of the earlier stores that you integrated, how that $1.1 million has grown or is tracking relative to the nearly $2 million kind of overall system average.

John Willis
Senior VP & CFO

I'll take that one, Mike. For the 28 stores that we've converted, it's still early days, but we are seeing positive momentum, and they're performing at or slightly above where we would expect them to be based upon what we would normally do for stores that we acquire. Just as a reminder, we'll buy 30 to 40 Quick Lubes per year and convert those to the Valvoline brand and then they start climbing the curve. And generally, those stores do reach the AUV that we would expect and that we enjoy in our overall store base.

And it's really a combination of things. Number one, there's a marketing playbook that we implement that helps drive that. It brings in new customers and really drives the transaction growth in those stores. And number two, the Valvoline brand is very strong. It's well recognized. That tends to bring in traffic as well. And number three, we have a very long-standing approach to how we train our teams and how they execute in the store with our customers that's very, very consistent, which not only drives traffic on the front end, but also keeps those customers coming back and really drives the very high retention rate that we enjoy.

All of those things in combination help these stores and should help the Breeze stores climb the curve. They are very, very similar to many stores that we would acquire with the exception that, frankly, they are generally better operated than many of the stores we would acquire on a onesie or twosie basis throughout the course of the year. And so they already have a very strong base from which to grow. They just need the Valvoline playbook, training, systems and brand to actually make that come to fruition over the course of time as they mature.

Michael Albanese
StoneX Financial, Inc., Research Division

That's great. Is it generally a linear progression?

John Willis
Senior VP & CFO

So generally, year 1, you'll see a little bit of a dip as we invest in the store.

Lori Flees
CEO, President & Director

In profit. But in sales, it goes up.

John Willis
Senior VP & CFO

In profit. That's right. Sales will go up. Profit will go down a little bit because we're investing in the team, we're investing in marketing, et cetera. But then it becomes pretty linear from there in terms of the maturity curve after...

Lori Flees
CEO, President & Director

It's about 3 years of linear and then you'll get improvements in year 4 and 5, but to a lesser extent. It's a typical ramp is what we're expecting for our new -- our store conversions.

Operator

Your next question is from the line of Kevin Condon with Baird.

Kevin Condon
Robert W. Baird & Co. Incorporated, Research Division

A bit of a follow-up to the prior question. But in fiscal 2027, as some of those Breeze stores start entering the comp equation, is that a tailwind to same-store sales just as those small stores grow and benefit from the rebranding? Or I guess given your comments on the EBITDA drag being less in 2026 and some of those integration improvements hitting earlier, is the comp uplift from the maturation of that store maybe less than a typical curve?

John Willis
Senior VP & CFO

Yes. So as a reminder, we converted 28 stores in fiscal '26. We would expect those stores to enter the comp in our Q2. So typically, it's a year after acquisition that a store would enter the comp. And so that would imply the beginning of our Q2, the March quarter. And again, as a reminder, it's 28 stores on a base of 2,500-plus stores. So while we would expect it to be a tailwind, it will be very, very small at this point. But we do expect it -- those stores to contribute.

Lori Flees
CEO, President & Director

Yes. It will be small and growing over the time we integrate. So as we integrate -- continue to integrate stores in '27 and they enter the comp, it will obviously build over time, but it will be fairly small at the start of the year.

Kevin Condon
Robert W. Baird & Co. Incorporated, Research Division

Got you. So it's a year after you convert the stores to the Valvoline brand that they start contributing to that comp equation. So it's...

John Willis
Senior VP & CFO

No. The way to think about it is we acquired the Breeze stores on December 1 of last year. And so December 1 of this year will mark 1 year that we've owned them. And we converted 28 stores in fiscal -- during fiscal '26. And so those 28 stores will enter the comp basically at the beginning of our Q2, which is the March quarter. So come January, those stores will be part of the comp because we will have owned them for a year by then. And so that's the way to think about that.

Lori Flees
CEO, President & Director

And our same-store sales comp guidance is based on Valvoline Instant Oil Change stores in the United States. It has excluded Canada, and it will exclude the Oil Changers branded stores. So it'll just be Valvoline branded stores in the U.S. and only stores that we've owned for 1 year or more. So consistent with the definition that we switched to.

Operator

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

Scott Stember
ROTH Capital Partners, LLC, Research Division

Trying to get a sense of some of the areas that you saw in certain markets weakness, trying to get a sense of a cadence if we've seen things get worse as the quarter progressed. Just trying to get a sense of how sensitive these customers in the -- I guess, in the lower income markets are as they really feel the full brunt of these increased prices for an oil change.

Lori Flees
CEO, President & Director

Yes. I don't think it's so much around the price change of oil changes. I think these are customers that broadly are feeling constraints from the macro inflationary gas prices, et cetera. And in Q4, we also recognized that people are making a variety of choices, particularly around the holidays. And so we've also factored in the fact that in times where people are making trade-offs, they may defer until next quarter services that they are due if they're not finite. So we anticipate customers in lower income demographics to be making certain trade-offs in Q4. But the reality is they are not trading off maintenance.

The behavior -- customers understand the importance of maintaining their vehicles. And part of this is driven by the cost that it would be to upgrade their vehicle. So buying a new used vehicle, the cost of car loans, et cetera, is very prohibitive versus where many people are today or the cost of major repairs. So it's a timing issue for some of these customers, not necessarily not going to do it at all. And so I don't think we see this getting worse for an extended period of time. Obviously, if the economy, something that we're not forecasting, and the pressure becomes broader, we don't see our customers' behavior changing all that much. And our numbers based on small changes are not highly sensitive. At a company of our size, that actually works in our favor.

Scott Stember
ROTH Capital Partners, LLC, Research Division

Got it. And then just last question, going back to Breeze integration and synergies. One of the synergies that we've talked about is they're adopting fleet services and the non-oil change NOCR. Can you just talk about how those trends are going, particularly as things are within the market have tightened up?

Lori Flees
CEO, President & Director

Yes. Great question. We integrated our fleet teams probably about 4 months ago. We fully integrated them in this quarter. So our fleet team now is working on behalf of the entire network. And we have sort of in our national fleet accounts, we've included Breeze sites in all of the accounts that we could do so given the way that they bill and that those contracts are arranged. So we're seeing some good momentum, though we're in early days around the Breeze stores. It's much easier once we convert them, but we have done quite a number of things to try to get some of that growth earlier, and that's contributed to some of the Breeze momentum that we saw in the year.

And on NOCR -- sorry. I would just say on NOCR, they did a pretty good job. We've been working across services that Valvoline offers that they don't, services that they offered that we didn't on the Valvoline side. In some cases, we are picking up some offerings, as I mentioned, premium filters as an option for our guests. That's something that some of our franchise partners have already done and Oil Changers did. So we're getting the -- we'll get the benefit of that across our system.

And then on the Oil Changers side, we're trying to work through, and I think we've decided not to add services into Oil Changers until we convert them. And part of that is the systems lift that you have to make in order to add those things into your offering. So I think we're just trying to pace is the juice worth the squeeze or do we wait until we convert the store. And I think we've decided that adding things to the Oil Changers stores will be probably to a minimum until we convert the stores.

Operator

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

David Lantz
Wells Fargo Securities, LLC, Research Division

So you mentioned fleet penetration continues to grow and that revenues for that segment grew high teens in fiscal '26. So curious if you can size that contribution to the 7.9% comp for the year and what you're embedding for the '27 outlook?

John Willis
Senior VP & CFO

David, as you look at the fleet business, it's still -- it's growing very well. We're incredibly pleased with how that is progressing. But as a reminder, it still represents under 10% of total system-wide sales. Again, growing very quickly, but still relatively small, which gives us a lot of encouragement around the opportunity now and into the future as we continue to grow that business. But I think the way to think about it is it's growing faster than the system, but it's still less than 10% of the system. And so it will be a contributor, but it's still relatively small in terms of the percentage of contribution.

David Lantz
Wells Fargo Securities, LLC, Research Division

Got it. That's helpful. And then just two more quick ones. Can you talk about the cadence of openings throughout the year in 2027 as well as the cadence of comps through fiscal Q4 and anything that you're seeing on a quarter-to-date basis?

John Willis
Senior VP & CFO

So in terms of the cadence of comps, currently, we're enjoying obviously price that's ahead of where we were last year and will be for the first half of the year. So we would expect the comp to be at or even initially above the high end of the 5% to 7% outlook range that we've given for the first half of the year and then moderating as we start to lap the pricing that both we and our franchise partners took in Q3, primarily for us in Q4 more so for them, so that -- which would take us more to the, call it, the low end of that range probably for the second half of the year.

Your other question was around the cadence of store openings?

Lori Flees
CEO, President & Director

So I think we have -- there's a seasonality to the way that new store openings happen. We typically, in Q4, because of the timing of summer and construction as well as the timing of M&A that's going to hit by the end of the year, we typically have a pretty good Q4, then it goes lighter, and we tend to be very back-end loaded. And we've tried hard to pull that forward and be less back-end loaded. But the reality is construction cycles and M&A don't always align up well with that. So I think you should think about the cadence to be consistent if you look back over the last 3 years with kind of where we've been on average.

Operator

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

John Babcock
Barclays Bank PLC, Research Division

I guess just first on product costs. I want to get a little clarity here. So I think you're targeting up 60% by the end of the quarter. If you could just confirm that's where you were? And then also, how much are costs up now relative to the same starting benchmark from, I think, probably the end of the last quarter?

John Willis
Senior VP & CFO

So in the quarter, we basically -- it came in as expected. Product -- finished lubricant costs were up about 60% and to be very clear, the pricing that we have taken has covered that cost increase. And so we feel very good about where we are there.

I would say for the last few weeks, product cost has been pretty stable. We've seen some upward movement in the base oil index for Group III. But to be clear, the base oil index and the spot market are still very, very disconnected. And we haven't seen a lot of change from a spot market perspective. But yes, and we're happy about that. Less volatility is good. Obviously, we're looking forward to seeing costs go the other way once the supply chain frees up over the course of time. But for now, product costs have been very stable for the last few weeks, and that's a good thing.

John Babcock
Barclays Bank PLC, Research Division

Okay. So it's fair to say that costs are basically up a little bit from the end of the quarter, but not up significantly.

John Willis
Senior VP & CFO

They're really not up versus the end of the quarter. It's been pretty stable for the last, call it, 4 to 6 weeks.

Lori Flees
CEO, President & Director

Relative to the average for the quarter, they're slightly up, but where we exited...

John Willis
Senior VP & CFO

That's right.

Lori Flees
CEO, President & Director

We're seeing a lot of stability. And we're not expecting any significant changes on the supply side, both to the positive or the negative. But we certainly will adapt if there are changes, and we're ready for that.

John Babcock
Barclays Bank PLC, Research Division

Okay. And then next question, I know like fuel prices don't always tend to fully recover back for whatever reason. I'm just wondering -- and I know you don't have a lot of precedence in terms of the market and like where it is today. So maybe this is a bad question. But just generally, do base oil costs tend to fully recover when crude oil costs come down? Or what sort of movement do you tend to see?

John Willis
Senior VP & CFO

I would say over the course of time, that will happen. But to be clear, the base oil market and the crude oil market don't necessarily run in tandem. For a long time, they did. But over the past couple of years, even well before what we're in right now, started to unfold, those 2 things had disconnected themselves. Again, eventually, and over the course of time, it will match up. But as you look at base oil, it's a supply-demand phenomenon really. And right now, we're still tight, especially in Group III.

And even as you see crude oil futures and gasoline prices, which do tend to track pretty quickly and pretty closely, as you've seen those things change, again, the base oil market really hasn't changed. And that's all about supply and demand, especially in Group III, which remains tight.

Lori Flees
CEO, President & Director

And for now, it's not just about oil flow, it's also about refining capacity. And some of the refining capacity is shut down because of the lack of supply, and it will take time for that to get back up and running once supply lines are fully loaded. So I think that's also part of the disconnect that we're planning for. So we're taking the approach in FY '27 that the environment remains the same as it relates to supply and cost. And I think overall, we're ready to execute within that and deliver really good profitable growth.

John Babcock
Barclays Bank PLC, Research Division

All right. That's very helpful. One last one, if you don't mind me squeezing this in. Just obviously, you had like really good cost control during the quarter, and it sounds like you're continuing to target cost across the company. Do you have any specific cost reduction targets that you have for the year? Or maybe you prefer not to go down that route?

John Willis
Senior VP & CFO

Yes. We prefer to not go down that path. I mean, we're continuing to work internally with the team to find efficiencies in the system and to execute against those. But we don't have any targets that we've talked about publicly. It's really all about executing well, continuing to find those efficiencies and then execute on those.

Operator

Your final question is from the line of Steven Zaccone with Citi.

Steven Zaccone
Citigroup Inc., Research Division

Great. It's very confusing with the base oil cost environment. I imagine it's very difficult to manage this as well. But I guess a simple question here, right? If we think about base oil costs kind of staying the same, right, and being stable, at what point would the gross margin rate get back to a level you were before we had all this disruption?

John Willis
Senior VP & CFO

Yes. I think the way we're looking at it right now, as we've said in our outlook, we're expecting the total gross margin compression for the full year of 100 basis points. And the implication is, as we said, approximately 200 to 250 basis points of compression kind of in the first half of the year, and you could infer that Q1 would be at the high end of that. And over the course of the year, we expect that to moderate. So I would say all things being equal, if they ever are, all things being equal, we would expect to close that gap probably towards the end of the fiscal year, most likely based on where our outlook is.

Steven Zaccone
Citigroup Inc., Research Division

Okay. That's very helpful. Final one I had was just on the national advertising campaign. So I guess you're having a little bit of an expansion this year in terms of the fund. So maybe just talk about would that result in a comp lift? Like how do you think through that?

Lori Flees
CEO, President & Director

Yes. Great question. So on the company side, in '26, we talked about flipping some of our local brand spend to national advertising, and we did see efficiency benefits on that, particularly in the fourth quarter. In FY '27, our entire system will start our national advertising fund, which will -- when you look at our financials, it will show that advertising costs are up at a greater rate, but this is more franchise funds flowing through and us spending them. So it's going to look a little odd on the P&L, but it is really just the franchise contributing to an advertising fund that we manage on behalf of the system.

And that increase in spend is going to drive more impressions at a much lower cost, which then drives better efficiency in the lower funnel. And what does that mean lower funnel? We get more people coming to search for Valvoline, come to Valvoline owned sites to learn more about our product and come to our stores where we're not paying for that traffic. And so that's going to allow us to use the money more wisely to actually attract and acquire more new customers into the system.

And that's part of the reason why when Kevin talked about total growth in transactions, we expect total growth in transactions to be the same or higher in this fiscal year than '26. And some of that is driven by what we believe will happen in the national ad fund. Now obviously, we will look to overperform, but we're early on in this. And so as we learn, we'll obviously update our expectations.

Operator

We have reached the end of the Q&A. This concludes today's call. Thank you for attending. You may now disconnect.

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