BLUEGRASS CAPITAL RESEARCH

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Consumer | *Automotive*
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Valvoline, Inc.

Keep Your Portfolio Running Well

After selling its products business to Aramco, Valvoline's become a high-margin, franchise-driven quick-lube operator poised for rapid, capital-efficient growth. Its aggressive expansion and EV-focused innovation position the company well for long-term success. **We initiate with a BUY rating and a two-year PT of $48.00.**

Valvoline's Franchise Expansion Fuels Growth

Valvoline's aggressive growth plan, paired with its evolving franchise-focused business model, creates the perfect setup for continued company growth. The expansion is centered around rapidly growing its Valvoline Instant Oil Change (VIOC) retail network, mainly through franchising. By working towards achieving an annual target of 250 new store openings each year, Valvoline is progressing toward its long-term goal of expanding from roughly 2,000 locations in late 2024 to 3,500 nationwide. After selling its Global Products business to Aramco for $2.65 billion in March 2023, Valvoline used part of the proceeds to fuel expansion opportunities; most notably, the February 2025 Breeze Autocare acquisition, which added nearly 200 stores to its network. Acquisitions like this have long been a major growth driver for Valvoline, and when combined with the company's steady refranchising efforts, the strategy has proven effective. The refranchising-centered model boosts capital efficiency, cuts overhead, and ultimately accelerates growth.

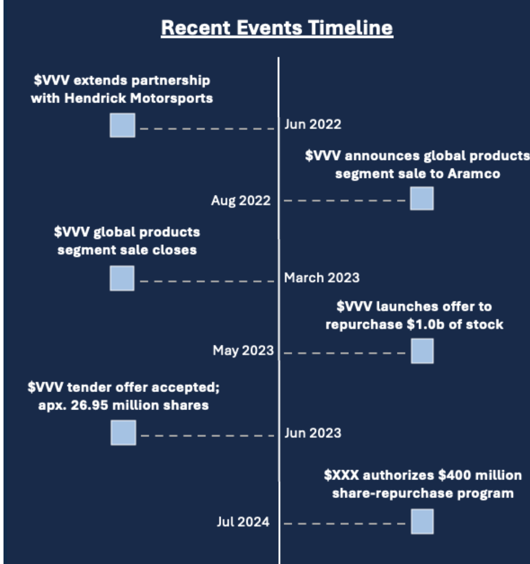
Valvoline Strategically Positions for EV Market Growth

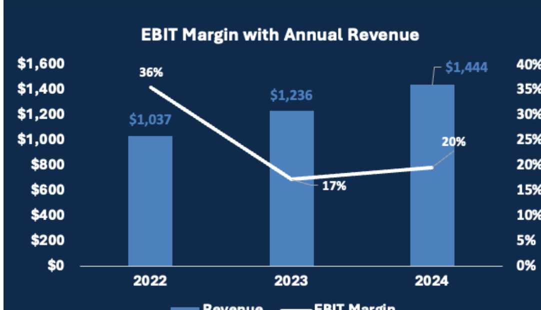
Though the steadily growing electric-vehicle (EV) market poses a significant long-term risk to traditional VIOC stores, Valvoline is investing in EV research, primarily focused on developing specialized fluids and adapting its quick-lube model for EV maintenance. The company has been developing this technology for nearly two decades, even becoming a leading supplier of battery fluids to EV manufacturers. That being said, the EV market is currently showing signs of volatility. While U.S. and Canadian EV adoption saw a rapid climb in 2023 and 2024, with U.S. sales reaching 1.6 million units and a 10% market share in 2024, the growth rate is slowing. A key factor in this is the recent removal of the federal EV tax credit, effective as of October 2025, by the Trump administration. This has analysts forecasting a significant decline in sales, with some even predicting U.S. EV sales could drop to just 5% of the market. Despite short-term uncertainty, Valvoline's investments are a strategic long-term move. Analysts still project EVs to comprise 42-60% of new U.S. vehicle sales between 2030 and 2040. Valvoline's CEO, Lori Flees, has publicly stated that the company is adapting its service model to meet this long-term shift, regardless of current political or market implications.

Company Overview

After selling its successful global products business to Aramco in March of 2023, Valvoline Inc. generates the entirety of its revenue by operating and franchising quick-lube service centers. These retail locations offer oil changes and other routine vehicle maintenance services through a direct-to-consumer and franchised business model encompassing 983 company-operated stores and a rapidly growing 1,141 franchised stores. Franchise marketing fees represent ~6% of each store's gross store sales across the entire franchise chain and are paid back to the overall brand. This figure is significantly higher than that of key competitors, such as Take 5 Oil Change (5%) and Jiffy Lube (4%), representing Valvoline's commitment to brand promotion and its aggressive growth strategy. Product design and innovation are led from Kentucky, where they develop their proprietary Super-Pro™ operating system and operate the customer service training program for their technicians. Valvoline's locations are 53% franchised and 47% company-owned, which has enabled rapid and capital-efficient growth, supporting a strong operating margin of approximately 25.9%.

TICKER:	$VVV
RATING:	BUY
PRICE:	$32.96
PRICE TARGET:	$48.00
MARKET CAP:	$4.20b
52-W RANGE:	$31.01 - $43.74
NTM P/E:	15.46x
IMPLIED UPSIDE:	44.0%





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Potential Erosion of Brand Trust and Reputation

Valvoline's continued success is largely dependent on maintaining consumer confidence and its strong brand reputation. Negative customer experiences, liability issues, or subpar service have the potential to erode customer trust, therefore lowering sales. As the company continues to make acquisitions and refranchise its locations, regardless of whether company-owned locations continue to adhere to guidelines, there is more room for inconsistent or poor service from franchise operators. Additionally, it could damage public perception and raise costs if Valvoline doesn't adjust to the growing demand for environmentally friendly vehicle care or doesn't fulfill the growing quantity of ESG requirements enforced by investors and regulators. Moreover, unfavorable industry developments or legal issues may further damage the company's reputation and financial stability.

Operational and Expansion Challenges Could Hinder Growth

There are many external limitations regarding Valvoline's ambitious sales, profitability, and service center expansion goals. Finding appropriate real estate and acquisitions, controlling the increasing number of expenses, and adjusting to shifting customer demands are among the difficulties the business will encounter. Growth and labor margins may also be negatively affected by labor shortages and refinancing initiatives, and operational inefficiencies may be the product of inadequate quality partnership/acquisition opportunities. The company's long-term strategic growth goals may also be hampered by its increasing dependence on acquisitions, which expose the company to a new avenue of integration challenges, will introduce a diversion of resources, and potentially cause Valvoline to incur future debt.

Catalysts

Valvoline confirmed it would be extending its partnership with Hendrick Motorsports, one of NASCAR's most successful teams, significantly increasing brand visibility, allowing Valvoline to test its lubricants under extreme conditions, and reinforcing public perception/reputation.

Valuation

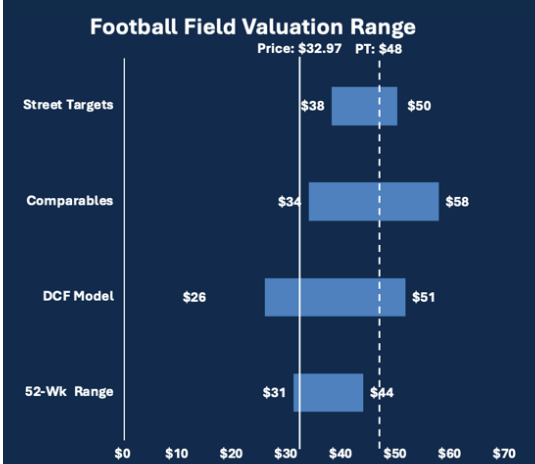
DCF Analysis ($mm)	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/30/2028	FY2029 12/30/2029	FY2030 12/31/2030
Revenue	11,220	11,902	12,616	13,338	14,042	14,704
Revenue Growth	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*
Americas	8,000	8,160	8,344	8,552	8,787	9,051
Rest of World	1,520	1,702	1,885	2,065	2,235	2,391
China Mainland	1,700	2,040	2,387	2,721	3,020	3,262
EBIT	2,300	2,500	2,649	2,801	2,949	3,088
EBIT Margin	*20%*	*21%*	*21%*	*21%*	*21%*	*21%*
Tax Expense	650	750	795	840	885	926
Effective Tax Rate	*28%*	*30%*	*30%*	*30%*	*30%*	*30%*
NOPAT	1,650.00	1,749.65	1,854.52	1,960.64	2,064.24	2,161.51
D&A	470	512	533	554	572	588
Capex	730	833	852	867	878	882
Changes in NWC	228	119	79	33	(18)	(74)
UFCF	1,162	1,309	1,457	1,614	1,776	1,941
PV of FCF	1,143	1,215	1,242	1,264	1,279	1,284

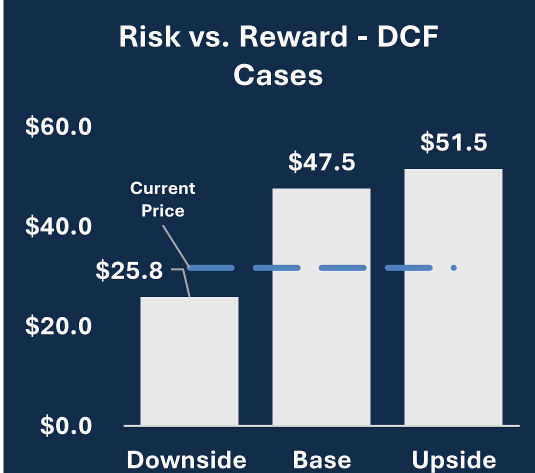
Our base case DCF estimates Valvoline's fair value at $44.86 per share, implying 33% upside from the current price of $33.71. Using a 5.0% WACC and 9.5x EBITDA exit multiple, the model reflects steady growth and margin expansion driven by Valvoline's focused Retail Services strategy.

Conclusion

Valvoline's shift to a franchise-driven retail services model, alongside ambitious and strategic growth plans, makes it a buy. Strategic acquisitions, investments into the future of Electric Vehicles, and strong and reputable branding position the company for success. **We initiate $VVV with a buy rating and a PT of $48.00, representing 44% upside in the next two years.**

Terminal Value	
Exit Multiple Method	
2034 EBITDA	$847
EV/EBITDA Exit Multiple	9.5x
Terminal Value	$8,050
PV of Terminal Value	$6,405
PV of Projection Period	$890
PV of Terminal Value	$6,405
Implied TEV	$7,295
(-) Debt	$1,324
(+) Cash	$68
Implied Equity Value	$6,040
Diluted Shares Outstanding	127
Implied Share Price	$47.52
Upside/Downside	45.3%





Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	1,619	1,800	2,106	2,432	2,773	14.4%
EBITDA	420	450	505	590	679	12.8%
EBIT	314	350	379	444	513	13.1%
NOPAT	245	275	299	351	405	13.5%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	25.9%	25.0%	24.0%	24.3%	24.5%	24.7%
EBIT Margin	19.4%	19.4%	18.0%	18.3%	18.5%	18.7%
Revenue Growth	12.2%	11.2%	17.0%	15.5%	14.0%	14.0%
EBIT Growth	10.5%	11.6%	8.3%	17.1%	15.6%	12.6%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	6.8x	42.3x	38.4x	29.4x	23.0x	28.0x
EV/Sales	3.4x	3.0x	2.6x	2.3x	2.0x	2.7x
EV/EBITDA	13.1x	12.2x	10.8x	9.3x	8.1x	10.7x
FCF Yield	14.8%	2.4%	2.6%	3.4%	4.3%	5.5%

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
O'Reilly Automotive, Inc. (NasdaqGS:ORLY	$80,576	$88,773	33.0x	$17,463	$3,870
Advance Auto Parts, Inc. (NYSE:AAP)	$3,041	$5,436	-5.3x	$8,624	$281
Mister Car Wash, Inc. (NasdaqGS:MCW)	$1,846	$3,609	20.9x	$1,042	$293
AutoZone, Inc. (NYSE:AZO)	$61,641	$73,822	25.6x	$18,939	$4,223
Valvoline Inc.	$4,227	$5,550	15.5x	$1,692	$443

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
O'Reilly Automotive, Inc. (NasdaqGS:ORLY	22.9x	51.5%	22.2%	19.3%	6.2%
Advance Auto Parts, Inc. (NYSE:AAP)	19.3x	42.2%	3.3%	(0.1%)	(5.4%)
Mister Car Wash, Inc. (NasdaqGS:MCW)	12.3x	32.1%	28.1%	19.9%	7.0%
AutoZone, Inc. (NYSE:AZO)	17.5x	52.6%	22.3%	19.1%	2.4%
Valvoline Inc.	12.5x	38.5%	26.2%	19.4%	7.5%

High	22.94x	52.6%	28.1%	19.9%	7.5%
75th Percentile	19.34x	51.5%	26.2%	19.4%	7.0%
Average	16.92x	43.4%	20.4%	15.5%	3.6%
Median	17.48x	42.2%	0.0%	19.3%	6.2%
25th Percentile	12.52x	38.5%	22.2%	19.1%	2.4%
Low	12.33x	32.1%	3.3%	-0.1%	-5.4%

Valvoline Inc.		
Implied Enterprise Value (25th Percentile)	$	5,550
Implied Enterprise Value (Median)	**$**	**7,750**
Implied Enterprise Value (75th Percentile)	$	8,575
Implied Share Price (25th Percentile)	$	33.79
Implied Share Price (Median)	**$**	**51.10**
Implied Share Price (75th Percentile)	$	57.58

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.18
Risk Free Rate	4.39%
Cost of Equity	1.82%
Weighted Average Cost of Debt	5%
Tax Rate	21%
Cost of Debt	3.19%
Total Equity	$4227
Total Debt	$1100
Equity/Total Capitalization	19.15%
Debt/Total Capitalization	80.85%
WACC	5.01%

Downside Case: Our downside case projects poor revenue growth and minimal sales from upcoming events. This reflects slow sales from broader economic struggles, a lack of acquisition opportunities, and damaged brand reputation. The multiple we used was 9.0x EV/EBITDA, bringing our downside valuation to $26.

Upside Case: Our upside case shows high revenue growth spurred by the continuation of available acquisition opportunities and continued slow EV growth. The multiple we used was 10.0x EV/EBITDA, bringing our valuation to $51.