

Interface, Inc. NasdaqGS:TILE

Earnings Call

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Call Participants

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Presentation

Operator

Greetings, and welcome to the Interface Inc. Fourth Quarter 2022 Earnings Conference Call. Please note, today's conference is being recorded. [Operator Instructions]

I will now turn the conference over to Christine Needles, Corporate Communications. Ms.Needles, you may begin.

Christine Needles
Global Head of Corporate Communications

Good morning, and welcome to Interface's conference regarding fourth quarter 2022 call, hosted by Laurel Hurd, CEO; and Bruce Hausman, CFO.

During today's conference call, any management comments regarding Interface's business, which are not historical information, are forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements regarding the intent, belief or current expectations of our management team as well as the assumptions on which such statements are based.

Any forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties that could cause actual results to differ materially from any such statements, including risks and uncertainties described in our most recent annual report on Form 10-K and second quarter 2022 quarterly report on Form 10-Q filed with the SEC. You should also consider any additional or updated information we include under the heading Risk Factors in our subsequent quarterly and annual reports. The company assumes no responsibility to update forward-looking statements.

Management's remarks during this call also refer to certain non-GAAP measures. Reconciliations of non-GAAP measures to the most comparable GAAP measures and explanations for their use are contained in the company's earnings release and Form 8-K furnished with the SEC today.

Lastly, this call is being recorded and broadcasted for Interface. It contains copyrighted material and may not be rerecorded or rebroadcasted without Interface's express permission. Your participation on the call confirms your consent to the company's taping and broadcasting of it. After our prepared remarks, we will open up the call for questions.

Now I will turn the call over to Laurel Hurd, CEO.

Laurel M. Hurd
President, CEO & Director

Thank you, Christine, and good morning, everyone. Interface delivered strong results in 2022, reflecting broad-based strength across the business. Currency-neutral sales grew 13% and adjusted operating income increased 8% despite a challenging operating environment with persistent input cost deflation and currency headwinds. I'm really proud of the global team's hard work and execution in 2022, which allowed us to significantly offset these headwinds through pricing and efficiencies.

Interface continues to win in the marketplace, and we're making great progress on our diversification strategy. On the product side, remember that just a few years ago, nearly 100% of our sales were from carpet tile. Today, carpet tile accounts for approximately 61% of our sales and delivered solid growth in 2022.

We had another record year for LVT, which reached $150 million in 2022, up 24% to last year's record high. Rubber is also a core part of our resilient growth strategy and we continue to take share with our industry-leading Nora products.

On the market segmentation side, we saw growth across our priority market segments in 2022. Notably, Education was up 13% and Corporate Office grew 9%. We are seeing sustained and elevated demand

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in the Corporate Office segment as companies renovate their offices and create more collaborative workspaces for a post-COVID environment. People are returning to the office, and we're helping our customers build more interesting and useful spaces to compete for top talent and better reflect how teams work and collaborate today. There also continues to be strong demand for our carbon neutral and carbon-negative offerings.

Orders in 2022 were up 6.5% on a currency-neutral basis compared to 2021, with the Americas up 6% and EAAA up 7%. The commercial market continues to be resilient, and we've seen order momentum continue into 2023. And as I speak to you today, we do not see signs of softening in the business. That said, we are realistic about the potential economic headwinds that we may face as we move through 2023. If the macro environment deteriorates, we are well positioned to weather through it with a flexible cost structure, strong balance sheet and a management team that has a proven history of managing through challenging economic times.

At Interface, our best days are ahead. I've spent my first 9 months out in the business, meeting the team, working directly with customers and to many colleagues and partners across all functions and markets. It has reaffirmed my belief that we have so many strengths. We are the leaders in sustainability and have incredible relationships with our customers. We have the best sales force, designers, products and brands in the market. We know how to navigate uncertainty and have a strong financial foundation. We also have a committed team that wants to win.

In practice, we operate regionally with different systems, processes and organizational structures around the globe. In order to reallocate investments to the most meaningful initiatives that drive our profitability and success, we recently implemented structural changes that will create efficiencies and help prioritize where we place our investments while staying grounded in our mission to be the most sustainable company in the world across our environmental, design, social and economic objectives.

In January, I unveiled our new company strategy to our internal teams around the world. We are performing well, which is exactly the time to lean in to drive changes that can compel us to the next level and into the future. Our new strategy will enable us to bring the best of Interface to our customers.

To capitalize on our opportunity, we will reset the operating model to one global company, building strong global functions supporting our world-class local sales team. We will expand margins through global supply chain management and improved productivity. We'll accelerate new global products and designs to drive incremental growth. And we'll reallocate our investment to our big bets, including key high-growth markets and drive profitable growth across our entire global business.

The new operating model went into effect on February 1 and includes a few changes in our executive leadership team. Jim Poppins, formerly President of the Americas region, now leads our Global Commercial Efforts as Chief Commercial Officer. In this new role, Jim will focus on global sales and services as well as all customer support functions. Nigel Stanfield, formerly President of EAAA, now serves as our Chief Innovation and Sustainability Officer, focusing on global product design and development, R&D and technical sustainability. Anna Webb, formerly Vice President of Marketing in the Americas, now serves as our Vice President of Global Marketing, overseeing all brands marketing, strategy and execution. We are also actively recruiting for a Chief Supply Chain Officer, and we'll have an update on this later in 2023.

These new roles round out our existing leadership team of Bruce Hausman, CFO; David Foshee, General Counsel; Greg, Chief Human Resource Officer; and Jake Ellson, Chief Information Officer. I am confident that with this leadership team and our passionate people around the world, we are well positioned to win.

As we move into 2023, we are focused on better leveraging the strength of our global organization to drive profitable growth across the business. These changes will position us to capture the long-term potential of our differentiated products, innovative designs and premium brands. With this new operating model, we will also be able to focus our investments where they will have the most impact in our must-win markets, segments and products.

And with that, I'll turn it over to Bruce.

Bruce A. Hausmann

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VP & CFO

Thank you, Laurel, and good morning, everyone. Fourth quarter net sales totaled $335.6 million, a decrease of 1.2% versus fourth quarter of 2021. FX-neutral net sales growth in the fourth quarter was 3.6% year-over-year, even as we lapped a strong fourth quarter last year that had 24% year-over-year growth. .

Fourth quarter FX-neutral net sales growth in the Americas was 3.3% and EAAA's FX-neutral net sales growth was 3.9% year-over-year. Fourth quarter adjusted gross profit margin was 33.2%, a decrease of 294 basis points from the prior year period, due mainly to higher raw material labor costs, partially offset by higher pricing.

Adjusted SG&A expenses were $79.4 million or 23.7% of net sales in the fourth quarter of 2022 compared to $81.6 million or 24% of net sales in the fourth quarter of 2021. Fourth quarter 2022 adjusted operating income was $32 million, down 22% versus adjusted operating income of $41.1 million in the fourth quarter of 2021.

Fourth quarter 2022 adjusted EPS was $0.31 versus $0.47 in the fourth quarter of 2021. Adjusted EBITDA was $41.3 million in the fourth quarter of 2022 versus $52.8 million in the fourth quarter of 2021.

Looking at the full year 2022 results. Consolidated net sales totaled $1.3 billion, up 8% compared to $1.2 billion in the prior year period. FX-neutral net sales growth year-over-year was very strong at 13%. FX-neutral net sales growth in the Americas was also very strong at 16.1%, and EAAA's FX-neutral net sales growth was also very strong at 9.4% year-over-year.

Adjusted gross profit margin for 2022 was 34.7%, a decrease of 184 basis points from the prior year due to higher raw material, freight and labor costs, partially offset by higher pricing. As we move into 2023, inflationary trends continue, but at a lower rate than last year. Ocean freight has come down materially, and we're anticipating single-digit inflation in most of our raw materials versus the higher double-digit inflation we experienced in 2022. We also had significant FX headwinds in 2022, which are easing as the U.S. dollar is weakening compared to key currencies.

Adjusted SG&A expenses for 2022 were $317.6 million or 24.5% of net sales compared to $316.1 million or 26.3% of net sales in 2021. The 186 basis points of improvement reflects our continued progress in managing and optimizing SG&A.

Adjusted operating income for 2022 totaled $132.4 million, up 8.3% compared to the prior year. For the full year 2022, adjusted earnings per share was $1.25 versus $1.23 in 2021. In the fourth quarter, we recorded $5.1 million in charges related to the cybersecurity events that occurred in late November. This included $4.8 million in cost of goods sold, primarily related to idle plant costs and approximately $300,000 in SG&A expenses related to direct third-party fees. These costs are excluded from our adjusted operating income.

Permanently lost net sales from the event are estimated at approximately $8 million. The team did a great job managing through this event, which temporarily impacted us for about a week in each of EAAA and 2 weeks in the U.S. As a result of our prior investments in cybersecurity and the quick response from our team, there was a minimal impact to our customers.

Also in the fourth quarter, we recorded noncash goodwill and intangible asset impairment charge of $36.2 million, primarily due to a decrease in the fair value versus carrying value as a result of the company's decreased market capitalization, comparable company market multiples, projected future cash flows and an increase in the weighted average cost of capital due to rising interest rates and prevailing capital market conditions. This is a noncash charge in keeping with pertinent accounting literature.

As we close out 2022, our balance sheet remains strong. For the fourth quarter, Interface generated $28 million of cash from operating activities. For the year, we generated $43 million of cash from operating activities, which is lower than the prior year, primarily due to inventory inflation and cash collections that shifted from fiscal year 2022 to fiscal year 2023 due to timing of the November cyber events.

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Liquidity at year-end totaled $372 million, consisting of $97.6 million of cash and $274 million of revolver capacity. Net debt, or total debt minus cash on hand, was $422.6 million at the end of the fourth quarter, and adjusted EBITDA for 2022 was $176.1 million, and our net leverage ratio was 2.4x, calculated as net debt divided by adjusted EBITDA. We continue to have confidence in our strong balance sheet and our capital structure.

Capital expenditures were $18.4 million in 2022 compared to $28.1 million in 2021. For the full year 2022, we repurchased $17.2 million of Interface common stock in accordance with our balanced capital allocation strategy. We remain focused on paying down debt, investing in the business and returning excess cash to our shareholders through a dividend and opportunistic share repurchases.

Turning to our outlook. We entered 2023 with strong momentum that has continued thus far in the first quarter. As Laurel mentioned, demand for our products remains strong, and our business remains strong. However, we are cautious about 2023 given the considerable macroeconomic uncertainty, including ongoing inflation and rising interest rates. It is difficult to predict the duration of the current economic conditions or their potential impact on our industry. We're also anticipating that adjusted gross profit margin will remain at current levels in the first half as we continue to work through the inflationary inventory on our balance sheet, a return to a more normalized production and supply chain environment.

Interface has successfully managed through key challenging periods and industry recessions, and we believe we are strongly positioned to navigate through any macroeconomic environment that comes our way in 2023. As the company navigates through this uncertainty is anticipating for the first quarter of 2023 net sales of $290 million to $305 million, adjusted gross profit margin of approximately 34%, adjusted SG&A expenses of approximately $82 million, adjusted interest and other expenses of approximately $10 million, fully diluted weighted average share count of approximately 58.7 million shares. And for the full fiscal year of 2023, year-over-year net sales growth of 1% to 5%, adjusted gross profit margin of 35%, adjusted SG&A expenses that are 25% to 25.5% of net sales, adjusted interest and other expenses of approximately $36 million, an adjusted effective tax rate for the full year of approximately 28.5%. And lastly, capital expenditures of approximately $32 million.

By leveraging our strong financial foundation, our strong brands and our highly differentiated products, we are confident in our ability to deliver on our mission.

And with that, I'll turn the call back to Laurel for concluding remarks.

Laurel M. Hurd
President, CEO & Director

Thank you, Bruce. Overall, we had a strong year in 2022 and entered 2023 with positive momentum. We know where we need to focus to drive our success, and we're implementing the right strategy to support our ambitions. .
Although macroeconomic uncertainty remains, we will continue to take actions to position Interface for long-term sustainable success. Our best days are ahead. And with that, I'll open it up for questions. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Kathryn Thompson with Thompson Research Group.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Just 2 different questions. One is just the strategic initiatives that you outlined today. I appreciate the color you provided in the prepared commentary. Digging a little bit deeper, in broad strokes, what changes do you or don't you see changing from either a go-to sales process or how you operate the company differentiated between your major regions in which you operate, namely North America, Europe and Australia?

Laurel M. Hurd
President, CEO & Director

Yes. Great. Thanks, Kathryn. I'm excited about our new strategy and operating model. I see so much opportunity to build on the strong foundation that we have and really to operate as one company to better leverage our scale. So a couple of the changes that we're making, we'll reset the operating model to 1 global company, obviously supporting our local selling teams. So currently, we have disaggregated resources around the globe. So we have an opportunity to have greater impact by focusing on strong global functions. So that's one change that we'll make. .

We'll also reallocate our investments towards our biggest bets. So looking really at the profitability of our markets. You know the U.S. is our largest and most profitable market, and that will be their first choice for investment and our top priority as we reallocate those investments to fuel growth in the U.S. We have many other countries across Europe and Asia that really matter, Germany, Australia, 2 very important markets for us, that are delivering profitable growth. But we're going to continue to prioritize and follow the money. So we'll have strong global functions and local selling teams and prioritize our investments.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. And if you were to just once again, broad bucket with those. Presumably, some are top line focused and then others are more margin, both gross margin, SG&A focused. Of the strategy, where is the greater focus in terms of those buckets as we think about long-term profitability and also just any changes from a free cash generation?

Laurel M. Hurd
President, CEO & Director

Sure. So I'll start with that and then Bruce, you can question. So we're really focused on profitable growth in our priority markets. So the U.S., again, will be the biggest priority there. Also focused on margin expansion through global supply chain management and improved productivity. I'll be adding a Chief Supply Chain Officer. We have really good work happening in all of our sites across the globe, but we have an opportunity to do is really leverage that knowledge and the actions of each site to attack and drive productivity globally. So that will be a focus for us.

Our goal there is to get our margins back up to pre-COVID levels, 38.5%. And then we'll also focus on efficiencies from an SG&A perspective, again, investing in our big priority markets and continuing to take cost out of some of our other markets with an ambition to get our SG&A down to 23% over time. '23 will be a transition year with that as we're putting the operating model into effect.

Bruce A. Hausmann
VP & CFO

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Kathryn, I completely agree with everything that Laurel just said. I'd like to how you divide that up between top line leverage and margin leverage. We're going to continue leveraging our local selling system and our local selling teams on the ground. We just have such deep relationships with our customers and with our A&D community in our local markets which is one of our key competitive advantages. .

But if you think about the margin side, now like -- again, how you differentiated that, we're going to be utilizing shared resources to leverage and expand margins so that we can essentially use the same people, process and systems around the globe in order to drive margin expansion in a really standardized way.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. Great. And just final cleanup question, Bruce, this is maybe more for you. Just in terms of inventory. So many companies are -- have been -- you're a little bit different because you don't carry inventory, but nonetheless, there is some amount you have to manage it, particularly in terms of just raw materials. Where are you now in terms of the cost price? And have you mostly worked through kind of that higher cost inventory you just have?

Bruce A. Hausmann
VP & CFO

It's a great question, Kathryn. I'm glad you're asking for a double-click down on inventory because when you look at that raw number on the balance sheet, it's hard to understand it. Let me give you a couple of stats. Our units are flat year-over-year, which is good. We've done a great job at managing the quantity of inventory we have. The biggest year-over-year increase that you see is really inflation. And so we do have inflationary inventory that we will -- that will be flowing through the income statement in the first half. And that is incorporated into our guide. .

The other piece that I would add around color around inventory is that we've been really focused on business continuity and making certain that our plants always have everything they need to meet customer demands. And so if you look -- if you double-click down on our inventory, 29% of the -- or I'm sorry, our raw materials are actually up 29% year-over-year. And that has been a very, very purposeful initiative to make certain that we have everything we need. Obviously, as the supply -- global supply chain gets into a greater equilibrium and into a more stabilized state, we will ease off of that, and we'll get into a more normalized environment around how many raws we keep on hand in order to ensure business continuity.

Operator

Your next question comes from the line of Keith Hughes with Truist.

Keith Brian Hughes
Truist Securities, Inc., Research Division

A couple of questions. On the fourth quarter, can you talk about what was unit and price whether did they contribute to the organic growth number?

Bruce A. Hausmann
VP & CFO

Keith, this is Bruce. In our fourth quarter, if you kind of double-click down on the growth components, we mostly grew on price. Volume was flat year-over-year in the fourth quarter. And if I'm guessing you're going to ask about next year, we think that -- yes. That's right. I know you're going there. If you think about next year, I think you can -- obviously, we don't know for sure. But I would think about it in terms of sort of a 70%-30% mix probably 70% based on price, 30% based on volume. We've got a nice wraparound impact coming where we've put pricing into the market. And we'll get the wraparound impact of that as we go into 2023.

Keith Brian Hughes

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Truist Securities, Inc., Research Division

Okay. Great. And the first quarter, there's another margin year-over-year gross margin step back. Is that still cost well over price? Are there other contributions? .

Bruce A. Hausmann
VP & CFO

Keith, it's actually -- that is what I was referring to with Kathryn. It's the inflationary inventory. As you'll appreciate, it's just the flow between raw materials going into manufacturing and then actually hitting the cost of goods sold line. It's the flow. We had double-digit inflation that we incurred in our raws in 2022.

The good news is that it has eased. Now we're anticipating single-digit inflation in 2023. And if you put all of that into the mix, again, this is our guide. That's what you're seeing there is -- you're seeing that inflationary inventory flow through the cost of goods sold line in the first half.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And I guess a question for Laurel. You talked about SG&A, 23% long-term goal. You made a lot of nice progress on SG&A as a percentage of sales for the last couple of years, but as you -- in your work stepping back, why are you stepping back in '23? What are the drivers for that? And will '24 begin to move down under the plan?

Laurel M. Hurd
President, CEO & Director

Yes, it's a great question. And we are stepping back, I will say that we'll modify with the market as we have shown great discipline in SG&A, as you've said, over the past couple of years, really watching our dollars. We are wanting to make sure we make some investments for growth as we continue to fuel the growth, particularly in the U.S. market and driving innovation.

One of the focuses that we have is new accelerating our product development in innovation. We're preparing for NeoCon now. We got a lot of new innovation hitting the market, and we want to make sure we invest for the long term. At the same time, as I said, as we put the operating model into effect, '23 will be a transition year, and we do expect '24 to step back down.

Bruce A. Hausmann
VP & CFO

Yes, Keith, I'll just add to what Laurel mentioned. There is no loss of focus on G&A guaranteed. And I think -- and we appreciate all of your feedback around the progress we've made there. I can guarantee you this management team around the world is focused on every single SG&A dollar, every single SG&A initiative and making certain that we don't spend any dollar that's not needed to fuel growth. .

We've got good SG&A to fuel growth. We've got bad SG&A that were -- so-called bad SG&A. -- by the way, people like me in finance are the so-called bad SG&A, but we're doing everything we can to manage it very, very effectively.

Keith Brian Hughes
Truist Securities, Inc., Research Division

Okay. And actually one more, if you allow me for Laurel. You talked about investing more of your dollars on the higher margin in the Americas business, which is a good at higher margin. What does that signal for the other regions? They've been margin underperformance for a long time. Does that signal a strategic change? Or is there a consideration of a strategic change to maybe not all of the EAAA, but at least parts of the EAAA medium term?

Laurel M. Hurd
President, CEO & Director

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Yes, that's a great question as well. And I'd say we've been really scrutinizing the P&L country by country. And as Bruce said, our strategy right now is to focus on the profitable markets. So there's certainly more outside of the U.S. that continue to be very profitable for us. But we want to leverage our global scale and have shared resources helping support some of those markets to improve their profitability.

Bruce A. Hausmann
VP & CFO

Yes, Keith, I'll just add to what Laurel mentioned. We're going to be differential investing our next dollar in those higher-margin markets, where we can get the best return. And then we're going to be -- I'll just reiterate what Laurel said, we're going to be taking these shared resources so that we can leverage margin expansion in the other areas of the company where they can use shared resources to help improve their margins. .

Operator

Your next question comes from the line of David MacGregor with Longbow Research.

David Sutherland MacGregor
Longbow Research LLC

I guess I just wanted to be clear on kind of the cadence you're thinking about with respect to the performance targets under the new strategy. You characterized '23 as a transition year, and then there were some comments around SG&A into 2024. The numbers you shared with us, the 38.5% gross margin, the 23% SG&A., are those numbers achievable in 2024? Or how are you thinking about just the timing on this? .

Laurel M. Hurd
President, CEO & Director

Yes. Great question. I appreciate it. It's -- look, this is a longer-term approach over the next, I'd say, 3 years. I don't think we'll get there in '24. There's so much uncertainty on '23 right now, which is why we're hesitant to put a pin in exactly what year that will happen. We expect to make significant progress in '24 and it will probably take us another year.

Bruce A. Hausmann
VP & CFO

David, I agree with everything Laurel said. It's interesting. We're trying to strike the balance of -- we've got the pedal down to make sure that we expand the margin profile of the corporation. At the same time, we didn't -- folks like you do a really, really good job at scrutinizing and criticizing the numbers given the macroeconomic conditions. And we're also very aware that, hey, it is a fact that global economic policies tightening around the world.

And so what we're going to do is we're going to continue tightening up the margin structure of the company while -- and controlling everything that we can control, while also being really well aware of what's going on in the macro environment. And we're trying to be realist as we navigate through 2023. And as we take the company forward to grow the top line and to expand the margins.

David Sutherland MacGregor
Longbow Research LLC

Right. Laurel, if you think about sort of Interface and how the company has evolved, initially from a carpet -- modular carpet tile company, you added LVT, then there was the Nora acquisition. As you think about this new strategy, how do you think about your product portfolio right now? Are you contemplating within this? Maybe not initially, but at some point further into the program, adding other product categories and expanding the portfolio? Or are you satisfied with these 3 categories you have now? Maybe talk a little bit about the portfolio?

Laurel M. Hurd

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President, CEO & Director

Yes, it's a great question. I love the portfolio that we have right now. We've done a really nice job, as you said, expanding LVT. We're seeing some great success with selling the combination of carpet tile and LVT. Customers right now, especially in the office market, are really looking to add flexibility to their space. They're not quite sure what their spaces are going to look like over time, and carpet tile is a great solution to add that flexibility to their space in combination with LVT.

And then our Nora Rubber business, as you said, is fantastic. It's been a great way to diversify our portfolio and really growing nicely in the health care market. So we like what we have today. Those carpet tile, LVT and rubber are 3 core pillars of our growth long term, but we'll continue to look for opportunities as we move forward.

David Sutherland MacGregor
Longbow Research LLC

Okay. And other than strategy, just talk about sort of the longer-term CapEx plan here. You've kind of been tracking around the $30 million level. You went through the whole range project there for a few years. And it came up the other side. $18 million last year seems like it probably bounced down on the maintenance level. How capital intensive is this are you contemplating at some point as you execute the strategy, having to address capacity and make bigger investments?

Bruce A. Hausmann
VP & CFO

David, this is probably our guide. Our CapEx guide for the year is $32 million. We are in really, really nice shape around not having to invest an additional, I would say, incremental CapEx above maintenance for the foreseeable future. As you mentioned, we've done some big investments in our plants. And so the chapter that we're in is we are going to optimize and leverage those investments that we've made in the past, which is a great position to be in.

And I think if I were to to put a number in a model sort of long term, we generally think about maintenance CapEx being around 2.5% to 3% of net sales, which is pretty close to our guide. And we think that being on this maintenance CapEx program for the foreseeable future is going to be able to help us achieve our strategy and hit our goals.

David Sutherland MacGregor
Longbow Research LLC

Okay. And can you talk about your expected cash conversion in '23? I guess, working capital being the bigger variable in there. And -- and just you mentioned in passing, I think, Bruce, you made the comment that as you think about debt, you want to repay debt, that was a priority within your capital allocation. My recollection is that your debt is largely term debt. Are you talking about debt repayment and what the options might be for you there?

Bruce A. Hausmann
VP & CFO

Yes. Great question. I will start by saying we do have a balanced capital allocation strategy. However, our #1 objective is to pay down debt. And that's where we're mostly focused, especially as we enter into 2023. Followed closely behind to that is obviously investing in the business and one -- and that's -- and that's the $32-ish million that I just mentioned of CapEx and obviously, making sure that we fund initiatives that the business needs to be funded with in order to achieve its growth. And again, that's all baked into our guide.

We -- if you think about cash, I think that there's going to be some -- our cash flow should be a lot stronger in 2023 than it was in 2022. And there's 2 things that kind of -- that impacted it in 2022. One was we had inflationary inventory. And again, that was about $33 million of the inventory balance that's sitting on the balance sheet at the end of the year was all inflationary. So that was a onetime use of working capital going from 2021 to 2022.

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The other thing that's kind of interesting, I'm not sure if you heard this in our prepared remarks was that we had that cyber event in November. And so some of our billings in November shifted into December, which meant some of our cash collections shifted from 2022 to 2023. So all of that is good news for cash flow in 2023, and all of that will help us in 2023 from a cash perspective.

David Sutherland MacGregor
Longbow Research LLC

And what is achievable in terms of debt repayment? I mean you've talked about that sort of high-level terms, but I wonder if I could push you to be a little more specific about your goals there.

Bruce A. Hausmann
VP & CFO

Yes. We -- well, I think that our lever -- we think about it in terms of net leverage ratio. We would like our net leverage ratio to -- we like it when it starts in the low 2s in an environment like this, where we like the idea of getting it just below 2 as well, 2x net leverage. And that's really how we think about that number, less about the raw number of it and more about what is our net leverage ratio going to be as a corporation. .

Operator

There are no further questions at this time. I will now turn the call back over to Laurel Hurd for closing remarks.

Laurel M. Hurd
President, CEO & Director

Great. Thank you, and thanks to everyone for listening. Thanks to all of our associates around the world for all of their work every day, and thanks to all of our customers for their continued support.

Operator
This concludes today's call. You may now disconnect.

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