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Compass Diversified NYSE:CODI

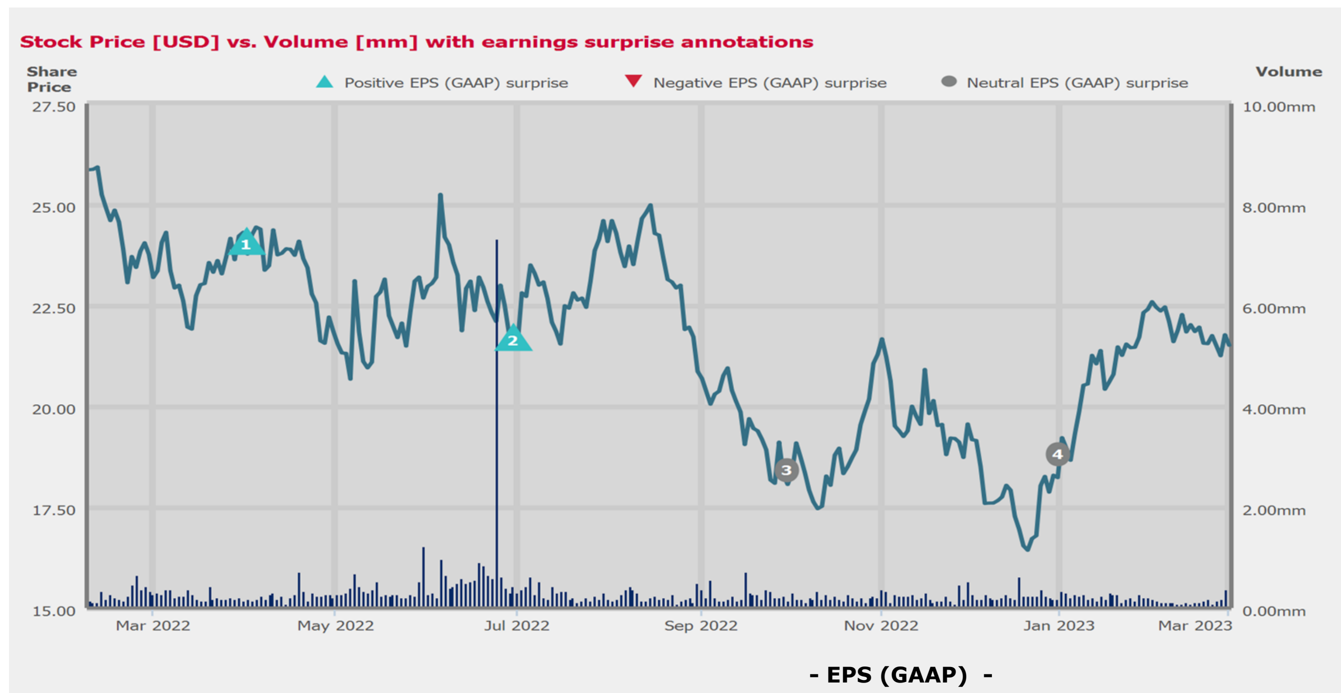
FQ4 2022 Earnings Call Transcripts

Wednesday, March 01, 2023 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	0.06	(0.17)	NM	0.18	0.90	0.51	▼(43.33 %)	0.60
Revenue (mm)	599.01	594.92	▼(0.68 %)	583.04	2242.19	2264.04	▲0.97	2433.12

Currency: USD
Consensus as of Feb-17-2023 5:09 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	0.08	0.34	▲1 325.00 %
FQ2 2022	0.11	0.38	▲2 245.45 %
FQ3 2022	0.10	(0.21)	NM
FQ4 2022	0.06	(0.17)	NM

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Cody Slach
Gateway Group, Inc.

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Presentation

Operator

Good afternoon, and welcome to the Compass Diversified's Third (sic) [Fourth] Quarter 2022 Conference Call. Today's call is being recorded. [Operator Instructions]

At this time, I would like to turn the conference over to Cody Slach of Gateway Group for introductions and the reading of the safe harbor statement. Please go ahead, sir.

Cody Slach
Gateway Group, Inc.

Thank you, and welcome to Compass Diversified's Fourth Quarter and Full Year 2022 Conference Call. Representing the company today are Elias Sabo, CODI's CEO; Ryan Faulkingham, CODI's CFO; and Pat Maciariello, COO of Compass Group Management.

Before we begin, I would like to point out that the Q4 and full year 2022 press release, including the financial tables and non-GAAP financial measures, reconciliations for adjusted EBITDA, adjusted earnings and pro forma net sales are available at the Investor Relations section on the company's website at compassdiversified.com.

The company also filed its Form 10-K with the SEC today after the market closed, which includes reconciliations of certain non-GAAP financial measures discussed on this call and is also available at the Investor Relations section of the company's website.

Please note that references to EBITDA in the following discussions refer to adjusted EBITDA as reconciled to net income or loss from continuing operations in the company's financial filings. The company does not provide a reconciliation of its full year expected 2023 adjusted earnings or adjusted EBITDA because certain significant reconciling information is not available without unreasonable efforts. Throughout this call, we will refer to Compass Diversified as CODI or the company.

Now allow me to read the following safe harbor statement. During this call, we may make certain forward-looking statements, including statements with regard to the future performance of CODI and its subsidiaries, the impact and expected timing of acquisitions and future operational plans such as ESG initiatives. Words such as believes, expects, anticipates, plans, projects and future or similar expressions are intended to identify forward-looking statements.

These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors could cause actual results to differ on a material basis from those projected in these forward-looking statements. and some of these factors are enumerated in the risk factor discussion in the Form 10-K as filed with the SEC for the quarter ended December 31, 2022, as well as in other SEC filings.

In particular, the domestic and global economic environment, supply chain, labor disruptions, inflation and rising interest rates all may have a significant impact on CODI and our subsidiary companies. Except as required by law, CODI undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

At this time, I would like to turn the call over to Elias Sabo.

Elias Joseph Sabo
Partner, CEO & Director

Good afternoon, everyone, and thanks for joining us today. I would like to start by recognizing that 2022 was a phenomenal year for CODI. Despite persistent market headwinds driven by rapidly changing monetary policy, supply chain imbalances and rising inflation, we produced record annual results.

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For the full year, our branded consumer net sales were up 14% on a pro forma basis, while the net sales of our niche industrial businesses were up 9%, helping to drive record adjusted earnings and adjusted EBITDA. These results confirm that our diversified subsidiaries, combined with expert operational and financial execution, can grow and take share even in a difficult market backdrop.

I'd like to acknowledge our recently announced divestiture of Advanced Circuits. We are proud of our partnership and success with their team, which started more than 16 years ago. CODI's permanent capital structure and support throughout this partnership has generated significant value for our shareholders, and we are grateful for their contributions and look forward to their continued success.

Jumping back to our 2022 performance. Our subsidiaries manage the various macro challenges exceptionally well, and we remain confident in their ability to continue to grow and take market share over the long term. That said, our near-term outlook is clouded by some unique cross currents. Our branded consumer subsidiaries with exposure to wholesale are experiencing significant inventory destocking headwinds. This is being driven by events that unfolded coming out of the pandemic. In the first half of 2022, we benefited from extremely high demand from customers who needed our product to help manage their own supply chain issues. With the pandemic winding down and some retailers reckoning with the fact that they overordered, it has created a whipsaw effect until inventory is rightsized.

For our brands further down the supply chain, like BOA and PrimaLoft, the destocking headwinds are exacerbated. Pat will walk through specific brand performance shortly, but I will just say that we expect the first half of 2023 to reflect lower performance from some of our companies with a reacceleration anticipated in the back half as inventory is worked through and comparisons ease.

On the other hand, we are seeing no signs of slowing demand with our companies that have material direct-to-consumer components to their business like 5.11 and Lugano. This gives us confidence that the balance sheet of the affluent customer to which we sell many of our products is healthy. More specifically, it tells us that rising wages and the continued imbalance in the labor market are more than offsetting inflation and rising borrowing costs.

Notwithstanding the difficult macro climate and inventory headwinds, we firmly believe our subsidiaries are well positioned to achieve their long-term growth targets. To demonstrate this, I'd like to highlight one of our niche industrial businesses, Arnold Magnetics, as a case study of how we improve value for our shareholders. We acquired the business in 2012 based on Arnold's technology leadership in the permanent magnet subassemblies industry and strong growth tailwinds for the use of permanent magnets to enable the clean energy transformation.

In 2016, we made the decision to replace senior management at Arnold, bringing in Dan Miller as CEO of that subsidiary. As a reminder, Arnold is a long-cycle business. And Dan was confronted with the reality of some programs going end of life, while the pipeline of new opportunities was extremely weak. Restructuring and repositioning a long-cycle business is an especially challenging situation.

Entering 2022, Arnold's strategic priorities have been successfully repositioned to focus on new end markets like aerospace and defense, among others, which match Arnold's high-end, high-margin, low-volume technical engineering and manufacturing capabilities. Arnold added a tech center to improve its products, advance its technology edge, improve its partnership with its customers and complete Arnold's transition from a product company to an engineered solutions company.

We supported Arnold's acquisition of Ramco Electric motors to offer turnkey electric motor solutions, further positioning the Arnold business for the green economy. Arnold executed well on this strategy and reported a record-breaking year for bookings and double-digit sales and EBITDA growth.

Arnold ended the year with $83 million in backlog and a book-to-bill ratio of 1.13, setting it up for another strong year in 2023. The strength of this business and the long-term runway for growth underscores the power of our diversified permanent capital model, which enables us to make long-term decisions to maximize value creation for our shareholders.

In 2022, we launched our first new vertical since coming public, entering into the health care vertical with the announcement of Kurt Roth as our leader. Kurt brings over 25 years of experience and a decade-long

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partnership with CODI, and we couldn't be more excited to have him at the helm. Since his joining, Kurt and his team have been working hard at developing a robust pipeline of M&A targets. Like other markets, deal activity has been suppressed by the macro environment, but we remain proactive and prepared for the inevitable turnaround.

Before turning the call over to Pat, I would like to summarize our performance and outlook. '22 was a record-breaking year despite unprecedented headwinds, proving the strength and durability of our subsidiaries and the power of our permanent capital structure. As we sit here today, the majority of our businesses are performing above our expectations and we believe are well positioned to achieve their growth potential. A few of our businesses are working through the inventory shock that is making its way through the marketplace in a post-pandemic world. We believe these headwinds will be short-lived and expect a recovery in the back half of the year. Our financial outlook takes into consideration these headwinds.

But the power of diversification is real and implicit in this outlook. For example, we expect our niche industrial segment to have another year of robust growth in 2023. And we expect BOA, who is currently in the crosshair of the inventory destocking headwind, to be down versus 2022 but up versus 2021, which was an extraordinary year of growth. Notwithstanding a weaker demand outlook, we are confident in our company's competitive positioning and market share growth and believe we are poised to outperform our peers.

With that, I will now turn the call over to Pat.

Patrick A. Maciariello
Partner & COO

Thanks, Elias. Throughout this presentation, when we discuss pro forma results, it will be as if we own PrimaLoft and Lugano from January 1, 2021. On a combined basis, pro forma revenue and adjusted EBITDA in both our branded consumer and our niche industrial businesses grew significantly in 2022 and exceeded our expectations. For the year, pro forma revenue grew by 12%, and pro forma adjusted EBITDA grew by 13% to $467 million. Excluding Advanced Circuits, pro forma adjusted EBITDA grew by 14% in 2022. In the fourth quarter, on a consolidated basis, pro forma revenue and adjusted EBITDA growth met our expectations, growing by 4% and 3%, respectively.

Before I get to our subsidiary results, I want to provide a high-level view of the quarter. As Elias mentioned, in Q4, several of the businesses in our consumer segment were impacted by inventory drawdowns in the supply chain, and therefore, our sales at these subsidiaries lagged end consumer demand for their products. This impact was most pronounced at our businesses who operate further down the supply chain, specifically BOA and PrimaLoft. As mentioned, we see this trend continuing in the first half of 2023. Despite the challenges in the quarter, on a consolidated basis, we were able to meet our expectations. Our subsidiary management teams once again executed well in a continuously changing environment.

Now onto our subsidiary results. I'll begin with our niche industrial businesses. For 2022, revenues increased by 9% and adjusted EBITDA increased by 8% versus 2021. Excluding Advanced Circuits, revenues increased by 10% and adjusted EBITDA increased by 11% in 2022. Driving these results were meaningful revenue and adjusted EBITDA growth from Arnold and Altor.

Arnold continued to show improving margins driven by technology investments made over the last several years and is benefiting from a shift in its sales mix towards higher growth industries focused on electrification. As we mentioned last quarter, the company comped against a very large defense-related order that benefited Q4 '21, but the company's book-to-bill ratio remains very strong, and we believe poised to continued growth in '23.

[Altor] once again had solid growth in the quarter. Gross margins improved both sequentially and versus Q4 '21, and we expect this trend to continue as raw material price pressures continue to abate and [Altor] management achieves efficiency gains.

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The Sterno Group was down slightly in the quarter and for '22. Though the company's foodservice business is benefiting from the continued return to normal levels of activities in travel and conferences. The company continued to see pressure in sales of its value-driven line of scented waxes. On a combined basis, we believe this business will be stable in '23 and likely to return to moderate growth.

Turning to our consumer businesses. For 2022, pro forma revenues increased by 14%, and pro forma adjusted EBITDA increased by 15% as compared to 2021. BOA had a very strong 22% and finished the year with 26% and 38% growth in revenue and adjusted EBITDA, respectively. For the fourth quarter, however, revenue declined slightly, and EBITDA was approximately flat due to the factors we discussed. We believe these supply chain pressures will continue in the first half of 2023, part of the company returning to growth in the back half of the year.

To put what we are seeing at BOA into context. CODI purchased the company in late 2020. And in that year, BOA grew slightly over $30 million of EBITDA. Due to significant market share gains and strong consumer demand for products incorporating BOA's technology, the company grew to over $60 million in adjusted EBITDA in 2021 and most recently, over $82 million in 2022. We believe the inventory destocking headwinds discussed will lead to a short-term decline in financial performance in 2023, we believe performance will be above 2021 levels.

We are also confident that the company will then return to growth as these pressures abate. Headwinds notwithstanding, BOA is making significant strides in market share and expansion of its technologies. Measured by model count on which BOA's products are used, the fall/winter 2023 season will see growth of close to 10%, which is expected to accelerate further in fall/winter 2024 based on initial discussions with brand partners.

In addition, we were ecstatic at the market's reception to BOA's alpine ski technology as 4 of the company's brand partners recently prelaunched Alpine ski boots integrating the BOA's system, giving skiers unprecedented fit and performance. The quantities are limited until the official launch this fall for the 2023, 2024 ski season, the excitement is significant. And we believe that with its brand partners, BOA has the opportunity to revolutionize fit in the industry.

Lugano's growth continued in the fourth quarter and for the year as both revenue and EBITDA grew by over 45% and 60%, respectively. In the quarter, we benefited from the recent openings of Lugano's Houston salon and its flagship salon at Fashion Island in Newport Beach. In addition, the company continued to benefit from increases in average transaction size. In 2023, the company will open locations in Washington, D.C. in Greenwich, Connecticut and is considering other avenues for geographic expansion and additional new flagship salons.

Marucci continued upon its strong run of quarters as sell-through and reorders of its CAT X line of bats were above expectations and the company continued growing in new markets. For the year, Marucci's revenue and EBITDA grew by 40% and 27%, respectively. Growth in margins remained strong in the quarter as supply chain-related issues continued to improve. Marucci continued to diversify its product mix and enter new markets in 2022. The company saw significant growth in its apparel and fielding gloves categories and made significant inroads geographically through opening its Japanese operations.

The 2023 represents a year without a major CAT bat launch. The company is launching several new products, and its growth in adjacent categories and geographies drives optimism for the year. 5.11 continued to buck the trend of struggling apparel brands and, in 2022, grew revenue and EBITDA by 9% and 6%, respectively. We remain proud of the company's performance in a difficult environment. In the fourth quarter, EBITDA growth outpaced revenue growth, and the company's DTC comps remained positive led by strong e-commerce sales. 5.11 is having a solid start to 2023, and we believe it will be another year of growth for the company.

Turning now to PrimaLoft. In 2022, pro forma revenue and EBITDA increased by 21% (sic) [23%] and 24%, respectively. In the fourth quarter on a pro forma basis, revenue growth grew slightly and EBITDA declined slightly from 2021 as the company's price increases did not take effect until the end of 2022 and several extraneous factors led to higher margins in Q4 of 2021. Despite facing similar challenges at BOA,

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given its position in the supply chain and inventory levels within the channel, we believe PrimaLoft will show growth this year and remain confident in the medium and long-term outlook for the business.

Velocity Outdoor continued to struggle in the fourth quarter as inventory levels at retail and its archery business remained high, and sell-through remains challenged in both segments of the business following COVID-related surges and outdoor activities. We are working diligently with management to rationalize the company's cost structure to this new environment while remaining focused on innovation. We expect a challenging first half of 2023 for this business as we proceed on this path but are confident in the outcome.

As a whole, we are very pleased with the performance of our businesses in 2022. Though the fourth quarter was challenging for several of our subsidiaries and the outlook for the first half of the year is mixed in several places, we are confident in the positioning of our businesses and the outlook for CODI.

I will now turn the call over to Ryan for additional comments on our financial results.

Ryan J. Faulkingham
Executive VP, CFO & Co-Compliance Officer

Thank you, Pat. Moving to our consolidated financial results for the quarter ended December 31, 2022. I will limit my comments largely to the overall results for CODI since the individual subsidiary results are detailed in our Form 10-K that was filed with the SEC earlier today. As a reminder, our sale of Advanced Circuits occurred in the first quarter of 2023. The ACI's results of operations are included in our fourth quarter and full year 2022 operating results. ACI will be reclassified to discontinued operations in our first quarter 2023 10-Q. In addition, our 2023 guidance discussion that I'll make shortly excludes ACI's results.

Now to our quarterly consolidated results. On a consolidated basis, Revenue for the quarter ended December 31, 2022, was $594.9 million, up 6% compared to $559.9 million for the prior year period. This year-over-year increase primarily reflects our acquisition of PrimaLoft during the third quarter of 2022. In addition, we had strong sales growth at our branded consumer subsidiaries on a combined basis.

Consolidated net loss for the fourth quarter was $11.8 million compared to net income of $25.9 million in the prior year. The decrease was primarily due to a $20.6 million impairment of our Ergobaby subsidiary in the fourth quarter and an increase in management fees and interest expense as a result of the PrimaLoft acquisition in the third quarter.

Adjusted EBITDA in the fourth quarter was $87.3 million, up 5% compared to $83.3 million in the fourth quarter of 2021. For the full year, adjusted EBITDA was $369.8 million, up 20% compared to a year ago. The increase was primarily due to the strong performance at CODI's branded consumer subsidiaries and the benefit of the PrimaLoft and Lugano acquisitions.

Adjusted earnings for the fourth quarter was in line with our expectations at $28.7 million, down from $37.1 million in the prior year quarter. This decline was primarily a result of financing costs for the acquisition of PrimaLoft in July, ahead of its seasonally slow third and fourth quarter earnings periods.

Now on to our financial outlook for 2023, which is unchanged versus the preliminary expectations we shared at our January Investor Day, however, now excludes Advanced Circuits. For the full year 2023, we expect consolidated subsidiary adjusted EBITDA to range between $420 million and $460 million, and we expect adjusted earnings to range between $105 million and $135 million. As Elias and Pat have covered well, this outlook expects a challenging first half of the year given the headwinds discussed and then a reacceleration in the second half of the year.

Turning to our balance sheet. As of December 31, 2022, we had approximately $61.3 million in cash, approximately $443 million available on our revolver, and our leverage was 3.97x. We have substantial liquidity. And as previously communicated, we have the ability to upsize our revolver capacity by an additional $250 million. Subsequent to year-end, we received approximately $170 million in net proceeds from the sale of Advanced Circuits, which we used to repay our revolver balance and reduce our leverage levels.

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With this liquidity and capital, we stand ready and able to provide our subsidiaries with the financial support they need, invest in subsidiary growth opportunities and act on compelling acquisition opportunities as they present themselves.

Turning now to cash flow. During the fourth quarter of '22, we received $11.6 million of cash flow from operations, primarily a result of strong operating performance. We used $29.2 million in working capital during the fourth quarter and continued to strategically increase inventory levels at Lugano to support near-term demand. We expect to produce strong consolidated cash conversion in 2023. Also of note during the fourth quarter, the manager waived 50% of the management fee owed by the company in respect of PrimaLoft.

And finally, turning to capital expenditures. During the fourth quarter of 2022, we incurred $24.6 million of capital expenditures of our existing subsidiaries compared to $12.6 million in the prior year period. The increase was primarily a result of the timing of retail build-outs at Lugano and 5.11 to support their continued growth. For full year of 2023, we anticipate total CapEx spend of between [$79] million and $80 million. This spend will be in line with 2022. We continue to see strong returns on invested capital at several of our growth subsidiaries and believe they will have short payback periods.

The 2023 capital expenditure spend will primarily be at Lugano for new retail salon in Washington, D.C.; and Greenwich, Connecticut; as well as expansion of its Palm Beach, Florida location. And at 5.11, as we continue to increase its retail store count from its current 117 stores.

With that, I will now turn the call back over to Elias.

Elias Joseph Sabo
Partner, CEO & Director

Thank you, Ryan. I would like to close by briefly providing an update on the M&A market and our strategic initiatives. M&A activity continues to be significantly below historical levels. We are hopeful that the M&A environment improves in the back half of 2023 if economic headwinds moderate.

On the ESG front, we continue to advance our key initiatives, and we're excited to announce that in the fourth quarter, we implemented a customized ESG technology platform for data collection, which will enable us to consider setting time-bound targets in the future. In fact, we are already preparing to collect Scope 1 and 2 emissions data for our subsidiaries. This will aid in the continued advancement of our ESG platform and ensure we are tracking the necessary metrics in order to regularly improve our ESG strategy. We also publicly released our corporate citizenship statement on our website, which provides shareholders' access to information on our ESG approach and a summary of our policy.

In conclusion, we're proud of our '22 results, which were significantly ahead of our expectations despite a challenging macro backdrop. I'd like to thank our management teams and employees for their continued commitment to success.
With that, operator, please open up the lines for Q&A.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Cris Kennedy from William Blair.

Cristopher David Kennedy
William Blair & Company L.L.C., Research Division

It's clear the first half will be a little bit more challenging relative to the second half. Can you give us an update on kind of trends quarter-to-date and how we should think about first half performance relative to the second half if you can?

Elias Joseph Sabo
Partner, CEO & Director

Sure, Cris, and thank you for the question. Yes, I mean it's apparent to us that the first half is going to be difficult, and it really is due to inventory destocking. I mean what we're hearing in the companies that are having the biggest challenge, BOA and PrimaLoft, is that our product in the end market are actually selling really well.

And so I think as we tried to highlight, '22 was abnormal in the first half due to the supply chain issues that caused an overordering throughout the end of '21 and then a fulfillment in '22. So if you think about it, we're comping against a really kind of high level in '22. And then we have to burn off some of this inventory, and I think it's masking some of the -- kind of the positioning within the companies that is just much better. And Pat alluded to BOA, for example, where our model count growth is up kind of north of 10%. That should be the best indicator of kind of growth and market share taking, but the inventory headwinds are just so steep here and significant that it's going to create some headwinds.

So I would say initial trends in read that we're seeing, frankly, outside of the kind of probably BOA and PrimaLoft to some degree, I would say the business is actually performing better in the first 2 months than we would have anticipated. And if you look kind of from where we were at Investor Day to today, the companies that have direct-to-consumer exposure, I can tell you, 5.11 and Lugano both feel better right now than they did at Investor Day. And beyond that, you got companies like Marucci and our entire industrial businesses, all 3 of them, those businesses feel really good, too.

So on kind of the whole, most of our businesses are actually performing better than expectation and what we fell, I don't know, a little over a month ago at Investor Day. On the other hand, I would say the severity of the inventory headwinds, especially for a company like BOA, which sits so far down the supply chain. And if you think about it, take a retailer, they have excess product so they don't order from the shoe manufacturer, so now that stocks up kind of product with our customer. And then our customer has to bleed-through not only the retailer getting back to ordering, but then they got to get through their inventory to reorder.

So we think it's going to be a little bit more elongated in terms of how long it takes to work through this, but it's nothing structurally that's a problem with the company. In fact, if anything, the company is better positioned today. And we look at Alpine, which we just launched. And we had 1 brand partner, which said, this is the biggest thing to hit the Alpine market in 60 years. And so we think this is revolutionary, and that's kind of some of the things that BOA is working on. I mean the management execution is an A+, and these are just straight market kind of conditions that are causing this from inventory build.

To specifically answer your question, I think we would see the first half trending down -- or at least in the first quarter, we see it trending down kind of high single digits to kind of low double digits. But as Ryan had indicated, we see that turning around. So I would say we expect the first quarter to be the worst quarter for comparisons for us. We expect the second quarter to be down, but not down as much. And then we would expect a reversal, and to be able to make up for any of the headwinds that we have from the first half to be made up in the second half.

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And again, I would say what we're seeing in terms of consumer strength in our direct-to-consumer and what we're hearing from a lot of our partners in terms of our product sell-through gives us confidence that once this inventory destocking is completed that we should be reverting back to our normalized growth rate.

Cristopher David Kennedy
William Blair & Company L.L.C., Research Division

Yes. That's very helpful. And then just a quick update on the health care initiative, please.

Elias Joseph Sabo
Partner, CEO & Director

Sure. So Kurt is here, he's engaged working with our team members to kind of create a plan for our health care vertical. A lot of kind of legwork is being done right now, meeting with investment bankers and other intermediaries that are active in the deal market. Kind of some of the proprietary opportunities that we have through Kurt are also being explored right now and trying to push those forward. So I would say a lot of legwork is being done to establish that vertical and establish our name in the vertical.

I'd say a huge positive for us is a lot of the investment banks that work within the health care space are also banks that are active in consumer and industrial, and we have great relationships across those banks. And so we have not been in health care before. Obviously, that's a disadvantage. But given the relationships with these influential banks through our consumer and through our industrial practices, it gives us instant credibility in those markets.

So there's a robust pipeline that is being built right now of potential target companies. As Pat said or I might have said -- one of us said, the M&A market is really weak right now, including in health care. I mean, unfortunately, the markets are kind of seized up across kind of all categories. Health care may be a little bit better than something like consumer and industrial. But in general, the whole market is just incredibly weak. So right now, we think the best thing is continuing to do the legwork, continuing to build a pipeline of opportunities that we think are coming to market later in the year and starting to reach out and make preliminary contacts so that we can tee up some opportunities for later in the year and into '24.

Operator

Your next question comes from the line of Larry Solow from CJS Securities.

Lawrence Scott Solow
CJS Securities, Inc.

Elias, just a follow-up on the acquisition question. In terms of -- I know you guys don't have like a target leverage. But still, you're a little bit levered versus historical numbers, a little 4x. Wouldn't you probably kind of want to weigh it out a little bit and maybe some opportunistic small acquisitions? But would you be in a position today to really do a large acquisition earlier this year anyhow?

Elias Joseph Sabo
Partner, CEO & Director

Yes. I think, Larry, the good news is there's not a lot of opportunities to transact again. So I don't think it creates a problem for us right now because the pipeline is just so weak on new M&A opportunities. We are upward -- towards as of 12/31, we were at the upper bounds of kind of -- beyond the upper bound of where we want to be in terms of leverage. That is, as you know, can move up and down. And remember, we did sell Advanced Circuits. And so what's not included in that number is the proceeds and the application of that $170 million towards the repayment of debt. And so we deleverage by virtue of that.

And then we expect to create a significant amount of cash conversion, as Ryan alluded to in his section. We had to build a lot of inventory and over the course of '21 and '22, and our working capital really exploded. Now we have, by and large, slowed our inventory purchases. And so it's kind of ironic. What we're talking about broadly in the market is these inventory destocking headwinds are hitting us, but

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we're doing the same thing, and we're monetizing our inventory and hitting our vendors with the same type of destocking, right?

So it is going to -- I mean I'm sure you guys are hearing this from most of the companies that you're talking to, but we will be kind of monetizing a bunch of our inventory. Now the problem is when you go through something like this, we've had inventory that's flowing in. We have inventory that took a while to get through the port. We saw our inventory, and the first thing that happens is we pay off some of our payables and our accrued expenses come down.

So working capital actually rises in the beginning. But then we expect to have a flood of cash as we monetize inventory, and we get through that cash conversion cycle. And eventually, when we normal -- get back to a normal buying, we'll get our AP and accrues back up. And I know it might be a little bit too granular, but it's how the cash conversion cycle works.

And so right now, I would say we're at peak working capital, and we expect to have a significant amount of liquidity come in as a result of free cash flow from operations based on our '23 plan, plus what we expect from working capital monetization. So we have what we think is kind of all the ingredients for deleveraging in place. And as a result of that, if there were to be an acquisition that was incredibly interesting, we feel that we would be able to act on it. But as you opened up with your statement, the market is so weak right now. It's not an issue that we really have to even deal with.

Lawrence Scott Solow
CJS Securities, Inc.

Got it. And then just on the guidance. You shared with us 6 weeks ago, I think, about 6 weeks ago, that the supply concerns, inventory concerns in the front half. And you also, I think, included in your outlook, you kind of built in continued sort of slowdown in the economy, maybe even a recession in the back half of the year, a shallow one, I think, you kind of were hoping for. It feels now like -- well, that could still happen, but it feels like perhaps you guys don't -- maybe are not as concerned about the economic impact on your company.

So maybe it's just more of that supply inventory issue in the front half and then more of a rebound in the back half. I'm just trying to get a little more clarity on that. And then also normally, BOA and more -- PrimaLoft are much more front-end loaded, but they're kind of facing a little bit more challenges in that front end. Would they be a little bit less front-end loaded this year because of that? So it's kind of a two-pronged question.

Elias Joseph Sabo
Partner, CEO & Director

Yes. So I'll answer the first, and I'll ask Pat to answer the BOA and PrimaLoft question on seasonality. In terms of -- really, it's sort of a macroeconomic kind of outlook, I think, in terms of is it a recession that's coming and what do we look at. We don't see any signs of it. And I think we're in conditions that we've largely never seen before. We have an employment market where demand for labor dramatically exceeds supply of labor. And every month that we go through thinking, these kind of rapid increases in monetary policy is going to push inflation down significantly.

While it has on the good side. But if you pull inflation apart, it's not doing a lot on the service side because labor inflation is continuing to run at a pretty high level. And so as we look at it today, we would say from a macro standpoint in the U.S., we still have a lot of savings that got transferred during the pandemic, right? There was something like $6 trillion that got printed and kind of pumped into the economy. And so that really fattened consumers' savings. And we may be whittling it down. But if you look at the graph, it's still higher than it was pre the start of the pandemic. So savings are still a net positive.

You have jobs creation that is at really an unprecedented level right now, and the demand for labor is so high. It's been my experience over time that when a consumer has money and they have a job and they have mobility to go to another job, they spend. And so, I think, there are impacts like inflation, which is coming down on the good side. So that actually is positive, right? And there's kind of tighter monetary

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policy. So financing costs are going up. But a lot of mortgages were locked in, and a lot of them are not floating right now.

So the ingredients for consumer spending still feels really, really healthy. And I know we skew more towards an affluent customer, but we're not seeing a slowdown. And I know that you would say, "Well, but you're expecting to be down kind of high double -- high single digits to double digit in EBITDA in the first half." That's strictly inventory because the companies that are driving that are not suffering from end market demand, at least from what we're hearing from kind of our customers' customers.

So we feel really good, Larry, that conditions are not present for a recession. Now if anything, I would say I might feel that interest rates have more to go than what the market is predicting because it's hard for us to see inflation coming down significantly from here, given that labor demand remained so strong, and wage growth is still running 5% plus. I think that's generally consistent with inflationary conditions. And as long as JOLTS keeps coming out with 10 million and 11 million prints compared to a historical norm of 6 million or 7 million it just demonstrates the kind of power that the labor kind of has today in this market. And so I think that's a nice tailwind for the rest of the year.

I would also say when you look internationally, we are now getting China, which was comping against kind of zero-COVID policy and kind of shutdowns that were periodically running through the country. When that happens in China, it impacts Asia dramatically. And so now that China has reopened, we're seeing strength in some of our international operations, where we have Asian kind of distribution, and that's likely a positive tailwind to global growth.

And as you know, Europe last year, after Russia invaded Ukraine, dealt with inflation that was 4 to 5x higher than us. And in energy inflation, that was an order of magnitude higher than what we were dealing with. And that really hammered the consumer over there. So I know there's still a war going on, but their inflation is coming down, and we took a very difficult kind of dose of medicine in Europe in 2022. And now 2023, if anything, has upside from the severity of the drop in '22.

So from where I sit, I would tell you, Larry, it feels better in terms of end market sales and the economy through the rest of this year. Now that may not bode well for '24 if interest rates have to go up significantly higher, but I think that's something that the Fed and economists will generally have to kind of think about and plan out for us. And where we're looking for '23, things feel relatively robust. And so I think when we get through this inventory destocking, there's nothing that makes us feel like our core growth rate or even exceeding our core growth rate isn't possible kind of given some of the dynamics that exists within the consumer today.

Lawrence Scott Solow
CJS Securities, Inc.

I appreciate that.

Patrick A. Maciariello
Partner & COO

On BOA, last year, they were front-end loaded, a little bit maybe in '21, but not historically as front-end loaded as that. And I think clearly, they will be more back-end loaded this year than last year and probably than '21. Just...

Lawrence Scott Solow
CJS Securities, Inc.

How about PrimaLoft which is usually -- I believe, at least last year was much more front-end loaded.

Patrick A. Maciariello
Partner & COO

PrimaLoft will still be much stronger in the front end than in the back end. What's happening is our end -- or our customers are ordering the products later and later because they don't have the supply chain worries that they did a year ago or even 2 years ago. And so we may get a little bleed -- a little more

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bleed into Q3. And Q3 may be proportionately a little bit bigger than typical, but it will still be a largely front-end business.

Lawrence Scott Solow
CJS Securities, Inc.

Okay. If I can just slip one more question. Just from a simplistic level, the EBITDA is dropping $470 million to $440 million. That's mostly on the sale of ACI. How come the -- on the adjusted net income goes from $160 million to $120 million. I mean, I guess it's the ACI EBITDA, is that little taxed and then there's the higher interest expense? But don't you also get back some interest expense on the sale of ACI and you had PrimaLoft for full year this year? So I'm just trying to connect those 2 dots -- those dots.

Ryan J. Faulkingham
Executive VP, CFO & Co-Compliance Officer

Yes. No, Larry, you're right. It's come down. The numbers you highlighted are accurate. And you're correct, the sale of ACI which was a pretty good adjusted earnings contributor just given that business model. But yes, it's primarily interest costs, right? We've got -- at year-end, we had the $395 million of Term A, plus the $155 million revolver. All floating, right? You've seen that rate go from, right, roughly 1%, call it 0% 1.5 years ago to now over 4%. So that's meaningful to adjusted earnings. So no slowdown, I'd say, in general, in terms of operating opportunity from the businesses, it's really corporate costs that's overlaying there.

Lawrence Scott Solow
CJS Securities, Inc.

So it's really that $20 million interest plus the sale of ACI, I guess, is really what's...

Ryan J. Faulkingham
Executive VP, CFO & Co-Compliance Officer

Correct. [indiscernible].

Operator

Your next question comes from the line of Matt Koranda with -- from ROTH.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

So I just wanted to make sure I understood the inventory destocking commentary more specifically. So it sounds like it may be more acute with OEMs versus retailers, but wanted to see if you could parse that out for us. And then also, just it sounds like you're signaling destocking cycle goes in the first half, but then we should pick up in the back half of the year. Just any data points on your comfort that things can get better in the second half? What are you seeing in terms of the order books maybe that give you comfort there? That's my first question.

Patrick A. Maciariello
Partner & COO

Yes. Just I'll answer real quickly on your sort of inventory level question. It varies geography by geography. So in Asia, for example, there is inventory at retailers as people have been locked up -- excuse me, as people have been in their homes and not out and about quite as much as -- due to COVID. I think it's probably less at the retailers in North America, and my guess would be somewhere in between in Europe. So I'll just answer that. And then I'll let Elias answer your other question, Matt.

Elias Joseph Sabo
Partner, CEO & Director

Yes. And your other question about what gives us confidence, Matt, going into the back half of the year that things are going to improve, I mean if we look at where the consumer at least, again, if we go back to

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our DTC businesses, right, where we have a big presence, Lugano is all direct-to-consumer and then 5.11. And we look at the sales that both of those companies are generating, and then we look at a company like Marucci and how well their sell-through is doing. We look at our industrial businesses, which had a great '22 and, frankly, have come out in January even stronger than where they finished in 2022. And so that encompasses right there 5 of our businesses, and they are incredibly strong.

And outside of that, Ergo is doing fine right now, and we could go through some of the other businesses. Principally where we're seeing some weakening demand is kind of at Velocity. And Velocity had a pandemic run-up that more than doubled earnings. And as you know, when companies go through cycles that have sort of a boom and bust characteristic to them, the down cycle, unfortunately, it's like a pendulum of a clock. They don't ever stop right in the middle. So we had a boom cycle, and now the bust cycle is kind of taking it past where mid-cycle is. That's the one company that we have right now where we would look and say, end market demand does not feel good.

Outside of that, we have 9 businesses where end market demand feels good. Now we have to trust our customers, and we have to trust our customers know their customers, in some cases, like at BOA and at PrimaLoft. But given how robust everything feels outside of really Velocity and then kind of BOA with kind of the inventory destocking, it just leads us to believe that there's more strength in the economy, and there's more strength in the consumer than what we had forecasted. And so if anything, I would say, we may be a little bit conservative in the back half as we stand right now and incorporate it into our guidance based on how things are running.

How things are running right now, Matt, would imply a better back half than what we've built in, and so that inherently suggests that we have built in some economic softness into the back half from where we stand today. So we do feel that when we get through this, things are going to revert to feeling pretty good in the back half. And generally, as you know, economies, unless there's some extraneous events, don't really turn on a dime. And so it's -- I don't think we're looking at the economy just falling off a cliff next month or the month after. And so where we sit today, it feels like '23 from a GDP standpoint could be better than what we anticipated a month ago.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. Super helpful detail. And then on -- just more specifically on Lugano. I'm curious how you guys are contemplating growth in Lugano in 2023 within the framework of your guidance that you've given. I mean it just looks like it continues to grow pretty aggressively, and the margins are coming in well ahead of at least our expectations. It seems like -- and based on your commentary during the call so far, it sounds like that consumer is just super healthy. So just curious how you're thinking about the growth of that segment in '23.

Elias Joseph Sabo
Partner, CEO & Director

Yes. We generally like to be conservative. It's hard for us to own a company that's not hard. We love owning a company that grows 50% a year. But it's hard for us to forecast that, that will continue. And so there's nothing right now, Matt, in the first 2 months that suggests that, that isn't the case. Pat can speak to the January and February results and how they were relative to last year. What we embedded in our guidance is that Lugano would come down materially from the growth levels that we had in '22, but still be a good, strong double-digit grower. Now Pat, in January and February. I think...

Patrick A. Maciariello
Partner & COO

Very strong. February is coming -- beginning of the year is fine is in line with exactly what Elias was saying, is now a little better.

Elias Joseph Sabo
Partner, CEO & Director

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Yes. So there's been no slowdown, Matt. And that business in January, February from where we exited '22 and what the Q4 year-over-year was. But again, we just -- we would rather be conservative and plan for that business to grow, but grow at a more reasonable rate and then overdeliver and have that help carry our results going forward.

Matthew Butler Koranda
ROTH MKM Partners, LLC, Research Division

Okay. Makes sense. And then just last one from me. $170 million in proceeds from ACI divestiture. Just if you could put a finer point on how much debt repaid after sort of fees. What does that do to pro forma net leverage kind of post debt pay down? And then just you mentioned on the working capital front, like plenty of opportunity to flush inventory. I think that's maybe underappreciated among the investment community. So maybe just if you could help us kind of shape up the potential inventory flush that you have this year and how much that contributes to cash and where perhaps that leverage could shake out by the end of this year.

Ryan J. Faulkingham
Executive VP, CFO & Co-Compliance Officer

Yes, sure. Matt, happy to assist with that. Yes. So the $170 million proceeds, we used to pay down revolver as we mentioned, and there is a profit allocation payment that will be made on that gain. So that will be net against that, and that amount is not calculated yet. It's in process. So yes, a couple of tenths of a turn essentially is the effect of that, and you can kind of do the math on what those proceeds would do to our leverage.

And we highlighted -- so to your second question, we highlighted at Investor Day the retained cash that we have in the system now. And 2023, we expect to be at or above 2022 levels. And we had said in the Investor Day deck that we had just about $75 million of retained cash pre-working capital. So as we think about that amount next year, and then as Elias highlighted, some of our working capital coming back in, it sort of implies north of $75 million.

Now as I think about inventory levels, we had used last year about $200 million throughout the year of working capital. A good portion of that was inventory. Some of that, though, was to support Lugano. And as Lugano continues to grow, as we hope it will, that business will still need some inventory. So we don't see that inventory coming back. Some of that inventory was just needed to support the 14% growth we had last year. But then there's another roughly 1/3 of that that's excess, and that's what we expect in addition to the retained cash I mentioned that will come back into the system.

So hard to put dollars on that for you, but I think a good reasonable amount would be to assume same level of retained cash. Hopefully, no working capital build next year, and then roughly 1/3 of last year's inventory use coming back as cash conversion in '23.

Operator

Your next question comes from the line of Robert Dodd from Raymond James.

Robert James Dodd
Raymond James & Associates, Inc., Research Division

And some of these questions has partially been answered, I think. But on -- particularly on BOA, as you look into the expectation of a rebound in the second half of the year, when -- and you talked about the sell-through of the end products is there, et cetera.

But when would you need to be getting -- booking the orders, not necessarily [indiscernible] but when would firm orders need to be coming in for that to be actually manifesting in terms of the second half inbound? And how much visibility -- I mean you talked about the visibility and the expectation. But when would you know, if I put in a different way, that it's actually going to happen?

Patrick A. Maciariello
Partner & COO

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Yes, the short answer is that our Q1 earnings call, we'll have a pretty good picture on kind of the beginning of how Q2 is trending. It varies industry by industry on sort of who's taking the orders. But there is a good, usually, 4, 6, 8 weeks in that sort of lag, in that sort of time frame, right? So we'll have a better picture if what we believe is being confirmed sort of at the end of our Q1. We'll have a little bit of a picture sort of at our Q1 earnings call.

I would say, though, that part of comfort comes from what we're also hearing from our OEM partners about inventory, if that makes sense and about sell-throughs and what we're seeing in terms of model count, right? So there's there are several different factors that play into Elias' and my confidence in that statement.

Elias Joseph Sabo
Partner, CEO & Director

And Robert, we can take the backlog -- we take orders 4 to 6 weeks out is when we can take an order and still ship it. So it's -- I would say it's not a business where you have like a 3- or a 4-month kind of lead time. It's a lot shorter than that. It's a monthly time. So in -- we won't be able to tell definitively kind of the back half likely until we're in June, July, and we're starting to get kind of trends for what the third quarter bookings are going to look like and what we can ship against that. Probably by July, we'll have a pretty good read on that, about the third quarter, and that will inform a lot from a trend standpoint where the fourth quarter is.

I will tell you that as the first quarter has gone on, bookings have gotten better. January was incredibly slow. February is not great, but it's not awful. And so there's been a general pickup that we've seen already starting to happen. And it can -- like, the depth of kind of the drawdown that we're seeing in Q1 might actually work to kind of recover -- have this business recover more quickly. It could be in Q2. We just aren't at a point where we're going to see that yet, given the short-term nature of how quickly we can fulfill an order.

Robert James Dodd
Raymond James & Associates, Inc., Research Division

Got it. Got it. I really appreciate the extensive color. The second one, and you probably just answered this in the previous answer. Lugano, I mean it was, I think, the biggest -- one of the biggest contributors to working capital build in '22. To be clear, I mean you talked about you're still investing. Has there been any change? Or is it the fact that you're only currently scheduled to open 2 stores -- salons, sorry.

Patrick A. Maciariello
Partner & COO

I mean we're going to build as we grow working capital. I want to remind you that this working capital is not widgets that if you had to sell, you'd sell it cents on the dollar, right? We're selling the closest [thing worth] in our -- our inventory is made up of the closest thing to money that you have, right, and sort of gold and diamonds and other fine stones, right? But the short answer is we'll continue to build...

Robert James Dodd
Raymond James & Associates, Inc., Research Division

It's been really good. So -- that's the question, is it's still going to be heavily invested in because the return on the growth at Lugano has been, let's just say quite...

Elias Joseph Sabo
Partner, CEO & Director

Yes. Robert, yes. The answer is yes. I would tell you, and I mentioned this earlier, we have planned for a much more conservative growth plan with Lugano, and that has embedded in the overall guidance of the company. They're currently running dramatically ahead of where our growth plan would be so -- and what we've embedded in our guidance. That requires us to invest capital.

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What we've seen and what we experienced over the course of our ownership is that if we invest $1 in inventory, that yields about an additional dollar of revenue. And that's sort of an incremental 40% margin, right, EBITDA margin. And as long as that trend continues, and we're able to get a 40% pretax return on invested capital on that inventory, we're going to continue to do it because we can't find opportunities like that very often to deploy our capital into.

So the question will -- and what we look at on, frankly, a weekly and monthly basis is, are inventory investments continuing to yield the sales growth and are the relationships remaining consistent? And so far they are and they have over the course of our ownership. So we will continue to invest in the growth of Lugano. And so right now, our forecast is that we're not going to put a lot of capital in, and there's not going to be kind of a huge amount of EBITDA growth.

I think we'll all be happy if instead of having to invest $30 million or $40 million of inventory, we have to invest $100 million because the incremental $60 million or $70 million probably generated another $20 million to $25 million of EBITDA. And that's kind of how we look at it. And, I think, to the extent we can continue to invest more in inventory, it will help us exceed our financial forecast, and it could mean on a -- at a meaningful level.

Robert James Dodd
Raymond James & Associates, Inc., Research Division

Right. And so to nail that, the embedded Lugano assumptions are subject to -- from a greater number of the budget and revisions probably upwards output during the course of the year than say the other businesses. Is that a way of putting it?

Elias Joseph Sabo
Partner, CEO & Director

I think based on current trends, Lugano has the most probable -- or highest probability of upward revisions going forward based on what we've seen in January and February to our current plan.

Operator

Your next question comes from the line of Matthew Howlett from B. Riley.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

First, just the [share up] on the $1 billion 2028 long-term target, that still contemplates about a 10% long-term growth rate of the company. You're still good with that? That's going forward still go with long-term growth trajectory of the subsidiaries?

Elias Joseph Sabo
Partner, CEO & Director

Yes. I mean, Matt, if there's anything, and it's one of the things I wanted to point out with Arnold, the purpose of doing that is -- was really to suggest that the positioning of our companies is so much better today than it's been in prior years. And some companies that even were difficult, like Arnold to turn around, I mean I ought to, again, complement Dan Miller and the management team, they took something that was a very difficult situation and have created a really incredible company with a lot of legs and a lot of growth.

And it's positioned in the perfect part of the economy, right? Electrification. And we know that the green economy is something that -- regardless of what happens in the macroeconomics, global macroeconomic picture, the green economy is still going to grow, and it's still going to drive growth.

And so I use that as one example, but I could go across the board. Altor and the management team that we have in there, Terry and his team are doing incredible things to drive efficiency and to grow margin and to grow revenues, and we're seeing it. And I could go across pretty much every one of our companies and tell you that they are better positioned today even if they're suffering a headwind. I mean Pat mentioned

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it. BOA is going to grow their model count by over 10% this year compared to last year. They are taking market share.

So we can't really like -- if I look at everything that's happening and I look at the management and the execution that's going on, there's nothing that suggests that our long-term growth rate would be any different than what we suggested. And in fact, if anything, it's probably higher probability of achieving to exceed right now.

On the other -- on top of that, as you guys know, Advanced Circuits was a great company, but it did not grow. It was materially below our consolidated growth rate. So just by virtue of removing a company whose growth rate was kind of GDP or a little less than GDP and were kind of high single digit to low double-digit grower, that is accretive to growth. So there is nothing. Obviously, nobody likes to go through conditions like we're going through.

And trust me, no one in our firm is kind of happy we're doing this, but I don't know what we could do differently other than maybe next year -- or last year, not supplying our customers so that the comps were easier. But if you think about what's happening and how our management teams are executing, they are executing at an extraordinary level. And I think when we get through this destocking, we're going to see our core growth at least be at the levels we've outlined to you.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

Yes, you're right. The strong -- the comps just throw everything off. I mean this huge year in '21. So absolutely I recognize and I appreciate that. It's a great target, and I guess that falls on to the question. You guys are long-term holders. That's one of the beauties of the structure. I mean the bankers, the conversations you have with bankers today about your portfolio, you were very close to an IPO in 5.11 before it shut. If things do rebound in the second half, I mean are you being approached that maybe there could be a window, maybe there's a stack out there that's how you are presenting.

Could you like to get rid of -- sell some of the smaller stuff out there? I mean what can we -- in terms of that, could we expect something? Would you want to give current head start, more capital? You could buy back stock, a little more stock? Talk to me about what the bankers are saying and what your appetite is to maybe approach the ample markets in the back half of the year.

Patrick A. Maciariello
Partner & COO

So I mean, Elias has said many times that many of our businesses are for sale. It's all a matter of price. And so -- but we're not actively going out. We don't have plans to actively go out and market any business this year at all. On the 5.11 side, I would say to the extent the IPO market opens next year, never say never. The company has got a great management team, and they're executing well, and it's one of the most powerful brands we've ever been associated with if that makes sense. So those would -- that would be how I would answer both of those. Elias, what would you ask?

Elias Joseph Sabo
Partner, CEO & Director

Yes. Matt, bankers, we constantly are talking to bankers, as you would anticipate. And about the market, the capital markets have been dead. I think -- correct me if I'm wrong, Pat, but I don't think there was a single consumer IPO in 2022. And I think in the first quarter, we're not going to see one.

So it is incredible that we've gone this long with the IPO market being shut as it is. But given what's happened in the overall market and the uncertainty in the macro picture and kind of the Federal Reserve being as tight as it is, it's not surprising that the capital markets are closed.

As I've talked to my team, and just to remind us, the sun always comes up. May take a little bit longer, but the sun will eventually come up a day. Again, there will be a day where capital markets open up again, where the M&A markets open up again. We just happen to be in a period where the sun isn't rising as quickly as we'd all like it. But these things don't shut forever.

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And I would anticipate that kind of as we work our way through this year and into next year, even if macro conditions don't change, at some point, the markets will open up because they've been on pause for so long, there's a need for new supply to come in. And so it feels like we're probably going to work our way through that here in the next kind of few quarters.

And I think to the extent that the markets are open to high-quality companies and giving decent value -- kind of good valuations to high-quality companies, and 5.11 is a very high-quality company, then we would consider, like we did a couple of years ago, taking that company public and having a piece of that be floated in the public market and their capital requirements being funded by their -- the public investors.

So I think we have to just wait and see where it is. I can tell you that company is very much a public-ready company. And its performance relative to other companies in the apparel space over a really difficult time, as Pat indicated earlier, I think does nothing other than enhance its attractiveness to public investors.

Because when other companies are seeing huge pressure on revenue growth in the apparel space on margins, we're able to generate almost double-digit revenue growth and had only a small amount of deleveraging. I mean it was 9% revenue growth and 6% EBITDA growth last year.

So it's extraordinary considering the conditions, and I think it really helps to kind of tie a bow on how differentiated this company is and how strong this company is. And so I think when the market opens up, it probably is more attractive to public investors than it was even a couple of years ago when we approached the market last time.

Matthew Philip Howlett
B. Riley Securities, Inc., Research Division

I really appreciate that, and we'll be certainly watching by that because the price talk was very high for that. It would be great to be able to monetize some of that. I guess that leads me to the last question. I mean you guys are shareholder-friendly. You're trading at 10, 11x. Your all your portfolio companies could be worked a lot more then. What's the appetite to repurchase stock? You obviously didn't put the program in there if you didn't think the stock was undervalued. If you get some of this cash conversion, what's the -- and obviously with this paydown from Advanced Circuits. What's the appetite to return capital via share repurchases?

Elias Joseph Sabo
Partner, CEO & Director

Yes. I mean, as you know, Matt, we already returned a decent amount of capital through our annual dividend. But as you said, the stock price is so attractive today that it warrants us having a buyback in place. And so we put it in place because we are absolutely prepared to act on it. As all these buybacks are, they are kind of scaled generally against where the price is in the marketplace.

And our view is if investors have such a short-term nature, where they're looking at a quarter or 2 of results against what the long term is, then we'll advantage our long-term holders by buying back their shares because there's nothing fundamentally that has impaired any of these businesses. These businesses are better positioned than they were a year ago, and we were trading kind of in the low 30s.

So if investors want to sell shares to us on -- for the benefit of our long-term shareholders to accrete more value over time to them, then we'll take advantage of that on their behalf. But ultimately, we are a young growth company, and we would like to use our capital to facilitate growth through acquisition and investment in our subsidiaries.

So there is the reality of capital allocation that we constantly are looking at. But with our stock down here in the kind of low 20s, it's just hard for us not to look and say this is the best opportunity for our shareholders to deploy our capital against buying it back.

And that may be a temporary condition. We would hope so because we hope our stock kind of rebounds and kind of reflects the value and the intrinsic value of these companies and the efforts that we're putting

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in. But in the near term, sometimes dislocations happen, and you're able to take advantage of that for your long-term shareholders, and we're prepared to do that.

Operator

Your next question comes from the line of Barry Haimes from Sage Asset Management.

Barry George Haimes
Sage Asset Management, LLC

I had 2 questions. The first one is you guys talked about some of the macro issues, the consumer doing better and the tight labor market. But the flip side of that is the upward pressure on inflation and rates. And so the question is, how are you thinking about your debt and whether you want to try to raise more long-term debt or not? Obviously, the 10-year yield moved down, now it's moved back up a little bit. So I'm just kind of curious how you're thinking about kind of long-term debt capital.

And then the second question on Lugano. That was great feedback on the return on inventory. But I'm curious, since you're opening a couple of new locations, I imagine you've looked at lots of potential locations. How many locations do you think are potentially Lugano locations over the next 3 to 5 years? And what sort of ROIC do you get on a new location? And how long does it take for that new location to get to more of a steady state? Is it a 12-, 18-month thing or a 2- or 3-year thing? So any color on those 2 would be great.

Elias Joseph Sabo
Partner, CEO & Director

Yes. Thank you for the question. And your first question, remember, the vast majority of our debt is locked into the late '20s. And so I think, Ryan, correct me if I'm wrong, it's like '28 and 2030 when our...

Ryan J. Faulkingham
Executive VP, CFO & Co-Compliance Officer

['29 and '32.]

Elias Joseph Sabo
Partner, CEO & Director

Okay. So even longer, '29 and '32. We have 5% and 5.25%, respectively, fixed rate bonds in the marketplace, $1.3 billion of the $1.7 billion. That roughly is outstanding. As you know, we had a kind of $400 million term loan. We had revolver borrowings that were outstanding, but we paid off our revolver borrowings with the proceeds from ACI. So $400 million on $1.7 billion is 23%. We have 76% of our debt that is fixed right now, 23% that's floating.

Clearly, we would rather have 100% that was fixed right now. But if we were to enter the market, and we could, and we talked to our bond investors who have appetite if we wanted to term out that debt, and we have talked to bankers who have given us price talk. The problem is it is kind of a couple few hundred basis points more than what we are paying currently.

And that's just -- you could look at market pricing of our bonds right now trading in the, I think, low 80s. And it kind of indicates a yield to worst that's 200, 300 basis points higher than where we issued our last debt tranches.

So I think rather than going out and terming that debt right now, we'd rather sit with kind of the secured capacity being utilized at a very small level. Remember, it's only 1 turn of secured debt, less than a turn of secured debt. So from a financial covenant standpoint, we have availability. We have liquidity. We have no covenant pressure whatsoever.

Now obviously, if rates continue to rise, it's going to put some upward pressure on that $400 million. But I think it's still -- we'd have to consider a pretty big increase in rates happening from here until the rate picture stabilizes in order to have it make sense to have that $400 million tranched out right now.

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I think -- we think it probably makes a little bit more sense to be patient right now with that. And if the interest rate picture stabilizes later in the year and the bond market starts to recover and we can do a primary issuance kind of closer to where we priced our last bonds, it's not going to be at 5% or 5.25%.

But I think if we were able to kind of narrow that spread down to 100 or 150 basis points and be in the 6s, that would start to look interesting to us to free up the secured capacity. But I think for right now, we feel pretty good having roughly 75% of our debt kind of fixed in our capital structure. Pat, do you want to talk about Lugano?

Patrick A. Maciariello
Partner & COO

I'll just say, and I'm going to give you a wholly unsatisfactory answer, and I apologize, but that is it depends, and I'll give you some factors around that. The payback on some stores is very fast. In -- when we open in Houston, and we have a lot of clientele in that area already, it's definitely under 12 months. When we open in a Greenfield, if we open internationally, if we have an international location opened in '24, that may take a little bit longer to see.

On the inventory question, it's not formulaic. And it's not as if company has X on sales, they're opening Y salons if they open up one more. You do the math and add that. It's a little less than that, and we gain a little bit of efficiencies in that because we share inventory sort of across salons. Inventory is not necessarily 100% salon-dependent.

And then as it relates to the number of stores, I mentioned a couple this year that we're targeting, there may be one more. And then we need to digest those, think through it and probably have something that looks similar in 2024. But remember, we need to sort of build out kind of a lot of the talent that it takes to work and to manage those salons as well. And that's not -- that takes time as well. These are highly-skilled people that it takes time to develop.

Barry George Haimes
Sage Asset Management, LLC

And the number of ultimate locations, any feel for that?

Patrick A. Maciariello
Partner & COO

This year or next year?

Barry George Haimes
Sage Asset Management, LLC

Just yes -- how many?

Patrick A. Maciariello
Partner & COO

How many, I have no -- and it's not -- we could have a location that does one location that does a massive amount of revenue based on where it was. So it's not -- it's almost not the right question to ask, respectfully. It's more about sort of what markets can we penetrate as far as gaining new customers in.

Operator

There are no further questions at this time. I would now like to turn the conference back over to Mr. Elias. Sir?

Elias Joseph Sabo
Partner, CEO & Director

Thank you, operator. As always, I'd like to thank everyone again for joining us on today's call and for your continued interest in CODI. Thank you for your support. That concludes our call.

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Operator
This concludes Compass Diversified Conference Call. Thank you, and have a great day.

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