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EDITED TRANSCRIPT

CAL.N - Q4 2022 Caleres Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Caleres Fourth Quarter Earnings Conference Call. My name is Robert, and I will be your conference coordinator. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I'll turn the call over to Logan Bonacorsi, Vice President of Investor Relations. Please go ahead.

Logan Bonacorsi - *Caleres, Inc. - VP of IR*

Good morning. I'd like to thank you for joining our fourth quarter and full year 2022 earnings call and webcast. A press release with detailed financial tables as well as our quarterly slide presentation are available at caleris.com.

Please be aware today's discussion contains forward-looking statements, which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors, including, but not limited to, the factors disclosed in the company's Form 10-K and other filings with the U.S. Securities and Exchange Committee.

Please refer to today's press release and our SEC filings for more information on risk factors and other factors, which could impact forward-looking statements. Copies of these reports are available online. In discussing the results of our operations, we will be providing and referring to certain non-GAAP financial measures. You can find additional information regarding these non-GAAP financial measures as well as others used in today's earnings release and our presentation on the Investors Section of our website. The company undertakes no obligation to update any information discussed in this call at any time.

Joining me on the call today are Jay Schmidt, President and CEO; and Jack Calandra, Vice President and CFO. We will begin this morning's call with our prepared remarks, and thereafter, we will be happy to take your questions.

I would now like to turn the call over to Jay. Jay?

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Thank you, Logan, and good morning, everyone. I'm pleased to report that Caleres delivered strong results and exceeded expectations during the fourth quarter of 2022, capping off our best year ever. In short, 2022 was a year of significant operational and financial accomplishments at Caleres.

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In total, we delivered a 6.9% year-over-year increase in sales and achieved adjusted operating earnings of $217 million. Our adjusted earnings per share of $4.52 was $0.23 better than the high watermark set in fiscal 2021. Perhaps even more notable, this EPS level more than doubled our pre-pandemic record, and we generated approximately $281 million in adjusted EBITDA.

In addition, during 2022, we grew total Caleres market share to more than 6% of the U.S. footwear market, outpacing market growth for the second year in a row with our lead brands gaining share. We improved brand perception metrics with our new customer file in the Brand Portfolio increasing 28% year-over-year. We managed our inventory levels well, ultimately ending the year approximately 3% below fiscal 2021.

We intensified our focus on strategic priorities, including Edit to Win, where we reduced SKU counts and amplified key product trends and items to drive sales. We continue to prioritize investment areas, namely consumer marketing and experience that are essential for future growth. We made significant progress toward our long-term ESG goals, and we've returned more than $73 million to our shareholders through share repurchases and dividends. These exceptional annual results underscore the power of our brands, the strength of our platform and the successful execution of our strategic initiatives.

Now let's move to some performance highlights from the fourth quarter. During the period, we achieved record quarterly sales of $696 million which was 2.5% higher than the fourth quarter of 2021. We generated strong margin levels despite a more challenging competitive landscape at Famous and we achieved solid fourth quarter operating earnings and earnings per share. In addition, we prioritized debt reduction utilizing our free cash flow to reduce the borrowings under our asset-based revolving credit facility by $57 million. Jack will talk more about our capital allocation priorities for 2023, but we believe that near term, continued debt reduction is the top priority for cash flow due to rising interest rates and an uncertain macro environment.

In our Brand Portfolio, strong demand for our lead brands drove this outstanding quarterly performance and translated into year-over-year improvements across all key financial metrics for the segment. Of note, sales in the segment were 6.4% higher than fourth quarter of 2021 as the consumer prioritized fashion footwear, especially dress and casual shoes as well as foods. In fact, for the year, our lead brands, which include Sam Edelman, Naturalizer and Allen Edmonds, delivered positive sales trends, grew market share and increased earnings.

It's also worth highlighting that for the full year, the Brand Portfolio delivered over 20% growth in its overall annual earnings. Segment operating earnings climbed to a record $112 million, eclipsing the previous record of $80 million set in 2017. Again, this performance was driven by strong consumer reaction to our fashion products and reflects the progress we made against key strategic initiatives to elevate product design, sharpened brand messaging and maximize our inventory investment.

The bar is now higher, yet we believe there is significant runway to build on this momentum and further increase the contribution of the Brand Portfolio. We also saw outsized growth in our direct-to-consumer and owned e-commerce businesses in line with our objectives. In the Brand Portfolio, we capitalized on strong product trends, advanced drop ship capabilities and enhanced consumer analytics to drive an approximately 23% increase in our D2C business compared to fourth quarter of 2021. Similarly, our owned e-commerce business grew 18% over the same period, with double-digit sales increases from nearly every one of our owned websites.

Further, we expanded the number of new consumers to the Brand Portfolio by 25% over the same time period. Going forward, we believe we can unlock even more value from our customer file as we continue to build expertise in this area.

Now moving on to Famous Footwear, where we also turned in an impressive performance despite the challenging competitive landscape at the beginning of the quarter. Fourth quarter sales got off to a slow start, down high single digits in November. before rebounding sharply in mid-December. Sales exceeded our expectations in the last 6 weeks of the period, resulting in record fourth quarter sales and a positive sales comp. This late quarter performance was driven by robust demand for key athletic brands, which the Famous team was able to capitalize on due to a stronger in-stock position compared to last year.

In addition, our kids business, a key differentiator and one we view as a future growth opportunity, delivered another outsized performance. Kids sales increased by 9% over the fourth quarter of 2021 and by 23% in the last 6 weeks of the year. This performance was a continuation of the strong

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results we achieved during the back-to-school period and further solidifies Famous' position as the footwear destination for kids and the millennial family.

During the quarter, Famous did experience gross margin declines due to more normalized inventory levels, especially in seasonal product. Going forward, we do expect to maintain gross margins above pre-pandemic levels due to the structural changes we've made to our promotional strategies. All in, Famous performed again at a high level during 2022. And while results didn't quite reach the record-setting number achieved in 2021, this segment contributed $196 million of operating earnings and an 11.5% operating margin. In other words, the second best performance in Famous history.

And while we understand that consumers are still making an uncertain macro environment, we continue to believe Famous is exceptionally well positioned to compete and excel due to its leadership position with the family, its leading assortment of national brands, its retail locations across the country in key markets and its enhanced consumer experience, both in-store and online.

Before I hand it over to Jack to walk through our financials in more detail, I would like to highlight the key focus areas that will enable us to win in 2023 and beyond. First, we will sharpen our focus on the millennial family at Famous Footwear. Our objective is to align our product assortment, store experience, digital presence and marketing approach with the millennial family footwear needs.

As discussed, we rolled out a new prototype Famous Store in early 2022, and we've now opened an additional 10 stores using this same format. This new format has proven highly successful in highlighting our top national brands, creating a localized assortment and facilitating direct engagement with the family in a convenient manner. So far, on average, these stores have significantly outpaced their market areas in both sales and traffic.

Second, we will continue to enhance our Famous Footwear assortment to a more balanced athletic and fashion mix. As outlined last quarter, we are seeing meaningful progress on the fashion side of the business. We know that when she buys for her family and for herself, she is spending more, connecting more and returning more often. In fact, we continue to see growth in our top fashion brands from the market as well as a 9% improvement in sales in our own Caleres brands. We believe we can take our extensive consumer knowledge to deliver the right brands and styles in the right quantities and locations to deliver highly profitable incremental sales at Famous.

Third, we intend to capitalize on the strength and relevance of our lead brands in our Brand Portfolio. We have continued to see outsized performance and robust demand from Sam Edelman, Vionic, Allen Edmonds and Naturalizer brands in recent years. At the same time, we are leveraging that strength and success as well as our brand building and operational expertise to withstand the profitability of the entire portfolio.

Fourth, we are focused on maximizing Caleres' platform capabilities that span the entire enterprise. This includes leveraging our shared centers of knowledge around design and innovation, Edit to Win, digital, marketing, analytics as well as sourcing and logistics to unlock growth opportunities and to increase operating margin.

Finally, we are committed to delivering exceptional sales and earnings going forward. As we've stated previously, we believe the structural changes we've made in recent years have transformed Caleres into a more agile, efficient and profitable organization. We are confident in our ability to deliver annual earnings in excess of $4 per share on a consistent basis as we generate strong levels of free cash flow and create long-term value for our shareholders.

We look forward to providing more detail on each of these strategic priorities at our Investor Day on Wednesday, June 14, in New York City. And with that, I will now hand it over to Jack for a more detailed view of our financials. Jack?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Thanks, Jay, and good morning, everyone. Today, I'll provide additional details on our strong fourth quarter and record annual results, discuss our capital allocation progress and plans and share our outlook for fiscal 2023. As a reminder, my comments will be on an adjusted basis and will focus

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on the comparable period in 2021 with some supplemental comparisons to 2019 were helpful. Please see today's press release for a reconciliation of adjusted results.

Starting with the fourth quarter. Fourth quarter sales were $696 million, a record for the fourth quarter and an increase of 2.5% versus last year. As Jay mentioned, this performance was driven by a 6.4% increase in Brand Portfolio.

Famous Footwear sales were up slightly to last year and better than our initial expectations due to a strong second half of the quarter. Comparable sales were up 0.7%. Consolidated full year sales increased 6.9% to reach $2.97 billion, marking our best ever annual sales performance.

Fourth quarter gross margin was 40.4%, a 300 basis point decline, reflecting an increase in Brand Portfolio gross margin and a decrease in Famous' gross margin. Brand Portfolio gross margin was 36%, a nearly 200 basis point increase versus last year to a favorable sales mix toward higher-margin businesses, including drop ship and owned e-commerce as well as a reduction in ocean and air freight costs.

Famous fourth quarter gross margin was 42.4%, a 650 basis point decline versus last year. This expected decline reflects a more normalized level of promotional activity and pricing. We continue to prioritize the optimization of gross margin with our ongoing goal of achieving annual gross margin in the low to mid-40s for Famous.

For the full year, consolidated gross margin was 43.3%, 90 basis points below last year, reflecting a 180 basis point increase in the Brand Portfolio and a 170 basis point decline in Famous.

SG&A expense for the fourth quarter was $255 million or 36.7% of sales. Full year SG&A expense as a percent of sales was 36%, the lowest since 2015 and 30 basis points favorable to 2021. This expense leverage was enabled by the nearly 7% top line growth as we do continue to see inflationary pressures in wages and rent.

Fourth quarter operating earnings were $26 million and operating margin was 3.7%. Operating margin was 6.1% at Famous and 6.2% at Brand Portfolio. Full year operating earnings were $217 million or 7.3% of sales, a 60 basis point decline from 2021. It's worth noting that this consolidated full year operating margin is 370 basis points higher than 2019.

Famous maintained its double-digit operating margin, delivering 11.5% for the year. Brand Portfolio achieved an 8.5% full year operating margin, a 390 basis point improvement versus last year.

Fourth quarter net interest expense was $5 million or about $3 million above last year, given higher average borrowings on our revolving credit facility and a higher borrowing rate. The weighted average interest rate in Q4 was 5.7%. Full year net interest expense was $14 million and the weighted average interest rate was 3.8%.

Fourth quarter diluted earnings per share were $0.65 and full year diluted earnings per share were $4.52, another full year record for Caleres. EBITDA for the trailing 12 months was $281 million or 9.5% of sales.

Turning now to the balance sheet and cash flow. We ended the fourth quarter with $308 million in borrowings on our revolving credit facility, a $57 million reduction during the fourth quarter and no long-term debt. Inventory at year-end was $580 million, down 2.8% versus last year. On hand and available to sell inventory was up and goods in transit were down materially. Inventory was down 6.2% compared to year-end 2019.

By segment, inventory at Famous was up 5% versus last year, primarily a reflection of supply chain constraints, which limited last year's inventory availability. Notably, Famous' inventory was $59 million or 18% lower than year-end 2019. At Brand Portfolio, inventory was down 8.2% versus last year and up 6.1% versus 2019. We feel good about the composition and level of inventory in both businesses as we begin the year.

Regarding cash flow from operations, we generated $80 million during the quarter and deployed cash for strategic investments in the business, paid our quarterly dividend and as previously mentioned, reduced the borrowings on our revolver.

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Turning to capital allocation. We continue to implement strategies that we believe will create and enhance shareholder value. In addition to investing in value-driving growth opportunities, in fiscal 2022, we purchased 2.6 million shares or approximately 7% of shares outstanding for a total cost of $63 million. Including the dividend, we returned $73 million in cash to shareholders during the year.

We believe at this time, the best use of free cash flow after maintaining the dividend is to continue to reduce our revolver borrowings to below 1x on a debt-to-EBITDA basis and to increase overall liquidity. That said, we have 6.4 million shares remaining under our current Board repurchase authorization and we'll continue to consider share repurchases based on market conditions.

Now turning to our outlook. As we've made a number of operating and financial structural changes to the business over the past several years that we believe allow us to maintain earnings in excess of $4 per share even in the face of the current inflationary pressures, higher interest rates and an uncertain macro environment. As such, for 2023, we expect sales to be flat to up 2% when compared to fiscal 2022. This includes the impact of the 53rd week this year, which we estimate provides about $22 million of sales and diluted earnings per share of $4.10 to $4.30.

Additionally, we are providing guidance on several other key metrics for fiscal 2023, specifically, consolidated operating margin of 7.1% to 7.3%, reflecting improvement in Brand Portfolio and a decline in Famous. That said, we still expect Famous operating margin above 10%. We expect interest expense of $18 million to $20 million due to higher interest rates. We expect capital expenditures of $60 million to $70 million, a level more in line with our pre-pandemic spending and inclusive of our strategic investments. We expect an effective tax rate of about 25%. And finally, we expect share count of approximately $34.3 million. This assumes share repurchases to offset dilution of any stock-based compensation.

Given the extraordinary $50 million retailer inventory build we are lapping in the Brand Portfolio segment in Q1 this year, we are also providing the following guidance for Q1. We expect net sales to be down 4% to 6% and earnings per share of $0.92 to $0.97.

With that, and before we take questions, I will turn the call back to Jay.

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Thanks, Jack. This was a great year for Caleres, where we more than doubled our pre-pandemic earnings level. We are confident that the structural and strategic changes we have implemented, coupled with our talented team and unique infrastructure have set us up to deliver on our 2023 objectives and drive long-term value for our shareholders. We look forward to sharing more about our brands and our strategy at our Investor Day on June 14.

And with that, I'd like to turn the call over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

My first question comes from Abbie Zvejnieks with Piper Sandler.

Abigail Virginia Zvejnieks - *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*

Congratulations on the strong end to the year. So you mentioned outperformance at Famous Footwear in those last 6 weeks. Have you seen that same outperformance continue into the first quarter? And then I have one follow-up after that.

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John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

I would say as we opened up first quarter, starting a little softer than what we saw in the last 6 weeks in Famous, although we did see some of the key styles and trends going. We're -- at Famous, we always think there are consumers very aware now, and we're still seeing new casuals and retro joggers and kind of the fashion sneakers that they were selling continue on there. And we expect we'll see a lot of spring sandals and other things that are currently selling in the Brand Portfolio open up as we get later into the quarter.

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes. And Abbie, thanks for the question. This is Jack. So just to add to that. As you know, in the first quarter, the major part of the quarter is still ahead of us with, obviously, Easter and some of the events around that. So as Jay mentioned, things have slowed a bit from where we saw the last 6 weeks of the fourth quarter, but still feel really good about the next 6 weeks ahead of us because that is really the prime selling season for Famous.

Abigail Virginia Zvejnieks - *Piper Sandler & Co., Research Division - VP & Senior Research Analyst*

Got it. And then maybe switching to the Brand Portfolio, how should we think about that cadence of sell into the wholesale channel? I know you said 1Q will be tougher as we lapped that selling from last year. But how does the order books look going forward through '23? And how should we just model that?

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Yes. Our order books actually, in terms of fill rate, look consistent to where we've been in the past quarters as we've been in 2022 and modeling that. So we feel good about where we budgeted. If you take out Q1, we're really looking at 5% in the other quarter. So that's really -- we feel like that's the moment of that lap, and then we'll be back to it in the Brand Portfolio. But all signs look very good, Abbie.

Operator

The next question is from Mitch Kummetz with Seaport Research.

Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

I've got a few. Let me start with Famous Footwear gross margin. You guys mentioned normal promotions and pricing in the quarter. But help me understand why it was actually down 10 bps on a 3-year and what gives you the confidence that it will be above pre-COVID going forward? And I know that for Famous, you mentioned that op margin should be greater than 10% for the year. I don't know if you can comment on gross margin for the year?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes, Mitch, thanks for the question. This is Jack. So I would say in terms of the fourth quarter for Famous, we did put in place a BOGO in mid-December. As we mentioned, the first 6-ish weeks of the quarter and Famous were a bit soft. We amped the promotional cadence, got a nice response to the BOGO, but that was a little bit of a margin decline. We also saw some increases in the cost of goods. And so there was some LIFO reserve calculations that also affected the gross margin for Q4. I would say we expect with inventories getting to a more normalized level, and I think some of those inflationary pressures on cost of goods starting to subside, we wouldn't expect to see that going forward.

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Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

Okay. That's helpful. And then for Q1, can you give us what your sales outlook is by segment? You mentioned that the quarter started a little slower than the end of Q4, but February is a small month, but it might be helpful to give us the sales outlook by segment? And then also maybe any more color on kind of the margins, kind of how you're thinking gross margin versus SG&A for the quarter?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes, Mitch. So in terms of the segment quarterly sales, obviously, we talked about that what we're anniversarying on the Brand Portfolio side. So certainly expect that the Brand Portfolio sales will be lower in the first quarter, again, versus that comparison to 2021 with some -- probably some modest improvement at Famous.

I would say if I look at the full year guidance, both of those businesses are sort of in that range of flat to 2%. But you have to remember either what they're anniversarying or what they're benefiting from as we move forward. So obviously, Famous is a big beneficiary of the 53rd week, much less so on the Brand Portfolio. And then obviously, the Brand Portfolio has that headwind in Q1 from anniversarying the retailer inventory build for last year.

In terms of gross margin, where we're seeing a nice lift on gross margin in Brand Portfolio is on the ocean freight. So that business is going to be the big beneficiary of lower ocean freight that we're seeing coming through, obviously, less so on the Famous side.

Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

Okay. And then last question. Jay, you mentioned solid athletic sales on the Famous side in Q4 on better inventory availability. Can you remind us how constrained some of the athletic inventory was throughout '22 and how that -- maybe better inventory flow in '23 kind of impacts the businesses you lap maybe some of those constraints from a year ago?

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Yes. I think, Mitch, we were chasing athletic inventory, I would say, all the way through the first half of 2022 and even into Q3. As we came out of there, we started to see that come through. And then really, I would say, some of these key styles, particularly in some of these categories that are more fashion within athletic like this retro kind of style, court shoes, et cetera, as well as some of the other key brands that we're trending, we really got back into the key items. So I think that led us to a really those last 6 weeks of fourth quarter being very, very strong. So -- but it was all of the chase there. And as we go into Q1, we feel like we're in a really good position.

Operator

Our next question comes from Laura Champine with Loop Capital.

Laura Allyson Champine - *Loop Capital Markets LLC, Research Division - Director of Research*

It's about the new format for Famous Footwear stores. What would it take for you to decide to roll that out more broadly? And I think you said you're at 10 now. What's the plan for 2023?

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John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Yes. We'll continue -- it's currently in motion, Laura, but we did open -- as we said, we now have 11 total stores opened. 6 of them have only been opened for a few weeks now. So it's fairly new to us. But we're very pleased with what we see, and we will be walking through some of those items. We see us probably adding, I would say, another conservatively 24 additional stores for the back half of this year.

But quite frankly, as I said, we're really still putting our total plans together. And if we see us continue to trend on that, we'll continue to look at that as we get through the back half. But very exciting work there.

Laura Allyson Champine - *Loop Capital Markets LLC, Research Division - Director of Research*

And just as a follow-up, what's the cost on a remodel to that format?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes. So the cost is about $650,000 to $700,000 depending on the store. I would say that is not a value engineered cost given the relatively small numbers we've done. But certainly, as we continue to grow our confidence that this is really going to accelerate Famous' sales, we would be looking to do some things around value engineering and sourcing that would certainly bring down that cost. I would say what we're seeing so far is we are getting a nice return on that investment at that higher level. And so obviously, if we can continue to streamline and value engineer those costs, that would just boost the returns even higher.

Operator

Our next question comes from Dana Telsey with Telsey Group.

Dana Lauren Telsey - *Telsey Advisory Group LLC - CEO & Chief Research Officer*

Just wanted to touch on the promotional strategy at Famous Footwear. As you see it going forward and how you're planning it, I know you were editing some of the brands and the promotions. How do you see the promotional cadence and the brands involved in these Famous Footwear promotions going forward? Is there a difference in terms of performance by region?

And what's your sense of the consumer health of that Famous Footwear customer? How is the active business?

And then, Jay, just -- I mean, Jack, anything that we should be thinking about in terms of the balance sheet as we move through 2023?

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Okay. So I think going forward, as we look at our whole cadence, we did see some promotion and more normalized clearance markdowns as we moved into the back half of this year. So we do believe that we'll see that in -- through the first half of this year kind of become to a more normalized basis. And then, quite frankly, back half of next year should feel somewhat similar to what we experienced in 2022.

We continue to monitor this in terms of asking what's in it. We do have brands, but about 40% more of the styles that we have are excluded from promotions in Famous Footwear which will, I think, help us normalize that kind of promotional piece to our business. So we're going to watch all this in real time. And honestly, we'll keep everyone apprised to that. But that really is where our strategy is for the moment.

And then, Jack, do you want to talk about the balance sheet?

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Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Sure, Dana. So I would say, in terms of a couple of the key components for the balance sheet. So on inventory, we expect to make continued progress on inventory. I would expect that our inventories at the end of 2023 will show continued improvement versus 2022. We are looking to accelerate turns across the business. We know that's an important component in unlocking operating cash flow. And so I would expect to see that.

And then on the debt side, as we mentioned right now, again, just given that interest rates continue to tick up, I mentioned what our borrowing rate was for the full year and for Q4 and can just share that our most recent borrowings are now sort of about 6.2%. So obviously, those rates continued increase. And while I'm not an economist, we are basically adopting the consensus in terms of the future interest rate increases that we're expecting for the year.

And so we are continuing to, in the near term, use free cash flow after the dividends and after the investing in the business to pay down debt. And so we expect that to continue to work down. Again, we still do have that authorization from our Board on share repurchases. And so we'll continue to just stay very close to the market dynamics. And if there are opportunistic times when we think it makes sense to buy back shares, we'll certainly do that as well. But I would say for now, focus is on continuing to manage our inventories tightly and improving turns and continuing to bring down our debt level just given the increased interest expense as well as just making sure that we've got a lot of resiliency and flexibility in our model given the economic uncertainty.

Dana Lauren Telsey - *Telsey Advisory Group LLC - CEO & Chief Research Officer*

Got it. And then just on the plans for Easter that you had mentioned, Jay, anything that we should be focused on, whether it's brands, categories, how you're thinking of pricing this year compared to last year?

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Yes. I think our pricing kind of remains consistent as really, I would say, our back half of 2022. We certainly are very excited about the strength of our lead brands coming out of our portfolio, and we expect them to continue to trend through 2022. Sam Edelman, Vionic, Allen Edmonds and Naturalizer really gaining strength with the consumer. And then very excited of Famous as we get going in there and really with all the excitement around the stores and then also new seasonal product that we'll be delivering and if their spring opens up. So I would say very excited, but no real changes on really retail pricing as we see it right now.

Operator

Our next question is from Mitch Kummetz with Seaport Research.

Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

Yes. I've got a few quick follow-ups. Jack, I may have missed it, but did you say where you expect either free cash flow or cash flow from operations to land for the year?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes, Mitch, we're not guiding to that specific metric. But to be helpful, what I would say is given the -- on the operating cash flow, given the planned continued improvement in inventories, I would expect to see a step up in our operating cash flow in 2023. We are investing a little bit more on CapEx, as I mentioned. That's really returning CapEx to what I consider pre-pandemic levels.

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If you look at our CapEx history over the past couple of years in 2020 and 2021, we spent less than 1% or less in CapEx. We were underspending versus depreciation. And so we're bringing that back to a more normalized levels, both as a percentage of sales and relative to our depreciation. So a little bit more of a headwind from a free cash perspective with that increased CapEx investment.

Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

Got it. And then you mentioned the sales impact from the 53rd week. Is there an earnings impact?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes. So for the company, it's only about $0.02 of EPS. It's $22 million of sales. $18 million of that, we estimate is on Famous, but a relatively small earnings impact about $0.02.

Mitchel John Kummetz - *Seaport Research Partners - Senior Analyst*

Yes. And then lastly, on the capital allocation. Obviously, we're in a rising interest rate environment. But I am curious -- like how much do you consider -- when you're thinking about your interest expense versus your share count and the opportunity to kind of take those down, how much do you consider kind of which is more accretive to earnings? Does that get sort of factored into your thoughts around potential opportunistic buyback?

Jack P. Calandra - *Caleres, Inc. - Senior VP & CFO*

Yes. It's certainly one of the factors and an important factor. I would say the other factor though is just making sure that we've got liquidity. As you know, there are others in the industry and across industries that have gotten into some trouble by probably buying back more shares and then not having cash and liquidity to weather any sort of bumps in the macroeconomic environment. And so we want to be really prudent there. That said, we continue to believe our stock is a good investment.

And as we think about opportunities on the M&A front, obviously, the bar has been raised just given the work that Jay and the team have done on the Brand Portfolio, and we always want to evaluate those investments versus investing in our own company.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back to Jay Schmidt for closing comments.

John W. Schmidt - *Caleres, Inc. - President, CEO & Director*

Okay. Thanks again for your interest in Caleres. We look forward to speaking to you again at our first quarter call in May. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.

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