

ARHAUS[®]

Arhaus Announces Third Quarter 2022 Financial Results

Nov 10, 2022

Net Revenue Up 57.4% with Comparable Growth of 54.3%
Reaffirms Revenue Outlook and Raises Earnings Outlook for Full Year 2022

BOSTON HEIGHTS, Ohio, Nov. 10, 2022 (GLOBE NEWSWIRE) -- Arhaus, Inc. (NASDAQ: ARHS; "Arhaus" or the "Company"), a rapidly growing lifestyle brand and omni-channel retailer of premium artisan-crafted home furnishings, reported financial results for the third quarter ended September 30, 2022.

Third Quarter 2022 Highlights

- Net revenue increased 57.4% to \$320 million
- Comparable Growth⁽¹⁾ of 54.3%
- Net and Comprehensive Income of \$37 million
- Adjusted Net Income of \$38 million
- Adjusted EBITDA increased 86.6% to \$57 million

Year-to-Date 2022 Highlights, through September 30

- Net revenue increased 56.2% to \$873 million
- Comparable Growth⁽¹⁾ of 53.5%
- Net and Comprehensive Income of \$90 million
- Adjusted Net Income of \$95 million
- Adjusted EBITDA increased 64.6% to \$148 million

2022 Outlook

- Net revenue of \$1,173 million to \$1,193 million
- Comparable Growth⁽¹⁾ of 43% to 48%
- Net and Comprehensive Income of \$109 million to \$115 million
- Adjusted EBITDA of \$185 million to \$192 million

CEO Comments

John Reed, Co-Founder and Chief Executive Officer, commented,

"We delivered another quarter of strong growth in revenue and earnings driven by outstanding execution by our team in implementing our growth strategies and managing our profitability, an improving supply chain and continued demand growth. As our industry faces a dynamic environment with inflationary pressure and macroeconomic challenges, our results in the quarter reflect the strength of our business.

"We are reaffirming our full year net revenue and comparable growth outlook for 2022 and raising our full year net income and adjusted EBITDA outlook. As we look to the future, we remain confident in our strategy and are focused on delivering long-term growth."

Third Quarter 2022 Results

Net revenue increased 57.4% to \$320 million, compared to \$203 million in the third quarter of 2021. The increase was driven by strong demand in both Showroom and eCommerce channels, as well as continued improvements across our supply chain. Comparable growth⁽¹⁾ was 54.3% and demand comparable growth⁽²⁾ was 15.8% in the third quarter of 2022.

Income from operations increased to \$47 million, compared to \$16 million in the third quarter of 2021, primarily driven by higher net revenue. The benefit from higher net revenue was partially offset by variable expense related to the increased net revenue, including higher product, transportation and variable rent expense, as well as higher credit card fees related to increased interest rates and demand. Also offsetting the benefit from increased net revenue was a \$21 million increase in SG&A expenses to support the growth of the business, including additional warehouse expense as we expanded from one to three distribution centers year over year, and new public company related costs.

Net and comprehensive income was \$37 million compared to \$14 million in the third quarter of 2021. This increase was primarily driven by higher net revenue, partially offset by the above factors and a higher post-IPO tax rate. Adjusted net income was \$38 million in the third quarter of 2022 compared to \$20 million in the third quarter of 2021.

Adjusted EBITDA increased 86.6% to \$57 million compared to \$30 million in the third quarter of 2021. Adjusted EBITDA as a percent of net revenue increased 280 basis points to 17.7% in the third quarter of 2022, compared to 14.9% in the third quarter of 2021.

The Company ended the quarter with 80 total showrooms across 28 states.

Balance Sheet and Cash Flow Highlights, as of September 30, 2022

Cash and cash equivalents were \$146 million, and the Company had no long-term debt at September 30, 2022. Net merchandise inventory increased 40.4% to \$293 million, compared to \$208 million as of December 31, 2021.

For the nine months ended September 30, 2022, net cash provided by operating activities was \$58 million, compared to \$141 million for the nine months ended September 30, 2021.

For the nine months ended September 30, 2022, net cash used in investing activities was approximately \$37 million which includes landlord contributions of approximately \$11 million and company-funded capital expenditures⁽³⁾ of approximately \$26 million. For the nine months ended September 30, 2021, net cash used in investing activities was approximately \$30 million, which included landlord contributions of approximately \$11 million and company-funded capital expenditures of approximately \$18 million. The increase in company-funded capital expenditures was primarily driven by growth-related investments, including new distribution capacity and costs related to new Showroom openings and information technology.

Outlook

The table below presents our updated expectations for selected full year 2022 financial operating results and implied fourth quarter 2022 expectations derived from the outlook.

| Full Year 2022 | Current Guidance | Previous Guidance | Implied 4Q 2022 |
|--|------------------------|----------------------------|--------------------------|
| Net revenue | unchanged | \$1,173 to \$1,193 million | \$300 to \$320 million |
| Comparable growth ⁽¹⁾ | unchanged | 43% to 48% | 24% to 32% |
| Net income ⁽⁴⁾ | \$109 to \$115 million | \$92 to \$98 million | \$19 to \$25 million |
| Adjusted EBITDA ⁽⁵⁾ | \$185 to \$192 million | \$173 to \$180 million | \$36.5 to \$43.5 million |
| Other estimates: | | | |
| Company-funded capital expenditures ⁽³⁾ | \$40 to \$50 million | \$55 to \$65 million | |
| Fully diluted shares | unchanged | ~141 million | |
| Effective tax rate | unchanged | ~26% | |

⁽¹⁾ Comparable growth is a key performance indicator and is defined as the year-over-year percentage change of the dollar value of orders delivered (based on purchase price), net of the dollar value of returns (based on amount credited to client), from our comparable Showrooms and eCommerce, including through our direct-mail catalog.

⁽²⁾ Demand comparable growth is a key performance indicator and is defined as the year-over-year percentage change of demand from our comparable Showrooms and eCommerce, including through our direct-mail catalog.

⁽³⁾ Company-funded capital expenditures is defined as total net cash used in investing activities less landlord contributions.

⁽⁴⁾ U.S. GAAP net income.

⁽⁵⁾ We have not reconciled guidance for Adjusted EBITDA to the corresponding GAAP financial measure because we do not provide guidance for the various reconciling items. These items include, but are not limited to, future share-based compensation expense, income taxes, and interest expense. We are unable to provide guidance for these reconciling items because we cannot determine their probable significance, as certain items are outside of our control and cannot be reasonably predicted due to the fact that these items could vary significantly from period to period. Accordingly, reconciliations to the corresponding GAAP financial measure is not available without unreasonable effort.

Conference Call

You are invited to listen to Arhaus' conference call to discuss the third quarter 2022 financial results scheduled for today, November 10, 2022, at 8:30 a.m. Eastern Time. The call will be available over the Internet on our website (<https://ir.arhaus.com>) or by dialing (877) 407-3982 within the U.S., or 1 (201) 493-6780, outside the U.S. The conference ID is: 13725883.

A recorded replay of the conference call will be available within approximately three hours of the conclusion of the call and can be accessed online at <https://ir.arhaus.com> for approximately twelve months.

About Arhaus

Founded in 1986, Arhaus is a rapidly growing lifestyle brand and omni-channel retailer of premium home furnishings. Through a differentiated proprietary model that directly designs and sources products from leading manufacturers and artisans around the world, Arhaus offers an exclusive assortment of heirloom quality products that are sustainably sourced, lovingly made, and built to last. With 80 showrooms across the United States, a team of interior designers providing complimentary in-home design services, and robust online and eCommerce capabilities, Arhaus is known for innovative design, responsible sourcing, and client-first service. For more information, please visit www.arhaus.com.

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Non-GAAP Financial Measures

In addition to the results provided in accordance with GAAP, this press release and related tables include adjusted EBITDA, adjusted EBITDA as a percentage of net revenue and adjusted net income, which present operating results on an adjusted basis.

We use non-GAAP measures to help assess the performance of our business, identify trends affecting our business, formulate business plans and make strategic decisions. In addition to our results determined in accordance with U.S. GAAP, we believe that providing these non-GAAP financial measures is useful to our investors as they present an informative supplemental view of our results from period to period by removing the effect of non-recurring items. However, our inclusion of these adjusted measures should not be construed as an indication that our future results will be unaffected by unusual or infrequent items or that the items for which we have made adjustments are unusual or infrequent or will not recur. These non-GAAP measures are not a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. Because not all companies use identical calculations, the presentations of these measures may not be comparable to other similarly titled measures of other companies and can differ significantly from company to company. These measures should only be read together with the corresponding GAAP measures. Please refer to the reconciliations of adjusted EBITDA and adjusted net income to the most directly comparable financial measures prepared in accordance with GAAP below.

Forward-Looking Statements

Certain statements contained herein, including statements under the headings "2022 Outlook" and "Outlook" are not based on historical fact and are "forward-looking statements" within the meaning of applicable securities laws.

Forward-looking statements can generally be identified by the use of forward-looking terminology, including, but not limited to, "may," "could," "seek," "guidance," "predict," "potential," "likely," "believe," "will," "expect," "anticipate," "estimate," "plan," "intend," "forecast," or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Past performance is not a guarantee of future results or returns and no representation or warranty is made regarding future performance. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: our reliance on third-party transportation carriers and risks associated with increased freight and transportation costs; disruption in our receiving and distribution system, including delays in the integration of our new distribution centers and the possibility that we may not realize the anticipated benefits of multiple distribution centers; our ability to obtain quality merchandise in sufficient quantities; risks as a result of constraints in our supply chain; a failure of our vendors to meet our quality standards; the COVID-19 pandemic and its effect on our business; declines in general economic conditions that affect consumer confidence and consumer spending that could adversely affect our revenue; our ability to manage and maintain the growth rate of our business; our ability to anticipate changes in consumer preferences; risks related to maintaining and increasing showroom traffic and sales; our ability to compete in our market; our ability to adequately protect our intellectual property; the possibility of cyberattacks and our ability to maintain adequate cybersecurity systems and procedures; loss, corruption and misappropriation of data and information relating to clients and employees; changes in and compliance with applicable data privacy rules and regulations; compliance with applicable governmental regulations; effectively managing our eCommerce business and digital marketing efforts; and compliance with SEC rules and regulations as a public reporting company. These factors should not be construed as exhaustive. Furthermore, the potential impact of the COVID-19 pandemic on our business operations and financial results and on the world economy as a whole may heighten the risks and uncertainties that affect our forward-looking statements described above. Further information on potential factors that could affect the financial results of the Company and its forward-looking statements is included in the Company's filings with the Securities and Exchange Commission. The Company assumes no obligation to update any forward-looking statement, except as may be required by law. These forward-looking statements speak only as of the date of this release. All forward-looking statements are qualified in their entirety by this cautionary statement.

Arhaus, Inc. and Subsidiaries Condensed Consolidated Balance Sheets (Unaudited, amounts in thousands, except share and per share data)

| | September 30, 2022 | December 31, 2021 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 145,737 | \$ 123,777 |
| Restricted cash equivalents | 6,345 | 7,131 |
| Accounts receivable, net | 1,778 | 228 |
| Merchandise inventory, net | 292,571 | 208,343 |
| Prepaid and other current assets | 35,867 | 28,517 |
| Total current assets | 462,298 | 367,996 |
| Operating right-of-use assets | 224,921 | — |
| Financing right-of-use assets | 39,062 | — |
| Property, furniture and equipment, net | 128,783 | 179,631 |
| Deferred tax asset | 20,948 | 27,684 |
| Goodwill | 10,961 | 10,961 |
| Other noncurrent assets | 235 | 278 |
| Total assets | \$ 907,208 | \$ 586,550 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 58,455 | \$ 51,429 |
| Accrued taxes | 12,706 | 7,302 |
| Accrued wages | 17,498 | 16,524 |
| Accrued other expenses | 33,756 | 61,047 |
| Client deposits | 261,801 | 264,929 |
| Current portion of operating lease liabilities | 39,248 | — |
| Current portion of financing lease liabilities | 522 | — |
| Total current liabilities | 423,986 | 401,231 |
| Operating lease liabilities, long-term | 263,753 | — |
| Financing lease liabilities, long-term | 51,908 | — |
| Capital lease obligation | — | 50,525 |
| Deferred rent and lease incentives | 2,353 | 63,037 |
| Other long-term liabilities | 4,413 | 1,992 |
| Total liabilities | \$ 746,413 | \$ 516,785 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Class A shares, par value \$0.001 per share (600,000,000 shares authorized, 51,437,348 and 50,427,390 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively) | 51 | 50 |
| Class B shares, par value \$0.001 per share (100,000,000 shares authorized, 87,115,600 and 86,519,002 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively) | 87 | 87 |
| Accumulated Deficit | (26,948) | (116,581) |
| Additional Paid-in Capital | 187,605 | 186,209 |
| Total Arhaus, Inc. stockholders' equity | 160,795 | 69,765 |
| Total liabilities and stockholders' equity | \$ 907,208 | \$ 586,550 |

Arhaus, Inc. and Subsidiaries Condensed Consolidated Statements of Comprehensive Income (Unaudited, amounts in thousands, except share and per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|-------------|-------------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net revenue | \$ 872,595 | \$ 558,690 | \$ 320,030 | \$ 203,333 |
| Cost of goods sold | 505,561 | 325,710 | 183,739 | 118,522 |
| Gross margin | 367,034 | 232,980 | 136,291 | 84,811 |
| Selling, general and administrative expenses | 246,767 | 196,443 | 89,145 | 68,266 |
| Loss on disposal of assets | — | 466 | — | 452 |
| Income from operations | 120,267 | 36,071 | 47,146 | 16,093 |
| Interest expense, net | 3,367 | 4,091 | 751 | 1,365 |
| Other income | (584) | — | (109) | — |
| Income before taxes | 117,484 | 31,980 | 46,504 | 14,728 |
| Income tax expense | 27,851 | 1,704 | 9,568 | 500 |
| Net and comprehensive income | \$ 89,633 | \$ 30,276 | \$ 36,936 | \$ 14,228 |
| Less: Net income attributable to noncontrolling interest | — | \$ 17,499 | — | \$ 8,231 |
| Net and comprehensive income attributable to Arhaus, Inc. | \$ 89,633 | \$ 12,777 | \$ 36,936 | \$ 5,997 |
| Net and comprehensive income per share, basic | | | | |
| Weighted-average number of common shares outstanding, basic | 137,939,577 | 112,058,742 | 138,484,495 | 112,058,742 |
| Net and comprehensive income per share, basic | \$ 0.65 | \$ 0.11 | \$ 0.27 | \$ 0.05 |
| Net and comprehensive income per share, diluted | | | | |
| Weighted-average number of common shares outstanding, diluted | 139,545,802 | 112,058,742 | 139,845,333 | 112,058,742 |
| Net and comprehensive income per share, diluted | \$ 0.64 | \$ 0.11 | \$ 0.26 | \$ 0.05 |

Arhaus, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows (Unaudited, amounts in thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|-------------------|
| | 2022 | 2021 |
| Cash flows from operating activities | | |
| Net income | \$ 89,633 | \$ 30,276 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 18,319 | 17,206 |
| Amortization of operating lease right-of-use asset | 21,976 | — |
| Amortization of deferred financing fees and interest on finance lease in excess of principal paid | 8,731 | 839 |
| Equity based compensation | 2,613 | 1,135 |
| Deferred tax assets | 5,458 | — |
| Derivative expense | — | 29,905 |
| Loss on disposal of property, furniture and equipment | — | 466 |
| Amortization and write-off of lease incentives | (224) | (5,889) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (1,550) | 240 |
| Merchandise inventory | (84,228) | (62,533) |
| Prepaid and other current assets | (11,249) | (715) |
| Other noncurrent liabilities | 456 | (732) |
| Accounts payable | 10,334 | 1,698 |
| Accrued expenses | 23,682 | 16,259 |
| Operating lease liabilities | (22,586) | — |
| Deferred rent and lease incentives | — | 6,959 |
| Client deposits | (3,128) | 106,076 |
| Net cash provided by operating activities | <u>58,237</u> | <u>141,190</u> |
| Cash flows from investing activities | | |
| Purchases of property, furniture and equipment | (36,950) | (29,533) |
| Net cash used in investing activities | <u>(36,950)</u> | <u>(29,533)</u> |
| Cash flows from financing activities | | |
| Issuance of related party notes | — | (1,000) |
| Proceeds from related party notes | — | 1,000 |
| Principal payments under capital leases | — | (106) |
| Principal payments under finance leases | (113) | — |
| Shareholder distributions | — | (12,350) |
| Distributions to noncontrolling interest holders | — | (7,865) |
| Net cash used in financing activities | <u>(113)</u> | <u>(20,321)</u> |
| Net increase in cash, cash equivalents and restricted cash equivalents | 21,174 | 91,336 |
| Cash, cash equivalents and restricted cash equivalents | | |
| Beginning of period | 130,908 | 64,002 |
| End of period | <u>\$ 152,082</u> | <u>\$ 155,338</u> |

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (continued)
(Unaudited, amounts in thousands)

| | Nine months ended September 30, | |
|---|------------------------------------|----------|
| | 2022 | 2021 |
| Supplemental disclosure of cash flow information | | |
| Interest paid in cash | \$ 3,858 | \$ 4,006 |
| Interest received in cash | 316 | — |
| Income taxes paid in cash | 20,579 | 1,394 |
| Noncash operating activities: | | |
| Lease incentives | 7,532 | 4,253 |
| Noncash investing activities: | | |
| Purchase of property, furniture and equipment in accounts payable | 2,661 | (428) |
| Noncash financing activities: | | |
| Adjustment to deferred tax asset impact of Reorganization from partnership to a corporation | (1,278) | — |
| Derecognition of build-to-suit assets as a result of ASC 842 adoption | (31,017) | — |
| Property, furniture and equipment additions due to build-to-suit lease transactions | — | 1,040 |
| Capital contributions | 62 | — |
| Capital lease obligation | — | 2,591 |

Arhaus, Inc. and Subsidiaries
Reconciliation of Net and Comprehensive Income to Adjusted Net Income
(Unaudited, amounts in thousands, except share and per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|------------------|-------------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net and comprehensive income | \$ 89,633 | \$ 30,276 | \$ 36,936 | \$ 14,228 |
| Adjustments (pre-tax): | | | | |
| Derivative expense (1) | — | 29,905 | — | 100 |
| Other expenses (2) | 6,567 | 5,806 | 1,909 | 5,188 |
| Total non-GAAP adjustments pre-tax | 6,567 | 35,711 | 1,909 | 5,288 |
| Less: Tax effect of adjustments (3)(4) | 1,556 | — | 395 | — |
| Adjusted net income | <u>\$ 94,644</u> | <u>\$ 65,987</u> | <u>\$ 38,450</u> | <u>\$ 19,516</u> |
| Adjusted net income per share, basic | | | | |
| Weighted-average number of common shares outstanding, basic | 137,939,577 | 112,058,742 | 138,484,495 | 112,058,742 |
| Adjusted net income per share, basic | \$ 0.69 | \$ 0.59 | \$ 0.28 | \$ 0.17 |
| Adjusted net income per share, diluted | | | | |
| Weighted-average number of common shares outstanding, diluted | 139,545,802 | 112,058,742 | 139,845,333 | 112,058,742 |
| Adjusted net income per share, diluted | \$ 0.68 | \$ 0.59 | \$ 0.27 | \$ 0.17 |

(1) We repaid our term loan in full on December 28, 2020. The derivative expense relates to the change in the fair value of the exit fee at the end of each reporting period. The Company used a portion of the net proceeds from the IPO to pay the derivative liability on November 8, 2021.

(2) Other expenses represent costs and investments not indicative of ongoing business performance, such as third-party consulting costs, one-time project start-up costs, severance, signing bonuses, recruiting and project-based strategic initiatives. For the nine and three months ended September 30, 2022, other expenses consisted largely of \$4.6 million and \$1.6 million of costs related to the opening and set-up of our Dallas distribution center, respectively. For the nine and three months ended September 30, 2021, other expenses consisted primarily of \$5.0 million and \$3.5 million of costs related to the Reorganization and IPO and \$1.5 million and \$0.5 million of severance, signing bonuses and recruiting costs, respectively.

(3) The Company applied its normalized tax rate of 23.7% and 20.6% to the adjustment for the nine and three months ended September 30, 2022, respectively.

(4) Prior to the Reorganization and IPO, the Company was a limited liability company under the Internal Revenue Code with a partnership tax election and did not pay federal or most state corporate income taxes on its taxable income. Accordingly, the adjustments for the nine and three months ended September 30, 2021 are not tax affected.

Arhaus, Inc. and Subsidiaries
Reconciliation of Net and Comprehensive Income to Adjusted EBITDA
(Unaudited, amounts in thousands)

| | Nine months ended September 30, | | Three months ended September 30, | |
|-------------------------------|------------------------------------|-----------|-------------------------------------|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| Net and comprehensive income | \$ 89,633 | \$ 30,276 | \$ 36,936 | \$ 14,228 |
| Interest expense, net | 3,367 | 4,091 | 751 | 1,365 |
| Income tax expense | 27,851 | 1,704 | 9,568 | 500 |
| Depreciation and amortization | 18,319 | 17,206 | 6,324 | 8,297 |
| EBITDA | 139,170 | 53,277 | 53,579 | 24,390 |
| Equity based compensation | 2,613 | 1,135 | 1,224 | 708 |
| Derivative expense (1) | — | 29,905 | — | 100 |

| | | | | |
|--------------------|-------------------|------------------|------------------|------------------|
| Other expenses (2) | <u>6,567</u> | <u>5,806</u> | <u>1,909</u> | <u>5,188</u> |
| Adjusted EBITDA | <u>\$ 148,350</u> | <u>\$ 90,123</u> | <u>\$ 56,712</u> | <u>\$ 30,386</u> |

⁽¹⁾ We repaid our term loan in full on December 28, 2020. The derivative expense relates to the change in the fair value of the exit fee at the end of each reporting period. The Company used a portion of the net proceeds from the IPO to pay the derivative liability on November 8, 2021.

⁽²⁾ Other expenses represent costs and investments not indicative of ongoing business performance, such as third-party consulting costs, one-time project start-up costs, severance, signing bonuses, recruiting and project-based strategic initiatives. For the nine and three months ended September 30, 2022, other expenses consisted largely of \$4.6 million and \$1.6 million of costs related to the opening and set-up of our Dallas distribution center, respectively. For the nine and three months ended September 30, 2021, other expenses consisted primarily of \$5.0 million and \$3.5 million of costs related to the Reorganization and IPO and \$1.5 million and \$0.5 million of severance, signing bonuses and recruiting costs, respectively.