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Q1 2024 Arhaus Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**John Reed** *Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder*  
**Dawn Sparks** *Arhaus Inc - Chief Logistics Officer*  
**Jennifer Porter** *Arhaus Inc - Chief Marketing Officer*

## CONFERENCE CALL PARTICIPANTS

**Julio Marquez** *Guggenheim Partners - Analyst*  
**Jeremy Hamblin** *Craig Hallum - Analyst*  
**Simeon Gutman** *Morgan Stanley - Analyst*  
**Cristina Fernandez** *Telsey Advisory Group - Analyst*  
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**Justin Kleber** *Robert W. Baird & Co., Inc. - Analyst*  
**Max Rakhlenko** *TD Cowen - Analyst*  
**Peter Keith** *Piper Sandler - Analyst*

## PRESENTATION

### Operator

Good afternoon, and welcome to the Arhaus first quarter 2024 earnings conference call. (Operator Instructions) I will now turn the conference over to Wendy Watson. Wendy Watson, please go ahead.

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### **Wendy Watson Arhaus Inc - Senior Vice President, Investor Relations**

Good morning and thank you for joining the Arhaus first quarter 2024 earnings call. And with me are John Reed, Co-Founder, Chairman and Chief Executive Officer; and Dawn Phillipson, Chief Financial Officer. After your prepared remarks, they will be joined by Jen Porter, our Chief Marketing and eCommerce Officer, for the Q&A session.

During Q&A, please limit to one question and one follow-up. If you have additional questions, please return to the queue. We issued our earnings press release for the quarter ended March 31, 2024 before market opened today. As a reminder, remarks today concerning future expectations, events, objectives, strategies, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties.

For a summary of these risk factors and additional information, please refer to this morning's press release and the cautionary statements and risk factors described in our most recent annual report on Form 10-K and subsequent 10-Q as such factors may be updated from time to time in our filings with the SEC. Forward-looking statements are made as of today's date and except as may be required by law, the company undertakes no obligation to revise or update these statements. We will also refer to certain non-GAAP financial measures in this morning's press release includes the relevant non-GAAP reconciliations. A replay of this call will be available on our website within 24 hours.

Now I will turn the call over to John.

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### **John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Good morning, everyone, and welcome to the Arhaus first quarter conference call. I wanted to begin the call today by congratulating our team on a solid start to 2024 and for staying focused on executing our key priorities, both large and small, that are driving and supporting our four-pronged strategic growth strategy.

The market opportunities we have is substantial, and we have a proven strategy with established initiatives to capitalize on it. We are highly motivated to execute on these initiatives, increasing brand awareness, expanding our showroom base, enhancing our omnichannel capabilities and technology, and investing to upgrade our infrastructure, improve our business tools and support our growth.

Our ongoing commitment to build on our progress across these initiatives is paying clear dividends through sustained results quarter

after quarter. At the same time, our debt-free balance sheet and the flexibility it affords us remains a competitive advantage as we maintain our focus on expense control and prudent capital deployment.

In the current environment, I get a lot of questions about how we are continuing to do so well with luxury home sales well below pre-pandemic levels, and mortgage interest rates expected to stay higher for longer. The answer, as we see it, is many of our clients are staying in their home and they want to enjoy them. So they're remodeling, refreshing or simply replacing their furniture.

Our in-home and trade designers have never been busier with projects ranging from small to large. Our clients' appetite to make their home a better place to live continues to be strong. And given our clients' demographics, our clients are going on their European holidays or summer or enjoying a cruise, but they are also improving their homes at the same time.

Many of our design projects include assisting our clients with their second and third homes as well. So we are very pleased with the state of our consumer and with the latest data showing both luxury home sales and listings increasing in this quarter. We are optimistic for the balance of this year and into 2025.

As you know, I'm very enthusiastic about expanding our showroom footprint and how that continues to drive brand awareness and our long-term growth. Since our last call, we opened a new design studio in a wonderful location in Greenwich, Connecticut. It's already performing exceptionally well.

Later this year, we are adding design studios in Peach Tree, Georgia and Huntersville, North Carolina near Lake Norman. We are proving out our design studio concept and it's working very well. We developed the concept before the pandemic, a smaller footprint showroom, perfect for second home markets in affluent pockets such as Princeton, New Jersey within or outside large markets, locations where a lower square footage is preferred, staffed with in-home designers, and the latest high-tech design tools to assist clients in managing their home.

In October of 2020, we opened our first design studio in Carmel, California. We expect to have 11 by the end of this year with a long runway ahead of us. We also recently opened Arhaus The Loft outlet in Pittsburgh. We are adding two more of Loft locations this quarter, one in Denver and one in Florence, Kentucky, just outside of Cincinnati. And in just a few weeks, we'll be opening an amazing new showroom at The Grove and Los Angeles. We expect it to be one of our flagship locations and cannot wait for clients to see it and experience it.

As we have discussed, we have significant growth opportunities on the West Coast. In addition to the growth, we are opening three more showrooms in California this year, Carlsbad, Palo Alto and Corte Madera. We are also opening our first Oklahoma showroom this year. What is so gratifying and exciting for me and the Arhaus team is how well our showrooms perform in such a varied locations across United States, and we are not quite halfway through our goal of 165-plus traditional showroom locations.

Turning to products. Product is one of our key competitive advantage and a big differentiator. Our design, merchandising, and sourcing teams continues to delight our clients with incredible new products. Our product reflects our livable luxury aesthetics and then simultaneously eclectic family friendly and full of warmth and comfort.

Our pieces have a unique handcrafted steel and are designed using the best materials and an unparalleled focus on quality. This confidence in our product comes from both client reaction and consistent performance. Clients are loving our spring new product introductions, with newness this year outperforming the incredible reception we had last year's new spring product.

We are also very proud of the depth of our styles and selections. I mentioned that our showrooms perform well across regions, but one of the keys to this is the breadth of our product across traditional, transitional, and modern aesthetics.

Alongside our new products, our iconic bestsellers continues to be well bestsellers. We are able to consistently improve refresh these designs with beautiful new fabrics, shapes, finishes and sizes and present them in new inspiring ways across all channels. We believe our product is an incredible value. And based on our demand trends, our clients seem to agree, and we cannot wait for you to see and

experience the new product we are coming up with this fall in our showrooms catalog in [arhaus.com](https://arhaus.com).

On our strategic growth initiative fronts, there are two areas I want to call out. One, we just launched the new warehouse management system in our Ohio DC, representing a tremendous amount of work across several of our functional areas. This is a key piece of the system upgrades that will enable us to improve our operational efficiencies and mostly set the foundation for long-term growth. Congratulations to our team.

Second, I also want to call out our Final Mile team. Over the past year, we have made several improvements to our Final Mile and in-home delivery processes that are evident in better execution and delivery performance with some of the highest client survey scores we have ever received. We are extremely busy delivering our consistent results and client first service while growing and investing in the business requires unrelenting commitment, and I am extremely grateful for the hard work our team put in each day and every day.

In the first quarter, we delivered net revenue of \$295 million, net income of \$15 million, and adjusted EBITDA of \$29 million. As we reported this morning, we are pleased to have exceeded our top and bottom-line outlook for the quarter as teams executed well and first quarter benefited from the shift in our new warehouse management system implementation to April from March. We are on track to deliver on our first half and full year outlook.

Moving to demand. It's truly remarkable what our teams are achieving in the current macro environment. As we continue to meaningfully outpace the industry, our first quarter results are highlighted by February's mid-single digit and March's high single digit demand comp growth, more than offsetting January's weather related high single digit demand comp decline. Our demand comp in April was up mid-single digits.

Before I turn the call over to Dawn to discuss these results and our full year outlook in more detail, I wanted to reiterate our confidence in the outlook for our company for the balance of 2024, which we reaffirm this morning. Our future is bright. We believe our strategic competitive advantage positions us to continue to capitalize on the aspiration of our clients to live in beautiful and curated spaces with our unique artisans crafted furniture,

I'd like to extend a warm welcome to John Moran, who joined us as Chief Operating Officer on Monday. Prior to joining us, John was Chief Operating Officer of Canada Goose and brings a wealth of experience in operational execution and supporting transformation growth across the functions. He is an important addition to our leadership team as we scale the business and realize the significant potential for growth.

As I said last quarter, I generally feel there are no collections like our collections. There are no people like our people. There's no potential like our potential. Arhaus stands out. Arhaus stands alone. When I founded Arhaus almost 40 years ago, I could not imagine the Arhaus we have today with the incredible potential we still have.

Now I'll turn it over to Dawn.

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#### **Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Thank you, John, and good morning, everyone. Net revenue in the first quarter was \$295 million with a 9.5% comp decline against the comp growth comparison of 21% in the first quarter last year. Our prior year included significant abnormal backlog deliveries that did not repeat this year as we caught up on deliveries in 2023 and have returned to a normal backlog.

We were pleased with our demand comp growth of 1.3% in the quarter as we continued to see strength in average order value and in orders over \$5,000 and \$10,000. We're also pleased the demand penetration of our in-home designer program continues to increase.

Our first quarter gross margin decreased to \$115 million, driven primarily by lower net revenue and higher showroom costs as we continue to expand our footprint. Gross margin as a percent of net revenue decreased to 39%, driven primarily by the higher showroom cost, deleverage related to lower revenue, and increased transportation costs.

First quarter SG&A expense increased \$14 million to \$97 million, primarily driven by increased selling expenses related to new showrooms and demand strength, increased corporate expenses as we invest in our strategic initiatives to support and drive the growth of the business, and increased warehouse expense as our Dallas location continues to increase productivity.

First quarter 2024 net income was \$15 million. Adjusted EBITDA in the quarter was \$29 million versus \$55 million in the first quarter of 2023. First quarter net revenue of \$295 million and adjusted EBITDA of \$29 million resulted in a 9.9% adjusted EBITDA margin in the quarter.

Next, as we reported this morning, we are pleased to reaffirm our outlook for full year 2024. Our expectations for how the year will progress have not changed since we initially provided our outlook in March apart from the warehouse management system going live in April rather than in March.

As a reminder, we expect full year adjusted EBITDA margins to be lower than 2023. We expect about 85% of the deleverage to come from SG&A with a lesser amount of deleverage in gross margin. Deleverage is driven by comping prior year backlog delivery and strategic investments we are making this year.

Strategic investments include corporate strategic investments of \$10 million to \$15 million to enhance our operational capabilities and drive our success long term, as well as investments in other growth initiatives such as e-commerce and our in-home designer and trade program. The \$10 million to \$15 million in corporate strategic investments includes our new warehouse management system, planning and allocation software, and new manufacturing ERP at our upholstery facility, and our in-home delivery experience.

To add further color, we also wanted to note that we expect to have higher expense at our distribution centers this year as productivity improves in Dallas. In the second quarter of 2024, we anticipate net revenue in the range of \$310 million to \$320 million. We expect approximately 900 basis points of adjusted EBITDA deleverage in the second quarter. Approximately one-third is from a gross margin pressure, primarily due to higher short-term costs related to growing our showroom footprint, investments in in-home delivery program, and to a lesser extent, the impact of price action product in our P&L. The balance of the deleverage in SG&A primarily due to new showrooms, strategic growth investments, and supply chain costs from the continued ramp of our Dallas distribution center.

Given the new warehouse management system implementation shift from March to April, we expect the earnings upside relative to original expectations in Q1 to be offset in Q2, with our anticipated first half financial performance in line with full-year expectations we shared in March. As I noted last quarter, we continue to expect the net revenue growth in the balance of this year. We expect the deleverage in both gross margin and SG&A in the first half of the year to inflect in the second half.

As the P&L impact from the June 2023 price action product is complete, revenue and earnings from new showrooms positively impact our P&L, and we continue to expand our brand awareness and drive market share expansion. We will update you on our third quarter expectations when we report second quarter financial performance in August. For all other details related to our 2024 outlook, please refer to our press release.

In closing, I want to thank our team for their focus and execution of our strategic growth priorities and investments. I'm so proud of what we are accomplishing while delivering solid financial performance and retaining our balance sheet strength.

We believe our four-part strategic growth strategy and our strong debt-free balance sheet are compelling competitive advantages, enabling us to make the necessary investments to build on our share gains in the highly fragmented \$100 billion premium home furniture market. We are navigating the current environment from a position of strength, and we believe we are well positioned to delight our clients while maintaining our unwavering commitment to driving value for all stakeholders.

This concludes our prepared remarks. With that, I'd like to thank you for joining us this morning and we are happy to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Philip Lee, William Blair.

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**Unidentified Participant**

Hi. This is Sabrina on for Philip. Thanks for taking my question. Can you talk about some of the progress our team has made on those internal system investments like the e-commerce capabilities and enhanced design and trade programs, and any early signs of improvement and how that will flow through for the rest of the year?

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah. Good morning, Sabrina. This is Dawn. We're really excited for how we're progressing through on some of these systems. We've talked about warehouse management system, which we deployed, and I'm starting to see some nice efficiencies in the warehouse there. So pleased with that.

It's still a little bit early days for the other systems that we talked about with regards to our planning and allocation program. Our manufacturing ERP is well underway during the design and launch portion. In-home delivery investments that we're making, we've seen some really great changes in our client survey responses. So really, really pleased with the investments that we're making in these areas, really to help the organization get to the next level, drive some efficiencies.

Well, from a financial efficiency perspective, we need to get all these systems deployed and launched. And then of course, there will be a learning curve as the teams all adopt the new software platforms and as we -- then we'll start to see some financial efficiencies.

We mentioned last quarter that we are evaluating our full systems infrastructure and platform. So we will continue to do that. These new systems that we're launching -- in the process of working through and launching, we're certainly excited about and confident that the business needs those. But we're also continuing to look at different things like inventory management platforms, vendor management platforms, financial system packages. So more to come on those in coming quarters as management continues to refine our expectations for the organization and what those will look like but pleased with that.

Jen, did you want to add anything on the e-commerce investments we're making?

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**Jennifer Porter Arhaus Inc - Chief Marketing Officer**

Yeah. Good morning. To echo Dawn, we're really excited about what we're doing on e-com as well. We're into year three now with our new platform. And we continue to learn and deploy and optimize the site, honestly, pretty much every single day.

So really, really pleased with the results that we're seeing on e-com, both in terms of sales and also some of the improvements that we're making in terms of getting traffic to the site and engages when people are on the site. And I think what's really great about those enhancements to e-commerce, as a token in the past, we know majority of our clients are engaging with us on arhaus.com, regardless of where they end up transacting.

So as we're seeing and monitoring these results and getting a more complete picture of our clients, their behavior, what they're responding to, it's really just such a great tool, not only to drive conversions and sales. And we're seeing some really nice improvements there in terms of sales, but also getting people to really understand Arhaus brand differentiation and the product assortment, which as John mentioned, we're so excited with the new products that came in and really seeing people being able to engage and in-store and online as well.

So lots, lots of enhancements, a lot that you may see if you're on the site every single day, a lot of you may not see because they're happening behind the scenes. But a lot has been going on and a lot more on continuing to come this year into the future.

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**Unidentified Participant**

Great. That's really helpful. And then a quick question on what the new product assortments. Could you provide some color on AOV trends throughout the quarter, if there's any specific product assortment or items that have been particularly resonating with consumers recently?

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Oh, gosh. Yeah, there's a lot. Yeah. I mean, the great thing about our business is it's a fashion business. Things are always trending.

We're not trendy where we get in and out of things in one season. Things can last for last years. But we're seeing people are wanting more color in their homes. Shapes are softer, more curvy, was getting a little fresher, lighter not so dark, and grade type of things.

So it's constantly evolving. But yeah, we really have had some great new products that we've launched some last year, some this spring. And then as we said on the call, very excited about this fall coming up. We have a lot of new products. The photo team is busy shooting everything as we speak and getting ready to launch fall probably in September.

But yeah, it's a moving target. But coming out of COVID and so forth, people are changing, and things were again pretty straight, dark, kind of sterilized column. In my opinion, now they're a lot brighter, lighter, more comfortable with curvy type products, and then that's what we're going after.

**Unidentified Participant**

Great. That's helpful. Thanks, and best of luck.

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thank you.

**Operator**

Steven Forbes, Guggenheim Partners.

**Julio Marquez Guggenheim Partners - Analyst**

Good morning. Thank you for taking my question. This is Julio Martinez on for Steve Forbes. Just to follow up on product. Can you expand on product and store assortment expansion plans for 2024? And is there any way to maybe help better understand how you're thinking about new product contribution growth over the next coming years? And a quick follow-up after that. Thank you.

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Yeah. I mean, one of our focuses is to offer a broader arrangement of styles, textures, colors, and so forth. It's a big country out there. There's different taste in Alabama and Cleveland and L.A.

Although core pieces are always bestsellers everywhere, there's different case. Some markets are more modern. Everything has gone fairly modern contemporary over the years. We're seeing a big slug of people who are coming back to a little merchant transition or even some traditional pieces.

So our focus is to take each category we carry and offer a broader assortment. We've been testing some really different product and like two or three stores across the country, then the response has been phenomenal. So it's something we'll probably grow.

And on top of that category as we just keep growing -- upholstery is big, big business. All the wood products from living rooms to bedrooms, of course, which is a massive business for us. And people have four, five bedroom, sometimes 10 bedrooms, and they want different assortment to be able to furnish the entire house. So we're working hard to just expand our look and our feel and taste. But it all fits under the Arhaus brand. So it all coordinates goes together and so forth.

On top of that, we're really working hard to bring in color between the core pillars and throws things like that, and things that can really

brighten up our room without making a big commitment to upright bold pattern, sectional, or something. So that's something we're really, really growing and going after pick time as well, and you'll see more of that actually in the fall than today.

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**Julio Marquez Guggenheim Partners - Analyst**

Great. Thank you. Very helpful, actually. And is there any way to think about how the upholstery mix has changed over the past few years? And maybe if you can contextualize how much is being made within Arhaus manufacturing facilities versus the third party?

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Yeah. The Arhaus part is a significant part of the business. It's not quite half of the business, but close to that. And again, whether we're making it in our facility or down the street and a couple of the other domestic facilities in North Carolina, it's all great product. And the different shapes and forms and so forth is one that we're working with all of our manufacturers on.

So it's working in harmony. We're thrilled to be back and getting custom, which is a huge part of our business and the upholstery business back to a really short window of lead time where it was out at 28 weeks, I think a couple of years ago. We're much, much quicker now down, I think, five, six weeks or so to get into the customer's home, which we're pretty proud of. They've been working really hard and making that happen.

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**Julio Marquez Guggenheim Partners - Analyst**

Awesome. Thank you.

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**Operator**

Jeremy Hamblin, Craig-Hallum Capital Group.

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**Jeremy Hamblin Craig Hallum - Analyst**

Thanks, and congrats on the strong momentum in the business. I wanted to just come to the warehouse management system update, the shift here, and thinking about the impact on Q2. So think the best guess on the total delivered revenue in the quarter, if that's in the range of \$25 million or something along those lines? And then whether or not why has it gone smoothly into expectations, are you having any lingering impacts that's resulting in delays on deliveries? I wanted to just see if you could put a little more color around that.

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Sure. So as it pertains to the second quarter, we're launching the WMS at the start of the quarter. Certainly, it provides us with a little bit more flexibility to make up any timing shifts related to the revenue impact from the warehouse closure.

So we feel good about what we've guided in the \$310 million to \$320 million net revenue range for second quarter. As it pertains to the actual implementation, it's gone as expected. We pushed it from March to April prudently to be ensure that we were as prepared as possible just from a back-office perspective.

And we never expect to be software platform implementations to go smoothly, so we prepare as best we can. And we're very fortunate that we have a very dynamic and flexible leadership team that is constantly evaluating what different options we have available to us when things pop up.

So we navigated it very from my perspective. From the client perspective, really a non-issue. So clients are getting their product when they expect, and that's exactly what we want. These back-office system implementation should not negatively impacts the client experience in any way.

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**Jeremy Hamblin Craig Hallum - Analyst**

Got it. And then just a quick follow-up here. The pricing actions that were taken last summer, in terms of how long you expect that to linger in terms of flow through to your gross margin, what point would you expect the gross margin to no longer be impacted in a material way from the pricing actions?



**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Sure. So we did see some impact in the first quarter from the price actions that we took in June of 2023. We expect a lesser amount in the second quarter. And then we expect by the end of the second quarter to really have cleared through any meaningful impact, which we noted we'll see some inflection in the second half of the year.

One of those is due to the price action component clearing through the P&L. So all of those SKUs are back to the -- the ones that we have a home and the go-forward assortment, they're all back to their pre-price actions on pricing. And so we feel good about how we're positioned as we head into the last three quarters there.

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**Jeremy Hamblin Craig Hallum - Analyst**

Great. Thanks for taking the questions. Best wishes.

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**Operator**

Simeon Gutman, Morgan Stanley.

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**Simeon Gutman Morgan Stanley - Analyst**

Hey, good morning, everyone. I wanted to ask I guess two-part question. First, I know the COO higher -- I know he started, but I think in the news about a month and a half ago, we talked about it. Can we talk about, John, the role, the need for that role? And then as part of it, can you give us a lay of the land in the next call it one to three years warehouse DC capacity systems upgrade? Dawn teed a few of these up, I'm just curious what to expect as you scale this business going forward.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Yeah, sure. As we've been speaking of, we are launching a lot of new systems, and we brought the new COO to really help orchestrate all that.

Then you'll be the guy that's orchestrating the IT side to the planning side to the implementation side to the warehouse side of logistics and so forth. So one great thing about that for me is I get to spend time on what I love, which is finding great product and keep driving the business forward. And I don't have to be in a 19 meeting about the systems, which I am going to be having about.

And so far, he has been doing a phenomenal job just for the very short time he's been here. So it's something that I think the team is looking for, that leadership. He's got a lot of experience in this field and world, and we're excited to have him be the orchestrator of it.

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**Simeon Gutman Morgan Stanley - Analyst**

I guess as part of that, any more capacity that's needed and then other things -- I don't know if it's automation, but other enhancements to the distribution center you have?

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Right now, we're in good shape. Now that we implemented the system, we have enough capacity. We've got a great team up there. All three of our large distribution centers here. And we're going to just work out -- if there's any small kinks in this system, we'll get those worked out over the next few weeks, and everything is good to go to start growing.

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**Simeon Gutman Morgan Stanley - Analyst**

Can I ask as a follow-up, hopefully? The other one was part of a longer question. Just the backdrop for furnishings, you've had some weather volatility. Can you talk about, I guess, the biggest ticket items in your in your product assortment, diagnosing the consumer?

There's been a lot of chatter about weakening more on the lower income side in the last, call it, three to four weeks. Curious if there's any of that? Does it feel like the industry has bottomed in terms of demand that's reverted post-COVID and now bouncing along the bottom or maybe even getting better?

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

I'm not an extra in what other people do. All I know is our business, and it's very strong. We've not seen anything changed in the last four, five, six weeks at all. That's first I'm hearing of that.

So yeah, I can't answer that. I stick to what we're doing and executing our plan and coming out with incredible product, executing it well, getting into customers' homes who are delighted with the systems we're using and how we're delivering it to them. And then they're telling their friends and neighbors, and they're coming in and buying it.

So I don't know. I've not heard anything about things or bottoming out, especially on the lower end.

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**Simeon Gutman Morgan Stanley - Analyst**

Thanks, John.

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**Jennifer Porter Arhaus Inc - Chief Marketing Officer**

Yeah. And just to add into that, looking specifically like at our consumer and our customer base, we haven't seen any notable differences or changes as we speaking. Our customer now has really stayed very steady since 2019 pre-pandemic. We're continuing to see that going strong,

Looking at all of our stats and things that we share, we're still seeing that through a 50:50 split between new and existing. Have been really, really pleased with the response, particularly from our prospects and new customer acquisition activities.

As Dawn mentioned on the call earlier as well, we're really pleased about the value about customers coming in as well. So as John mentioned, we really got to focus on doing what we are doing. Our product is working. Our messaging is working. Our showrooms are working. So we're focused on that and continuing to see good results.

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**Simeon Gutman Morgan Stanley - Analyst**

Thanks, everyone. Good luck.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thank you.

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**Operator**

Cristina Fernandez, Telsey.

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**Cristina Fernandez Telsey Advisory Group - Analyst**

Hi, good morning. I wanted to ask about the competitive environment in promotions, any change you're seeing? Some of your competitors also are introducing a lot of new product. And in the promotions, anything that we should picked up leading up to the important Memorial Day weekend?

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**Jennifer Porter Arhaus Inc - Chief Marketing Officer**

Hi, Christina. Good morning. Yeah, so we continue to see that elevated promotional market out there, which is really interesting. We start to see some of those being loyal. They follow and starting already very early in the month.

In terms of what we're doing, what we're looking at, as you just referenced and John and Dawn mentioned, our product is working, our customers are spending money. We're really, really pleased with that from a marketing and branding perspective where we're really focused on continuing that put out, that messaging around brand differentiation.

We're continuing to introduce Arhaus to new clients. We're continuing to focus on sharing the product and really letting that shine and letting our clients take that journey and make that decision. And our promotional strategy has really remained the same.

And we're still seeing results when we run promos around those -- in terms of shopping weekends. As I've spoken about on prior calls, we have lengthened those promos. It's no longer really just doing the three to four days right around the promo but seeing that be a little bit longer. And we're really happy with what we're seeing.

So in terms of what we're doing, we're just focusing on continuing our strategy of doing what we're doing, and we are monitoring it very closely. And as I mentioned, it's working for now. So we're really happy with that.

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**Cristina Fernandez Telsey Advisory Group - Analyst**

And then my second question is around the new stores. You have a lot of exciting locations coming up. I wanted to ask about the staffing for those stores, how you see and what's the process to make sure you have the right store managers and designers? Are you moving people from other stores, or is it more training and looking for new employees in those new markets?

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Sure. Good question. Yes, we not only are looking forward to the new stores opening, but we have just opened a quite a few new stores in the last six, eight months as well. And how it works for us is, a, we always move a store manager to a new location. An existing store manager, experienced store manager has proven to be a great leader and understand our culture.

With that, we typically, in most of the stores, and depends on where they are -- but most of them, we have a few handful of folks that want to move to them. And so we'll move some experienced folks there as well. In addition to that, then, of course, we have to hire a whole new staff. We've got a phenomenal university of Arhaus training team that gives them, I believe, six weeks of training before they opened the doors.

So they are thoroughly trained. They'll go work out of another store, get them on the floor of not only talking to clients, but then getting behind a desk and learning how to write up the sale and so forth, and assisting our clients. So they are very, very well trained by day one when we opened up the door and when our clients come in.

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**Cristina Fernandez Telsey Advisory Group - Analyst**

Great. Thank you.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

You're welcome.

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**Operator**

Jeffrey Walter, Jefferies.

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**Jeffrey Walter Jefferies - Analyst**

Good morning, Jeffrey Walter on for Jonathan Matuszewski. Thanks for taking our question. It sounds like train design momentum continues to build. Can you just update us on the plan for deepening the trade channel presence with interior designers and then discuss any near-term opportunity within the contract business? Thank you.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Yeah, you bet. Yeah, the trade business is one that we focus to continue to grow. These are folks that have their own business, and they have their own clients. And we're encouraging them to bring their clients and themselves into our showrooms.

We have we have added folks internally to do nothing but help seize these trade folks, assist with the sale, make it easier just to make it seamless so they don't have to spend a lot of their time on it. And that's what they -- we learned.

They're time crunched. And if we can help them with that, we've got the products for sure, or a one-stop shop for them. They don't have to go to 10 different vendors to buy things for a room. We've got the lighting. We've got the rug. We've got this furniture. We can do it all.

So we do it all. We take care of it. We guarantee it if there's any issues, it gets repair, their fixture exchanged. And we're seeing is growing nicely. We're adding quite a few new trade members every single month. The trade business is outpacing the average growth of our business total.

So we see a big, big future in that. We think we've only started that. We think we've got a huge runway ahead of us. So it is something we definitely are focusing on and very excited about.

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**Jeffrey Walter Jefferies - Analyst**

Great. Thank you so much.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

You're Welcome.

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**Operator**

Robbie Ohmes, Bank of America.

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**Unidentified Participant**

Hi, this is Maddie check on for Robby Ohmes. Thanks for taking our questions. Just first, you highlighted that demand comps grew mid-single digits in February and high single digits in March. Can you give any color on how April trended, given that strong exit rate? Thank you.

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah, April was up mid-single digits. So pleased with the response we're seeing to some of our new collections, particularly in outdoor. We have the Beaumont, which is doing really well. Our tie and collections are performing very well. So we're continuing to be very excited about the product introductions.

We know January was impacted by weather. But we also know folks got to decide not to purchase home furnishings because it's cold or snowy one month. So they will come back, they will come in.

And we know that we resonate in various markets across the country. And so as we continue to drive our brand awareness up, we do expect to continue to see some great results. So very pleased with April and how it's trending, and we're looking forward to the balance the year.

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**Unidentified Participant**

Great. Thank you. And then maybe just to dive a little deeper into your plans with e-commerce this year, are you adding SKUs online, maybe a larger assortment of like tabletop soft goods, lower AOV products as well, AOV products? And have you seen a relationship between growth in the e-commerce business as you're opening new stores, given you're building awareness, people are in actual showrooms, and then maybe buying online? Thank you.

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**Jennifer Porter Arhaus Inc - Chief Marketing Officer**

Yes. Hi, good morning. Great question. I think the simple answer is we're excited about everything with e-commerce. There is -- as with the rest of our business, there's just so much opportunity. So as we are working on introducing new products and growing the assortment, as John mentioned earlier, some of those categories that we're looking at, you will see that probably on the website as well.

In addition to that, as you know I'll be talking, we're constantly learning and testing and evaluating how we present the product to our clients digitally as well. So not only we'll be introducing those new products online as those seasons launched, but we're also getting better and smarter every single day about how we serve up that product assortment to the clients and so how we can bring that retention at the right time during the product's journey.

I think one of the really exciting things digitally, as John mentioned, people are starting to like more color and like more variety in their

assortments. There are all sort of amazing really incredible ways to inspire people and surface color and show maybe the wild super colorful, super (inaudible) on site, but then also show the two core items, which are a little bit easier to get to on a weekly basis.

So a lot more to come there as we just figure out the product assortment, both visually and what it looks like. We haven't spoken specifically to the product mix to your question about looking at specific categories and AOV and e-com. What we have talked about is how often AOV higher than all our competitors for the reasons that you mentioned. We don't have as much about the core or smaller on tabletop type items in our assortment. We are more predominantly weighted to furniture.

As I mentioned, there's opportunity everywhere. But for now, we're really happy. We're continuing to use our digital channels to support our full omnichannel brand. We really see our digital channels not only as a sales channel but also as an experienced channel, a brand awareness channel where we can introduce what makes Arhaus special, but also the full assortment to our clients.

We're really focused on trying to be there however our clients want to interact with us and so looking to improve conversion in both showrooms and on e-com, and we're making those decisions. So a lot more to come. I think you touched on the upper part of your question but let me know if I miss anything there.

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**Unidentified Participant**

That's perfect. Thank you so much.

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**Jennifer Porter Arhaus Inc - Chief Marketing Officer**

Thank you.

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**Operator**

Justin Kleber, Baird.

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**Justin Kleber Robert W. Baird & Co., Inc. - Analyst**

Hey, good morning, everyone. Thanks for taking the questions. First one for me, Dawn, you mentioned the increase in the in-home designer penetration. Can you just provide us any updated benchmarks on that and where you sit today, how that's evolved maybe relative to the time of the IPO? Just trying to get a sense for what inning you think that initiative is in because it seems like it remains a nice driver for the business here.

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah. So we don't disclose the actual demand penetration, but what we are really pleased about is how it's continuing to grow. And so as we're continuing to test different staffing levels in the various volume locations that we have, we're trying to see how high it's high.

And so I would say we're probably in inning four or five, but really pleased with the performance that we're seeing. We're also, as John mentioned, digging deeper into the trade program and how can we continue to drive that business. And we know that the trade and our in-home designer program, there's some nice overlap there. Some great creative collaboration that happens when you get equal like-minded folks in a room really thinking about a client safe.

So we do expect some nice growth in the business in the in-home designer program as trade program increases, but also just as we continue to evaluate and fine tune our staffing model with regards to that program. So more to come but really, really excited at how those programs are both performing.

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**Justin Kleber Robert W. Baird & Co., Inc. - Analyst**

It's great to hear. Thanks. Thanks for all that color.

And then my follow-up is on demand. And if you could just remind us or give us a sense for what your guidance assumes from a demand comp perspective. And let's say, if demand ends up exceeding your internal plan, would you let the upside flow through? Or are there certain investments you would choose to maybe pull forward into this year from future years? Thank you.

**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah, that's a great question. We have not guided to demand. And so as we move into next year, we're excited for that demand comp and the comp to converge a little bit more to give you better clarity. But as we think about the investments that we need to make and want to make in the organization, whether it's corporate strategic investments in systems and processes or whether it's growth driving initiatives such as e-commerce traded in-home designer, there's a whole host of opportunity for us from a growth perspective that we haven't even started to really dive into like contract as well.

So it's a decision that management will be making as we go. And so we feel good about the guidance that we have out there for the year. And we're very optimistic in what's going to happen in the industry, what can happen with the consumer.

That being said, I'm a very conservative person, so I'm always contemplating what the downside is. But we have great strength in our balance sheet with great cash position, so we feel really confident in this year, how we're going to perform. And I'd say more to come in later quarters about what any changes that we might have. At this point in time, we think that our guide is achievable, and we feel good about the investments we're making at the moment and contemplated for the year.

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**Justin Kleber Robert W. Baird & Co., Inc. - Analyst**

All right. Well, thanks very much and best of luck.

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Thank you.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thank you.

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**Operator**

Max Rakhlenko, TD Cowen.

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**Max Rakhlenko TD Cowen - Analyst**

Hey, thanks a lot for squeezing me in. I'm sorry if I missed this earlier, I just hopped on, but how are you thinking about your value proposition and maintaining price gaps that you're comfortable with -- for the brand to succeed? And then what could your response look like if some of your peers are permanently cut their prices and it's not just the holiday promotions?

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**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah, so we feel great about our value proposition. We're constantly evaluating how we're positioned within the competitive set. But I'll turn it over to John in a second, but we believe very strongly in our product quality aesthetic, and we feel great about how we're positioned. But John, do you want to (inaudible)?

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Yeah. If you understand our business model, it is and always has been -- we go direct to manufacturers who actually make products, buy from them, comes on either containers or trucks, comes into one of our distribution centers and then right out to the consumer. We don't buy from middleman, people with -- that mark the product up in any way, whatsoever.

We don't use very expensive designer folks who want some huge royalty on every single piece we sell, things like that. So we really have the best model out there, certainly, in the high end business. And we believe we give great values.

But we're not worried about other folks cutting their prices and so forth because you can't buy our products from other people. It's exclusive to us. The looks are different. It's incredible quality, and it's an incredible value. And if our competitors cut prices, it's still going to be an incredible value.

So we're focusing on what we do best. And we have great product that are truly, truly has a great value and an incredible quality. So it's hard to beat -- I think it's hard to beat our product. (multiple speakers)

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**Max Rakhlenko TD Cowen - Analyst**

That's great color. Go ahead.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Go ahead. Yeah, we're just taking the question.

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**Max Rakhlenko TD Cowen - Analyst**

No, that's great color. I appreciate it. And then as a follow-up, so we've now seen luxury home sales increased for six consecutive months. So curious, do you think that we should start -- if that should start to show up in your demand comps potentially as early as the next few months?

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**Wendy Watson Arhaus Inc - Senior Vice President, Investor Relations**

Max, this is Wendy. I'll play in on this. I'd like to look at some of those market stats, and obviously, that's a positive sign. And the other thing I saw recently, which I'm sure you're aware of, is that listings are up even more than -- home sales are up in that market. So that's a nice trend.

But I would just remind you that most of our sales are driven by light refreshes, so repainting the room, other things, remodeling. Home sales are a driver, but they're much smaller than those other two factors.

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**Max Rakhlenko TD Cowen - Analyst**

That's great. Thanks a lot, guys, best of luck.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thank you very much.

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**Operator**

Peter Keith, Piper Sandler.

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**Peter Keith Piper Sandler - Analyst**

Hi, good morning, everyone. Nice results. Tariffs are becoming a bigger topic as we go through the year here. And I was wondering if you could just address how you're thinking about that. I know you don't have a ton of China exposure, but maybe if you quantify it, and also how did you adjust to the tariffs that went into place and furniture back in 2018.

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**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Sure. Back in 2018, we were pissed because we didn't like 25% tariffs. But we had to take price increases and our clients accepted them and we moved on. What we did was immediately start working on getting product out of China if we did have it in China. And just to remind you, we had very little product in China to begin with. Certainly, far less than our competitors.

So most of the big guys now have moved on to other countries. If not, they're moving on quickly. And we're in a great position that if tariffs go to 150% which we heard. Someone say the other day that we won't miss a beat. We'll be good, good shape. And again, we're working hard to adjust things, move things if we need to.

Quite a fair amount has been moved back to North America, and then countries like Indonesia, Vietnam, Cambodia, and so forth, for some of the Asian products. And our vendors that we're incredibly loyal to, they're incredibly loyal to us. Now that they've been in China, they need to get out. They want to do business with us, and they've worked very hard at doing that.

**Peter Keith Piper Sandler - Analyst**

Okay. And maybe secondarily, the question directed towards Dawn and the guidance.

With the comp guidance, I guess the one thing I'm having a hard time understanding is the very heavy pressure in the first half, some of which I know is from the new warehouse management system. But that heavy pressure in the first half in leading to what's implied to be flat to positive comps in the back half, and yet at the same time, I think the backlog comparisons are a bit heavier in the back half, so can you just help us walk through what's helping this really nice comp acceleration or comp improvement as we go through the year.

**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Yeah. So we ended last year with a nice normalized rate of backlog, with January being one of our bigger months of the year from a demand perspective, coming in (technical difficulty). It just impacts the first quarter and a little bit into the second quarter in a more meaningful way.

So as we look at our demand within the hopper to be delivered, we feel -- both on the comp side and on the new showroom side, what we're able to deliver more in the back half of the year just based off of that and how the demand is flowing in, with January being a little bit soft due to weather and then the new showrooms opening. So it's mostly just driven by that top line, Peter.

**Peter Keith Piper Sandler - Analyst**

Okay. Very good. Thank you so much.

**Dawn Sparks Arhaus Inc - Chief Logistics Officer**

Sure.

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thank you.

**Operator**

That concludes our Q&A session. I will now turn the conference back to the speakers for closing remarks.

**Wendy Watson Arhaus Inc - Senior Vice President, Investor Relations**

Thank you, everybody, for participating today, and we look forward to talking to you again next quarter.

**John Reed Arhaus Inc - Chairman of the Board, President, Chief Executive Officer, Founder**

Thanks, everyone. Have a good day.

**Operator**

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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