



Arhaus, Inc.

Second Quarter 2025 Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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Jennifer Porter, *Chief Marketing and eCommerce Officer*

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PRESENTATION

Operator

Good morning, and welcome to the Arhaus Second Quarter 2025 Earnings Conference Call.

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I will now turn the call over to your host, Tara Atwood, Vice President of Investor Relations. Please go ahead.

Tara Atwood

Good morning, and thank you for joining us for the Arhaus Second Quarter 2025 Earnings Call.

Joining me on today's call are John Reed, our Founder, Chairman and Chief Executive Officer, Michael Lee, our Chief Financial Officer, and Jennifer Porter, our Chief Marketing and eCommerce Officer. After our prepared remarks, we will open the line up for a Q&A session. During Q&A, please limit yourself to one question and one follow-up.

We issued our earnings press release and 10-Q for the quarter ended June 30, 2025, before the market opened today. Those documents are available on our Investor Relations website at ir.arhaus.com. A replay of the call will be available on our website within 24 hours.

I would like to remind everyone that our 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. The forward-looking statements are made as of today's date and, except as may be required by law, the Company undertakes no obligation to update or revise these statements.

We will also refer to certain non-GAAP financial measures, and this morning's press release includes the relevant non-GAAP reconciliations.

Now, I will turn the call over to John.

John Reed

Good morning, everyone, and thank you for joining us. We appreciate your continued interest and support of Arhaus.

I'm excited to kick off today's call by welcoming our new Chief Financial Officer, Michael Lee. Mike has hit the ground running, bringing deep operational and financial expertise that has strengthened our Leadership Team. I'm thrilled to have him on board. He's playing an important role as we continue to advance our long-term strategic priorities, which are as follows: increasing brand awareness to drive net revenue, growing our showroom footprint with discipline, enhancing the omnichannel client experience, and investing in scalable infrastructure to support long-term growth.

Now, let's turn to our business and operational updates.

Like many companies, we've experienced a highly dynamic and uncertain backdrop this quarter, with shifting tariffs, ongoing macro pressures and broader geopolitical tension, all weighing on the consumer. These are factors outside our control. What is within our control is how we show up for our clients, and we continue to focus on what we do best, delivering exceptional product, deepening our client relationships and growing the business with discipline.

I'm incredibly proud to share that we achieved the highest quarterly net revenue in Arhaus' history, driven by the early ramping of our Dallas Distribution Center that transitioned in-house. This enabled us to convert strong first quarter demand into net revenue more efficiently, and at a higher volume, than expected. As a result, comparable growth was up 10.5%.

While Demand Comparable Growth declined in the second quarter due to ongoing macroeconomic pressures, we've seen strong momentum heading into the third quarter. July Demand Comparable Growth increased 15.7%, reflecting the resilience of our high-end client base and the enduring appeal of our products. Year to date, including July, Demand Comparable Growth is up 2.2%.

Our results this quarter are a testament to the strength of our brand, the loyalty of our clients and, above all, the incredible commitment of our teams. I want to take a moment to thank the entire Arhaus team for the passion, care and relentless dedication you bring to our business every single day. We are building something truly special together. I couldn't be prouder to work alongside all of you. In an environment like this, we don't take any of this for granted, and it deepens our confidence in the long-term strategy we're executing.

Turning to product, this is where Arhaus begins, and this is where Arhaus leads. Our curation of the most beautiful furniture created by the best artisans around the world is what sets Arhaus apart. For nearly 40 years, we've traveled the world to find "home" in the most unexpected places and to share it with our clients. Our designs are rooted in quality and crafted with care, and they are made to be lived with, passed down and admired for generations.

From family-run workshops in Romania and Mexico to the foothills of North Carolina, the countryside of Italy, our artisans span the globe. I recently returned from a visit in Mexico where we're creating pieces with artisans designed around the beauty of reclaimed wood. The materiality and artistry of these collections are unlike anything I've ever seen before. Italy has long been at the heart of our story, a place where artistry and tradition come together, and where we've built enduring relationships with artisans spanning over three decades. We continue to grow relationships in Italy with new artisans who share our passion for excellence. These are the moments that inspire me, not only as a designer, but as a leader. As CEO, I see my role as an architect of product vision, working closely with our incredibly talented team to translate these inspirations into products that reflect how our clients want to live.

Looking ahead to fall, you'll see an elevated and expansive assortment that is globally inspired, materially rich, and distinctively Arhaus. It reflects the direction we're heading, while staying true to our heritage of timeless design, exceptional craftsmanship and global storytelling. Think warm wood tones, like American walnut, and the beauty of mixed materials including stone, burl and shagreen that add depth, texture and sophistication. Architectural forms remain a signature of the season and include flowing curves, beveled edges, reeded wood and dimensional carving. We're doubling down on what resonates, refining core styles, updating traditional silhouettes and emphasizing the rich interplay of materials. This is a season of confidence, creativity and intentional newness.

Upholstery remains central to our story. We believe we have the best upholstery in the market, delivering on quality, comfort and customization. Clients and designers can customize the majority of our collections to their detailed specifications by selecting unique configurations, the perfect fabrics, and, in many cases, details such as leg finish colors and trim details. This customization is backed by more than 600 fabrics and a growing library of more than 90 leathers.

Now, I'm incredibly proud to share a new chapter in our journey, the launch of Arhaus Bath Collection, representing our thoughtful expansion into a new space within the home, one that is deeply personal, where each day begins and ends, and where moments of self-care and sanctuary are found. Our approach to bath is guided by deep client insight and a commitment to long-term value. We design with intention, listening closely to our clients' lives and what they need. The Bath Collection features vanities, storage pieces crowned with marble and stone, faucets and hardware in antique brass and polished nickel, and Turkish cotton towels. Every item reflects commitment to the timeless design, quality craftsmanship and functional elegance, now extended to the bath.

Bath is the result of a multi-year effort led by our Product Innovation Team, who have spent over two years perfecting every detail. It's a powerful reflection of the culture we've built at Arhaus: hands-on, purpose-driven, and fueled by passion and vision. I'm deeply grateful to the entire team for the incredible work they've done to bring this to life.

The Arhaus Bath Collection will be available online and in select showrooms this fall, supported by our In-Home Design Team to ensure a seamless client experience.

In closing, Arhaus is built to perform through cycles, anchored by timeless, impeccably crafted design, an elevated client experience and disciplined execution. That foundation has served us well for nearly 40 years and remains one of our greatest competitive advantages. We're navigating the current environment from a position of strength, debt-free, with ample liquidity, and remain focused on what we can control, executing with discipline, scaling our showroom footprint with intention, and investing in systems, products and talent that will fuel our next phase of growth.

With that, I'll turn it over to Jen Porter, our Chief Marketing and eCommerce Officer.

Jennifer Porter

Thank you, John, and good morning, everyone.

At Arhaus, we continue to drive high-quality growth through a differentiated value proposition, educating clients on what makes our brand unique: artisan-crafted design, heirloom-quality craftsmanship, and a premium, highly personalized client experience. Despite a more volatile backdrop, we delivered a strong quarter, and our omnichannel strategy continues to drive engagement and conversion across every touchpoint.

As John shared, product is where Arhaus begins, and storytelling is what brings it to life. Every collection is grounded in craftsmanship, thoughtful innovation, and a narrative that captures the meaning behind each piece. Our goal is to create emotional connection and lasting value, whether a client is discovering us for the first time or returning to furnish the next room in their home.

Our fall catalog, launching at the end of the month, has an exciting and extensive presentation of newness, including our new Bath Collection. This season's assortment is globally inspired, richly textured, and emotionally resonant, all designed to feel curated, lived-in and deeply personal, reflecting how real families live, with pets, children, and the rhythm of everyday life. As always, catalog remains one of our most powerful tools for driving engagement and conversion, especially when paired with immersive digital and showroom experiences, but more than that, it's how we tell the story. Because, at Arhaus, we believe it's not just about what we make, it's about how it makes you feel, and that feeling is what keeps clients coming back again and again.

That same storytelling extends across our digital and content platforms, grounded in the belief that home is more than a place, it's a lifestyle. This philosophy shapes how we engage with clients and inspires curated brand partnerships that bring the Arhaus aesthetic to life beyond the home. This quarter, we strengthened our presence through lifestyle-driven collaborations that express our design values in aspirational, real-world settings.

In May, we unveiled The Arhaus Terrace at L'Ermitage Beverly Hills, a boutique hotel known for its discreet, elevated hospitality. Furnished with our Outdoor Collection, the rooftop lounge immerses our brand in a serene, design-rich environment in Los Angeles, reinforcing our position in a key market where we operate multiple showrooms.

Since launching in 2023, our partnership with White Elephant Nantucket has brought our coastal design sensibility to life. This summer, we expanded the collaboration through an on-property influencer retreat, driving social amplification and culturally relevant content across our digital platforms. The campaign showcased both the New England aesthetic and our Outdoor Collection, inspiring audiences to bring that lifestyle into their own homes.

In Aspen, we'll continue our successful partnership with White Elephant this winter, with our furnishings featured throughout the brand's highly anticipated new hotel. We'll also return as a sponsor of the Snow Polo World Championships, while extending our presence into the summer season through an activation at the Aspen Valley Polo Club's Beach Club, which debuted this past July. With our Aspen Studio in the market, these touchpoints strengthen our foothold in a competitive luxury destination and offer rich digital storytelling moments that celebrate the beauty of Aspen's mountain style and the Arhaus pieces that help define it.

These partnerships go beyond product placement. They are a natural extension of our brand meeting clients where they live, travel and gather, reinforcing Arhaus as a lifestyle brand rooted in thoughtful design and meaningful connection. Arhaus is more than a brand, it's a way of living our clients aspire to, and we're honored to be a part of the story they're creating in their homes.

In closing, while the environment remains dynamic, our focus is clear. We're staying close to our clients and leaning into what sets Arhaus apart: timeless design, trusted expertise, and a personalized, high-touch experience.

I'm especially excited for what's ahead this fall, the debut of our Bath Collection, the release of a beautifully curated new catalog, and the opportunity to bring it all to life in a way that inspires and connects. I invite you to be on the lookout for our fall campaign, 'The Feeling of Home', launching on Arhaus.com in just a few weeks, and to visit one of our showrooms this fall to experience the beauty, craftsmanship and intention of Arhaus firsthand.

With that, I'll turn the call over to Michael Lee, our Chief Financial Officer, to walk you through our financial results. Mike, over to you.

Michael Lee

Thanks, Jen, and good morning, everyone.

I'm excited to be here for my first earnings call at Arhaus. It's a sincere privilege to step into this role and partner with John and the broader team as we continue to execute against our long-term strategy. Today, I will cover both our second quarter financial performance, as well as our latest outlook for the remainder of the year, before turning it over to Q&A.

As John noted previously, we operated against a challenging macroeconomic and geopolitical backdrop that weighed on consumer sentiment during the quarter. Despite this, we remained focused on what sets Arhaus apart: bringing exceptional products to market, deepening our client relationships, and executing our plans with discipline and precision.

Our collective efforts resulted in a record quarter, with net revenue exceeding \$358 million, which is up 15.7%. Comparable growth was up 10.5%, driven by the successful conversion of strong first quarter demand.

Given the sizable beat on net revenue versus our prior guidance, it's important to highlight a notable operational 'win' that contributed meaningfully to our outsized performance this quarter. As previously disclosed, Arhaus had utilized a third-party operated distribution center in Dallas. Earlier this year, we made a strategic decision to in-source the Distribution Center as a tactic to enhance productivity and customer service. During the quarter, we successfully brought operations of our Dallas Distribution Center in-house, that ramped ahead of schedule, and this transition enabled us to convert strong first quarter demand into net revenue more efficiently, and at a higher volume, than expected. This operational 'win', combined with strong execution across all of our teams, played a major role in delivering record net revenue for the quarter.

While our delivered results exceeded expectations during the quarter, demand comparable growth, which is a measure of written orders, decreased 3.6%, which we believe is a reflection of the heightened levels of macroeconomic and geopolitical uncertainty. As we've seen through the year, near-term demand continues to fluctuate in response to the myriads of up and downs that we've experienced during the last several months as it relates to fiscal policy, monetary policy, new legislation and political tensions. However, we believe, given the resiliency of our clients, this choppiness mostly impacts the timing of purchase and less so the underlying ability or intent to purchase.

To further illustrate, April began with a temporary pullback in discretionary spending as Liberation Day created tremendous uncertainty across the globe and stock markets reacted negatively, but as the messaging on tariffs softened, the markets rebounded and our trends improved as the month progressed. That being said, we finished April with Demand Comparable Growth down 10%. May rebounded as the backdrop stabilized and Demand Comparable Growth increased 6.9%. June softened again amid renewed volatility, with Demand Comparable Growth down 9.4%. As we look ahead into the third quarter, July demand once again rebounded, with Demand Comparable Growth up an impressive 15.7%. Year to date, including July, our Demand Comparable Growth stands at plus 2.2%. While we are encouraged by the strong momentum we saw in July, we expect our month-to-month demand trends to remain choppy in the short-term due to external volatility, but stepping back, one thing is clear, we remain very confident in the strength of the Arhaus brand and our long-term outlook remains bullish.

As you can see in our filings, there was a significant gap between Demand Comparable Growth and Comparable Growth during the quarter, and although these two metrics converge over the long term, the short-term fluctuations can be sizeable, resulting in ongoing confusion around these measures. As a result of this, I plan to revisit our key performance indicators later this year and will be selectively modifying our disclosures, where appropriate. Our overarching goal is to simplify our messaging, while providing clearer insights into the KPIs that matter to our analysts and investors, and align with how we manage the business. Through this exercise, we will engage with as many stakeholders as possible to ensure that your voice is heard, and although competitive benchmarking will be incorporated into this process, our goal is not to replicate or mirror any individual competitor.

Moving on, in the second quarter, gross margin was \$148 million, up 19.1% versus last year. We also saw gross profit expansion of 130 basis points to 41.4%, with showroom occupancy decreasing 50 basis points, product margin increasing 30 basis points, and transportation costs decreasing 30 basis points.

Selling, general and administrative expenses grew 6.8% to \$101 million, primarily driven by increases in corporate expenses, warehouse expenses and strategic investments to support growth, but SG&A load decreased 240 basis points to 28.3% of net revenue.

Net income was \$35 million, which grew 57.7% versus last year, reflecting over 3 times earnings leverage on 16% net revenue growth.

Adjusted EBITDA was \$60 million, an increase of 51.2% versus last year, representing 3.1 times Adjusted EBITDA leverage, and Adjusted EBITDA margin was 16.8%, up 390 basis points versus last year.

Turning to our balance sheet, we ended the quarter with \$235 million in cash and cash equivalents and remain debt-free. This level of leverage, delivered without any financial debt, underscores the scalability of our operating model and the earnings power we have as we grow. Additionally, we had net merchandise inventory of \$311 million, a 4.7% increase from December 31, 2024 to June 30, 2025, reflecting investments in best sellers and new product introductions.

Now, let's turn to our operational performance, starting with sourcing and tariffs. Arhaus' robust and diversified sourcing strategy continues to serve us well. While I'm still in my early days at Arhaus, I've been impressed by the vast ecosystem of relationships that John has built, ones that span the globe, with many of these relationships spanning 30 to nearly 40 years. Many of these early relationships were here in the U.S., where 36% of our total receipts and 75% of our upholstery was sourced in the second quarter. During my recent trip to North Carolina, I was able to see the entire upholstery ecosystem come together following a multi-day tour of our manufacturing facility and the facilities of many of our suppliers. I was impressed by our team and the tremendous progress we've made toward cost without sacrificing quality. We are exceeding our quality, cost and productivity goals routinely. And they are hungry for more. Next month, I will be traveling to Vietnam to meet several of our artisans in person with our Product Development Team as we continue to deepen our sourcing relationships.

While we had previously anticipated reducing our exposure to China to approximately 1% by year end, recent easing of U.S. tariff policy toward China, along with policy changes affecting other countries, now leads us to project our sourcing exposure will be closer to 5% by year end.

We continue to monitor the evolving trade landscape, including the most recent tariff announcements. Thanks to our diversified sourcing model and proactive planning, we believe we are well positioned to navigate this environment. Our teams remain engaged on the ground with key vendors who we have deep relationships with to assess implications and identify mitigation strategies, and we will continue to respond quickly and thoughtfully to future changes.

Let's now turn to showroom expansion plans. Arhaus continues to scale with purpose, and showroom growth remains a foundational pillar to our strategy. We are pursuing our largest whitespace opportunities, while deepening our client relationships through our omnichannel approach. Since 2020, we've grown our footprint by nearly 50%, and today, approximately 90% of our clients, across both retail and eCommerce, live within 50 miles of a showroom. To expand our client relationships and drive further engagement, we need to be where our clients live. Proximity is key to delivering our high-touch, service-led experience.

During the second quarter, Arhaus completed three total showroom projects, consisting of two relocations and one renovation. These relocations positioned us closer to where our clients live, work and shop, including a relocation to a premium open-air retail destination in an affluent suburb and a renovated showroom that now better reflects the Arhaus aesthetic of today.

Year to date, through the second quarter, we've completed eight total showroom projects, including one new showroom, six relocations and one renovation, and we remain on track to complete 12 to 15 total showroom projects in 2025, consisting of four to six new showroom openings and eight to nine relocations, renovations or expansions.

Looking ahead, we see significant whitespace for continued expansion. Our long-term strategy is to open five to seven Traditional Showrooms annually, along with additional Design Studios and showroom relocations. Our showroom growth is both disciplined and opportunistic, guided by strong unit economics, operational execution, and a clear return framework that supports long-term shareholder value creation.

Let me touch on showroom economics and our long-term growth potential. We operate in a highly fragmented industry with an estimated total addressable market of approximately \$100 billion, where Arhaus holds less than 2% share. This significant whitespace, combined with our strong showroom performance and high-return profile, gives us confidence in the runway ahead. We believe there is a long-

term opportunity to operate approximately 165 Traditional Showrooms and 50 Design Studios across the U.S. Arhaus is one of the few true growth retailers in the high-end home furnishings space, and no other company in our category has the same level of whitespace opportunity that we do. We expect our new showrooms to ramp quickly and deliver strong returns, as follows:

- Traditional Showrooms target at least \$10 million in net revenue, with an average contribution margin of approximately 32%, and a payback period of under two years.
- Design Studios target lower net revenue, but higher average contribution margins of approximately 35%, also with a payback of less than two years.

We also continue to expand our In-Home Design program, which supports our showroom strategy and enhances the client experience both in-store and online. Orders placed with a designer have an AOV nearly four times higher than those without, reinforcing the value of our high-touch service model.

Stepping back, our long-term financial goals remain unchanged: total net revenue growth of high-single-digits; comparable sales growth of mid-single-digits; showroom growth of five to seven new showrooms annually, and Adjusted EBITDA growth of low-double-digits. These targets are underpinned by our showroom strategy, which remains one of our most powerful levers for long-term, profitable growth.

Our disciplined showroom expansion is only part of the story. We're also making investments that support scalable, long-term growth. Let me walk you through some of the investments we've made, and what's ahead.

First, our distribution network. Over the past several years, we've made meaningful progress. We opened our North Carolina Distribution Center in 2021. In 2022, we expanded our Ohio facility by nearly 200,000 square feet, and we opened our Dallas Distribution Center that same year. In 2025, we transitioned Dallas to an in-sourced model, as discussed previously.

Second, investments in technology. In 2021, we launched a new eCommerce platform. During the last two years, we have implemented a new warehouse management system at each of our three distribution centers, which is helping to improve operational efficiencies. This year, we introduced a new payment system across all of our showrooms and eCommerce, and this new system enables mobile options, like tap-to-pay, Apple Pay and Google Pay. This upgrade has already enhanced both our client experience and internal controls. We have also implemented a new inventory forecasting system, which will help to improve forecast accuracy and improve inventory turnover.

The next phase of investments are as follows: a new manufacturing system for our North Carolina team, which will unlock new production and cost accounting capabilities while supporting continued growth; and a new foundational ERP that will streamline many of our workflows, allowing us to scale more efficiently, while improving the quality of our financial reporting.

These initiatives, and other strategic projects, represent approximately \$10 million of investment in 2025, with the majority of spend concentrated in the back half of the year. I believe these investments are needed to ensure that we scale our business efficiently, and the Arhaus Executive Team is committed to ensuring that each of these initiatives delivers on the return objectives and ultimately will position Arhaus for continued, profitable growth in the years ahead.

Turning to our outlook, we are reaffirming our full year 2025 outlook, reflecting continued confidence in our strategy and execution. For the full year, we expect: net revenue between \$1.29 billion and \$1.38 billion, a year-over-year growth rate of 1.5% to 8.6%; a comparable growth range of negative 5% to positive 1.5%; a net income of \$48 million to \$68 million; and Adjusted EBITDA between \$123 million and \$145 million. We have modestly reduced our full year capital expenditures outlook by \$10 million, reflecting updated timing on certain investments.

For the third quarter of 2025, we expect: net revenue between \$320 million and \$350 million, a year-over-year growth rate of between 0.3% and 9.7% growth; a comparable growth range of down 4% to up 5%; net income of \$7 million to \$17 million; and Adjusted EBITDA between \$23 million and \$33 million. The third quarter builds on our second quarter momentum and reflects more normalized delivery timing, supported by expected seasonal drivers.

Our outlook also accounts for continued macro uncertainty and the impact of incremental 2025 tariffs, currently estimated at approximately \$12 million, net of mitigation. We've already offset a meaningful portion through strategic sourcing shifts and vendor cost concessions. While pricing remains a lever, no targeted increases are currently embedded in our guidance.

In closing, I'm happy to report that we are executing well across the company, as new leaders are quickly assimilating and the broader organization remains agile in this dynamic environment. We believe the strength of our brand, the resilience of our operating model, and depth of talent across our teams help us to navigate near-term volatility and deliver sustainable value creation. I'm honored to be part of Arhaus and proud to work alongside such a talented and dedicated team. I want to thank everyone who's contributed to our progress to date, and I look forward to building upon the strong foundation already in place.

Thank you for your time today.

With that, I'll turn it over to the Operator for questions.

Operator

Thank you. We will now be conducting the question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from Steven Forbes with Guggenheim Securities. Please go ahead.

Julio Marquez

This is Julio Marquez on for Steve. It's for John. Given the Bath Collection launch, can you expand on where the greatest product opportunities as you see them today, and if your consumer is asking for anything in specific that you currently don't assort, and just a quick follow-up after that? Thank you.

John Reed

First of all, customers always ask for everything, so that's a given, but we're focusing on our core products. It's a great, great time right now in the product side, because consumers' taste have changed in the last year or so, and continue to change. Things are getting softer, warmer, more color, more prints, and that stuff is just right down our alley, we love all that, and it's really the core of Arhaus to begin with. We're focusing on all the categories, to just continue to update them. The upholstery business, of course, drives a huge part of the business, because that's kind of what most people start when they're remodeling their livingroom or family room, and we're doing some great things. I think we've mentioned we've got 600 fabrics, 90 leathers, and we think we're the leader in having our decorators, for sure, and consumers come in and pick something that's unique to them, that nobody else has, nobody down the street has, and it's something they love. So, we continue to focus on that.

Julio Marquez

Excellent, thank you, and as a quick follow-up, as you approach the anniversary of the three-tier Buy More Save More program, can you expand on any, like, key learnings, discount thresholds, that you've explored; and is the current campaign the right value proposition to think about for the consumer on a go-forward basis? Thank you.

John Reed

Yes, we started that in early fall of last year, and we're going to continue it. It's working. People love to feel like they're getting a good deal in the home business, and if they buy more, we reward them with a little more of a discount. So, we're going to stay with that strategy and we're not deviating from it any time soon.

Jennifer Porter

Yes, and I'd just to add to that. As I've talked to on the last few calls, we've really pleased with the increase in orders over \$5,000 and \$10,000, spoken a lot about the strength of our Interior Designer Program, which is driving those higher order values, as well. To John's point, our clients are really coming to us looking to furnish and update entire rooms, entire homes, and so the strength of that program has just been really exciting, seeing that really play and support into that very nicely.

Julio Marquez

Thank you.

Operator

Thank you. Our next question comes from Andrew Carter with Stifel. Please go ahead.

Andrew Carter

Good morning. I wanted to ask about in terms of the implied fourth quarter. It implies, really, an extremely weak fourth quarter in terms of the comparable, therefore, I guess, the Demand Comparable from August through October. So, could you just speak to that? I guess I'm assuming that that would also, timing-wise, be the tariff headwind, when you outlined the brunt of that would be in 4Q, which would be one more pressure point. Thanks.

Michael Lee

Yes, Andrew. Good morning. Look, I mean, year to date, it's been very choppy. We know that we've had up-and-down months, as I cited in all of my remarks a few minutes ago. We're up 2.2% through July. We know we've got a really resilient consumer base. They've proven to be the last to exit our category when things like stock market shocks occur, and then they're the first to return. When we think about our back half, we're very excited about the catalog, we're very excited about the biannual store-wide sale that's coming, and then, as we also talked about, the Bath launch was announced this morning, but we do expect continued choppiness in the second half of the year. This is the greatest uncertainty, is that every month this year it's been up and down on a year-to-date basis, we've seen solid growth, but we have seen a lot of chopiness. Admittedly, the guide, the implied guide for Q4, as well as the guide for Q3, reflects some of that uncertainty.

Andrew Carter

Thanks for that, and just a little bit more longer term question, Mike. Given you just got there, you did a great job outlining the investments in the supply chain to date, kind of reiterated what's happening this year, including that \$10 million. At this point, about—you know, part of the story here is building a supply chain that can fully support this growth agenda. What's your characterization of incremental things that

are needed here, potentially those incremental investments? You also outlined the long-term growth algorithm, which has high-single-digit sales, low-double-digit EBITDA. Do you think you're in a place where that leverage can start to take hold over the next couple years? Is there going to be more incremental investments? Just any help on that front, since you have a fresh set of eyes here. Thanks.

Michael Lee

Yes, for sure. Well, let me first take a step back, because we've mentioned some of the investments that we're planning to make during my remarks, but I also want to just acknowledge that ERPs have a tendency to spook investors, right, we're very, very well aware of that, and we know that these systems tend to be poorly understood. There's been notable headlines in the past as companies have gone down this path, headlines around business disruption and budget overages, and things like that. But, I think it's important to highlight these systems have come a long way over the last few years, and the sponsors of these technologies have worked to really simplify the deployment.

When I came to Arhaus, Andrew, I knew that the Company was quickly outgrowing many of its systems and capabilities, and I was hired to really help deliver on this business transformation, and I believe this business transformation is going to position us for success. I've led many of these transformations during my career. I'm confident we can deliver on the team's aspirations. My role here is to help guide this business transformation in a way that doesn't take our eyes off the business, but helps us to guide this transformation methodically and responsibly. We recently hired a new CIO, Allison Sutley, who I am partnering with on this project, and we will be applying both financial and business rigor every step of the way on this project, including things like vendor selection and team formation, project visioning and how we phase the scope of this project.

But, when we think about your key question, Andrew, around how will we measure success of this project, in my view—and I know we're very aligned as a Leadership Team on this—is we've got to deliver on the agreed upon scope and benefits of this project, we've got to stick to our budget and our timelines on this project. One of the things that's very important to the Management Team, as well as our Board and our Audit Committee, is remediating our material weaknesses that are in our financials, and this technology is critical to enabling that.

At the end of the day, what's most important is delivering on the P&L leverage that we expect to get out of this investment, and that will come in the form of SG&A load improving as we scale over time, so that we're not hiring headcount at the same rate that we're growing revenue, but we're getting more productivity out of our workflows. We'll have clear data to make better decisions, which allows us to react more effectively in the market, which will help with our revenue growth. Then, even on gross margins, as we vertically integrate all of our inventory management systems with demand planning, we'll be much more nimble from a supply chain perspective, to ensure that we minimize out-of-stocks, we maximize inventory turnover, and we get the maximum turnover we can across our inventory investments. So, we expect a lot of operational benefits.

The thing I would be thinking about, if I was an investor, is we've laid out our aspiration to get to 165 stores, 55 Design Studios. I would be thinking about how this investment positions us for success, so that as we grow our business by 30%, 40% over the medium to long term, getting that P&L leverage could really amplify the EBITDA margins on this business. So, that's really what I'm focused on, is how do we provide the economies of scale as we grow.

Andrew Carter

Thanks. I'll pass it on.

Operator

Thank you. Our next question comes from the line of Seth Sigman with Barclays. Please go ahead.

Seth Sigman

Thanks. Hey, good morning, everyone. I wanted to talk about the benefit in the second quarter from the quicker ramp in Dallas. That was, obviously, a nice win on the execution side. It would seem like that should also help the full year, if you're pulling forward deliveries quicker than expected. Obviously, you didn't change the full year guidance. I'm just curious, is that logic wrong, or is that just the uncertainty, and maybe some conservatism? Then, if you could also just remind us when do you think demand and reported comps start to align again? Thank you.

Michael Lee

Yes, well, in terms of your logic, I don't want to question your logic, but I will say that there is a lag effect between written and delivered orders, as you know, and that lag effect varies depending on the product category. I would think of Q2 as a big catch-up to our order backlog. In terms of the way I like to look at is look at Q1 written orders versus delivered, and our written orders were about 20% higher than what we delivered in Q1, creating a backlog that was then fulfilled in Q2. We still have a bit of that backlog that will carry over into Q3 and Q4. But, that's just the nature of our business. We had a lot of choppiness in the first half and we expect that to continue, but that backlog item is key in the modeling.

In terms of the convergence of the demand comp number and the comparable growth number, we've said many times that their tough to reconcile, as an analyst, without having all of the sales numbers on a comparable basis, which we don't disclose, but, as we sit here today and look at the full year forecast, they do converge by the end of the year, based on our current forecast.

Seth Sigman

Okay, great, thanks for that. Then, just thinking about that demand inflection in July, I appreciate the commentary on the chopiness that clearly you've seen year to date, but anything more you can tell us about the flip from June to July, what really changed there? Then, if you sort of look past the volatility and smooth it out over the last several months, I guess, maybe just discuss trends across price points, big ticket versus small ticket. I'm mostly just curious if consumers are starting to engage in bigger projects. Thanks so much.

Jennifer Porter

Yes, great question. I'm going to answer your second question first, and then go back to your first question.

We are seeing that strength in the orders above \$5,000 and \$10,000 continuing, which is driven by the strategy we've been talking about over the last few years of growing the Interior Designer Program, driven by the volume discounts, that we've been seeing really great success on, and also just a focus on, to John's point, the product and the way our clients are choosing to engage with us, where it's really starting, maybe, with that big piece, often upholstery, but expanding into the full room, the full home. So, we're definitely continuing to see engagement and conversion of those higher purchases.

Looking at the inflection point between June and July, specifically, and then the chopiness, I think that's a big question, and to the comments in the call earlier, the chopiness really feels related to a lot of what's going on with the macro and all the noise happening in the market. We are focused very clearly on what we can control, and we're continuing to execute and feel really great about what we are putting out there, the product that we're delivering and getting into stores, the marketing that we're doing to support that, the new showrooms that we're opening.

June to July, specifically, it's really interesting. I mean, if you think about promotional periods, the July 4th promotional period, for example, spans the end of June into July. If you're looking at the summer months,

June and July really both feel like they're part of that summer season. I think we can point to there being a little bit more noise in June, with everything that went on, than what was happening in July, but I think, also, if we look inside at what we are doing, we executed on a lot of things really well in July. We launched our fall preview marketing campaign July 15, and saw really nice engagement from clients on that, and we're starting to get our fall product out into stores and on Arhaus.com, and into our marketing campaigns, and we had a really successful warehouse sale at the end of the month, which is actually something that we used to do about four or five years ago, that our clients really responded well to.

So, I think it's a combination, and we're really pleased with what we are doing as we're ramping up into the fall season. I spoke on the call about how fall launches here in just a couple of weeks. We launched Bath yesterday. I think we're actioning on just a lot of really great internal momentum, and as we look forward, what we're focused on is controlling what we can control, doing what we do really well. We believe that the consumer is out there, and while there might be a little bit of delay in when they're making their purchases, there's a little bit of a longer consideration time going on, our clients are still there, they're still loving the product that we're delivering, and we're working on being here for them when they're ready to make that purchase.

Seth Sigman

Okay, thanks, everyone.

Operator

Thank you. Our next question comes from the line of Jeremy Hamblin with Craig-Hallum. Please go ahead.

Jeremy Hamblin

Thanks for taking the question. First, I just wanted to clarify, in demand comps, just going back to last year, I think on the Q3 report last year, you'd indicated a pretty significant change in your demand comps, which I think July '24 might have been down, like, high-teens and August down mid-teens, before things improved a lot in September. So, just wanted to confirm that kind of back story in terms of maybe part of the math change in demand comps. Could you clarify?

Jennifer Porter

Yes, Jeremy, that's a great question, and you are correct. As we look at our comps that we're up against from last year—I mean, if you remember, we started to talk to some tough business in May and June. We did see that get softer in July of last year, and August, and then really started to pick up as we got into the end of Q3 and Q4. So, I think that is a really good call-out, and it's something that we are watching very closely, as well. Again, with choppiness this year, there's also a little bit of choppiness last year that we are just countering.

Jeremy Hamblin

Okay, great, thanks for that. Then, I just wanted to ask a little bit about your SG&A and your margin performance, which was really strong in Q2. As we progress through the year, Mike, the step-down from Q1 to Q2 on SG&A was fairly significant, given the sales level. I know that demand comps were negative were in the quarter and that might impact the commissions paid out. But, just thinking about what the base cost structure in place is, has there been any meaningful change? Then, just in terms of the gross margin performance, which was also strong in Q2, can you give us a little bit of visibility into the back half of the year? Does the transformation with the DC in Dallas inherently improve your gross margin rate kind of structurally on a go-forward basis? Thanks.

Michael Lee

Yes, thanks, Jeremy. So, a couple of call-outs. I would look at the second half, relative to some of our remarks, that—I'll break it up into a couple of pieces. On the impact of tariffs, we're modeling about a \$12 million impact for the year. The lion's share of that will be impacting our H2 results. I would certainly factor that into your estimates. Then, the second piece is being mindful of the SG&A investments that are planned for the year. We talked about \$10 million investments for the strategic initiatives. The lion's share of that is happening in H2, and the lion's share of that is happening in Q4 as we start to ramp up.

Another way to think about the overall impact of these investments is I would look at prior year Adjusted EBITDA on a full year basis, in terms of Adjusted EBITDA margin, and take these two impacts into account, and I think you get a pretty good lens into how we expect to land the year, and what that means for Q3 and Q4, as well.

Jeremy Hamblin

Great, thanks for the color.

Operator

Thank you. Our next question comes from the line of Max Rakhlenko with TD Cowen. Please go ahead.

Max Rakhlenko

Hey, thanks a lot, appreciate the question. First, what's your take in the direction of your market share, do you think you're gaining or losing share, and just any color on how you think the business is positioned to compete against some of your key peers, how do you think you're performing head-to-head against them?

John Reed

Well, no question we're taking market share, in my opinion. It's a \$100 billion business, and our sales continue to increase. If it's comparable stores or new stores, and the eCom business, we're growing. If you look at the big picture, of course we're taking market share. That's the way I do the math on it. As far as our competitors, we don't track exactly what they're doing, but we know we've got the best product in the United States, and we'll be just doing what we're doing. It is so unique. We've got proprietary vendors who make things just for us. It's product that you just can't find anywhere else. As long as we stay on top of our game, which I know we have been, and I think we're on top of our game more than ever right now, especially going into the fall and into next year, we're going to take our share of it and be very happy doing it, and we'll see where the competitors fall.

I know for a fact, in times like this, where everything is just so up and down, consumers can get worried, and so forth. They come into a store like ours and see the freshness and the gorgeous displays, it's another ballgame, where they want to fix up their homes. They have the money to do it. They see our product and they want their home to be an amazing place for their family. So, we're going to get our share, and we'll continue to get our share, and then some.

Max Rakhlenko

Got it, appreciate the color. Then, you guys nicely grew your product margins in-quarter. Can you just provide some puts and takes around what that drove that, and then your outlook for product margins for the rest of the year. I assume Dallas was potentially a big piece of it, but just what's driving that, and any expectation ahead?

John Reed

Yes, I can just throw part of it in, and Jen can finish up. In anticipation of all this craziness, we did adjust prices a little bit in the spring, did it quietly, we didn't hear any feedback from our clients, and that has helped the margin, and then certainly the execution of the warehousing, the Dallas part, certainly helps all that. So, we are in good shape margin-wise. We were proactive even before Liberation Day, and now we're enjoying the better margins.

Michael Lee

Just to add some color, in Q1, we did have some headwinds on occupancy in our margin that eroded in Q2. The comments around product margin increasing 30 basis points, from my earlier remarks, really driven by some of the product mix across geographies, but also driven by some of the concessions that we've gotten from a sourcing perspective. The transportation cost certainly is a result of fixed costs being spread over larger volume. We had a big quarter from a top line perspective. Then, just as you think about the go-forward, we've got several new locations opening up in Q4 of this year, that will also help in terms of our occupancy costs getting leveraged as those stores move into operations.

Max Rakhlenko

Awesome. Thanks a lot. Best regards.

Operator

Thank you. Our next question comes from the line of Jonathan Matuszewski with Jefferies LLC. Please go ahead.

Jonathan Matuszewski

Great, good morning, and thanks for squeezing me in. My first question was on B2B. Maybe if you could update us on the playbook Jill is pursuing in trade and contract, and maybe on the trade side, how does your brand awareness with the interior design community compare with maybe awareness among end consumers? Thanks.

Jennifer Porter

Yes, so a great question. Good morning, Jonathan. Yes, we're really excited to have Jill join us. Not really ready to go into any specifics yet as to what she has planned for that business, but it's been a great onboarding, getting her in here, and already looking at the success of our current program, and also how we can shape it and continue to grow it moving forward. So, look out for more info from us on that in the next couple of calls.

In terms of your question on brand awareness between trade designers and our clients and consumers, we haven't broken that down specifically, but what we do know is that there's a huge awareness opportunity within trade designers, similar to what we're seeing with our clients. I think I might have mentioned this before, but one of the things that we are really excited about with Jill onboarding and with the future of trade is that growing awareness, growing the strength of the trade program not only is a great revenue driver in and of itself with the trade business, but all of those trade designers are then working as advocates and influencers and communicators to clients, and then those clients' friends in the future, so it turns into a nice halo effect on our overall brand awareness, as well. So, a lot of opportunity there, a lot more information to come once Jill has a little bit more time under her belt within the organization.

John Reed

Yes, and just to add to that, it's like we say, we're in a \$100 billion business. A big part of that is the trade, they do a ton of that \$100 billion. There's designers in every city that have their own businesses, and so

forth, and as we get more and more of them, we see this as a tremendous growth avenue, and we're focusing on it. As Jen said, we just brought a new person in to head it up. We've got some very exciting plans to roll out in the future. I see this as a great, great growth avenue for us.

Jonathan Matuszewski

That's helpful, and then just a quick question, a follow-up on the Bath Collection. Congrats on that. I think it was described as one of the most comprehensive extensions in Company history. Is there any kind of parallel you can point to in history, in terms of how launches like this have scaled in the past? I'm not sure if kind of Outdoor is a good case study, or if you'd point to something else. Thanks.

John Reed

Yes, I guess the closest one would be Outdoor, that we did about five years ago, and have continued to grow and grow. But, yes, I mean, there's more bathrooms than any other room in the house, typically, and they need to be furnished. We study this business and we feel we could be a big, significant player in it, so we're very, very excited. We put together a really talented team that went out and did all the specs and faucets and sinks, and so forth, and it's a full collection, from towels to sinks to everything in-between. So, we're very, very excited about it. We think we did a nice job having a big enough assortment that it's a meaningful business to us, and we'll see how that goes, but I'm very bullish on it.

Yes, the biggest comparison, I guess, in our category in the last five years would be to the Outdoor business. We started small. Every year, we're growing and growing, and it's been a nice growth business, as well.

Operator

Does that answer your question, Jonathan?

Jonathan Matuszewski

Yes, thank you.

Operator

Thank you.

John Reed

Thank you, Jonathan.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would now like to turn the floor over to Tara Atwood for closing comments.

Tara Atwood

Thank you, everyone, for joining the call, we appreciate your time, and have a great day.

John Reed

Thanks, everybody.

Operator

Thank you, everyone. You may now disconnect.