



Arhaus, Inc.

Third Quarter 2024 Earnings Conference Call

November 7, 2024

CORPORATE PARTICIPANTS

John Reed, *Co-Founder, Chairman, and Chief Executive Officer*

Dawn Phillipson, *Chief Financial Officer*

Jen Porter, *Chief Marketing and eCommerce Officer*

Tara Atwood, *Vice President, Investor Relations*

CONFERENCE CALL PARTICIPANTS

Steven Forbes, *Guggenheim Securities*

Jeremy Hamblin, *Craig-Hallum*

Robby Ohmes, *Bank of America*

Jonathan Matuszewski, *Jefferies*

Lauren Ng, *Morgan Stanley*

Cristina Fernandez, *Telsey Advisory Group*

Peter Keith, *Piper Sandler*

Sabrina Maxamusa, *William Blair*

Seth Sigman, *Barclays*

Seth Basham, *Wedbush Securities*

PRESENTATION

Operator

Good morning, and welcome to the Arhaus Third Quarter 2024 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal remarks.

Please note that this call is being recorded, and the reproduction of any part of this call is not permitted without written authorization from the Company.

I will now turn the call over to your host, John Reed, Co-Founder, Chairman and Chief Executive Officer. Please go ahead.

John Reed

Good morning, everyone, and welcome to the Arhaus Third Quarter Conference Call.

On with me today are Dawn Phillipson, Chief Financial Officer, and Tara Atwood, our new Vice President of Investor Relations. Tara is a seasoned Investor Relations professional, and we are excited to welcome her to the Arhaus team. Now, I'll hand the call over to Tara.

Tara Atwood

Good morning, and thank you for joining the Arhaus Third Quarter 2024 Earnings Call.

After our prepared remarks, we 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.

We issued our earnings press release and our 10-Q for the quarter ended September 30, 2024 before market open 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.

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's, 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 back over to John.

John Reed

Thanks, Tara.

I'd like to begin the call by expressing my gratitude to our team for their exceptional execution this quarter. Our long-term success is driven by their dedication to delivering outstanding products and creating an inspiring showroom experience. This quarter, we launched some of the most compelling new product collections in Arhaus history, thoughtfully presented across our showrooms to elevate the client experience.

A highlight of our fall product launch is the Astor collection, which builds on our leadership in reeded design and commitment to artisan craftsmanship. This collection combines globally sourced materials and sophisticated elements, making each piece both functional and beautiful. Crafted from solid oak with natural stone tops, the Astor Collection features beautiful Brown Espresso marble, chosen for its rich tone and stunning movement. Our fall launch also includes elegant curved upholstery selections and unique collectible pieces that can define a home.

Moving to our quarterly performance, in the third quarter, we delivered net revenue of \$319 million, net income of \$10 million and Adjusted EBITDA of \$23 million. During the quarter, we experienced a decline in demand comparable growth of 11.3%. However, demand trends improved meaningfully as the quarter progressed. In September, we recorded a low-single-digit decline in demand comparable growth, following high-teens and mid-teens declines in July and August, respectively.

Notably, September set a new record as the biggest total demand month in Arhaus history, up 10% compared to last year's strong comparable period. This performance was supported by our annual store-wide sale, held each January and September to coincide with our spring and fall product launches. This promotion was well received by clients, and we continue to leverage our Arhaus marketing campaigns to drive engagement around these key launches.

In October, demand comparable growth declined in the low-single-digits, as the consumer environment remains pressured. However, total demand was up nearly double-digits, as our brand continues to resonate with clients despite ongoing macro pressures.

While demand trends improved over the course of the third quarter, we're lowering our full year sales and earnings outlook to reflect a continued tempered consumer environment, which we believe is temporary given our innovative product offerings and compelling marketing campaigns. Dawn will discuss the details later on the call.

Despite these headwinds, we remain fully committed to our long-term growth strategy and the fundamentals of our business. Our key growth drivers include:

- First, enhancing and elevating our product assortment, which is essential for exceeding client expectations and reinforcing our leadership in premium, artisan-crafted home furnishings.
- Second, expanding our showroom base to bring the Arhaus experience to more clients in key markets.
- Third, increasing brand awareness, which will deepen our relationships with both new and existing clients.
- Finally, we are making strategic investments to upgrade our infrastructure and improve our business tools, ensuring we have a strong foundation to support our long-term growth.

Turning to our showrooms, we are on track to meet the high end of our 2024 showroom opening goals, with 10 new showrooms already opened this year, and an additional opening tomorrow in Corte Madera, California. The Corte Madera showroom will be our 14th location in California, as part of our ongoing West Coast expansion. This year, we expect to open five new traditional showrooms, bringing our total to 85 traditional showrooms at the end of the year, just halfway to our target of 165 traditional showrooms. In addition, we opened three new Design Studios and three Arhaus Loft outlet locations this year. As I have mentioned in past calls, we continue to be very pleased with the performance and economics of our new showrooms, in all formats. We're proud to have grown our total showroom count now to 103 as of tomorrow.

Moving to product, we believe Arhaus leads the industry in setting design trends, often seeing them before they emerge. As I mentioned earlier, we're excited about the new fall collection, which launched in the third quarter. We encourage you to experience the design, quality and aesthetic appeal of our furnishings and decor, whether in our showrooms, on our website, or looking in our catalogs.

We're already hard at work on the upcoming spring launch, just two months away. Notable highlights include expanding our motion selection within our upholstery collections. We've been in the motion business

for some time now, and we're thrilled to see the continued growth our merchandise assortment with these offerings. Additionally, we're introducing exotic wood collections across bedroom, wall and dining, adding distinctive character and richness to our product line.

On the strategic investment front, as we've previously communicated, we are setting the foundation for our long-term growth by improving operational efficiencies, with upgraded infrastructure, technology and processes. We are pleased to have implemented our new warehouse management system and are now focusing on the design and build phases of our new planning system and the new ERP at our upholstery manufacturing facility. We expect these systems to be implemented in 2025. As a reminder, the planning system will help optimize our inventory purchases and forecasting capabilities, and the new ERP at our upholstery manufacturing facility will improve margin visibility and production capabilities.

Before I turn the call over to Dawn to discuss our financial results and outlook for the remainder of 2024, I want to again thank the Arhaus team for their hard work and dedication. Our long-term success is driven by our team's dedication to delivering the best products and an inspiring showroom experience. Their ongoing commitment highlights the resilience of our growth strategy and our commitment to creating value for our shareholders.

Over to you, Dawn.

Dawn Phillipson

Thank you, and good morning.

Net revenue in the third quarter was \$319 million, with a 9.2% comp decline. The decrease in net revenue, compared to the prior year, was primarily related to the non-recurrence of prior year abnormal backlog deliveries and lower total demand in the quarter.

As John mentioned earlier, our demand comp declined 11.3% in the quarter, with September's demand comp improving meaningfully to decline low-single-digits from July's high-teen and August's mid-teen declines.

Our third quarter gross margin decreased to \$123 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 38.6%, driven primarily by higher showroom costs, higher delivery and transportation costs, and deleverage on lower net revenue.

Third quarter SG&A expense increased \$5 million to \$112 million, primarily driven by legal costs, marketing investments, and strategic investments to support and drive the growth of the business, including supply chain and technology improvements. This was partially offset by the non-recurrence of last year's donation to The Nature Conservancy.

Third quarter 2024 net income was \$10 million. Adjusted EBITDA in the quarter was \$23 million versus \$34 million in the third quarter of 2023.

Third quarter net revenue of \$319 million and Adjusted EBITDA of \$23 million resulted in a 7.2% Adjusted EBITDA margin in the quarter.

As we reported this morning, we are lowering our full year outlook for 2024.

As a reminder, we experienced softening demand comps starting in May, with the negative trend accelerating into July and August. In September, we experienced sequential improvement with a demand comp decline in the low-single-digits, as clients responded well to our product assortment, marketing and planned promotions. As we mentioned last quarter, we believe the softer demand comps we're experiencing are a reflection of the continued pullback by the home furnishings consumer that is now starting to impact our business, as well as the lapping of strong demand from last year related to the price actioned SKUs in the second half of 2023.

For the year, we now expect net revenue in the range of \$1.23 billion to \$1.25 billion and Adjusted EBITDA in the range of \$115 million to \$125 million. As the midpoint of our net revenue range implies, we expect net revenue to decline approximately 4% for the year, as we lap the delivery of \$75 million in abnormal backlog that occurred in 2023, and we expect a negative demand comp for the year.

In the fourth quarter of 2024, we anticipate net revenue in the range of \$306 million to \$326 million and Adjusted EBITDA in the range of \$23 million to \$33 million. Our outlook contemplates a low-double-digit demand comp decline for the fourth quarter. We remain focused on current demand trends and gross margin, and our outlook allows for continued flexibility around promotions for the balance of the year.

We previously communicated the expectation to invest \$10 million to \$15 million in strategic investments this year. We now expect to invest approximately \$10 million in strategic investments in 2024, with about 80% in SG&A and 20% in gross margin. These initiatives include investments in systems, eCommerce, client experience, and other corporate investments to support and drive the growth of the business. In 2025, we expect to spend approximately \$15 million to \$20 million in strategic investments, including the subscription fees for system enhancements deployed in 2024.

For all other details related to our 2024 outlook, please refer to our press release.

In closing, I want to reiterate our strong commitment to our growth strategy despite the current macro challenges. Our debt-free balance sheet is a meaningful competitive advantage that allows us to make the responsible investments to build on our share gains in the highly fragmented \$100 billion premium home furniture market. We continue to navigate the current environment from a position of strength, and we believe we are well positioned to maintain our client-first service and drive 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.

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.

The first question comes from the line of Steven Forbes with Guggenheim Securities. Please go ahead.

Steven Forbes

Good morning, John, Dawn, Jen.

John Reed

Good morning, Steven.

Steven Forbes

Yes, thanks, John. To start with the new showroom performance, I'm curious if you could expand on how the more recent store cohorts, the 2022, '3 and '4 store cohorts are performing relative to the internal pro forma model, and how the current environment or performance of those stores are impacting your 2025 real estate plans.

John Reed

Sure. Yes, we've been thrilled with the new stores. They've opened very solid, they seem to be growing. Some of them super homeruns that really surprised us. Other ones have been very steady, right on projections. So, yes, we're happy with that. As far as looking into the future, we're sticking with our plan. We've got a lot of runway to do, a lot of great real estate we're working on currently, and not only are we doing a lot of, you know, looking at new locations, and so forth, but we're also going back and moving existing stores that maybe have become dated, and so forth, into better, bigger locations. As a matter of fact, we're opening one of those tomorrow, as well, in Fairfax, Virginia, a store we've had for the past 15 years, or so, in a location, we're moving it to a freestanding building, two stories. It's absolutely stunning. I just toured it yesterday. It's going to be a huge, huge success. So, we like doing both, keeping our current format very, very fresh, sort of relevant, and cutting-edge, and then looking at all the new locations around the country, that we're very excited about, as well.

Steven Forbes

Appreciate that, and then maybe just a quick follow-up for Dawn. The \$15 million to \$25 million of strategic investment spend for next year, is that in addition to the \$10 million, the \$15 million to \$25 million on top of \$10 million, so a run rate of \$25 million to \$35 million, or is that—should we look at that sort of as more of an incremental \$5 million to \$15 million?

Dawn Phillipson

Great question, Steve. The total strategic investment spend for next year will be \$15 million to \$20 million, so not incremental to the \$10 million that is being spent in 2024. We tried to provide a comprehensive number for modeling purposes, really.

Steven Forbes

Appreciate that clarity. Thank you.

Dawn Phillipson

You're welcome.

John Reed

Thank you.

Operator

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

Jeremy Hamblin

Thanks for taking the questions, and just a quick follow-up in terms of thinking about kind of the investments that are being made and the systems changes. I wanted to get a better sense of the timing of each of the different systems' components that you're going to be touching here, both FY25 into FY26. Then, in terms of—I wasn't sure if it was \$15 million to \$25 million or \$15 million to \$20 million of spend, and how much of that was really kind of staffing requirements that you need, or support teams, versus kind of the software licensing fees, etc.

Dawn Phillipson

Yes, a great question. So, lots of moving pieces here. I'll try to answer all of them, but, certainly, let me know if I miss something.

With the planning software that is well underway with the build portion, we are anticipating that will launch in the first half of next year. That is the same timing that we would anticipate for the manufacturing ERP, sometime in the first half.

For the other systems, the two other systems that we've talked about for next year are the financial platform and the order management system, and those two are very broad, we want to make sure we're doing those correctly, so it takes some time. Those will not be deployed next year, but they will likely be kicked off, launched next year, and those are the systems that we are incorporating into the \$15 million to \$20 million. So, it's \$15 million to \$20 million, not \$15 million to \$25 million, for next year.

Then, as it pertains to the split between subscription fees, implementation costs and personnel, those are largely still being fleshed out. We have not yet selected new vendors. We are actively in the process of working through what that could look like, so need a little bit more time. We think in the numbers that we've included here, that we're targeting for next year, we think that we have a good handle on the different pieces as they could range and (inaudible), but nothing is kind of nailed down.

Then, as you think about something like the LMS and the financial platform, there will be longer term efficiencies. So, once those are deployed, we'll have operational efficiencies, likely have process efficiencies, especially with the financial platform, that might make us able to streamline headcount over time. All of that will be fleshed out, but it takes a little bit longer than just 12 months to determine those.

Did I catch everything?

Jeremy Hamblin

Yes, great color. I have one additional question that I wanted to hit on, which was, in terms of kind of the pricing presentation and coming back to demand trends, September, in terms of online, and even in stores, the presentation looked a bit more like kind of traditional Arhaus over the last few years, as the Company kind of migrated away from pricing presentation to look like things are on sale all the time, is there any kind of linkage to—September, you saw a pretty notable improvement in your demand trends. You were running your kind of typical September promo, in which you had a percentage off store-wide and online. Is there any kind of linkage to where you've seen degradation in overall demand comps that's kind of based on that presentation, and is there any thought to potentially going back to how it was before?

Jen Porter

Yes, hi, good morning. Great questions. As you noted, the presentation of our pricing, this year, we shifted to that more consistent pricing, and that's really reflective of our stance on how we price product and really wanting to reflect the value of our product to our clients.

I think it's a great question about September. September, it was reflective of our biannual store-wide sale promotion, that comped last year. That comped, really, the last five- to ten-year strategy that we do, in terms of doing that twice a year, in spring and in the fall time, and we were really pleased with the improvement in comps in September.

I think what is interesting, though, is looking at the low-single-digit negative comp in October, as well. So, that wasn't an isolated trend strictly for September, and then saw a deceleration going in October. We're seeing that similar trend continued into October, where we have come off of that September promotion through our new strategy.

Pricing is something that we always are paying close attention to. We've spoken a lot before about how our pricing strategy is built to reflect that product. We build and create and design a product that will be high-quality, beautiful, a work of art, and quality that can last a very long time for our clients, and then we price it accordingly. We're not price-engineering our products. We're not reactive in our pricing strategy with what's going on in the market, we think very carefully about that. We're happy with what we're doing right now, but we are paying very close to attention and constantly evolving that strategy.

Jeremy Hamblin

Great, thanks for the color. Best wishes.

Jen Porter

Thank you.

John Reed

Thank you.

Operator

Thank you. The next question comes from the line of Robby Ohmes with Bank of America. Please go ahead.

Robby Ohmes

Good morning. Thanks for taking my questions. Two questions. A quick one. Inventory growth, I think was a little bit higher than we were expecting in the quarter. Just some update on how we should think inventories will trend through the fourth quarter here. My second question is, just any—I don't know, Dawn, if you could give us any further puts and takes on how we should think about gross margin for the fourth quarter and 2025.

John Reed

Yes, I can take the inventory question, Robby. That's been my direction. We've hit on some amazing collections of product that are outselling the pace of our Company and is surprising us, and growing on a lot of new things. As I mentioned, we're launching some incredible new product coming out the end of this and into the spring. So, I wanted to (a) get back in stock on things, because we were still, believe it or not,

playing catch-up with some products, just because it surprised us so much how much was selling. Our partners had to hire people at facilities, and so forth. Everybody is in line to grow with us now, we're thrilled with what everybody's done for us, and we're ready to grow, so I wanted to get some more inventory, so (a) we're in stock on almost everything, and (b) we can really fund these best-selling new collections that are really going to propel us into 2025.

Dawn Phillipson

Great, and then on the gross margin question, while we don't guide to gross margin, I think there's a couple of things that will be really helpful for you as you're thinking about your model and as we're thinking about the fourth quarter.

I would encourage you to remember we had \$75 million of abnormal backlog last year, and keep in mind the second half was heavier with those than the first half, and the fourth quarter was heavier than the third quarter, so we are lapping the toughest quarter from just a revenue flow-through perspective, related to abnormal backlog, so you're going to see some deleverage related to that.

Steve asked a question earlier on the new showrooms for 2025, and so just keep in mind that most of those are already under construction. We've started those, we've taken possession, so expenses, such as rent, and things of that nature, are already flowing through the P&L, and you'll see additional compression in gross margin related to those in the fourth quarter.

Those are some of kind of key callouts, I would take. We're feeling really good about the actual product margin relative to prior year and how we're—as Jen mentioned, we're talking about the promotional cadence, and so more to come on 2025. We will likely give guidance when we report fourth quarter versus now.

Robby Ohmes

Terrific. Thank you.

Operator

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

Jonathan Matuszewski

Hey, good morning, and thanks for taking my questions. The first one was just on demand complexion. Can you help us understand how that trended throughout 3Q, maybe relative to the first half? I'm thinking of things, maybe, like traffic conversion, AOB. Any insights would be helpful.

Dawn Phillipson

Yes, metrics across the board have been choppy this year. We're actively tracking those, we're paying close attention, and we're trying to slice-and-dice the data about 50 different ways, much like you guys are, to understand what's happening with the underlying consumer. Interestingly, in the third quarter, while comp traffic was down, comp transactions were down, we did see a really nice response, and the average order units per transaction were up nicely, as well.

We've mentioned in the past those orders that are over \$5,000 and over \$10,000, and what was interesting in the third quarter is that we did see those decline year-over-year. However, the penetration of those orders

relative to total increased, so seeing those higher value customers decelerating like the total consumer base did, but at a slower rate. So, interesting, and giving us some good feedback and feelings about the product assortment, the marketing, and as we kind of enter the last few months of the year.

Jonathan Matuszewski

That's really helpful, and then just my second question, if you could update us on the source exposure to China and the extent to which maybe reliance on the U.S. and Indonesia and Vietnam may have changed since you went public, and if we do see higher tariffs, maybe what percentage of your COGS is tied to product spend. Thanks so much.

John Reed

Sure. As you know, we've all been waiting for this election and now we know who's in. We have been working on this, what, two years, three years now, moving things out of China. China never was a very large country for us, relatively small bases. As you guys all know, we manufacture our own upholstery here in the United States, which is the biggest part of our business. We get things all over the globe, truly probably more than—certainly, more than our competitors do, various countries all over. But, the things that we're left in China, I'm very happy and pleased that any of our major vendors that were doing any kind of significant business with there have all migrated out of China, Mexico, Vietnam, Cambodia, even over in Europe, Eastern Europe. So, they've been working on this. We've had a team of people working on this now for a couple of years, anticipating this may happen. So, we're in great shape.

Jonathan Matuszewski

Thank you.

Operator

Thank you. The next question comes from the line of Simeon Gutman with Morgan Stanley. Please go ahead.

Lauren Ng

Hi, this is Lauren Ng on for Simeon. I guess our first question is are you satisfied with demand comp trends in light of the promotions you're running? Does this show that, maybe, the customer is weaker, competition is more intense, or maybe something else? Thank you.

Jen Porter

Hi, good morning. Are we satisfied with demand comp trends? No. Obviously, we want to see better. It's been a really choppy, interesting market. A lot of the furniture industry has been dealing with what's going on in the macro for longer than we have. We've obviously been seeing a really choppy year here in terms of our demand. We, obviously, want that to get better. We're, obviously, working for that to get better. We believe a lot of the macro is temporary, you know, with all the conversations around interest rate, slowdown in the housing market. Obviously, the election was early this week and there was a lot of noise leading into that. We are really confident in what we are doing in our business and our strategies, how we are monitoring all of our (inaudible).

In terms of promotions and what's going on in the market, there continues to be elevated promotional activity, obviously, with everything that's going on. We run promotions, as you know. Our overall strategy and approach to promotions has remained pretty consistent. We have been lengthening promotions, as

has been spoken about on prior calls, and we're constantly evaluating that and have that (inaudible) to continue going into Q4 and then next year. But, (inaudible), are we happy? The answer is no, but looking towards to the future.

John Reed

Yes, and just to add to that, we have an incredible lineup for 2025 in marketing and new products, new stores, and they're all just hitting on the right cylinders. We had a little stumble this quarter. I think the last time we had a stumble was 2016—what is that, eight years ago, or so—so we've had a huge run, incredible run. Our comps, compared to our competitors, were way up the last two years. If your look at a three-comp or stacked comp, or so forth, we are incredibly doing unbelievable. So, yes, we had a little bit of a stumble here, but we have all kinds of plans to get out of that and we think it's going to be great. We love that the election is over. Hopefully, the housing market, we start hearing some better news on that going into next year. I know the interest rates continue to fall. So, we're happy and very excited about our future.

Lauren Ng

Great, that's helpful, and then my follow-up is just on the competitive landscape. It seems that you have a large competitor who is driving a lot of product newness and catalog intensity this year. Could you comment if you've seen any, maybe, overlap, or in general what you're seeing in the market share versus the industry? Thank you.

John Reed

Yes, I mean, our product, our best sellers, our designs are doing incredible, especially the new product. We're, I guess, flattered that some of our competition has been copying us more and more, but that's part of competition, everybody does that. We don't see any effect whatsoever with our competition taking any of our market share, certainly, on product that's been very similar to ours. As a matter of fact, ours has been beating our projections. So, we'll continue to do what we do best. We've got the best Design Team, we think, in the country, got the best manufacturers and partners around that make the most unique product anywhere in the world, and we've got a lot of exciting stuff coming up here. People, of course, are going to copy us, I guess that's flattering and part of the business, but we're going to stay a few steps ahead of everybody and we'll continue to do what we do best.

Operator

Mr. Gutman, are you done with your questions?

Lauren Ng

Yes, I am. Thank you.

Operator

Thank you. The next question comes from the line of Cristina Fernandez with Telsey Advisory Group. Please go ahead.

Cristina Fernandez

Hi, good morning. I wanted to see if you can give more color on the change in the outlook for 2024, particularly as it relates to demand. On the last call, you talked about the demand assumption for the back half being down low-double-digits. The third quarter came down 11%, the fourth quarter outlook, it's also

down low-double-digits, so it seems to be the theme. I'm just trying to understand where are things falling short of the prior outlook.

Dawn Phillipson

Yes, a great question, Cristina. Low-double-digit, of course, there's a little bit of a range there, so that's one component, is just as we're looking at different metrics and as we're contemplating our promotional cadence throughout the year, some flexibility there just in that range, right? Then, secondarily, just keep in mind that as the demand comp picks up closer to November and December, it's a little bit tighter to get deliveries out, and then impact that revenue, right? Iso, there is just this kind of timing component here that we're thinking about and contemplating as we're looking at November and December sales trajectory, or demand trajectory there. So, those are the two reasons, though.

Cristina Fernandez

Thanks, and then just a follow-up on one of the earlier questions on the sourcing exposure. I know your China exposure is not as big as others, but can you remind us back in 2018, how you dealt with the tariffs, did you increase prices, did you make cuts across the organization? Then, to the extent that tariffs could be bigger this time around, what are the levers you can pull to offset any cost impact? Thanks.

John Reed

Yes, sure. Yes, the tariffs of a few years ago, 25% out of China. Again, we did not have that much stuff coming out of China. The product we did, we worked with our partners, they took a cut on their margins, and then the offset of that is we raised prices a little bit. I think it was 7% to 10%, something like that. But, then, our vendors gave us a cut on the product, as well, and we didn't miss a beat in sales. If this happens across the board around the world, we'll do the same thing. Again, keep in mind a big part of our production is right here in the United States, so we don't have to worry about that, but things that are offshore, or out of this country, I should say, we'll deal with it one-by-one. Our product has such incredible value, better than our competition, better than the \$100 million designers out there that are doing business, so if we have room to raise prices, we don't think it's going to affect our sales.

Christina Fernandez

Thank you.

John Reed

You're welcome.

Operator

Thank you. The next question comes from the line of Peter Keith with Piper Sandler. Please go ahead.

Peter Keith

Hey, thanks, good morning. Apologies, I got on the call a little bit late, but, John, you had just mentioned in a recent response that you stumbled a little bit in Q3, and I guess, with the benefit of hindsight, when you look at those negative mid- to high-teen demand comp declines for July and August, was there anything internal that you've identified that you were able to fix, or that you maybe did wrong, that now gets you back on track?

John Reed

Yes, I mean, obviously, as Dawn said, we've looked at this backwards and forwards. The previous year, we had a lot of—we were up against some big numbers, some big positive numbers (a). Also, the previous year, we had taken some big markdowns just to clear out some inventory, which was big volume for us and we didn't—we just assumed we could make that up, and, obviously, we didn't plan for that. So, we think those are the two biggest things. We didn't really promote at all those couple of months. We wanted to see what was going to happen if we were just very quiet with promotions, and so forth, in any categories, and looking back, we probably should have been a little more promotional on that. But, the big things were the prior year. The big comps and the old product we were clearing out was a big part of that.

Peter Keith

Okay, helpful, and then just a guidance question for Dawn. The demand comp outlook for negative low-double-digits for Q4, I'm just trying to piece it together. I think what Jen said is that the negative low-single-digit trend has continued into October. November and December, I believe face easier compares. The view right now, and I understand conservatism, but things are very choppy, might get worse, and might get challenged post-election.

Dawn Phillipson

Yes, it's a great question, Peter, and we've had a lot of internal dialog about what do we think November and December are going to look like for us. You know, really pleased with the acceleration, sequential acceleration in September and October, although certainly not where we want to be. So, really, because it's been a choppy year, because the trends, the underlying trends and data suffer a little—choppy, I guess is the best word—we do have conservatism, potentially, baked in for November and December.

Also, I think I said this on the last quarter call, maybe, but I do think the election distraction caused some pullback, and I think when the consumer returns to spending, it might be in furniture, but it likely will be in other categories, more holiday-oriented. We're really excited to kind of jump into January and next year, and what does that look like for us, but giving ourselves a little bit of flexibility as we finish out this year as it pertains to the guide, I think is prudent, just given that two months don't make a trend, and we'll see how the consumer reacts, though. We were really pleased with the newness introductions in September and the marketing campaigns that came out just before those.

So, great question. Yours is the question that we've been asking each other quite robustly for the last several weeks.

Peter Keith

Okay, I appreciate the insight. Thank you so much.

Operator

Thank you. The next question comes from the line of Phillip Blee with William Blair. Please go ahead.

Sabrina Baxamusa

Hi, this is Sabrina on for Phillip. Thanks for taking our questions. Could you provide some color on performance by income cohort or by geography, and has there been any notable strength or potential softening in any particular categories?

Jen Porter

Yes, good morning, Sabrina. It's a great question. We monitor our client demo really, really closely. We don't really speak to any shifts we see in-month or in-quarter, really just because new comps, you don't make a trend off one month's data, particularly when it comes to demo. Obviously, there were some weather factors in the quarter, the hurricanes in Florida and North Carolina area obviously played a part in that. But, in terms of general, what are we seeing from our clients, who they are, where they are, we're seeing that remain pretty consistent, nothing that we would see significant enough to share this day, but we'll definitely keep you updated if we do see any shift in trends in the future.

Sabrina Maxamusa

Got it. Thank you.

Operator

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

Seth Sigman

Hey, great. Good morning, everybody. A few follow-up questions for me. As I think about the effectiveness of that September event, and then you think about the dip in sales or demand that you saw over the summer, do you think there was any just waiting for that September event? Obviously, the consumer has responded to more promotional activity broadly across the industry, I'm not sure if you're seeing that type of elasticity, but does it change at all how you think about pricing and promotions? Then, I guess just one related question. I was thinking about the scenario that you had talked about in recent quarters about maybe budgeting for more price investments, more promotional activity, I guess it was more of a scenario, but how are you planning for that now relative to those expectations a quarter ago?

John Reed

Yes, that's a good question, and the answer is the summer, again, we were up against these high numbers the year before and a lot of markdown products. Yes, some people certainly wait. Our tried-and-true customers are there, but you have to keep in mind well over half of our customers are new every year and they don't know when we do promotions, they don't know us, they just love our product. I look at it, it's all about the product. Our product is amazing value, and even more so, just unique, incredible quality stuff, that you just cannot get anywhere else in the world.

With that said, we don't need to start promoting more than we have been, by any means. We're not planning on it. We're not planning on eroding our margin for promotions, because we don't have to. I mean, we've got the best product. We're certainly leaders in our business. We actually start a lot of trends in our business. People want what they want. Our customers can afford our product, they can afford to travel. Yes, I think, even this summer, in my opinion, so many people were traveling, and so forth, trying to get that out of their system. Because of COVID, they maybe didn't do it the year before and they're doing it this year, and now I think things are coming—you know, the election is over and things will be coming more normalized, where they're going to travel, they're going to buy furniture, they're going to out to dinner, but they're going to do all three, and I think the home business, as you guys know better than I, the competitors and just the industry, just about everybody was off the past year, and I think things are going to get more normalized next year.

But, we've got incredible product, an incredible lineup, and there's no need for us to erode our margin by thinking the competition is taking our business, or anything like that, because we don't believe that for a second.

Jen Porter

I think, just to add on to that, as well, you think about what's happening going from that June/July/August period into the September, October period, is we were doing a lot. We launched our fall catalog, that hit homes at the very end of August, going into the beginning of September. We were launching incredible new product in August, going into the back half of the year. We were doing all of those things that make Arhaus special as a brand, and being able to show off that product, show off the product quality, tell the artisan story, show off the styling opportunities, the special order customization capabilities, all the things that make Arhaus so special.

I think, at times, we talk a lot about promotional levers or pricing levels in order to drive the sales. I think one of the big things that we focus on, on the business, is doing what we do well, and we launched a lot of that at the end of summer, at the end of August, going into the fall period, and I think we're seeing the result of that getting out into the market and invigorating people. There were a lot of detractors going on in June, July and August and sometimes getting that catalog in the mail or getting that new showroom floor set in the stores and people walk into them and being able to inspire them, those are the things that really make a difference when you're furnishing your home.

Seth Sigman

When you think about—maybe just a good follow-up there is, thinking about the improvement in the exit rate, and it seems like the overall message is relatively positive on what you've seen from a demand perspective, at least the cadence, I'm curious, when you look at leading indicators in your business, customer engagement, things like store traffic, web traffic, is there anything that gives you confidence that underlying demand is there, there's just some hesitation on the consumer's part, sort of awaiting housing and macro? Thank you.

Jen Porter

Yes, that's a great question. As Dawn mentioned a few questions ago, we've been digging into every metric and looking at everything. I'm hesitant to even comment on anything specifically, because you see one metric or element that suggests one direction and then you see something else that maybe suggests something else. I think, to the comments about seeing a really positive responses to our new product that we just launched, we're seeing some nice response to the marketing that we put out. Those are all of those indicators that confirm to us that what we're doing is working, people are buying the product. As John mentioned, we've been surprised by the success of some of these new collections and how well they're doing, despite everything that is going on in the market. So, I think that is one of the big things we look at.

I think the other thing I would point to, that isn't really a market indicator or maybe a customer behavior indicator, but all of the things that are going on behind the scenes. We're getting smarter every day, we're getting every day. We've talked in the past about how we're investing in our data capabilities, our internal team's analytics capabilities, really understanding that customer behavior. So, I think we are getting better every single day, every single month, to be able to give our clients what they want and meet them when they want us to be there, and so that gives us a lot of positive optimism going into 2025, as well.

Seth Sigman

Thanks so much.

Operator

Thank you. A reminder to all the participants, that you may press star and one to ask a question.

The next question comes from the line of Seth Basham with Wedbush Securities. Please go ahead.

Seth Basham

Thanks a lot, and good morning. My first question is, just thinking about the relative success you had in terms of sales of over \$5,000 and \$10,000, what do you think drove that, was it because of bigger discounts, or any other factors that you can point to?

John Reed

We've been concentrating on remodeling our stores and getting our stores absolutely beautiful, and that absolutely helps with sales. People walk in and say they want the whole room. So, that's number one, is when you walk in our stores, and certainly our new stores and our renovated stores, people are just blown away. They walk in and they just spend more money. On top of that, we focus very heavily on our internal interior designers, that, again, that triples the average sale, I believe. Once one of our own designers works with the client, gets out to the client's home, really puts together a plan to do the entire room, or certainly the entire house, which we've many, many of those, that entails a larger sale, as well. On top of that, our trade business with the outside designers has been booming. More and more of those every month are finding us, signing up for our programs and using us, and those, also, are larger sales. So, a combination of those, we know is why it's driving the larger sales.

Seth Basham

That's helpful, color, John. Then, secondly, in terms of product, you talked about some competitors emulating or knocking out some of your product, you don't feel like you need to get more aggressive on price to continue to drive strong sales of your competing products. Can you confirm that? That's one. Then, for two, thinking about some of the new product you highlighted, like the Astor collection and reeded furniture, it seems to be a major trend, do you see that as having a lot of legs, and do you see the competitive environment there intensifying?

John Reed

The answer to the last question, yes, that trend is here for quite awhile. From what we can tell, we really started that trend in a significant way and now people are playing catch-up. So, we're off to the next greatest collection and the next design that's going to be the next phase of that, once the reeded collection gets a little stale. I'm guessing the reeded collection is all the way down to the lowest folks right now, I'm guessing everybody has it, because once people jump on a trend, they follow us, they want to copy us, all the way down to the lowest guys selling to not our customers, but everybody. Any trends in this country, people love to jump on and follow. That's part of our culture here in the United States. So, we're on to the next one. We've added, actually, some more folks to our Design Team, coming up with some great new products. We've found some great new partners around the world that can handle our growth, you know, as we've grown, that we've been very, very happy with.

So, we're going to keep doing what we do best, and that is come up with innovative new product, and a lot of our products can't be copied, because they're so handmade. A lot of these folks, these bigger folks, just can't do it. They want things that can be easily manufactured, that they can pump out, you know, a thousand of a day in one factory, and quite a bit of our product isn't like that. We keep collections very small with

those kind of folks, one SKU even at a time, so they can handle it, but that's a different model than a lot of our competitors. Ours is a very unique model.

Seth Basham

Thank you so much.

Operator

Thank you. 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 your participation on our call and interest in Arhaus.

John Reed

Thank you, guys, appreciate it. Have a great day.

Operator

Thank you, everyone, for your participation in our call and interest in Arhaus.