



**Arhaus, Inc.**

**Fourth Quarter and Full-Year 2024 Earnings Conference Call**

**February 26, 2025**

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

**Tara Atwood**, *Senior Vice President, Investor Relations*

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

**Jen Porter**, *Chief Marketing & eCommerce Officer*

**Ryan Brody**, *Senior Vice President, Finance*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Steve Forbes**, *Guggenheim Securities*

**Zach Beeck**, *Robert W. Baird*

**Peter Keith**, *Piper Sandler*

**Cristina Fernandez**, *Telsey Advisory Group*

**Maddy for Robby Ohmes**, *Bank of America*

**Jonathan Matuszewski**, *Jefferies*

**Phillip Blee**, *William Blair*

**Jeremy Hamblin**, *Craig-Hallum*

**Pedro Gil**, *Morgan Stanley*

**Matthew McCartney**, *Wedbush Securities*

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

### Operator

Greetings and welcome to the Arhaus Fourth 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 presentation. If anyone should require operator assistance, please press star, zero on your telephone keypad. 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, Tara Atwood, Senior Vice President of Investor Relations. Please to ahead.

## **Tara Atwood**

Good morning and thank you for joining us for the Arhaus' Fourth Quarter and Full-Year 2024 Earnings Call.

Joining me on today's call are John Reed, our Founder, Chairman and Chief Executive Officer, Jennifer Porter, our Chief Marketing and eCommerce Officer, and Ryan Brody, our Senior Vice President of Finance.

After our prepared remarks, we will open the line up for a Q&A session. During Q&A, please limit to one question and one follow-up.

We issued our earnings press release and our 10-K for the year ended December 31, 2024 before the market opened today. Those documents are available on our Investor Relations website at [ir.arhaus.com](http://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 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 the 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**

Thanks Tara, and good morning everyone. Thank you for joining our fourth quarter and full year 2024 earnings call.

I want to begin by thanking our dedicated teams across the business, our clients and our shareholders for their continued support of Arhaus. Despite macroeconomic uncertainty, 2024 was a year of strong momentum and disciplined execution of our strategy. We saw healthy demand, expanded our Showroom footprint, and further strengthened our brands. Our artisan-crafted, high quality furniture and a vertically integrated model continue to drive long-term customer loyalty and sustainable financial performance.

Turning to growth, we continue to execute our strategic plan with disciplined high-return investments in our Showroom footprint. This year we celebrated a major milestone by opening our 100<sup>th</sup> Showroom and expanding our presence to a total of 103 locations across 30 states and all four major geographic regions. Two thousand twenty-four was a record year of Showroom growth, marking our largest expansion in nearly 40 years of history. With 11 new openings and 5 strategic relocations in key markets, Showroom highlights include Greenwich, Connecticut, our third location in the state. The stunning new Showroom is situated just above Greenwich Avenue in the downtown shopping district; Oklahoma City, Oklahoma, our first location in the state. This Showroom is strategically positioned within a premier mixed use luxury development; Palm Desert, California, an expanded Showroom located in the heart of the Coachella Valley near Palm Springs; Los Angeles, California, located at The Grove, a highly anticipated Showroom at the iconic shopping center, further strengthening our presence in California, and Corte Madera, California, now our largest retail location in the state and our 14th in California.

Lastly, just a few weeks ago, I had the privilege of hosting a client and trade event to relaunch our beautifully renovated Naples, Florida Showroom. We have an incredibly loyal client base there and we are thrilled to offer an elevated experience tailored to their needs. We see tremendous white space opportunities to drive future growth and to market share expansion. Our long-term strategy includes opening an average of five to seven new traditional Showrooms annually, along with additional Design Studios and Showroom relocations. Meanwhile, ongoing renovations and expansions will further enhance the client experience.

The growth in our Showroom footprint continues to strengthen brand awareness and engagement with higher client spending and strong Showroom interactions, reinforcing our immersive Showroom experience as a key differentiator.

A major driver of our success is our Showroom team whose expertise, passion and best-in-class service elevate the client's experience. Visual managers curate inspiring Showroom presentations, while design consultants undergo extensive training to deliver personalized service. Weekly training ensures that they tell the stories behind our handcrafted pieces, emphasizing our brand artistry and craftsmanship. Our Showroom team is our secret sauce and a key competitive advantage. I am grateful for their contribution to our success.

Their impact is evident in our fourth quarter performance where we saw demand comparable growth of 5.7% driven by our strong product assortment, marketing initiatives and planned promotions. While we experienced a decline in full-year demand comparable growth of 2.2% due to softness in the second and third quarters, on a two-year stacked basis demand comparable growth was approximately 5.5%, underscoring the resilience of our brand and omnichannel strategies amid microeconomic headwinds. Looking forward to 2025, demand comparable growth looks solid with a positive client engagement.

**Products.** At Arhaus, we're driven by design and product innovation, leading the industry from the very start. We capture home enthusiasts by pioneering new design concepts that continuously set us apart. In a \$100 billion market where trends eventually become mainstream, we're consistently one step ahead, advancing to the next way of creative thinking with every product and collection launch. After nearly 40 years in the industry, I firmly believe there are no products like our products, no people like ours, and no potential like our potential. I've said it before: Arhaus stands out and Arhaus stands alone because we continuously push the boundaries of home design.

It is no surprise that our competitors are watching closely and, while imitation is flattering, there really is no one that can match the craftsmanship, quality and artistry of Arhaus products. Every Arhaus product is meticulously crafted from the best materials with an uncompromising focus on quality and comfort. As inspired world travelers, we partner with the world's most talented designers and artisans to create exceptional furniture and décor. This dedication to global collaboration and fine craftsmanship is the cornerstone of the Arhaus difference, ensuring we remain at the forefront of our industry innovation. Our clients seek the highest quality and that is exactly what we deliver. At Arhaus we don't just compete, we lead.

In 2024, we expanded our product offering by introducing expanded wood furniture selections, versatile designs with interchangeable components for greater customization, and an elevated approach to power motion furniture that seamlessly blends comfort with craftsmanship. Looking ahead at 2025, we'll bring additional innovations and technology to ensure we remain at the forefront of design and function.

Our direct sourcing model is another key differentiator, allowing us to scale production to meet increased demand while bypassing wholesalers' markups. Arhaus' supply chain is strategically designed to support our commitment to innovation, quality and efficiency while mitigating potential risks. We have built a diversified global supply network, partnering with world-class artisans and manufacturers across North

America, Europe, Southeast Asia. We are proud to say that United States accounts for the largest share of our net revenue, including our internal manufacturing, while the remainder is distributed across multiple countries.

Our sourcing strategy remains dynamic and adaptable, and sharing a diverse and resilient supply network that responds to market conditions, geopolitical risks and tariff changes. As we further diversify, we remain focused on long-term flexibility and strategic supply chain management.

As we look ahead, our long-term strategy remains focused on four key pillars. First, increasing brand awareness to drive net revenue. We will continue to expand our Showroom footprint and increase brand awareness through an omnichannel approach including enhancing digital marketing, leveraging data-driven client engagement and upgrading our website with improved analytics and continued product assortment optimization.

Second, expanding our Showroom footprint. With a goal of 165 traditional Showrooms, or almost double our current footprint, we have a long runway for growth and a robust pipeline in place.

Third, enhancing omnichannel capabilities and technology. We are focused on delivering a seamless customer experience with ecommerce we believe representing our fastest growing revenue channel.

Fourth, investing in growth to build scale and enhance long-term margins. Following the importation of our new warehouse management system and progress in upgrading our operational infrastructure, 2025 will see a launch of a new ERP system at our upholstery manufacturing facility and a planning system to optimize efficiencies and support our long-term growth.

By executing these priorities, we will be well positioned to drive continued growth and long-term value.

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

### **Jen Porter**

Thank you, John, and good morning everyone. I'm excited to share today how we continue to elevate the Arhaus brand and drive long-term growth through our marketing and omnichannel strategy, an approach that builds brand awareness and deepens engagement across our Showrooms, eCommerce and in-home design services.

As John mentioned, our partnerships with global artisans and our commitment to fine craftsmanship are key differentiators in today's competitive market. Building on that commitment, I'm proud to introduce Uphold, the third volume of our Storied series which we launched last week. Uphold celebrates the heritage and artistry of our North Carolina-based upholstery artisans, showcasing the timeless techniques and meticulous attention to detail that have helped shape our legacy of creating heirloom quality pieces.

These artisans use the finest materials sourced from around the world to craft some of the most beautiful, comfortable and highest quality upholstery available today. Uphold is now available as a beautifully printed book in our Showrooms and digitally at [arhaus.com](http://arhaus.com), bringing to life the passion and expertise behind our collections. I encourage you to explore Uphold and experience firsthand how our dedication to fine craftsmanship continues to set us apart.

Now let's dive into our broader marketing initiatives.

Our omnichannel strategy is focused on delivering a seamless inspiring client journey across all touch points and is built around six key pillars. First, our Showrooms, our cornerstone brand experience offering immersive engagement that drives conversion.

Second, eCommerce. We are focused on delivering a seamless customer experience with eCommerce, which we believe represents our fastest-growing revenue channel. Our Showrooms and digital channels work together. Showrooms drive high-touch engagement while eCommerce provides seamless accessibility. The combination of digital innovation and in-store expertise has fueled higher engagement, increased website traffic and record high average order volume in 2024.

Third, catalogs, a powerful storytelling tool driving demand growth. Our spring and fall 2024 collections resonated strongly with clients, reaffirming Arhaus as a leader in quality and innovation, and our latest spring 2025 catalog delivered in December has already demonstrated solid initial results.

Fourth, in-home designer services, a key driver of higher engagement and order values with continued expansion planned both in Showroom and virtually. Our growing Showroom footprint fuels our in-home design service, delivering order values that are 4 times higher than those from non-design clients. As John mentioned, our Showroom team is our secret sauce, a key competitive advantage at Arhaus. We will continue to invest in our in-home designers and team to generate demand and deepen the engagement with clients.

Fifth, the digital and content strategy. At Arhaus, we believe that purchasing furniture is more than just a transaction; it's a lifestyle journey. We understand that selecting the perfect pieces unfolds over several months and we engage our clients on their terms, when, where and how they prefer. Whether through thoughtfully curated catalogs, digital-first content or immersive in-person experiences, we consistently reinforce our premium positioning and unparalleled craftsmanship.

Our recent participation in the St. Regis Aspen Snow Polo tournament in Aspen is a perfect example of this lifestyle approach. The event, which brought together polo enthusiasts, the local community and key partners provided a unique platform to showcase our product artistry and design, while engaging with a discerning audience.

At every stage of a client journey, from initial awareness and consideration to purchase and post-purchase engagement, our goal is to deliver a seamless and inspiring experience that is distinctly Arhaus, offering not just furniture, but a lifestyle and way of living.

And lastly, client personalization. Our strategy leverages data-driven insights to deeply understand client preferences, allowing us to tailor our marketing, curate dynamic site merchandising, and deliver smart product recommendations for optimized engagement that resonates at an individual level with our clients. This targeted approach creates a seamless, personalized experience throughout the entire customer journey. Continuous testing and refinement of our client personalization strategy ensures that we are driving loyalty and enhancing our brand's connection with each client.

Before I close, I want to highlight our pricing and promotional strategy. In 2024, reinforcing our premium positioning remained a key focus of our marketing efforts and our pricing and promotional decisions were aligned with this strategy. Our goal was to emphasize high-quality craftsmanship and our premium brand identity - qualities our clients and stakeholders expect from a high-end luxury brand.

In closing, with a strong marketing road map in place, we are well positioned for the year ahead. I encourage everyone to visit [arhaus.com](https://arhaus.com) or stop by a Showroom to experience our craftsmanship firsthand. And when you do, be sure to sit on one of our sofas. You'll immediately feel the difference in comfort and quality.

With that, I'll turn the call over to Ryan Brody, Senior Vice President of Finance, to walk you through our financial results.

Ryan, over to you.

### **Ryan Brody**

Thanks, Jen. Good morning everyone. Today, I will walk through our fourth quarter and full year 2024 financial performance, key business drivers and our outlook for 2025, before turning it over to Q&A.

Key items from our fourth quarter 2024 income statement include net revenue of \$347 million, up 0.9% year-over-year. We experienced a decline in comparable growth of 6.4%, primarily due to lapping the impact of abnormal backlog fulfillment in the prior year. Meanwhile, demand comparable growth was 5.7%, reflecting strong client demand.

Fourth quarter gross margin decreased \$2 million or 1.8% to \$139 million, primarily due to a \$2 million increase in Showroom occupancy costs as we continue to expand our footprint. As a percentage of net revenue, gross margin declined 100 basis points to 40.0%, reflecting the impact of higher Showroom occupancy costs.

Fourth quarter SG&A expense increased \$11 million or 11.1% to \$111 million, primarily driven by higher Showroom-related costs in addition to the continued strategic investments to support business growth.

In the quarter, net income decreased \$10 million or 31.8% to \$21 million, while Adjusted EBITDA declined \$10 million or 19.6% to \$41 million, resulting in an Adjusted EBITDA margin of 11.9%.

Key items from our full year 2024 income statement include net revenue of \$1.271 billion, down 1.3% year-over-year. We experienced a decline in comparable growth of 8%, primarily due to lapping the impact of abnormal backlog fulfillment in the prior year. Meanwhile, demand comp declined 2.2% ,largely driven by softness in the second and third quarters. However, strength in new Showroom growth helped offset some of the decline.

Full year gross margin decreased \$39 million or 7.3% to \$501 million, primarily driven by lower net revenue, increased Showroom occupancy costs, and higher delivery and transportation costs. As a percentage of net revenue, gross margin declined 260 basis points to 39.4%, primarily reflecting the impact of higher Showroom occupancy costs.

Full year SG&A expense increased \$39 million or 10.5% to \$415 million, primarily driven by general and administrative costs, primarily related to legal costs, strategic investments to support and drive the growth of the business including supply chain and technology improvements, marketing investments and increased warehouse expenses ,and selling expenses primarily related to new Showrooms. These increases were partially offset by lower expenses following the nonrecurrence of a donation last year to the Nature Conservancy.

SG&A expense as a percentage of net revenue increased 350 basis points to 32.7%. This increase reflects continued investment in new Showroom openings and strategic investments to support business growth.

For the year, net income decreased \$57 million or 45.3% to \$69 million, while Adjusted EBITDA declined \$70 million or 34.5% to \$133 million, resulting in an Adjusted EBITDA margin of 10.5%.

Turning to our balance sheet and cash flow, we ended the year with \$198 million in cash and cash equivalents and remain debt-free, reinforcing our ability to invest strategically while maintaining financial flexibility.

Looking ahead, we remain focused on executing our long-term strategic priorities with an emphasis on disciplined growth, strategic investments and growing brand awareness. With this in mind, we are providing the following outlook for selected full-year and first quarter 2025 financial operating results.

For full-year 2025, we anticipate net revenue between \$1.36 billion and \$1.40 billion, reflecting a comparable growth range of 0% to 3%. We anticipate first quarter 2025 net revenue between \$303 million and \$323 million, reflecting a comparable growth range of negative 6% to up 1%. We expect full-year 2025 Adjusted EBITDA between \$140 million and \$150 million, and first quarter 2025 Adjusted EBITDA between \$17 million and \$27 million.

For all other details related to our 2025 outlook, please refer to our press release.

As you heard from John and Jen, we remain confident in our ability to execute on our long-term strategy. Our focus on product innovation, brand differentiation and customer engagement will continue to drive sustainable growth.

In closing, I want to reaffirm our unwavering commitment to executing our growth strategy with discipline and focus. While the macroeconomic environment remains dynamic, our strong, debt-free balance sheet provides us with the financial flexibility to make strategic high-impact investments that strengthen our competitive position in the premium home furnishings market.

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'll now be conducting a 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 questions 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.

Thank you. Our first question is from Steven Forbes with Guggenheim Securities. Please proceed with your question.

#### **Julio Marquez**

Good morning. This is Julio Marquez on for Steve Forbes. Maybe if you could speak to the line of product newness in 2025 and how much newness there is in the pipeline versus the last couple of years? And then, maybe any way to frame like vitality score for some of the development pipeline revenues generated off of some of that newness? Then maybe lastly, you can remind us of the inventory status across the Showrooms and if it's up to stock with the latest inventory. Thank you.

#### **John Reed**

Sure. Good morning. I think the 2025 lineup of product is extremely solid. As we said in our script there that we've really been leading the way on new styles, new designs, new colors and so forth and we're very, very confident that 2025 is going to have just as much or more new product as in the past.

Things have changed in our business where the consumers' taste is changing, the styles are changing, and we are right there, which is fun. It's a lot of fun and very exciting. Colors of things, textures of products of woods, textures of fabrics, designs are really changing ever since COVID now is over. People's taste change. We're proud to say that we're right on top of the product and we're going to have some great new rollouts for 2025, very, very exciting stuff.

**Julio Marquez**

Great. Thank you.

**John Reed**

You bet.

**Operator**

Our next question is from Peter Benedict with Baird.

**Zach Beeck**

Hi. Thanks. This is Zach Beeck on for Peter. Jen, you spoke to the change in your pricing strategy earlier. Just curious on how demand maybe trended across price points in Q4. I remember this fall, you guys mentioned seeing traction with both some higher price point products and clearance items. I'm just curious if the new approach is where you brought about those trends.

**Jen Porter**

Yes. Good morning. It's a great question. As we mentioned, we're pleased with Q4. I think it's important to note that our approach to pricing and promotions has stayed solid for the last number of years now. We're really focused on pricing and our promotional strategy is focused on the quality of our product, the artisan craftsmanship, the materiality, all of those elements. Our primary focus is on giving a good value to our clients.

We spoke last year and a little bit on today's call about how we've been testing and trying, how we're messaging some of those promos and the folks approach to that, but overall, we're really pleased with what we saw in Q4. More to come on that as we continue to monitor what we're doing.

The only other thing I'd add to that is, as I mentioned on prior calls, we are very focused on what is working for our customer and for our business and really connecting that engagement that we are seeing.

**Zach Beeck**

Great. Thank you for that. Maybe as a follow-up, just curious how the promotional backdrop played out relative to your expectations in Q4. Maybe what does your guidance assume for the backdrop in 2025, both for Arhaus, but also more broadly with peers in the sector? Thank you.

**Jen Porter**

That's a great question. We continue to see a highly promotional market out there. We've been talking about that for a couple of years now. That definitely continued.

We went in and executed our planned strategy for Q4, and we were happy with that, so I guess you could say the promotional environment met our expectations.

Looking forward to 2025 in terms of what we factored in for product margin and planned promotions, we're seeing that continuing per our strategy in 2024. Really solid margins there, what we expected and continuing that plan going into 2025.

**Zach Beeck**

Great. Thanks. I'll pass it on.

**Operator**

Our next question is from Peter Keith with Piper Sandler.

**Peter Keith**

Thanks. Good morning everyone. A nice solid finish to the year with your demand trends. We are hearing about some weakness in some bigger ticket household products here to start the year. I know you said demand was solid, but could you put any quantification to what you're seeing with January and February? Then maybe on a related note, if the demand is good, why are the comps basically guided kind of flat to negative in Q1?

**Jen Porter**

Good morning, Peter. I can start on that one. We are separating out January versus February, but as you note, as John said, we're seeing spring off to a solid start. Obviously, I can't comment on what anybody else might be referencing and what they're speaking to out there.

One thing I would remind us and something we've spoken to in the past as well is one weekend, one month doesn't make a trend. In terms of what we're looking at, again, we're off to a solid start and those results are factored into the guide. Also, February is not over so we're continuing to see what's happening there.

**John Reed**

But yes, just to pick up—go ahead, Peter.

**Peter Keith**

Well, just trying to extrapolate the solid demand trends and then the negative comp. I understand there's delivery delays, but this is a pretty big disconnect.

**Ryan Brody**

Yes. As we moved into 2025, we've now moved beyond the abnormal backlog from 2023, so the comp and the demand comp should be more aligned starting in '25. There may be some timing differences from quarter to quarter, but full-year they should be more or less aligned.

**Peter Keith**

Okay. Maybe just separately, you talked about the promo strategy. I'm trying to understand where you are today because I think when you look back at that weakness, that air pocket in Q2/Q3, I think you moved

away from promos, the consumer didn't like that so you've kind of re-architected your promo strategy. Where are you today? Have you kind of landed in a spot that you like or is it still a work in progress? Maybe just get us up to speed on where you stand today versus a couple of months ago.

**Jen Porter**

Great question. I think just to clarify, I mean, 2024 was a choppy year. We spoke to softness we saw in Q2 and Q3 and I know we've talked about that on the prior calls as well. I think it's important to remember, there's a lot going on in that time period. There's summer travel. There's a lot of macro noise happening. There's the lead-up to the election. There's just a lot happening. As I mentioned earlier, we were playing around with how we were messaging and marketing our promotional strategy. But we were going in with the approach to pricing and promotions (inaudible) we have really showcasing that value to our clients and really playing with how we showcase that value.

We were happy with Q4, as John mentioned that positive demand comp that we saw in Q4. I'm pleased with the solid start that we're seeing in January.

In terms of sort of how our approach has changed maybe in the last few months versus prior and then going forward, our approach really hasn't changed. We've been testing and learning a lot, and we are going to continue to read those results and make updates as we always do. I think that's one of the strengths of how we approach our strategies at Arhaus, and we will continue to share more with you if and when we make any changes to that strategy.

**Peter Keith**

Okay. Very good. Thanks so much.

**Jen Porter**

Thank you.

**John Reed**

Thanks, Peter.

**Operator**

Our next question is from Cristina Fernandez with Telsey Advisory Group.

**Cristina Fernandez**

Good morning. Thanks for taking my question. I wanted to ask about the store openings for 2025. Three to five is a little bit lower than your annual target. Is it just absorbing some of the higher pace of openings last year? Any other stores you're planning on opening as far as Design Studios or outlets that we should consider? Thanks.

**John Reed**

Sure, Cristina. Yes, as we mentioned, I think we did 11 new stores last year and then I believe we opened another 5 new stores that were relocations. A couple of those, I think, were slated for '25 that we were able to push into '24. So if you look at a 2-year combination, we're right on track.

With that said, we're pretty set for 2025. However, the Design Studio side of the business is a lot more flexible and we can move quickly on those, so we are in the process of speaking to some landlords about some locations there that we can't announce today because we don't have deals done, but they easily could fall into 2025.

**Cristina Fernandez**

As a follow-up, on the inventory, which was up 17%, is there any timing that's leading to that increase or product newness? Can you speak about it? It seems a little bit higher than your sales trends. Thanks.

**John Reed**

Yes. I can talk to it and then maybe Ryan can fill in some facts.

Obviously, with all the new Showrooms, they take quite a bit of inventory and some of our new Showrooms are larger than our traditional Showrooms had been, which we're trying to grow the square footage a little bit so we can offer more products. In addition to that, we really went after expanding some categories that are just working so well for us and just balancing our inventory out; getting more things in stock so we can service the consumer a lot quicker than asking them to wait for products.

It's all, we think good inventory, great investments, and it really is setting us up for the future.

Ryan doesn't have any input on that.

**Ryan Brody**

The one other thing is just we're moving into the outdoor season so we ramped up the inventory to support that time of the year.

**John Reed**

Yes. Last year, the outdoor season inventory came in a little later than this year, so you're right. That one moved in much quicker. We want to get that in stock for the season so that does add to it as well.

**Operator**

Our next question is from Robbie Ohmes with Bank of America.

**Female Speaker**

This is Maddy on for Robbie. Thanks for taking our questions. I was just wondering if you could give any help on how we should think about gross margin or SG&A for the first quarter in 2025. Any first half or second half dynamics to remember? Maybe could you remind us the timing of when you plan to phase your software implementations this year? I think you mentioned the manufacturing ERP and planning software was expected to launch in the first half.

**Ryan Brody**

Yes. To start with gross margin, for Q1 we expect some slight deleverage in Q1 from Showroom occupancy costs, but for full-year gross margin is expected to be relatively consistent year-over-year. With SG&A, as we discussed over the past year or so, with our Showroom expansion we expect to see increased costs as well as the strategic investments that we're making to support the growth of the business.

In regard to some of the system implementation that you're talking about, we're still on track with our ERP at our manufacturing facility for later in the year as well as our inventory planning system. Those are both on track.

**Female Speaker**

Great. Thank you. Maybe just as a follow-up, have you taken any preemptive measures ahead of potential tariffs? Maybe have you taken any price with new collections?

**John Reed**

Yes. We're in great shape as far as tariffs go. God knows what tariffs are going to be where and when, but we've done everything possible to be ready for them, including speaking to all our partners out there. If something happens, what if this, what if that, what do we have to do? Certainly, all our partners are willing to step up and help financially lessen that blow, so we don't have to just give straight large increases to our customers. We feel we're in good shape. Again, it's moving every day. I don't know what the tariff will be tomorrow, so we're doing what we can.

Obviously, globally, we have an incredibly diverse population out there of different countries. And keep in mind, we have probably more—we have the largest part of our business is handmade in United States, so that gives us a huge competitive edge over our friend competitors because it's a big part of our business is the product that's made right here in the United States. We have our own manufacturing facility as well as work with a lot of great manufacturers right here in the States so we think that's also a big kind of competitor advantage over us.

**Ryan Brody**

The one thing to add, our current guidance includes the potential impact of tariffs that we know of today. That has been reflected in what we have released this morning.

**Female Speaker**

Okay. Thank you.

**John Reed**

Thank you

**Operator**

Our next question is from Jonathan Matuszewski with Jefferies.

**Jonathan Matuszewski**

Great. Good morning and thanks for taking my questions. First question was just trying to understand the macro and housing assumptions embedded in your comp outlook for '25. Just trying to understand if it's consistent with 2024. Does it imply recent housing momentum from 4Q continues in '25? Trying to get a sense of just any incremental optimism embedded in the outlook. Thanks so much. That's my first question.

**Jen Porter**

Great question, Jonathan. I think right now we're assuming sort of the same as last year. Obviously, we don't know what we don't know, so taking just a conservative approach to that.

I think one of the things that we have talked about a lot on prior calls is things like the housing market, while obviously are a factor that we pay close attention to being a furniture company, that is not the largest driver of our sales. So just as we've talked about on past calls, we're looking for primary drivers that we see within our client base is think of light refreshes to sort of contractor-led remodels and then the third of those elements being the housing market.

As of now, the guide is assuming sort of a status quo model, but we'll be paying very close attention moving forward.

**Jonathan Matuszewski**

All right. Great. That's helpful. Then just to follow-up, Ryan, you mentioned the guidance that was provided embeds a headwind from tariffs that have been announced. Is it possible to understand kind of the magnitude of the headwind that's embedded in the guide to the extent—as you mentioned, it's a fluid environment so if there is any retraction, helpful to understand kind of the impact there. Thank you.

**Ryan Brody**

Yes. We've been with some of our vendor partners and understanding what the potential impact could be. From there, we've worked on some contingency plans and potentially re-sourcing to other markets and just kind of waiting to see how the next few months play out from a timing perspective of when these things go into place.

**Jonathan Matuszewski**

Got you. Thank you.

**Operator**

Our next question is from Phillip Blee with William Blair. Please proceed with your question.

**Phillip Blee**

Good morning. Thanks for the question. My question is around the EBITDA guide. The midpoint implies around \$5 million in EBITDA fall-through on incremental \$100-or-so million in sales. I understand the incremental \$5 million to \$10 million in investment spend, but what else is weighing on earnings this year? Any sort of color on some bigger buckets that we should consider? Or is this more of a function of conservatism given the choppy macro environment? Thanks.

**Ryan Brody**

Yes. You touched on the system investments that we're making there to continue to support the growth of the business. We also have the Showroom expansion costs related to those, so there's that. Then with what we just talked about related to tariffs and other promotional expectations for the year, we've baked all those into our guide.

**Phillip Blee**

Okay. Great. Thanks. Then I believe you've relocated about five stores last year. What are your plans this year for the number of relocations or refreshes? What sort of lift does that have on comps? How much of your fleet would you say is a potential target for a relo or a larger scale refresh over the next few years? Thank you.

**John Reed**

Sure. We just passed our 100th store, so as leases come up, we are looking at locations, refreshes and we're going through the fleet. I firmly, firmly believe that you need to keep your product fresh, you need to keep your stores fresh. You need to really—while the consumer, when they walk in—we just remodeled a store in Naples, Florida, for instance. It's an old store. Probably 10 years, 15 years since we had remodeled it. Since we've remodeled it though, the sales growth has been phenomenal. The reaction has been phenomenal. It's just building and building our brand. So in addition to obviously opening new stores and new locations, we're going back and looking at anything that we can to remodel as needed. Certainly, the bigger markets we look at first and then we keep going down. We're remodeling a store, moving a store in Dayton, Ohio, for instance, this year to a great, great new little lifestyle center that we know is going to give Dayton, Ohio, a nice boost.

It works across the board. We're happy with the performance when we do move a store, remodel a store. We're very happy with the sales and the additional profits they're going to contribute.

We're looking at about the same amount this year as last year and we'll continue kind of on that page. We take part of our capital expense and budget it towards remodeling instead of all of it in new stores. That's kind of the strategy we have and we're going to continue with that going forward.

**Phillip Blee**

Great. Appreciate it. Best of luck.

**John Reed**

You bet.

**Operator**

Our next question is from Jeremy Hamblin with Craig-Hallum.

**Jeremy Hamblin**

Thanks, and congrats. I wanted to just come back to the Showroom openings and just understand maybe the cadence that you expect during the course of the year. I think on the Q3 call, it did sound like you were still expecting at that time, the typical five to seven new Showrooms so I wanted to understand if there's been kind of any change in that outlook and whether or not kind of the timing or the shift of when you might expect the three to five Showrooms to open up this year. Then also just what are the geographies that you're targeting?

**John Reed**

Sure. I think I know we have one slated, quite an impressive Showroom, I think one of the most, if not the most iconic building in Pasadena, California, slated to open this year. We're hoping to hit that five number for sure, which is what we're shooting for. Places like Pasadena, where they just had the fires, there's a huge labor shortage so things may be delayed a little bit because people are trying to get their homes built

and shortage of product and so forth. Anyway, so we're dealing with that kind of stuff as well. But I think we're in good shape everywhere else around the country.

I think we're doing couple in California. I mentioned Dayton, Ohio. That's a move store. I don't have the whole list in front of me on different locations. We normally don't want to divulge too much information to our competitors at this point; we're getting ready to open.

We just opened a great store in Florida in Winter Park in Orlando, just a few weeks ago, actually and off to an incredible start. Florida is a booming market for us. We're finishing out California and then we're going through the country. We've got lots and lots of opportunities all through the country. The Arizona area is just booming. Texas is booming. We're in great shape, and we're going to take care.

As we find great locations, we open them. We're going to do it conservatively, but we're also going to do it in a way that it makes sense. We're not going to open locations just to open them. They have to be the great locations, the right areas, the right size locations and so forth. As we find them, we open them and we've got plenty of cash to do it. We're going to continue to grow and we're going to continue to take opportunity, and keep taking market share for that matter.

### **Jeremy Hamblin**

Understood. Thanks for the color. Then just a question here. You noted in January, right, that you saw a really nice lift in consumer confidence following the November election that resulted in strong written orders or demand comps in November and December, and it sounds like a good start in January. Just wanted to get a sense for how your core customer reacts. There has been a fairly significant step down in consumer confidence as measured here in February. How does your customer typically react in these scenarios? Obviously, you've got a lot of attractive new products that you've just launched and it sounds like some great forthcoming launches, but how much of kind of that buying decision is kind of based on stock market trends and so forth? Just wanted to get an understanding of kind of the history there.

### **Jen Porter**

Yes. It's a great question. I smiled a bit when you stated how do they react under these conditions because I think—I don't know if we've ever seen these conditions per se before. We spoke in the past of we have seen softness leading into elections, for example, as people are just wondering what's going to happen there. And as you mentioned, we spoke to the fact that we were happy with November and December. Definitely saw clients making purchases at that time. We spent all last year talking to noise and macro uncertainty and conversations that are happening in the news and I think we're starting off this year having a lot of those same conversations.

We talk a lot about what our customers do and how they may have performed in the past. In the past, we have mentioned that our client has been more connected to the stock market per se instead of the housing market, but I would caution anybody about relying too much on what's happened historically. We are focused on staying very connected with our clients. The great thing is we have a leading indicator of demand sales. We are interacting with them every single day in our Showrooms. We are seeing how they're engaging with us and connecting with our traffic to a site, engaging with our marketing channels, how they're interacting with us, what conversion rates look like, all of those elements. We're laser-focused on monitoring all of that.

Then really, as I've spoken about in the past, focused on executing to our strategies. We're doing what we do best, which is focusing on the product pipeline, focusing on making sure our Showrooms look incredible, focusing on launching the right marketing campaigns at the right time and being really targeted and purposeful with how we do that.

As John and I mentioned earlier on the call, we feel really confident about our strategy going into next year, and we are going to focus on executing that, and we'll read and react to the larger state of what's going on if we need to as we all learn more.

**Jeremy Hamblin**

Great. Thanks for all the color and best wishes this year.

**Jen Porter**

You're welcome.

**John Reed**

Thank you very much.

**Operator**

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad.

Our next question is from Simeon Gutman with Morgan Stanley. Please proceed with your question.

**Pedro Gil**

Good morning. This is Pedro Gil for Simeon. My question is about the Adjusted EBITDA guidance in the first quarter. You're guiding to an Adjusted EBITDA decline of 24% year-on-year at the midpoint on a revenue increase of 6% at the midpoint. Can you help us understand a little better where the deleverage is coming from, besides the Showroom occupancy? And related to that, given the higher level of inventories year-on-year, how are you planning the promotional cadence through the first quarter?

**Ryan Brody**

The first question, the two biggest drivers in Q1 are as you mentioned with the deleverage, the Showroom occupancy and related costs related to the additional Showrooms, and then the strategic investments that we're making in the business.

**Jen Porter**

Then just to touch on your question about how are we planning promotional cadence for Q1, as I touched on earlier, our approach to our promotional strategy going into 2025 is in line with our approach in 2024. Without getting into too much detail—I don't want to show all our cards here, but I would just remind you to look at calendar shift. We saw some calendar shift in those key holiday dates back in Q4. We're seeing some shifts in key holiday dates which correlates to key shopping periods and historical promotional periods in 2025 as well, so just being aware of those.

**Pedro Gil**

Does that seep through into the first quarter promotional calendar?

**Jen Porter**

I'm sorry, can you repeat that question?

**Pedro Gil**

Yes. Just on your point about the calendar shift throughout the fourth quarter, how does that flow through into the promotional calendar during the first quarter? Help us understand.

**Jen Porter**

I see. I apologize. I think I confused you there. I was just referencing there are calendar shifts in 2025 in Q1 and Q2 as to when some of those peak holidays fall just on the calendar year. Easter, for example, is later this year than it was last year. As we've spoken to, a lot of our promotional strategy aligns with those key shopping periods, which align to those key holiday periods. So, similarly to how you saw some shifts in Thanksgiving, Black Friday, Cyber Monday timing in November and December, we're seeing some of those shifts such as Easter happening in Q1 as well.

**Pedro Gil**

Okay. Got it. Thank you.

**Jen Porter**

Thank you.

**Operator**

Our next question is from Seth Basham with Wedbush Securities. Please proceed with your question.

**Matthew McCartney**

Good morning. This is Matt McCartney on for Seth. Just real quick, just wondering if we get an update on new Showroom performance relative to your model and if that performance there, is that impacting some of your Showroom plans for 2025?

**John Reed**

No. Our plans are solid for 2025 and beyond. We've been very happy with the performance of the new Showrooms. Very solid, hitting our expectations and then some. Our plan is not changing at all. We're going to continue to grow. And as we find great locations, we're going to open great stores.

**Matthew McCartney**

Great. Thank you.

**John Reed**

You bet.

**Operator**

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

**Tara Atwood**

Thank you everyone for joining. We appreciate your interest in Arhaus and we hope you have a great day.

**John Reed**

Thanks everybody.

**Jen Porter**

Thank you.

**John Reed**

Take care.

**Operator**

Thank you everyone for your participation in our call and interest in Arhaus. You may now disconnect your lines.