UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-41009

Arhaus, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**87-1729256**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

51 E. Hines Hill Road, Boston Heights, Ohio
(Address of Principal Executive Offices)
44236
(Zip Code)

(440) 439-7700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.001 par value per share	ARHS	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of August 5, 2024 the registrant had 53,460,616 shares of Class A common stock and 87,115,600 shares of Class B common stock outstanding.

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Part I - Financial Information

Item 1. Financial Statements of Arhaus, Inc. and Subsidiaries

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

	June 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 174,186	$ 223,098
Restricted cash	3,213	3,207
Accounts receivable, net	1,544	2,394
Merchandise inventory, net	273,557	254,292
Prepaid and other current assets	38,010	26,304
Total current assets	490,510	509,295
Operating right-of-use assets	352,472	302,157
Financing right-of-use assets	37,764	38,835
Property, furniture and equipment, net	268,339	220,248
Deferred tax assets	14,258	19,127
Goodwill	10,961	10,961
Other noncurrent assets	2,997	4,525
Total assets	$ 1,177,301	$ 1,105,148
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 67,949	$ 63,699
Accrued taxes	7,093	9,638
Accrued wages	10,791	15,185
Accrued other expenses	45,584	46,062
Client deposits	210,268	173,808
Current portion of operating lease liabilities	49,463	33,051
Current portion of financing lease liabilities	975	904
Total current liabilities	392,123	342,347
Operating lease liabilities, long-term	417,861	362,598
Financing lease liabilities, long-term	53,636	53,870
Deferred rent and lease incentives	—	1,952
Other long-term liabilities	4,371	4,143
Total liabilities	$ 867,991	$ 764,910
Commitments and contingencies (Note 9)		
Stockholders' equity		
Class A shares, par value $0.001 per share (600,000,000 shares authorized, 53,466,265 shares issued and 53,345,001 outstanding as of June 30, 2024; 53,254,088 shares issued and 53,169,711 outstanding as of December 31, 2023)	53	52
Class B shares, par value $0.001 per share (100,000,000 shares authorized, 87,115,600 shares issued and outstanding as of June 30, 2024; 87,115,600 shares issued and outstanding as of December 31, 2023)	87	87
Retained earnings	111,544	145,292
Additional paid-in capital	197,626	194,807
Total stockholders' equity	309,310	340,238
Total liabilities and stockholders' equity	$ 1,177,301	$ 1,105,148

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

	Six months ended June 30,		Three months ended June 30,	
	2024	**2023**	**2024**	**2023**
Net revenue	$ 604,963	$ 617,467	$ 309,801	$ 312,899
Cost of goods sold	365,537	349,109	185,429	172,779
Gross margin	239,426	268,358	124,372	140,120
Selling, general and administrative expenses	191,684	168,913	94,991	86,131
Income from operations	$ 47,742	$ 99,445	$ 29,381	$ 53,989
Interest income, net	(2,038)	(651)	(606)	(478)
Other income	(197)	(660)	(75)	(88)
Income before taxes	49,977	100,756	30,062	54,555
Income tax expense	12,644	26,474	7,828	14,372
Net and comprehensive income	$ 37,333	$ 74,282	$ 22,234	$ 40,183
Net and comprehensive income per share, basic				
Weighted-average number of common shares outstanding, basic	139,901,319	139,232,238	139,985,846	139,389,967
Net and comprehensive income per share, basic	$ 0.27	$ 0.53	$ 0.16	$ 0.29
Net and comprehensive income per share, diluted				
Weighted-average number of common shares outstanding, diluted	140,736,096	139,959,943	140,916,161	139,979,928
Net and comprehensive income per share, diluted	$ 0.27	$ 0.53	$ 0.16	$ 0.29

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

(Unaudited, amounts in thousands)

	Six Months Ended								
	Common Stock				Treasury Stock		Total Stockholders' Equity		
	Class A		Class B		Class A				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity
Balances as of December 31, 2023	**52,669**	**$ 52**	**87,116**	**$ 87**	**84**	**$ —**	**$ 145,292**	**$ 194,807**	**$ 340,238**
Net income	—	—	—	—	—	—	37,333	—	37,333
Shareholder capital contribution	—	—	—	—	—	—	—	17	17
Equity based compensation	362	1	—	—	—	—	—	3,350	3,351
Shares withheld to cover employees' withholding taxes for equity based compensation	(37)	—	—	—	37	—	—	(548)	(548)
Dividends declared	—	—	—	—	—	—	(71,081)	—	(71,081)
Balances as of June 30, 2024	**52,994**	**$ 53**	**87,116**	**$ 87**	**121**	**$ —**	**$ 111,544**	**$ 197,626**	**$ 309,310**

	Six Months Ended								
	Common Stock				Treasury Stock		Total Stockholders' Equity		
	Class A		Class B		Class A				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity
Balances as of December 31, 2022	**51,437**	**$ 51**	**87,116**	**$ 87**	**—**	**$ —**	**$ 20,053**	**$ 189,504**	**$ 209,695**
Net income	—	—	—	—	—	—	74,282	—	74,282
Shareholder capital contribution	—	—	—	—	—	—	—	30	30
Equity based compensation	933	1	—	—	—	—	—	3,903	3,904
Shares withheld to cover employees' withholding taxes for equity based compensation	(25)	—	—	—	25	—	—	(347)	(347)
Balances as of June 30, 2023	**52,345**	**$ 52**	**87,116**	**$ 87**	**25**	**$ —**	**$ 94,335**	**$ 193,090**	**$ 287,564**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Arhaus, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity (continued)
(Unaudited, amounts in thousands)

	Three Months Ended								
	Common Stock				Treasury Stock		Total Stockholders' Equity		
	Class A		Class B		Class A				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity
Balances as of March 31, 2024	**52,761**	**$ 53**	**87,116**	**$ 87**	**121**	**$ —**	**$ 89,206**	**$ 196,301**	**$ 285,647**
Net income	—	—	—	—	—	—	22,234	—	22,234
Shareholder capital contribution	—	—	—	—	—	—	—	6	6
Equity based compensation	233	—	—	—	—	—	—	1,327	1,327
Shares withheld to cover employees' withholding taxes for equity based compensation	—	—	—	—	—	—	—	(8)	(8)
Dividends declared	—	—	—	—	—	—	104	—	104
Balances as of June 30, 2024	**52,994**	**$ 53**	**87,116**	**$ 87**	**121**	**$ —**	**$ 111,544**	**$ 197,626**	**$ 309,310**

	Three Months Ended								
	Common Stock				Treasury Stock		Total Stockholders' Equity		
	Class A		Class B		Class A				
	Shares	Amount	Shares	Amount	Shares	Amount	Retained Earnings	Additional Paid-in Capital	Total Stockholders' Equity
Balances as of March 31, 2023	**52,216**	**$ 52**	**87,116**	**$ 87**	**25**	**$ —**	**$ 54,152**	**$ 190,803**	**$ 245,094**
Net income	—	—	—	—	—	—	40,183	—	40,183
Shareholder capital contribution	—	—	—	—	—	—	—	13	13
Equity based compensation	129	—	—	—	—	—	—	2,274	2,274
Balances as of June 30, 2023	**52,345**	**$ 52**	**87,116**	**$ 87**	**25**	**$ —**	**$ 94,335**	**$ 193,090**	**$ 287,564**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

	Six months ended June 30,	
	2024	**2023**
Cash flows from operating activities		
Net income	$ 37,333	$ 74,282
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	17,709	14,140
Amortization of operating lease right-of-use asset	17,942	16,080
Amortization of deferred financing fees, interest on finance lease in excess of principal paid and interest on operating leases	13,008	9,945
Equity based compensation	3,351	3,904
Deferred tax assets	4,870	5,333
Amortization of cloud computing arrangements	762	142
Amortization and write-off of lease incentives	(80)	(160)
Insurance proceeds	—	60
Changes in operating assets and liabilities		
Accounts receivable	850	(12)
Merchandise inventory	(19,265)	(8,495)
Prepaid and other assets	(11,545)	619
Other noncurrent liabilities	332	169
Accounts payable	4,571	(10,525)
Accrued expenses	(11,254)	(14,847)
Operating lease liabilities	(10,740)	(17,253)
Client deposits	36,460	(9,186)
Net cash provided by operating activities	84,304	64,196
Cash flows from investing activities		
Purchases of property, furniture and equipment	(62,158)	(35,216)
Insurance proceeds	—	333
Net cash used in investing activities	(62,158)	(34,883)
Cash flows from financing activities		
Principal payments under finance leases	(448)	(130)
Repurchase of shares for payment of withholding taxes for equity based compensation	(548)	(347)
Cash dividend payments	(70,056)	—
Net cash used in financing activities	(71,052)	(477)
Net increase (decrease) in cash, cash equivalents and restricted cash	(48,906)	28,836
Cash, cash equivalents and restricted cash		
Beginning of period	226,305	152,527
End of period	$ 177,399	$ 181,363
Supplemental disclosure of cash flow information		
Interest paid in cash	$ 2,143	$ 2,610
Interest received in cash	5,155	3,172
Income taxes paid in cash	15,815	21,902
Noncash investing activities:		
Purchase of property, furniture and equipment in current liabilities	12,672	8,542
Noncash financing activities:		
Capital contributions	17	30

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

1. Nature of Business and Basis of Presentation

Nature of Business

Arhaus, Inc. (the "Company," "we" or "Arhaus") is a Delaware corporation and is a premium retailer in the home furnishings market, specializing in livable luxury supported by heirloom quality merchandise. We offer merchandise in a number of categories, including furniture, outdoor, lighting, textiles and décor. Our curated assortments are presented across our sales channels in sophisticated, family friendly and unique lifestyle settings. We position our retail locations as Showrooms for our brand, while our website acts as a virtual extension of our Showrooms. The Company operated 97 Showrooms as of June 30, 2024.

Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying condensed consolidated financial statements include our accounts and those of our wholly owned subsidiaries. Accordingly, all intercompany balances and transactions have been eliminated through the consolidation process.

The accompanying condensed consolidated balance sheets at June 30, 2024 and December 31, 2023, the condensed consolidated statements of comprehensive income and changes in stockholders' equity for the six and three months ended June 30, 2024 and June 30, 2023, the condensed consolidated statements of cash flows for the six months ended June 30, 2024 and June 30, 2023 and the related interim condensed consolidated disclosures are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

In management's opinion, the accompanying condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the Company's financial position at June 30, 2024, the results of operations and changes in stockholders' equity for the six and three months ended June 30, 2024 and cash flows for the six months ended June 30, 2024. The condensed consolidated balance sheet as of December 31, 2023 included herein was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

The results for the six and three months ended June 30, 2024 and June 30, 2023 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting estimates and other matters included within our condensed consolidated financial statements and notes to the condensed consolidated financial statements we have assessed include, but were not limited to, revenue recognition, including a reserve for merchandise returns, inventory reserves, impairment of long-lived assets and fair value of financial instruments which include, but are not limited to, accounts receivable, payables and lease obligations.

Client Deposits

Client deposits represent payments made by clients on orders. At the time of order, the Company collects deposits for all orders equivalent to at least 50 percent of the clients' purchase price. Orders are recognized as revenue when the merchandise is delivered to the client and at the time of delivery the client deposit is no longer recorded as a liability. The

Company expects substantially all client deposits as of June 30, 2024 will be recognized as net revenue within the next 12 months as the performance obligations are satisfied.

Gift Cards

The Company sells gift cards to clients in our Showrooms and through our website. Such gift cards do not have expiration dates. We defer revenue when payments are received in advance of performance for unsatisfied obligations related to our gift cards. The liability related to unredeemed gift cards at June 30, 2024 and December 31, 2023 of $0.4 million and $0.5 million, respectively, is recorded in the accrued other expenses line item of the condensed consolidated balance sheets. The Company recognizes income associated with breakage proportional to actual gift card redemptions. For the six and three months ended June 30, 2024, breakage income was minimal. For the six and three months ended June 30, 2023, breakage income was $0.7 million.

Fair Values of Financial Instruments

The Company's primary financial instruments are cash and cash equivalent investments, accounts receivable, payables, lease obligations and equity based compensation instruments. Due to the short-term maturities of cash and cash equivalent investments, accounts receivable and payables, the Company believes the fair values of these instruments approximate their respective carrying values at June 30, 2024 and December 31, 2023. See Note 5 — *Leases* for discussion of our lease obligations and Note 6 — *Equity Based Compensation* for discussion of our equity based compensation instruments.

The Company has established a hierarchy to measure our financial instruments at fair value, which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the Company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The hierarchy defines three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets for identical, unrestricted assets and liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset and liability or can be corroborated with observable market data for substantially the entire contractual term of the asset or liability.

Level 3 Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in the pricing of the asset or liability and are consequently not based on market activity but rather through particular valuation techniques.

From time to time, the Company invests in Level 1 cash and cash equivalent investments such as money market funds and interest-bearing checking accounts. For the six and three months ended June 30, 2024, the Company earned $4.8 million and $2.0 million, respectively, in interest income. For the six and three months ended June 30, 2023, interest income was $3.3 million and $1.8 million, respectively, which is included within interest income, net on our condensed consolidated statements of comprehensive income.

Accounts Receivable

The Company's accounts receivables are $1.5 million and $2.4 million, respectively, at June 30, 2024 and December 31, 2023, net of allowance for expected credit losses of $0.4 million and $0.6 million, respectively. The allowance for expected credit losses is determined by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, the client's current ability to pay its obligations, and the current and future condition of the general economy and industry as a whole. Accounts receivable are written off when they become uncollectible and any payments subsequently received on such receivables are credited to the allowance for expected credit losses. Accounts receivable are recorded at the invoiced amount and do not bear interest.

Prepaid and Other Current Assets

Prepaid and other current assets consist of the following (amounts in thousands):

	June 30, 2024	December 31, 2023
Prepaid expenses	$ 17,382	$ 9,374
Right of return asset	1,550	2,844
Prepaid advertising	1,219	610
Prepaid cloud computing arrangements, net[1]	7,387	4,253
Deposits	8,432	4,470
Other current assets	2,040	4,753
Total prepaid and other current assets	$ 38,010	$ 26,304

[1] Presented net of accumulated amortization of $5.4 million and $2.7 million as of June 30, 2024 and December 31, 2023, respectively.

Revision to Previously Issued Consolidated Financial Statements and Interim Unaudited Condensed Consolidated Financial Statements

As previously disclosed, in preparation of the December 31, 2023 consolidated financial statements, the Company identified an error within the unaudited condensed consolidated balance sheets related to certain leasehold and landlord improvements prior to showroom completion being incorrectly included in prepaid and other current assets rather than property, furniture and equipment, net. The error resulted in inaccurate cash flows ascribed to operating and investing activities in the unaudited condensed consolidated statement of cash flows and the Company concluded to revise the consolidated financial statements and interim unaudited condensed consolidated financial statements as presented below in Adjustment No.1.

In preparation of the March 31, 2024 unaudited condensed consolidated financial statements, the Company identified an additional error within the unaudited condensed consolidated balance sheets related to certain cash receipts from landlord reimbursements prior to showroom completion being incorrectly included in property, furniture and equipment, net. The error resulted in inaccurate cash flows ascribed to operating and investing activities in the unaudited condensed consolidated statement of cash flows as presented below in Adjustment No. 2.

The Company has evaluated the errors both quantitatively and qualitatively and concluded they were not material, individually or in the aggregate, to the prior period consolidated financial statements and interim unaudited condensed consolidated financial statements. The Company concluded to further revise: the unaudited condensed consolidated balance sheets and unaudited condensed consolidated statements of cash flows as of and for the three months ended March 31, 2023 and 2022, and as of and for the six months ended June 30, 2023 and 2022; the unaudited condensed consolidated balance sheet as of September 30, 2022; the consolidated balance sheets as of December 31, 2023 and 2022; and the consolidated statements of cash flows for the years ended December 31, 2023, 2022 and 2021.

In connection with the revisions, the Company determined it is appropriate to correct for certain other immaterial errors. The Company will effect the revisions of the consolidated financial statements for 2023 and 2022 within our Annual Report on Form 10-K for the fiscal year ended December 31, 2024. The Company effected the revision of the unaudited interim condensed consolidated financial statements for the second quarter of 2023 within this Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2024.

The Company has also revised impacted amounts within the accompanying notes to the unaudited condensed consolidated financial statements, as applicable.

The following tables summarize the impact of these corrections for the periods presented (amounts in thousands):

	December 31, 2023		
Consolidated Balance Sheet	**As Reported**	**Adjustment No. 2**	**As Revised**
Prepaid and other current assets	$ 45,260	$ (18,956)	$ 26,304
Total current assets	$ 528,251	$ (18,956)	$ 509,295
Property, furniture and equipment, net	$ 210,238	$ 10,010	$ 220,248
Total assets	$ 1,114,094	$ (8,946)	$ 1,105,148
Accrued other expenses	$ 42,502	$ 3,560	$ 46,062
Current portion of operating lease liabilities	45,557	(12,506)	33,051
Total current liabilities	$ 351,293	$ (8,946)	$ 342,347
Total liabilities	$ 773,856	$ (8,946)	$ 764,910
Total liabilities and stockholders' equity	$ 1,114,094	$ (8,946)	$ 1,105,148

	Year ended December 31, 2023		
Consolidated Statement of Cash Flows	**As Reported**	**Adjustment No. 2**	**As Revised**
Cash flows from operating activities			
Changes in prepaid and other assets	$ (20,721)	$ 9,612	$ (11,109)
Changes in operating lease liabilities	(25,794)	(13,226)	(39,020)
Net cash provided by operating activities	$ 172,299	$ (3,614)	$ 168,685
Cash flows from investing activities			
Purchases of property, furniture and equipment	$ (97,055)	$ 3,614	$ (93,441)
Net cash used in investing activities	$ (96,722)	$ 3,614	$ (93,108)
Supplemental disclosure of cash flow information			
Noncash investing activities:			
Purchase of property, furniture and equipment in current liabilities	$ 6,726	$ 3,560	$ 10,286

	June 30, 2023				
Condensed Consolidated Balance Sheet	**As Originally Reported**	**Adjustment No. 1**	**As Previously Disclosed**	**Adjustment No. 2**	**As Revised**
Prepaid and other current assets	$ 43,084	$ (13,274)	$ 29,810	$ (11,380)	$ 18,430
Total current assets	$ 521,047	$ (13,274)	$ 507,773	$ (11,380)	$ 496,393
Operating right-of-use assets	$ 309,211	$ (7,350)	$ 301,861	$ —	$ 301,861
Property, furniture and equipment, net	149,515	13,274	162,789	15,160	177,949
Total assets	$ 1,045,279	$ (7,350)	$ 1,037,929	$ 3,780	$ 1,041,709
Accrued other expenses	$ 33,857	$ —	$ 33,857	$ 2,410	$ 36,267
Current portion of operating lease liabilities	41,483	—	41,483	1,370	42,853
Total current liabilities	$ 344,627	$ —	$ 344,627	$ 3,780	$ 348,407
Operating lease liabilities, long-term	$ 352,898	$ (7,350)	$ 345,548	$ —	$ 345,548
Total liabilities	$ 757,715	$ (7,350)	$ 750,365	$ 3,780	$ 754,145
Total liabilities and stockholders' equity	$ 1,045,279	$ (7,350)	$ 1,037,929	$ 3,780	$ 1,041,709

	Six months ended June 30, 2023				
Condensed Consolidated Statement of Cash Flows	**As Originally Reported**	**Adjustment No. 1**	**As Previously Disclosed**	**Adjustment No. 2**	**As Revised**
Cash flows from operating activities					
Changes in prepaid and other assets	$ (6,808)	$ 5,391	$ (1,417)	$ 2,036	$ 619
Changes in accounts payable	(4,849)	(5,676)	(10,525)	—	(10,525)
Changes in operating lease liabilities	(17,903)	—	(17,903)	650	(17,253)
Net cash provided by operating activities	$ 61,795	$ (285)	$ 61,510	$ 2,686	$ 64,196
Cash flows from investing activities					
Purchases of property, furniture and equipment	$ (32,815)	$ 285	$ (32,530)	$ (2,686)	$ (35,216)
Net cash used in investing activities	$ (32,482)	$ 285	$ (32,197)	$ (2,686)	$ (34,883)
Supplemental disclosure of cash flow information					
Noncash operating activities					
Lease incentives	$ 4,945	$ (4,945)	$ —	$ —	$ —
Noncash investing activities:					
Purchase of property, furniture and equipment in current liabilities	$ 456	$ 5,676	$ 6,132	$ 2,410	$ 8,542

2. Recently Issued Accounting Standards

New Accounting Standards Adopted in Fiscal 2024

The Company adopted Accounting Standards Updates ("ASU") 2023-01 — Leases (Topic 842): Common Control Arrangements in the six months ended June 30, 2024. The adoption of ASU 2023-01 did not have a material impact on our accounting policies or our condensed consolidated financial statements and related disclosures.

Accounting Standards Not Yet Adopted

The following table summarizes accounting pronouncements which we have not yet adopted but will be adopted in the upcoming fiscal year. ASU 2023-07 is effective for annual periods beginning after December 15, 2023. We believe the adoption will not have a material impact on our accounting policies, financial position or results of operations but could require additional disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. We believe the adoption will not have a material impact on our accounting policies, financial position or results of operations but could require additional disclosures.

ASU	Description	Adoption Date
ASU 2023-07	Segment Reporting (Topic 280): Improvements	Fiscal Year 2024
ASU 2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	Fiscal Year 2025

3. Merchandise Warranties

The Company warrants certain merchandise to be free of defects in both construction materials and workmanship from the date the performance obligation was fulfilled to the client for three to ten years depending on the merchandise category. The Company accounts for merchandise warranties by accruing an estimated liability when we recognize revenue on the sale of warrantied merchandise. We estimate future warranty claims based on claim experience which includes materials and labor costs to perform the repairs or replace products. We use judgment in making our estimates. We record differences between our estimated and actual costs when the differences are known.

A reconciliation of the changes in our limited merchandise warranty liability is as follows (amounts in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Balance as of beginning of period	$ 7,084	$ 6,375	$ 7,028	$ 6,465
Accruals during the period	6,376	6,749	3,296	3,368
Settlements during the period	(6,354)	(6,546)	(3,218)	(3,255)
Balance as of end of the period[1]	$ 7,106	$ 6,578	$ 7,106	$ 6,578

[1] $4.0 million and $4.1 million were recorded in accrued other expenses at June 30, 2024 and December 31, 2023, respectively. The remainder is recorded in other long-term liabilities on our condensed consolidated balance sheets.

We recorded accruals during the periods presented in the table above, primarily to reflect charges that relate to limited merchandise warranties issued during the respective periods.

4. Debt

On November 8, 2021, the Company entered into a revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility provides for, among other things, (1) a revolving credit facility in an aggregate amount not to exceed at any time outstanding the amount of such lender's commitment, (2) a letter of credit commitment in an amount equal to the lesser of (a) $10.0 million, and (b) the amount of the revolving credit facility as of such date, and (3) a swingline loan in an amount equal to the lesser of (a) $5.0 million, and (b) the amount of the revolving credit facility as of such date. The aggregate amount of all commitments of all lenders under the 2021 Credit Facility was initially $50.0 million. The 2021 Credit Facility contains restrictive covenants and has certain financial covenants, including a minimum rent-adjusted total leverage ratio and a minimum fixed charge ratio. The 2021 Credit Facility bears variable interest rates at the prevailing Bloomberg Short-Term Bank Yield index rate plus the applicable margin (1.50% at June 30, 2024 and 1.50% at June 30, 2023), whereas the applicable margin is adjusted quarterly based on the Company's consolidated rent-adjusted total leverage ratio.

On December 9, 2022, the Company amended the 2021 Credit Facility to increase the revolving credit commitment thereunder by $25.0 million. After giving effect to such increase, the aggregate amount of all commitments under the 2021 Credit Facility is $75.0 million. The 2021 Credit Facility expires on November 8, 2026.

At June 30, 2024 and December 31, 2023, we had no borrowings on the 2021 Credit Facility. Deferred financing costs related to the 2021 Credit Facility of $0.4 million and $0.4 million as of June 30, 2024 and December 31, 2023, respectively, are recorded in other noncurrent assets on the condensed consolidated balance sheets and will be amortized over the term of the 2021 Credit Facility on a straight-line basis. Accumulated amortization related to deferred financing costs for the 2021 Credit Facility was $0.2 million as of June 30, 2024 and $0.1 million as of December 31, 2023.

The Company was in compliance with all applicable debt covenants at June 30, 2024 and December 31, 2023, and expects to remain in compliance over the next 12 months.

5. Leases

The Company leases real estate and equipment under operating and finance leases, some of which are from related parties as discussed in Note 10 — *Related Party Transactions*. The most significant obligations under these lease agreements require the payments of periodic rentals, real estate taxes, insurance and maintenance costs. Depending on particular Showroom leases, the Company can also owe a percentage rent payment if particular Showrooms meet certain sales figures.

The following table summarizes the amounts recognized in our condensed consolidated balance sheets related to leases (amounts in thousands):

	Condensed Consolidated Balance Sheet Classification	**June 30, 2024**	**December 31, 2023**
Assets			
Operating lease assets	Operating right-of-use assets	$ 352,472	$ 302,157
Finance lease assets	Financing right-of-use assets	37,764	38,835
Total leased assets		$ 390,236	$ 340,992
Liabilities			
Current operating leases	Current portion of operating lease liabilities	$ 49,463	$ 33,051
Non-current operating leases	Operating lease liabilities, long-term	417,861	362,598
Total operating lease liabilities		467,324	395,649
Current finance leases	Current portion of financing lease liabilities	975	904
Non-current finance leases	Financing lease liabilities, long-term	53,636	53,870
Total finance lease liabilities		54,611	54,774
Total lease liabilities		$ 521,935	$ 450,423

The components of lease cost recognized within our condensed consolidated statements of comprehensive income for the six and three months ended June 30, 2024 and June 30, 2023 are as follows (amounts in thousands):

	Condensed Consolidated Statements of Comprehensive Income Classification	Six months ended June 30, 2024	Six months ended June 30, 2023	Three months ended June 30, 2024	Three months ended June 30, 2023
Lease costs:					
Operating lease costs	Cost of goods sold	$ 25,344	$ 20,376	$ 13,159	$ 10,662
Operating lease costs	Selling, general and administrative expenses	5,095	4,857	2,594	2,456
Finance lease costs					
Amortization of right-of-use assets	Selling, general and administrative expenses	1,255	1,080	629	540
Interest expense on lease liabilities	Interest income, net	2,601	2,536	1,300	1,268
Variable lease costs[1]	Cost of goods sold	19,562	19,147	10,074	9,116
Short term lease costs	Selling, general and administrative expenses	39	136	21	16
Total lease costs		$ 53,896	$ 48,132	$ 27,777	$ 24,058

[1] For the six and three months ended June 30, 2024, there were no month-to-month lease costs. For the six months ended June 30, 2023, total lease costs includes $0.4 million of month-to-month lease costs and a minimal amount for the three months ended June 30, 2023.

We often have options to renew lease terms for Showrooms and other assets. The exercise of lease renewal options is generally at our sole discretion. In addition, certain lease agreements may be terminated prior to their original expiration date at our discretion. We evaluate each renewal and termination option at the lease commencement date to determine if we are reasonably certain to exercise the option on the basis of economic factors. The weighted average remaining lease terms are as follows:

Weighted Average Remaining Lease Term (In Years)	Six months ended June 30, 2024	Six months ended June 30, 2023
Operating leases	9.11	9.16
Finance leases	20.43	21.24

When readily determinable, we use the discount rate implicit within the lease as determined at the time of lease commencement. However, the discount rate implicit within many of our leases is generally not determinable at the time of lease commencement and therefore the Company determines the discount rate based on its incremental borrowing rate ("IBR"). For leases in which the discount rate was not explicit, the Company utilized a market-based approach to estimate the IBR, which required significant judgment. The Company estimated the base IBR based on an analysis of (i) yields on the Company's 2021 Credit Facility, as well as comparable companies and (ii) unsecured yields and discount rates. The Company applied adjustments to the base IBRs to account for full collateralization and lease term. The weighted average discount rates used to measure our lease liabilities are as follows:

Weighted Average Discount Rate	Six months ended June 30, 2024	Six months ended June 30, 2023
Operating leases	6.03 %	5.67 %
Finance leases	9.64 %	9.63 %

Future lease liabilities at June 30, 2024 are as follows (amounts in thousands):

Year Ending December 31,	Operating Lease Liabilities [1]	Finance Lease Liabilities	Total Lease Liabilities
Remainder of 2024	$ 36,844	$ 2,923	$ 39,767
2025	74,888	5,851	80,739
2026	70,856	6,309	77,165
2027	67,435	6,110	73,545
2028	62,027	5,635	67,662
2029	59,172	5,224	64,396
Thereafter	247,525	104,719	352,244
Total lease payments	618,747	136,771	755,518
Less: Amounts representing interest	(151,423)	(82,160)	(233,583)
Total	$ 467,324	$ 54,611	$ 521,935

[1] Includes leases with related parties. See Note 10 — *Related Party Transactions* for amounts leased from related parties.

At June 30, 2024, the Company has entered into leases for Showrooms and equipment which have not yet commenced with expected lease terms ranging from 2 to 13 years. The aggregate minimum rental payments over the term of the leases of approximately $115.1 million are not included in the above table.

Supplemental cash flow information related to leases for the six months ended June 30, 2024 and June 30, 2023 is as follows (amounts in thousands):

	Six months ended June 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 32,847	$ 27,248
Operating cash flows for finance leases	2,457	2,406
Financing cash flows for finance leases	448	261
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 67,691	$ 60,186
Finance leases	185	2,637

6. Equity Based Compensation

Activity of the Company's Restricted Stock for the six months ended June 30, 2024 and related equity based compensation expense for the six and three months ended June 30, 2024 and June 30, 2023 are summarized in the following tables (amounts in thousands, except share and per share data):

	Restricted Stock - Class A	
	Amount	Weighted Average Grant Date Fair Value
Unvested at December 31, 2023	500,304	$ 15.47
Granted	—	—
Forfeited	—	—
Vested	(150,110)	15.98
Unvested at June 30, 2024	350,194	$ 15.25

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Equity based compensation expense - Restricted Stock[1]	$ 1,331	$ 1,360	$ 671	$ 662

[1] Total unrecognized equity based compensation to be recognized in future periods is $4.8 million at June 30, 2024, and will be recognized over a weighted average period of 1.92 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.

The Arhaus, Inc. 2021 Equity Incentive Plan (the "2021 Plan") was adopted on November 8, 2021. The 2021 Plan authorizes the Company the ability to grant stock options (either incentive or non-qualified), stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance shares, performance share units ("PSUs") and other stock-based awards with respect to our Class A common stock to our employees, officers, consultants, advisors and directors. The maximum number of Class A common stock that may be granted under the 2021 Plan is 11,205,100 shares.

Per the 2021 Plan, each RSU and PSU represents a contingent right to receive one share of the Company's Class A common stock upon vesting. The RSUs granted to award recipients vest in one-third increments on each of the first, second and third anniversary of the date of grant, provided that the award recipient continues to serve the Company through the applicable vesting date ("Continuous Service"). If the award recipient's Continuous Service terminates for any reason other than death, disability or in connection with a change in control (as such terms are defined in the 2021 Plan), unless the Compensation Committee of the Board of Directors determines otherwise, all RSUs that are unvested at the time of such termination shall be forfeited and canceled immediately without consideration. RSU and PSU awards contain forfeitable rights to dividend equivalents. Dividend equivalents for outstanding awards are accrued when dividends are declared on the Company's common stock but are not paid until the awards vest, and dividend equivalents accrued for awards that ultimately do not vest are forfeited. The RSUs issued to certain members of the Board of Directors will generally vest on the one-year anniversary of the grant date.

The number of PSUs earned will be based on the Company's financial performance as measured against pre-established target goals for cumulative demand revenue and cumulative adjusted EBITDA (the "Performance Goals") over the applicable performance period. PSUs will vest as of the end of the performance period subject to the award recipient's Continuous Service, but will not settle and payout until the number of PSUs earned is determined by the Compensation Committee. The award recipient may earn between 0% and 200% of the PSU target award based on the Company's achievement of the Performance Goals. The Company accounts for forfeitures as they occur.

Activity of the Company's PSU and RSU awards for the six months ended June 30, 2024 and their related equity based compensation expense for the six and three months ended June 30, 2024 and June 30, 2023 are summarized in the following tables (amounts in thousands, except share and per share data):

	PSU Awards		RSU Awards	
	Amount	Weighted Average Grant Date Fair Value	Amount	Weighted Average Grant Date Fair Value
Unvested at December 31, 2023	700,229	$ 7.20	1,248,165	$ 7.79
Granted	250,708	15.90	340,236	15.86
Forfeited	(74,068)	9.09	(32,556)	9.86
Vested	—	—	(212,177)	8.54
Unvested at June 30, 2024	876,869	$ 9.53	1,343,668	$ 9.67

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Equity based compensation expense - PSUs[1]	$ (286)	$ 1,245	$ (638)	$ 812
Equity based compensation expense - RSUs[2]	$ 2,306	$ 1,299	$ 1,294	$ 800

[1] Total unrecognized equity based compensation for the PSUs to be recognized in future periods is $3.5 million at June 30, 2024, and will be recognized over a weighted average period of 2.02 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.
[2] Total unrecognized equity based compensation for the RSUs to be recognized in future periods is $10.6 million at June 30, 2024, and will be recognized over a weighted average period of 2.25 years. Equity based compensation expense is recorded within selling, general and administrative expenses on our condensed consolidated statements of comprehensive income.

7. Segment Reporting

Our chief operating decision maker is our Chief Executive Officer ("CEO"), who reviews financial information presented on a consolidated basis for purposes of making decisions, assessing financial performance and allocating resources. We operate our business as one operating segment and therefore we have one reportable segment that offers an assortment of merchandise across a number of categories, including furniture, outdoor, lighting, textiles, and décor. The assortment of merchandise can be purchased through our Retail and eCommerce merchandise sales channels.

The majority of our net revenue is generated through sales to clients in the United States. Sales to clients outside of the United States are not significant. Further, no single client represents ten percent or more of our net revenue.

Net revenue by merchandise sales channel for the six and three months ended June 30, 2024 and June 30, 2023 is as follows (amounts in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Retail	$ 501,336	$ 506,838	$ 258,081	$ 256,736
eCommerce	103,627	110,629	51,720	56,163
Total net revenue	$ 604,963	$ 617,467	$ 309,801	$ 312,899

8. Net and Comprehensive Income per Share

Basic and diluted net and comprehensive income per share for the six and three months ended June 30, 2024 and June 30, 2023, was calculated by dividing net and comprehensive income by the number of basic and diluted weighted-average common shares outstanding. The Company has elected to not adjust net and comprehensive income for forfeitable dividend equivalents, when declared, related to unvested equity awards. The Company will recognize dividends paid on common shares when the dividend equivalents are no longer forfeitable, such as if the contingency is met or the share-based payment awards vest into common shares.

Basic and diluted net and comprehensive income per share are as follows (amounts in thousands, except per share data):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Numerator				
Net and comprehensive income	$ 37,333	$ 74,282	$ 22,234	$ 40,183
Denominator—Weighted Average Shares Outstanding				
Weighted-average number of common shares outstanding, basic	139,901,319	139,232,238	139,985,846	139,389,967
Effect of dilutive restricted stock [(1)] [(2)]	834,777	727,705	930,315	589,961
Weighted-average number of common shares outstanding, diluted	140,736,096	139,959,943	140,916,161	139,979,928
Net and Comprehensive Income Per Share				
Net and comprehensive income per share, basic	$ 0.27	$ 0.53	$ 0.16	$ 0.29
Net and comprehensive income per share, diluted	$ 0.27	$ 0.53	$ 0.16	$ 0.29

[(1)] During the six and three months ended June 30, 2024, 348,274 and 284,062 shares of unvested restricted stock and RSUs were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. During the six and three months ended June 30, 2023, 710,490 and 773,662 shares of unvested restricted stock and RSUs were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.
[(2)] During the six and three months ended June 30, 2024, 578,665 PSUs were excluded from the calculation of the effect of dilutive restricted stock because they did not meet the required performance criteria. During the six and three months ended June 30, 2023, 768,577 PSUs were excluded from the calculation of the effect of dilutive restricted stock because they did not meet the required performance criteria.

9. Commitments and Contingencies

The Company is involved in litigation and claims that are incidental to its business. Although the outcome of these matters cannot be determined at the present time, management of the Company believes that the ultimate resolution of these matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

From time to time, the Company has received inquiries from a number of state and local taxing agencies with respect to the remittance of sales, use, telecommunications, excise, and income taxes. Several jurisdictions are currently conducting tax audits of the Company's records. The Company collects, or has accrued for, taxes that it believes are required to be remitted. The amounts that have been remitted have historically been within the accruals established by the Company. The Company adjusts its accrual when facts relating to specific exposures warrant such adjustment. As of June 30, 2024 and December 31, 2023, we recorded liabilities of $0.2 million and $0.2 million, respectively, in accrued other expenses on the condensed consolidated balance sheets for non-income tax matters that were probable and reasonably estimable.

In August 2023, the Company committed to make a $10.0 million donation to The Nature Conservancy. As of June 30, 2024, we have a remaining commitment of $5.0 million in accrued other expense on our condensed consolidated balance sheets which we anticipate will be disbursed by the end of the fiscal year.

On February 29, 2024, the Board of Directors of the Company declared a special cash dividend on the Company’s Class A and Class B common stock of $0.50 per share, payable April 4, 2024, to shareholders of record at the close of business on March 21, 2024 (the “Record Date”). During the six months ended June 30, 2024, the Company paid out $70.1 million of the aforementioned special cash dividend on its Class A and Class B common stock. As of June 30, 2024, dividends payable of $0.6 million is recorded in accrued other expenses and $0.5 million is included in other long-term liabilities on our condensed consolidated balance sheet.

The remaining dividends payable balance recorded on our condensed consolidated balance sheet relates to dividend equivalents on outstanding equity awards under the Company's equity incentive plans that were unvested as of the Record Date.

10. Related Party Transactions

*Leasing transactio*ns

In November 2000, the Company entered into a lease agreement with Pagoda Partners, LLC, a company of which John Reed, our CEO, indirectly owns 50%, for our warehouse in Walton Hills, Ohio. The base lease term was 17 years with a 5-year renewal option. In August 2020, the Company amended the lease agreement to extend the lease term to April 2024. The monthly rental payments are $0.1 million. In July 2023, the Company amended the lease agreement to extend the lease term to April 2034 with one additional 5-year renewal option. The monthly rental payments range from $0.1 million to $0.2 million. Rent expense was $0.9 million and $0.7 million for the six months ended June 30, 2024 and June 30, 2023, respectively. Rent expense was $0.5 million and $0.4 million for the three months ended June 30, 2024 and June 30, 2023, respectively.

In July 2010, the Company entered into a lease agreement with Brooklyn Arhaus, a company of which our CEO and Mr. Beargie, a Director of the Company, own 85% and 15%, respectively, for our Outlet in Brooklyn, Ohio. The base lease term is 15 years with no lease renewal options. The monthly rental payments are $20 thousand. Rent expense was $0.2 million and $0.2 million for the six months ended June 30, 2024 and June 30, 2023, respectively. Rent expense was $0.1 million and $0.1 million for the three months ended June 30, 2024 and June 30, 2023, respectively.

In March 2021, the Company entered into a lease agreement with Premier Conover, LLC, a company of which our CEO indirectly owns 40%, for a distribution center and manufacturing building, for which construction was completed in the fourth quarter of 2021. The base lease term is for 12 years, with a 10-year renewal option and two additional 5-year renewal options at the higher of the minimum base rent or the fair market rent at the time of renewal execution. The monthly rental payments range from $0.2 million to $0.3 million during the 12-year base lease term and from $0.4 million to $0.5 million during the 10-year renewal period. Rent expense was $2.0 million and $2.0 million for the six months ended June 30, 2024 and June 30, 2023, respectively. Rent expense was $1.0 million and $1.0 million for the three months ended June 30, 2024 and June 30, 2023, respectively.

Other transactions

The accounts payable due to related parties for state and federal income tax refunds were $0.2 million and $2.3 million at June 30, 2024 and December 31, 2023, respectively, and are included within accounts payable on the condensed consolidated balance sheets.

11. Income Taxes

Income tax expenses were $12.6 million and $26.5 million in the six months ended June 30, 2024 and June 30, 2023, respectively. Income tax expenses were $7.8 million and $14.4 million for the three months ended June 30, 2024 and June 30, 2023, respectively. The effective tax rate was 25.3% and 26.3% for the six months ended June 30, 2024 and June 30, 2023, respectively. The effective tax rate was 26.0% and 26.3% for the three months ended June 30, 2024 and June 30, 2023, respectively.

As of June 30, 2024, no unrecognized tax benefits have been recognized. The Company files income tax returns in the U.S. and various state and local jurisdictions. The tax years after 2019 remain open to examination by the state taxing jurisdictions in which the Company is subject to tax. As of June 30, 2024, the Company was not under examination by the Internal Revenue Service or any state tax jurisdiction.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2023. This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology, including, but not limited to, "may," "could," "seek," "guidance," "predict," "potential," "likely," "believe," "will," "expect," "anticipate," "estimate," "plan," "intend," "forecast," or variations of these terms and similar expressions, or the negative of these terms or similar expressions. Past performance is not a guarantee of future results or returns and no representation or warranty is made regarding future performance. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond our control that could cause our actual results, performance or achievements to be materially different from the expected results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following:

- *Our ability to manage and maintain the growth rate of our business;*
- *Our ability to obtain quality merchandise in sufficient quantities;*
- *Disruption in our receiving and distribution system, including delays in the integration of our distribution centers and the possibility that we may not realize the anticipated benefits of multiple distribution centers;*
- *The possibility of cyberattacks and our ability to maintain adequate cybersecurity systems and procedures;*
- *Loss, corruption and misappropriation of data and information relating to clients and employees;*
- *Changes in and compliance with applicable data privacy rules and regulations;*
- *Risks as a result of constraints in our supply chain;*
- *A failure of our vendors to meet our quality standards;*
- *Declines in general economic conditions that affect consumer confidence and consumer spending that could adversely affect our revenue;*
- *Our ability to anticipate changes in consumer preferences;*
- *Risks related to maintaining and increasing Showroom traffic and sales;*
- *Our ability to compete in our market;*
- *Our ability to adequately protect our intellectual property;*
- *Compliance with applicable governmental regulations;*
- *Effectively managing our eCommerce business and digital marketing efforts;*
- *Our reliance on third-party transportation carriers and risks associated with freight and transportation costs; and*
- *Compliance with SEC rules and regulations as a public reporting company.*

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under Item 1A. Risk Factors, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2023. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements. These statements are based on information available to us as of the date of this Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The following discussion contains references to the six and three months ended June 30, 2024 and June 30, 2023, which represents the condensed consolidated financial results of Arhaus, Inc. and subsidiaries for the six and three months ended June 30, 2024 and June 30, 2023, respectively.

Revision of Previously Issued Condensed Consolidated Financial Statements

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been revised to give effect to the revision of our condensed consolidated balance sheets and condensed consolidated statements of cash flows, as more fully described in Note 1 - *Nature of Business and Basis of Presentation* to the Notes to Condensed Consolidated Financial Statements.

Overview

Arhaus is a rapidly growing lifestyle brand and premium retailer in the U.S. home furnishings market, specializing in livable luxury supported by globally-sourced, heirloom-quality merchandise. We offer a differentiated direct-to-consumer approach to furniture and décor. Our curated assortments are presented across our sales channels in sophisticated, family friendly and unique lifestyle settings. We offer merchandise assortments across a number of categories, including furniture, outdoor, lighting, textiles, and décor. Our products, designed to be used and enjoyed throughout the home, are sourced directly from factories and vendors with no wholesale or dealer markup, allowing us to offer an exclusive assortment at an attractive value. Our direct sourcing network consists of more than 400 vendors, some of whom we have had relationships with since our founding. Our product development teams work alongside our direct sourcing partners to bring to market proprietary merchandise that is a great value to clients, while delivering attractive margins.

We believe in providing a dynamic and welcoming experience in our Showrooms and online with the conviction that retail is theater. Our national omni-channel business positions our retail locations as Showrooms for our brand, while our website acts as a virtual extension of our Showrooms. Our theater-like Showrooms are highly inspirational and function as an invaluable brand awareness vehicle. Our seasoned sales associates and in-home designers provide expert advice and assistance to our client base that drives significant client engagement. Our omni-channel model allows clients to begin or end their shopping journey online, while also experiencing our theater-like Showrooms throughout the shopping journey.

As of June 30, 2024, we operated 97 Showrooms, 84 with in-home interior designers. At December 31, 2023, we operated 92 Showrooms, 78 with in-home interior designers.

	June 30, 2024	December 31, 2023
Traditional Showrooms	82	80
Design Studios	9	8
Outlets	6	4
Total Showroom locations	97	92
Total square footage (in thousands)	1,550	1,438

For the six months ended June 30, 2024, we generated $605.0 million of net revenue, $239.4 million of gross margin and $37.3 million of net and comprehensive income. For the three months ended June 30, 2024, we generated $309.8 million of net revenue, $124.4 million of gross margin and $22.2 million of net and comprehensive income.

How We Assess the Performance of Our Business

In addition to U.S. GAAP results, this Form 10-Q contains references to the non-GAAP financial measures below. We use these non-GAAP measures to help assess the performance of our business, identify trends affecting our business, formulate business plans and make strategic decisions. In addition to our results determined in accordance with U.S. GAAP, we believe that providing these non-GAAP financial measures is useful to our investors as they present an informative supplemental view of our results from period to period by removing the effect of non-recurring items.

The non-GAAP financial measures presented herein are specific to us and may not be comparable to similar measures disclosed by other companies because of differing methods used by other companies in calculating them. These measures are also not intended to be measures of free cash flow for management's discretionary use, as they do not reflect tax payments, debt service requirements and certain other cash costs that may recur in the future, including, among other things, cash requirements for working capital needs. Management compensates for these limitations by relying on our U.S. GAAP results in addition to using these non-GAAP financial measures. The non-GAAP financial measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. We consider the following financial and operating measures that affect our results of operations:

Net Revenue and Demand. Net revenue is recognized when a client obtains control of the merchandise. We also track demand in our business which is a key performance indicator linked to the level of client orders placed. Demand is an operating metric that we use to measure the dollar value of orders (based on purchase price) at the time the order is placed, net of the dollar value of cancellations and returns (based on unpaid purchase price and amount credited to client). These orders are recognized as net revenue when a client obtains control of the merchandise. Because demand is measured net of cancellations, all demand will eventually become net revenue, with appropriate reserves, when delivered to the client.

Comparable Growth. Comparable growth is the year-over-year percentage change of the dollar value of orders delivered (based on purchase price), net of the dollar value of returns (based on amount credited to client), from comparable Showrooms and eCommerce, including through our catalogs and other mailings. This metric is a key performance indicator used by management to evaluate Showroom performance for locations that have been opened for at least 15 consecutive months, which enables management to view the performance of those Showrooms without the dollar value of orders delivered for new Showrooms being included. Comparable Showrooms are defined as permanent Showrooms open for at least 15 consecutive months, including relocations in the same market. Showrooms record demand immediately upon opening, while orders delivered take additional time because product must be delivered to the client. The dollar value of orders delivered for Outlet comparable locations is included.

Demand Comparable Growth. Demand comparable growth is the year-over-year percentage change of demand from our comparable Showrooms and eCommerce, including through our catalogs and other mailings. This metric is a key performance indicator used by management to evaluate Showroom demand performance for locations that have been opened for at least 13 consecutive months, which enables management to view the performance of those Showrooms without new Showroom demand included. For demand purposes, comparable Showrooms are defined as permanent Showrooms open for at least 13 consecutive months, including relocations in the same market. Outlet comparable location demand is included.

Demand comparable growth provides insight into business levels in a particular period by comparing the dollar value of orders (based on purchase price) placed in that period to the prior comparable period. Although these orders do not result in net revenue until the order is delivered at a later point in time, management utilizes this metric to evaluate core performance.

Comparable growth is an additional measure that management utilizes to compare the dollar value of orders delivered (based on purchase price) in a period compared to the prior comparable period. Since delivery generally coincides with recognition of net revenue, with appropriate reserves, comparable growth trends will more closely track trends in reported net revenue than demand comparable growth trends. While increases or decreases in demand comparable growth will translate into increases or decreases in comparable growth over time, the trends do not necessarily correlate in any particular period. This is partially due to the general lag in time between when an order is placed and when an order is delivered. When the time gap from order to delivery increases, due to supply chain challenges for example, it may take longer for comparable growth to reflect demand comparable growth. Notwithstanding these limitations, management considers it useful to assess both measures together to get a more complete picture of overall performance trends, and believes these measures can be useful to investors for the same purpose, when viewed together with our reported results and other metrics.

Gross Margin. Gross margin is equal to our net revenue less cost of goods sold. Cost of goods sold includes the direct cost of purchased merchandise, inventory reserves, inbound freight, all freight costs to get merchandise to our Showrooms, credit card fees, design, buying and allocation costs, our supply chain, such as product development and sourcing, occupancy costs related to Showroom operations, such as rent and common area maintenance for our leases, depreciation and amortization of leasehold improvements, equipment and other assets in our Showrooms. In addition, cost of goods sold includes all logistics costs associated with shipping product to our clients, partially offset by delivery fees collected from clients (recorded in net revenue on the condensed consolidated statements of comprehensive income).

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses include all operating costs not included in cost of goods sold. These expenses include payroll and payroll related expenses, Showroom expenses other than occupancy and expenses related to many of our operations at our distribution centers and corporate headquarters, including marketing, information technology, legal, human resources, utilities and depreciation and amortization expense. Payroll includes both fixed compensation and variable compensation. Variable compensation includes Showroom commissions and Showroom bonus compensation related to demand, likely before the client obtains control of the merchandise. Variable compensation is not significant in our eCommerce channel. All new Showroom opening expenses, other than occupancy, are included in SG&A expenses and are expensed as incurred. We expect certain of these expenses to continue to increase as we open new Showrooms, develop new product categories and otherwise pursue our current business initiatives. SG&A expenses as a percentage of net revenue are usually higher in lower-volume quarters and lower in higher-volume quarters because a significant portion of the costs are fixed.

EBITDA. We define EBITDA as consolidated net income before depreciation and amortization, interest income, net and income tax expense.

Adjusted EBITDA. We believe that adjusted EBITDA is a useful measure of operating performance as the adjustments eliminate items that we believe are not reflective of underlying operating performance in a particular period. Adjusted

EBITDA facilitates a comparison of our operating performance on a consistent basis from period-to-period and provides for a more complete understanding of factors and trends affecting our business.

Because adjusted EBITDA omits certain non-cash items and items that we believe are not reflective of underlying operating performance in a particular period, we feel that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and can be more reflective of our operating performance in a particular period. We also use adjusted EBITDA as a method for planning and forecasting overall expected performance and for evaluating, on a quarterly and annual basis, actual results against such expectations.

The following is a reconciliation of our net and comprehensive income to EBITDA and adjusted EBITDA for the periods presented (in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Net and comprehensive income	$ 37,333	$ 74,282	$ 22,234	$ 40,183
Interest income, net	(2,038)	(651)	(606)	(478)
Income tax expense	12,644	26,474	7,828	14,372
Depreciation and amortization	17,709	14,140	9,106	7,400
EBITDA	65,648	114,245	38,562	61,477
Equity based compensation	3,351	3,904	1,327	2,274
Other expenses [1]	—	437	—	—
Adjusted EBITDA	$ 68,999	$ 118,586	$ 39,889	$ 63,751

[1]Other expenses represent costs and investments not indicative of ongoing business performance, such as public offering costs, severance, signing bonuses and recruiting costs. For the six months ended June 30, 2023, these expenses consisted largely of $0.3 million of severance, signing bonuses and recruiting costs and $0.1 million of public offering costs.

Factors Affecting the Comparability of our Results of Operations

Our results over the past two years have been affected by the following events, which must be understood in order to assess the comparability of our period-to-period financial performance and condition.

Showroom Openings and Closings

New Showrooms contribute incremental expense, new Showroom opening expense and net revenue to the Company. Our recent showroom growth from January 1, 2023 to June 30, 2024 is summarized in the following table:

	June 30, 2024	December 31, 2023
Showrooms open at beginning of period	92	81
Showrooms opened [1]	8	14
Showrooms closed for relocations	(3)	(3)
Showrooms closed permanently	—	—
Showrooms open at end of period	97	92

[1] Showrooms opened during the respective periods includes both new and relocated Showrooms.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated. The following discussion should be read in conjunction with our condensed consolidated financial statements and related notes.

Condensed Consolidated Statements of Comprehensive Income Data (in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Net revenue	$ 604,963	$ 617,467	$ 309,801	$ 312,899
Cost of goods sold	365,537	349,109	185,429	172,779
Gross margin	239,426	268,358	124,372	140,120
Selling, general and administrative expenses	191,684	168,913	94,991	86,131
Income from operations	47,742	99,445	29,381	53,989
Interest income, net	(2,038)	(651)	(606)	(478)
Other income	(197)	(660)	(75)	(88)
Income before taxes	49,977	100,756	30,062	54,555
Income tax expense	12,644	26,474	7,828	14,372
Net and comprehensive income	$ 37,333	$ 74,282	$ 22,234	$ 40,183

Other Operational Data (dollars in thousands):

	Six months ended June 30,		Three months ended June 30,	
	2024	2023	2024	2023
Net revenue	$ 604,963	$ 617,467	$ 309,801	$ 312,899
Comparable growth	(8.3)%	8.9 %	(7.1)%	(0.8)%
Demand comparable growth	(0.8)%	8.5 %	(3.0)%	11.6 %
Gross margin as a % of net revenue	39.6 %	43.5 %	40.1 %	44.8 %
Selling, general and administrative expenses as a % of net revenue	31.7 %	27.4 %	30.7 %	27.5 %
Income from operations as a % of net revenue	7.9 %	16.1 %	9.5 %	17.3 %
Net and comprehensive income	$ 37,333	$ 74,282	$ 22,234	$ 40,183
Net and comprehensive income as a % of net revenue	6.2 %	12.0 %	7.2 %	12.8 %
Adjusted EBITDA[(1)]	$ 68,999	$ 118,586	$ 39,889	$ 63,751
Adjusted EBITDA as a % of net revenue	11.4 %	19.2 %	12.9 %	20.4 %
Total Showrooms at end of period	97	85	97	85

[(1)] See “How We Assess the Performance of Our Business,” for a definition of adjusted EBITDA and a reconciliation of adjusted EBITDA to net and comprehensive income.

Comparison of the six months ended June 30, 2024 and June 30, 2023

Net Revenue

Net revenue decreased $12.5 million, or 2.0%, to $605.0 million in the six months ended June 30, 2024 compared to $617.5 million in the six months ended June 30, 2023. The decrease was driven primarily by the non-recurrence of prior year abnormal backlog deliveries and the implementation of our warehouse management system in our Ohio distribution center, partially offset by favorable demand versus prior year.

Gross Margin

Gross margin decreased $29.0 million, or 10.8%, to $239.4 million in the six months ended June 30, 2024 compared to $268.4 million in the six months ended June 30, 2023. Lower gross margin was primarily driven by increased Showroom costs of $8.7 million, higher delivery and transportation costs of $2.7 million and lower product margin of $2.0 million related to promotional activity and lower net revenue.

As a percentage of net revenue, gross margin decreased 390 basis points to 39.6% of net revenue in the six months ended June 30, 2024 compared to 43.5% of net revenue in the six months ended June 30, 2023. The gross margin decrease as a percentage of net revenue was primarily the result of higher Showroom costs, which increased 160 basis points, a product margin rate decrease of 100 basis points and higher transportation costs, which increased 70 basis points.

Selling, General and Administrative Expenses

SG&A expenses increased $22.8 million, or 13.5%, to $191.7 million in the six months ended June 30, 2024 compared to $168.9 million in the six months ended June 30, 2023. The increase in SG&A expenses was primarily driven by an $11.0 million increase in selling expenses primarily related to new Showrooms, a $9.0 million increase in corporate expenses due to strategic investments including supply chain and technology improvements, and increased warehouse expenses of $3.1 million.

As a percentage of net revenue, SG&A expenses increased 430 basis points to 31.7% of net revenue in the six months ended June 30, 2024 compared to 27.4% of net revenue in the six months ended June 30, 2023.

Interest Income, net

Interest income, net increased to $2.0 million in the six months ended June 30, 2024 compared to $0.7 million in the six months ended June 30, 2023. The increase was primarily due to interest income earned on interest-bearing checking accounts.

Income Taxes

Income tax expense was $12.6 million in the six months ended June 30, 2024 compared to $26.5 million in the six months ended June 30, 2023. The decrease was primarily due to lower income before taxes. Our effective tax rate was 25.3% and 26.3% for the six months ended June 30, 2024 and June 30, 2023, respectively.

Net and Comprehensive Income

Net and comprehensive income decreased $37.0 million to $37.3 million in the six months ended June 30, 2024 compared to $74.3 million in the six months ended June 30, 2023. The decrease was driven by the factors described above.

Comparison of the three months ended June 30, 2024 and 2023

Net Revenue

Net revenue decreased $3.1 million, or 1.0%, to $309.8 million in the three months ended June 30, 2024 compared to $312.9 million in the three months ended June 30, 2023. The decrease was driven primarily by the non-recurrence of prior year abnormal backlog deliveries and the implementation of our warehouse management system in our Ohio distribution center.

Gross Margin

Gross margin decreased $15.7 million, or 11.2%, to $124.4 million in the three months ended June 30, 2024 compared to $140.1 million in the three months ended June 30, 2023. The decrease was due to higher Showroom costs of $4.7 million, lower product margin of $4.5 million related to promotional activity and lower net revenue, and $2.6 million of increased delivery and transportation costs.

As a percentage of net revenue, gross margin decreased 470 basis points to 40.1% of net revenue in the three months ended June 30, 2024 compared to 44.8% of net revenue in the three months ended June 30, 2023. The gross margin decrease as a percentage of net revenue was primarily the result of a product margin rate decrease of 180 basis points, higher Showroom costs, which increased 160 basis points, and higher delivery and transportation costs, which increased 90 basis points as a percentage of net revenue.

Selling, General and Administrative Expenses

SG&A expenses increased $8.9 million, or 10.3%, to $95.0 million in the three months ended June 30, 2024 compared to $86.1 million in the three months ended June 30, 2023. The increase in SG&A expenses was primarily driven by increased selling expenses of $4.4 million primarily related to new Showrooms, a $3.4 million increase in corporate expenses due to strategic investments, including supply chain and technology improvements, and increased warehouse expenses of $1.7 million.

As a percentage of net revenue, SG&A expenses increased 320 basis points to 30.7% of net revenue in the three months ended June 30, 2024 compared to 27.5% of net revenue in the three months ended June 30, 2023.

Interest Income, net

Interest income, net increased to $0.6 million in the three months ended June 30, 2024 compared to $0.5 million in the three months ended June 30, 2023. The increase was primarily due to interest income earned on interest-bearing checking accounts.

Income Taxes

Income taxes were $7.8 million in the three months ended June 30, 2024 compared to $14.4 million in the three months ended June 30, 2023. Our effective tax rate was 26.0% and 26.3% for the three months ended June 30, 2024 and June 30, 2023, respectively.

Net and Comprehensive Income

Net and comprehensive income decreased $18.0 million to $22.2 million in the three months ended June 30, 2024 compared to $40.2 million in the three months ended June 30, 2023. The decrease was driven by the factors described above.

Liquidity and Capital Resources

Liquidity Outlook

Our primary cash needs have historically been for merchandise inventories, payroll, Showroom rent, marketing catalogs, capital expenditures associated with opening new Showrooms and updating existing Showrooms, as well as the development of our infrastructure and information technology. We seek out and evaluate opportunities for effectively managing and deploying capital in ways that improve working capital and support and enhance our business initiatives and strategies. As of June 30, 2024, we had cash and cash equivalents of $174.2 million.

For the six months ended June 30, 2024, our principal sources of liquidity were cash flows from operations. We believe our operating cash flows will be sufficient to meet working capital requirements and fulfill other capital needs for at least the next 12 months, although we may enter into borrowing arrangements in the future.

While we do not require debt to fund our operations, our goal continues to be to position the Company to take advantage of the many opportunities that we may identify in connection with our business and operations. We have pursued in the past, and may pursue in the future, additional strategies to generate capital to pursue opportunities and investments, including new debt financing arrangements. In addition to funding the normal operations of our business, we have used our liquidity to fund investments and strategies such as growth initiatives, including supply chain and technology improvements. In addition, our needs and uses of capital may change in the future due to changes in our business or new opportunities that we choose to pursue. As of June 30, 2024, we have no material off-balance sheet arrangements.

On February 29, 2024, the Board of Directors of the Company declared a special cash dividend on the Company's Class A and Class B common stock of $0.50 per share, payable April 4, 2024, to shareholders of record at the close of business on March 21, 2024. During the six months ended June 30, 2024, the Company paid out $70.1 million of the aforementioned special cash dividend on its Class A and Class B common stock.

Credit Facility

In November 2021, the Company entered into a revolving credit facility (the "2021 Credit Facility"). The 2021 Credit Facility provides for, among other things, (1) a revolving credit facility in an aggregate amount not to exceed at any time outstanding the amount of such lender's commitment, (2) a letter of credit commitment in an amount equal to the lesser of (a) $10.0 million, and (b) the amount of the revolving credit facility as of such date, and (3) a swingline loan in an amount equal to the lesser of (a) $5.0 million, and (b) the amount of the revolving credit facility as of such date. The aggregate amount of all commitments of all lenders under the 2021 Credit Facility was initially $50.0 million. The 2021 Credit Facility contains restrictive covenants and has certain financial covenants, including a minimum rent-adjusted total leverage ratio and a minimum fixed charge ratio. The 2021 Credit Facility bears variable interest rates at the prevailing

Bloomberg Short-Term Bank Yield index rate plus the applicable margin (1.50% at June 30, 2024 and 1.50% at June 30, 2023), whereas the applicable margin is adjusted quarterly based on the Company's consolidated rent-adjusted total leverage ratio.

On December 9, 2022, the Company amended the 2021 Credit Facility to increase the revolving credit commitment thereunder by $25.0 million. After giving effect to such increase, the aggregate amount of all commitments under the 2021 Credit Facility is $75.0 million. The 2021 Credit Facility expires on November 8, 2026. At June 30, 2024, we had no borrowings on the 2021 Credit Facility. Refer to Note 4 — *Debt* to our condensed consolidated financial statements for further information on our 2021 Credit Facility.

Cash Flow Analysis

The following table provides a summary of our cash provided by operating, investing and financing activities (amounts in thousands):

	Six months ended June 30,	
	2024	**2023**
Net cash provided by operating activities	$ 84,304	$ 64,196
Net cash used in investing activities	(62,158)	(34,883)
Net cash used in financing activities	(71,052)	(477)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ (48,906)	$ 28,836

Net cash provided by operating activities

Comparison of the six months ended June 30, 2024 and June 30, 2023

Operating activities consist primarily of net income adjusted for non-cash items including depreciation and amortization, operating lease amortization, deferred income taxes, equity based compensation and the effect of changes in working capital and other activities.

For the six months ended June 30, 2024, net cash provided by operating activities was $84.3 million and consisted of net income of $37.3 million and an increase of non-cash items of $57.6 million, which were partially offset by a change in working capital and other activities of $10.6 million. The use of cash from working capital was primarily driven by an increase in merchandise inventory of $19.3 million, an increase in prepaid and other assets of $11.5 million, a decrease in accrued expenses of $11.3 million, a decrease in operating lease liabilities of $10.7 million primarily due to payments made under the related lease agreements, which was partially offset by an increase in client deposits of $36.5 million and an increase in accounts payable of $4.6 million in the six months ended June 30, 2024.

For the six months ended June 30, 2023, net cash provided by operating activities was $64.2 million and consisted of net income of $74.3 million and increases of non-cash items of $49.4 million, which was partially offset by a change in working capital and other activities of $59.5 million. The use of cash from working capital was primarily driven by a decrease in operating lease liabilities of $17.3 million primarily due to payments made under the related lease agreements, a decrease in accrued expenses of $14.8 million, a decrease in accounts payable of $10.5 million, a decrease in client deposits of $9.2 million primarily due to improved delivery of our backlog orders and lower demand comparable growth and an increase in merchandise inventory of $8.5 million in the six months ended June 30, 2023.

Net cash used in investing activities

Investing activities consist primarily of capital expenditures related to investments in retail Showrooms, information technology and systems infrastructure, as well as supply chain investments.

Comparison of the six months ended June 30, 2024 and June 30, 2023

For the six months ended June 30, 2024, net cash used in investing activities was $62.2 million primarily due to investments in Showrooms, strategic investments in our supply chain, and information technology and systems infrastructure.

For the six months ended June 30, 2023, net cash used in investing activities was $34.9 million primarily due to investments in Showrooms, supply chain expansion and information technology and systems infrastructure.

Capital Expenditures

Historically, we have invested significant capital expenditures in opening new Showrooms. These capital expenditures have increased in the past and may continue to increase in future periods as we open additional Showrooms. Our capital expenditures include expenditures related to investing activities and outflows of capital related to construction activities to design and build leasehold improvement assets. Certain lease arrangements require the landlord to fund a portion of the construction related costs through tenant improvement allowance payments directly to us. New Showrooms may require different levels of company-funded capital investment in the future.

Historical capital expenditures are summarized as follows (amounts in thousands):

	Six months ended June 30,	
	2024	**2023**
Net cash used in investing activities	$ 62,158	$ 34,883
Less: Landlord contributions	21,936	10,622
Total capital expenditures, net of landlord contributions	$ 40,222	$ 24,261

Total capital expenditures, net of landlord contributions increased by $16.0 million in the six months ended June 30, 2024 compared to the six months ended June 30, 2023.

We anticipate our total company funded capital expenditures to be between $80 million and $100 million in fiscal year 2024, primarily related to the opening of new Showrooms.

Net cash used in financing activities

Comparison of the six months ended June 30, 2024 and June 30, 2023

For the six months ended June 30, 2024, net cash used in financing activities was $71.1 million primarily due to the payment of the special dividend on our Class A and Class B common stock.

For the six months ended June 30, 2023, net cash used in financing activities was $0.5 million primarily due to the repurchase of shares for payment of withholding taxes for equity based compensation.

Critical Accounting Policies and Estimates

Accounting policies and estimates are considered critical when they require management to make subjective and complex judgments, estimates and assumptions about matters that have a material impact on the presentation of our financial statements and accompanying notes. For a description of our critical accounting policies and estimates, see Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2023.

Recent Accounting Pronouncements

See Note 2 — *Recently Issued Accounting Standards* to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange rate fluctuations and the effects of economic uncertainty, which may affect the prices we pay our vendors in the foreign countries in which we do business. We do not engage in financial transactions for trading or speculative purposes.

Foreign Currency Exchange Risk

We believe foreign currency exchange rate fluctuations do not contain significant market risk to us due to the nature of our relationships with our vendors outside of the United States. We purchase the majority of our inventory from vendors outside of the United States in transactions that are primarily denominated in U.S. dollars and, as such, any foreign currency impact related to these international purchase transactions was not significant to us for the six and three months ended June 30, 2024 and June 30, 2023, respectively. However, since we pay for the majority of our international purchases in U.S. dollars, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations. We currently do not use derivative instruments to manage this risk.

Interest Rate Risk

We are primarily exposed to interest rate risk with respect to borrowing under our 2021 Credit Facility and as of June 30, 2024, we have not drawn upon the 2021 Credit Facility. Based on the interest rate in the 2021 Credit Facility and to the extent borrowings were outstanding, we do not believe a 100 basis point change in interest rates would have a material impact on our financial condition or results of operations for the periods presented. We currently do not use derivative instruments to manage this risk.

Impact of Inflation

Inflation generally affects us by increasing our cost of labor, material, transportation, and our general costs. We have historically been able to recover these cost increases through price increases. However, we cannot reasonably estimate our ability to successfully recover any impact of inflation through price increases in the future. We currently do not use derivative instruments to manage this risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our CEO and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) as of June 30, 2024. Based on their evaluation as of June 30, 2024, the CEO and CFO have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level because of the material weaknesses in our internal control over financial reporting described below.

Material Weaknesses in Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. We identified four material weaknesses in our internal control over financial reporting.

- We did not design and maintain an effective control environment commensurate with our financial reporting requirements. Specifically, we lacked a sufficient complement of professionals with an appropriate level of accounting knowledge, training and experience to appropriately analyze, record and disclose accounting matters timely and accurately. Additionally, the lack of a sufficient number of professionals resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of our financial reporting objectives, as demonstrated by, amongst other things, insufficient segregation of duties in our finance and accounting functions. This material weakness contributed to the following additional material weaknesses.
- We did not design and maintain accounting policies, procedures and controls, or maintain documentary evidence of existing control activities over significant accounts and disclosures to achieve complete, accurate and timely financial accounting, reporting and disclosures, including adequate controls over the period-end financial reporting process, the preparation and review of account reconciliations and journal entries, including segregation of duties and assessing the reliability of reports and spreadsheets used in controls.
- We did not design and maintain effective controls to address the identification of and accounting for certain non-routine or complex transactions, including the proper application of U.S. GAAP of such transactions. Specifically, we did not design and maintain controls to timely or appropriately account for our incentive unit plan.

These material weaknesses resulted in a restatement of our previously issued annual consolidated financial statements as of and for the years ended December 31, 2020 and 2019 principally related to selling, general and administrative expenses and other long-term liabilities, and misclassifications in the balance sheets and statements of comprehensive income. These material weaknesses also resulted in immaterial adjustments recorded prior to the issuance of the consolidated financial statements as of and for the year ended December 31, 2021 principally related to property, furniture and equipment, net; selling, general and administrative expenses; and misclassifications in the balance sheet and statement of cash flows.

In preparation of the December 31, 2023 consolidated financial statements and in preparation of the March 31, 2024 condensed consolidated financial statements, these material weaknesses resulted in restatements as of and for the interim period ended September 30, 2023 and revisions as of and for the annual periods ended December 31, 2023, 2022 and 2021, and as of and for the interim periods ended March 31, 2022, June 30, 2022, September 30, 2022, March 31, 2023 and June 30, 2023, principally related to prepaid and other current assets, property, furniture and equipment, net and operating lease liabilities, which resulted in misclassifications in the balance sheets and statements of cash flows and the timely recording of liabilities, operating right-of-use assets and operating lease liabilities. There were also immaterial misstatements. Additionally, each of the material weaknesses could result in misstatements to substantially all of our accounts or disclosures, that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

- Lastly, we did not design and maintain effective controls over information technology ("IT") general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain: (i) program change management controls for financial systems to ensure that information technology program and data changes affecting financial applications and underlying accounting records are identified, tested, authorized and implemented appropriately; (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel; (iii) computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored; and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT deficiencies did not result in material adjustments to our consolidated financial statements, however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected. Accordingly, management has determined these IT deficiencies in the aggregate constitute a material weakness.

Remediation Activities

With the oversight of senior management and our Audit Committee, we have designed and begun to implement a remediation plan which includes:

- Updating our policies and procedures to establish and maintain effective segregation of duties for our accounting staff in relation to journal entries, reconciliations and other applicable processes.
- Designing and implementing internal financial reporting procedures and controls to improve the completeness, accuracy and timely preparation of financial reporting and disclosures inclusive of establishing an ongoing program to provide sufficient training to our finance and accounting staff.
- Enhancing the design and operation of user access control activities and procedures to ensure that access to IT applications and data is adequately restricted to appropriate personnel.
- Hiring additional competent and qualified technical accounting and financial reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements, including non-routine and complex transactions, to design, execute and/or provide appropriate oversight of activities related to internal control over financial reporting, or ICFR.
- Implementing additional program change management policies and procedures, control activities, and tools to ensure changes affecting key financial systems related to IT applications and underlying accounting records are identified, authorized, tested, and implemented appropriately.
- Designing and implementing a formal systems development lifecycle methodology and related program development controls to ensure significant IT change events are appropriately tested and approved.
- Enhancing the design and operation of control activities and procedures within the computer operations domain to ensure key batch jobs are monitored, processing failures are adequately resolved, and recovery capability is tested.

- Identifying and evaluating key IT dependencies including key reports, automated application controls, interfaces, and end user computer facilities.
- Enhancing the control activity design related to the review of our consolidated balance sheet and statement of cash flows to ensure the classification of operating and investing activities is appropriately presented in the statement of cash flows.

While the material weaknesses are not considered remediated until the related internal controls are designed, implemented, tested and deemed to be operating effectively, we have made progress under our remediation plan, including:

- Commenced the design and implementation of formal processes, policies, and procedures supporting our financial close process, including formalizing procedures over the review of financial statements.
- Commenced the design and implementation of policies and procedures to establish and maintain segregation of duties for our accounting staff in relation to journal entries and account reconciliations.
- Continue to hire additional competent and qualified technical accounting and financial reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting requirements.

Although we have developed and begun to implement our plan to remediate the material weaknesses and believe, based on our evaluation to date, that the material weaknesses will be remediated in a timely fashion, we cannot project a specific timeline on when the plan will be fully implemented. The material weaknesses will not be remediated until the necessary internal controls have been designed, implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weaknesses or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weaknesses will not result in a material misstatement of our consolidated financial statements. Moreover, we cannot provide assurance that we will not identify additional material weaknesses in our ICFR in the future. Until we remediate the material weaknesses, our ability to record, process and report financial information accurately, and to prepare our consolidated financial statements within the time periods specified by the rules and forms of the SEC, could be adversely affected.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

From time to time, we have and we may become involved in legal proceedings arising in the ordinary course of business, including claims related to our employment practices, claims of intellectual property infringement and claims related to personal injuries and product liability for the products that we sell and in the Showrooms we operate. Any claims could result in litigation against us and could result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business. Defending such litigation is costly and can impose significant burdens on management and employees. Further, we could receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurance that favorable final outcomes will be obtained.

We are currently not a party to any legal proceedings, the outcome of which, if determined adversely to us, would individually or in the aggregate have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table contains information with respect to repurchases of shares made by the Company during the three months ended June 30, 2024. The table reflects shares delivered to the Company by employees to satisfy tax withholding obligations due upon the vesting of restricted stock units. These shares were not repurchased in connection with any publicly announced share repurchase programs.

Period	Total number of shares purchased	Weighted average price paid per share	Total number of shares purchased as part of publicly announced plans	Approximate dollar value of shares that may yet be purchased under publicly announced plans
April 2024	—	$ —	—	$ —
May 2024	597	12.83	—	—
June 2024	—	—	—	—
Total	597	$ 12.83	—	$ —

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

During the three months ended June 30, 2024, none of our directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of Regulation S-K, except as follows:

On June 10, 2024, John Reed, director and Chief Executive Officer, adopted a Rule 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 2,000,000 shares of the Company’s Class A common stock beginning September 9, 2024. The arrangement’s expiration date is May 9, 2025.

On June 10, 2024, certain Reed family trusts, of which directors Albert Adams and William Beargie are trustees, also adopted a 10b5-1 trading arrangement that is intended to satisfy the affirmative defense of Rule 10b5-1(c) for the sale of up to 2,000,000 additional shares of the Company’s Class A common stock beginning September 9, 2024. The arrangement’s expiration date is also May 9, 2025.

All shares sold under these arrangements will be converted from Class B common stock to Class A common stock prior to sale.

Item 6. Exhibits

Exhibit No.	Description	Filings Referenced for Incorporation by Reference
3.1	Amended and Restated Certificate of Incorporation of Arhaus, Inc.	November 10, 2021 Form 8-K, Exhibit 3.1
3.2	Amended and Restated Bylaws of Arhaus, Inc.	November 10, 2021 Form 8-K, Exhibit 3.2
31.1	Certificate of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certificate of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page with Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith

* The certifications furnished in Exhibit 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates them by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on this 8th day of August, 2024.

ARHAUS, INC.

By:	/s/ Dawn Phillipson
Name:	Dawn Phillipson
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Reed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arhaus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

/s/ John Reed
John Reed
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dawn Phillipson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arhaus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2024

/s/ Dawn Phillipson

Dawn Phillipson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arhaus, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Reed, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and periods covered by the Report.

/s/ John Reed
John Reed
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2024

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Arhaus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arhaus, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dawn Phillipson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and periods covered by the Report.

/s/ Dawn Phillipson
Dawn Phillipson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: August 8, 2024

A signed original of this written statement required by Section 906 has been provided to, and will be retained by, Arhaus, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.