Arhaus, Inc.

Third Quarter 2026 Earnings Call

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PRESENTATION

Operator

Good morning and welcome to the Arhaus Third Quarter 2026 Earnings Conference Call.

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

Tara Atwood-Saja

Good morning and thank you for joining us for the Arhaus Third Quarter 2026 Earnings Call.

Joining me on today's call for prepared remarks are John Reed, our Founder, Chairman and Chief Executive Officer, and Michael Lee, our Chief Financial Officer. During Q&A, we kindly ask that you limit yourself to one question only. This will allow us to get to as many callers as possible within our one-hour window. You are welcome to re-queue for additional questions if time permits.

We issued our earnings release and Form 10-Q for the quarter ended September 30, 2026, before the market opened today. Those documents are available on our Investor Relations website at ir.arhaus.com. A replay of the call will be available on our website within 24 hours.

I would like to remind everyone that our remarks today concerning future expectations, events, objectives, strategies, targets, trends or results constitute forward-looking statements. Actual results or events may differ materially due to a number of risks and uncertainties. For a summary of these risk factors and additional information, please refer to this morning's press release and the cautionary statements and risk factors described in our most recent Annual Report on Form 10-K and subsequent 10-Qs, as such factors may be updated from time to time in our filings with the SEC.

The forward-looking statements are made as of today's date and, except as may be required by law, the Company undertakes no obligation to update or revise these statements. We will also refer to certain non-GAAP financial measures and this morning's press release includes the relevant non-GAAP reconciliations.

Now, I will turn the call over to John. John, over to you.

John Reed

Thanks, Tara. Good morning everyone, and thank you for joining us.

Before discussing our results, I want to welcome K.C. Moss, who joined Arhaus in September as our new Chief Digital Officer. K.C. brings extensive experience in digital commerce and customer experience, and we're excited about the opportunities ahead as we strengthen our digital capabilities and introduce Arhaus to more clients.

Turning to our results, we saw another record third quarter for Arhaus with net revenue of $368 million, up 6.8% year-over-year and above the midpoint of our guidance range. As we celebrate our 40th anniversary, these results reinforce the strength of the Arhaus brand and the progress we're making against our long-term growth strategy.

We continue to see resilience among our high-end clients who are investing in their homes despite the challenging housing market and economic environment. We believe our premium positioning provides

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exposure to a more affluent consumer who continues to benefit from accumulated wealth, home equity, and financial assets. A recent Bank of America research report highlighted that household assets exceed ten times household liabilities for the first time in six decades, supporting the strong backdrop for demand.

What was encouraging this quarter was the strength of our underlying demand. Comparable written sales increased 13.9% year-over-year, building on strong growth in the prior-year period, for a two-year stacked increase of 21.4%. More importantly, this demand was broad-based across product categories, geographies, and selling channels. We believe this momentum reflects the investments we've made in compelling new products, expanded customization, our Interior Design and Trade businesses, and marketing initiatives designed to reach new clients.

Turning to product, as we approach our 40th anniversary on November 8, I'm reminded of the values that have defined Arhaus since the beginning. We are a family-founded business, built on a passion for exceptional people, beautiful products, and doing things differently.

For me, it always starts with the product. Quality and craftsmanship are at the heart of everything we do, and we hold ourselves to incredibly high standards. We work directly with talented artisans around the world, many of which operate small, family-run businesses. These relationships allow us to collaborate closely on design, material and quality, while eliminating unnecessary middlemen and costs. It's how we bring our clients distinctive, beautifully handcrafted products at a compelling value, while supporting attractive margin for our business.

Just as important as the products themselves is how we bring them to life. Our Showrooms are designed to inspire. We pay attention to every detail, creating beautiful, theatrical environments that allow clients to experience the Arhaus lifestyle. Our talented visual teams bring an artistic eye to each location, tailoring the experience to the local market while carrying that same inspiration across our digital channels.

That combination of exceptional product, authentic craftsmanship, and inspiring presentation has differentiated Arhaus for 40 years, and it remains central to how we think about our future.

New product introductions continue to be an important contributing factor. Our 40th Anniversary Fall catalog showcased fresh designs, distinctive materials, richer textures, and thoughtful interpretations of traditional design within our Collected Home. The response has been encouraging, with newness representing more than a quarter of our written sales in the third quarter.

And we're moving faster. We've continued to evolve our merchandising organization, including the addition of a Chief Merchandise Officer and the expansion of our product, design and sourcing teams. I'm also pleased to share that we recently hired a Senior VP of Global Sourcing. She knows our brand well, and we've worked with her for some time. She brings 30 years experience building relationships with talented artisans around the world.

We're also finding opportunities to bring exciting collections to market sooner. We're also using digital imaging and product visualization to introduce products online more quickly and selectively test new collections in our Showrooms before expanding distribution.

We're particularly excited about the return of more expressive interiors. We're seeing opportunities to introduce richer colors, sophisticated florals, layered patterns, and unexpected combinations of materials and textures. These designs give clients new ways to express their personal style and allow us to further differentiate the Arhaus assortment.

Our recent introductions reflect this direction, from hand-tufted upholstery crafted in North Carolina to distinctive furnishings incorporating natural stone, oak, linen, and rich performance fabrics. We have an exciting pipeline of collections still ahead.

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Customization is another area where we're making meaningful progress. We're expanding our selection of fabrics, leathers, as well as trims, hardware, and finishes, along with new opportunities to personalize our wood and stone furnishings. An exciting example is our expanded made-to-order natural stone assortment, which now offers clients a choice of 12 distinct stone varieties across the collections. Sourced from around the world, each stone has its own color, veining, and natural character.

Our domestic upholstery manufacturing operation in North Carolina is a meaningful advantage in supporting this demand. What began with my early travels through North Carolina searching for artisans who shared our commitment to craftsmanship, has evolved into an extensive upholstery assortment and our own manufacturing operation in the heart of American furniture country. Today, our North Carolina facility combines traditional craftsmanship that has defined Arhaus for decades with investments in production capabilities, material availabilities, and special order fulfillment.

We're also investing in introducing Arhaus to a broader audience. We more than doubled distribution of our 40th Anniversary Fall catalog, significantly expanding our reach to prospective clients with new customers increasing more than 20% in September versus last year. We're encouraged by the response and have increased our investment in the upcoming Spring catalog which will begin reaching households in early January.

As we look ahead, I believe we're just beginning to realize the potential of our product strategy. We have a strong pipeline, greater customization capabilities, and a talented team of merchants, designers, and artisans to bring our vision to life.

Turning to our clients, one of the most encouraging aspects of the quarter was the quality of demand across our Core Customer, Interior Design and Trade channels.

We're seeing clients make meaningful investments in their homes, with strong demand for larger, higher-value projects. Our largest transactions grew strongly, with orders over $100,000 increasing significantly during the quarter. These trends reflect the resilience of our high-end clients and the breadth and appeal of our offering.

Affluent clients continue to refresh and renovate their homes. While the broader housing market remains highly suppressed, we're seeing strength in the luxury market, particularly in second- and third-home transactions.

Interior Design remains an important driver of client engagement and a meaningful competitive advantage. During the quarter, we experienced significant growth in Interior Design-assisted written sales, which continues to represent a significant portion of our overall business. Our complimentary design services help clients bring larger, more personalized projects to life, while creating opportunities to deepen relationships and build long-term loyalty.

We are also pleased with the continued growth in our Trade channel following enhancements to the program earlier this year. We're expanding our relationships with design professionals, including many who are new to Arhaus, and see meaningful opportunities to grow this reoccurring, project-driven business.

Together, these channels give us multiple ways to serve clients, deepen relationships, and capture greater share of their home furnishings needs.

Turning to Showrooms, our Showrooms remain the front door to Arhaus, bringing our products to life through an immersive experience. During the third quarter, we saw strong comparable written sales growth with encouraging traffic and conversion trends. We're pleased with the performance of our mature Showroom base and the opportunities we're seeing in newer markets.

We also continue to invest in elevating the Showroom experience. Our recently relocated Charlotte Showroom at The Village at SouthPark is a wonderful example. It brings together our artisan-crafted

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collections, expanded customization offering, and personalized Interior Design services in an exceptional setting. We see significant opportunity to expand our footprint across the country, while remaining disciplined in how we evaluate new locations and invest in our existing Showrooms.

As we celebrate our 40th anniversary, I'm proud of how we're honoring the craftsmanship and values that built Arhaus while continuing to evolve our products, capabilities, and client experience. The strength of demand this quarter gives us confidence that our strategy is resonating, and we believe there is meaningful opportunity still ahead.

I want to thank our teams, manufacturing colleagues, artisans around the world for their creativity, dedication, and commitment to our clients. They are what makes Arhaus special.

With that, I'll turn the call over to Mike.

Michael Lee

Thanks, John. Good morning everyone.

This quarter, we remained focused on what sets Arhaus apart: introducing exceptional new products, deepening client relationships and executing with discipline.

Our team's efforts contributed to record third-quarter net revenue of $368 million, an increase of 6.8% year-over-year, representing our strongest third quarter net revenue performance in Arhaus' 40-year history. Our results were supported by continued Showroom expansion and robust demand from our high-end clients.

Gross profit was $144 million, an increase of 8.2% versus last year, while gross margin expanded 50 basis points to 39.2%.

To elaborate on the puts and takes, first, let me cover what is happening with fuel and transportation.

During the quarter we experienced approximately 60 basis points of cost increases due to fuel surcharges, with fuel surcharges climbing above 10% of delivery cost during several weeks of the quarter. Offsetting the increased fuel costs was 80 basis points of benefit related to our new TMS, which helped to optimize both load utilization and routing across our network. Additionally, we had 20 basis points of benefit from our delivery fee increase taken in June. Netting the various fuel and transportation puts and takes resulted in a 40 basis point benefit during the quarter.

Second, Showroom occupancy costs increased 110 basis points during the quarter, driven by our continued expansion of our footprint. This will moderate as our new Showrooms mature. Incidentally, if you exclude our Showrooms opened less than one year and their respective pre-opening Showroom costs, our overall gross margin would improve by 160 basis points. I share this simply to illustrate the impact of new Showrooms on our gross margin performance.

Third, we experienced 100 basis points of negative channel mix in the quarter, as we increased clearance activity through our Loft locations. Importantly, the increased clearance activity was a strategic decision to improve inventory productivity, accelerate the movement of long-dated merchandise, and create capacity for compelling new product introductions. We view these impacts as temporary rather than structural.

Fourth, there was 230 basis points of benefit in the quarter tied to lower product costs and improved rate and product mix resulting in an overall 50-basis point improvement in the quarter.

Looking ahead, we see several opportunities to support gross margin improvement. Under the current tariff framework, we estimate annual tariff costs of approximately $30 million to $40 million compared with our estimates of $50 million to $60 million prior to the Supreme Court ruling, representing roughly $20 million of lower annualized impact. We also implemented price increases in October which will help offset cost

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pressures, and when combined with more normalized promotional activity and channel mix, coupled with continued transportation efficiencies, we believe these initiatives position us to improve gross margin over time.

Selling, general and administrative expenses were $134.3 million during the quarter, up 14.8% versus last year. This included $10.5 million of higher general and administrative expense and $6.8 million of higher selling expense. As a result, SG&A load increased 250 basis points to 36.5%.

Approximately 100 basis points of the increase reflects higher variable compensation associated with strong written sales growth. Commissions are recognized when orders are written, while the related revenue is recognized upon delivery. As a result, the gap between comparable written and delivered sales during the quarter created near-term expense deleverage. This reflects a timing difference rather than a structural increase in our cost base and we expect the pressure to reverse in the fourth quarter.

Marketing and technology investments added 150 basis points to SG&A. These investments are intended to support long-term growth with benefits extending beyond the period in which the costs are incurred. We expect to cycle past elevated technology investment in the coming quarters and see opportunity for improved SG&A leverage over time.

Legal expenses added approximately 80 basis points and are expected to remain elevated over the next one to two quarters. These costs are not structural and do not reflect a change in our day-to-day operations.

Net income was $7.8 million, down 36% versus last year. Adjusted EBITDA was $27 million, within our guidance range and down 12.3% versus last year. Adjusted EBITDA margin was 7.4%, a decrease of 170 basis points. The margin decline primarily reflected higher SG&A expenses, including marketing and technology investments, variable compensation timing, and elevated legal costs, as well as cost pressures in the cost of goods sold line, particularly higher transportation and fuel costs and expenses related to new Showrooms and pre-opening activities. We expect these pressures to ease over time as written orders convert to delivered revenue, legal expenses moderate, new Showrooms mature, and transportation and fuel costs normalize. Our marketing and technology investments are intended to support long-term growth, with benefits extending beyond the period in which the costs are incurred. And we remain focused on disciplined expense management while investing in the business, and see opportunity for improved profitability and operating leverage over time.

Comparable delivered sales increased 2.6% in the quarter, bringing year-to-date comparable delivered sales growth to 1.8%, within our guidance range. Comparable written sales increased an impressive 13.9% in the third quarter, building on the 12.5% growth achieved in the second quarter and bringing year-to-date comparable written sales growth to 6.7%.

We are encouraged by the breadth and quality of demand. Underlying client metrics continue to reinforce our confidence in the resilience of the affluent consumer. September was particularly strong, reflecting the effectiveness of our product, marketing, and promotional activities, and we doubled the catalog circulation while quadrupling the number of prospect clients reached. Demand also benefited from compelling new product introductions, our 40th Anniversary campaign, the September semi-annual sale, and a 40-month, 0% financing offer which we brought back in November.

New client acquisition increased more than 20% year-over-year in September, while engagement from existing clients also strengthened. These results demonstrate our ability to attract new clients while deepening relationships with our existing client base.

The strength extended beyond client acquisition. Order volumes and units per transaction increased, as well as average order value. Larger purchases were strong, and orders exceeding $25,000 increased 35% in the quarter, while orders exceeding $100,000 increased 30% for the quarter and 60% in September. These trends reinforce our confidence in the underlying health of our client base, the effectiveness of our

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investments in brand awareness and product innovation, and our ability to translate growing engagement into sustained demand.

Turning to our balance sheet, we ended the third quarter with $318 million in cash and cash equivalents, which is an increase of 25.5% from year-end 2025, and no long-term debt, reflecting our strong financial position and continued cash generation.

Net merchandise inventory totaled $360 million, an increase of 6.4% from year-end, reflecting our continued investment in product availability and new collections, balanced with disciplined inventory management.

Client deposits reached approximately $325 million, an increase of 37.7% from year-end 2025, reflecting the strength of our outstanding client order base and providing visibility into future delivered revenue.

For the first nine months of 2026, net cash provided by operating activities totaled $173 million. Our strong financial position provides flexibility to fund our strategic growth initiatives while maintaining a disciplined approach to capital allocation.

Turning to our strategic investments, we continue to advance our multiyear technology transformation, with a focus on enhancing the client experience, improving operating efficiencies, and supporting future growth. As implementation progresses, we continue to refine the sequencing of our initiatives to support successful execution and maximize their long-term benefits.

We completed implementation of our TMS this year and are beginning to realize benefits. During the third quarter, our delivery network efficiencies helped mitigate elevated fuel costs, demonstrating the early impact of these investments. We continue to expect approximately $4 million to $5 million in annualized savings at full scale, with benefits increasing in 2027.

We continue to advance our POS, ERP, and OMS initiatives. Our new POS platform is scheduled to begin piloting in the fourth quarter with a go-live in the first quarter of 2027 to enhance the client experience and simplify Showroom workflows. We expect ERP and OMS to be production ready in May 2027, when implementation costs starting to moderate thereafter, and we're targeting a phased go-live for either May or August to minimize operational disruption.

We expect approximately 50 basis points of SG&A improvement by 2030 as transformation-related spending moderates to a more normalized level of ongoing licensing and maintenance costs. Together with expected transportation savings, improved inventory visibility and greater operating efficiencies, we believe these initiatives will support meaningful Adjusted EBITDA margin expansion over time.

Additionally, under K.C. Moss' leadership, we are accelerating our focus on digital and eCommerce growth, with priorities focused on enhancing the online client experience, improving conversion, and expanding our reach.

Today, approximately 80% of our eCommerce clients live within 50 miles of a Showroom, highlighting the significant untapped opportunity beyond our physical footprint. While we will continue to expand our Showrooms, we believe our digital strategy allows us to reach new clients and grow eCommerce independently of our retail expansion. Our long-term ambition is to increase eCommerce penetration to 25% of revenue over the next five years, supported by a stronger digital experience, improved conversion, and greater brand awareness.

Turning now to our outlook, the third quarter marked our eighth consecutive quarter of delivering results at or above our guidance, reflecting our disciplined execution, our deep understanding of the business, and our measured approach to forecasting in a dynamic operating environment. We were particularly encouraged by the sustained strength in client demand over the past two quarters, and building on this momentum, we are raising our full-year net revenue and comparable delivered sales outlook, reflecting

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continued demand strength and our confidence in converting our growing written order pipeline into delivered revenue.

For the full year, we now expect net revenue between $1.465 billion to $1.485 billion, representing year-over-year growth of between 6.2% to 7.7%. This includes comparable delivered sales growth of 2.5% to 4.0%, and we are maintaining our full-year profitability guidance, following this increase we made last quarter. With today's higher net revenue outlook, we have now raised both our top line and profitability expectations over the past two quarters.

The increase in our net revenue outlook is expected to generate approximately $4 million to $5 million in incremental profitability, which we are strategically reinvesting into initiatives to further growth. This includes approximately $3 million toward expanding our Spring catalog circulation and approximately $2 million toward digital and eCommerce initiatives. While fuel and transportation costs remain headwinds, we believe these targeted investments position Arhaus to drive future demand and support long-term operating leverage.

We continue to expect net income of $71 million to $80 million, and Adjusted EBITDA of $160 million to $171 million. For the fourth quarter, we expect net revenue between $398 million and $418 million, representing a year-over-year growth rate of between 9.1% to 14.6%. This includes comparable delivered sales of between 6% and 12%, and net income of between $21 million and $30 million, and Adjusted EBITDA of $44 million to $55 million.

In closing, we are pleased with our third quarter performance, including record net revenue, strong comparable written sales growth, and our eighth consecutive quarter of meeting or exceeding guidance. We remain focused on converting written orders into delivered revenue, managing costs with discipline, and executing the investments that support sustainable, profitable growth.

Thank you to our teams across Arhaus and our shareholders for their continued support.

With that, I'll turn the call over to the operator. We are happy to take your questions.

Operator

Thank you. We will now be conducting the question-and-answer session. We ask that you limit yourself to one question and one question only.

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

Our first question comes from the line of Jonathan Matuszewski with Jefferies, LLC. Please proceed with your question.

Jonathan Matuszewski

Great. Good morning, John, Mike. Thanks for taking my question. It has two parts. The first part is on the 20% new customer growth in September. Anything that stands out there in terms of early ordering behavior or demographics for that cohort versus maybe your existing customers? I think you cited growth over $100,000 for certain orders. Is it safe to conclude your customer file may be shifting even more affluent these days?

Then the second part, Mike, if you could help us in terms of the path for converting written comps into delivered comps. If you could clarify maybe what's the written comp embedded in your 6% to 12% delivered

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comp for 4Q, and if you were to hit that, what that would imply in terms of delivered comps as we kick off 2027? Thanks so much.

John Reed

Good morning, Jonathan. I can start with that. You asked about the new customers, the 20% increase.

We haven't dug into it thoroughly because we normally like to give it 30, 60, 90 days to really dig into it. What we're seeing is it was really across the board, it was across the geography. Existing stores, stores that have been around for many years. We saw a nice increase in new customers as well as certainly the newer markets. We certainly found that as well to some of the newer markets where we were not known as well getting the extra marketing and so forth really paid off. So we're seeing it across the board.

It definitely is a strong customer, like we had mentioned, a lot of second and third homes, a lot of remodeling being done in this country as people are not moving and we're taking advantage of that. It's an exciting thing to learn and we're going to keep pushing it and get more and more customers.

Michael Lee

Just to build on that, Jonathan, we're really, really excited about the new customer acquisition in September. We think a lot of that comes back to the investment we made in the Fall catalog and where we sent the catalogs and really did a good job of vetting the prospect targets. So, 20% growth is a pretty strong outcome for us.

That's what led really to our decision to lean into the Spring catalog. Just for everyone on the call, I want to highlight we expense the catalogs when they're shipped. That's one of the factors that impacted our Q3 profitability is we elected to expand the Fall catalog circulation and we expensed that entire circulation during the quarter. Similarly, as we invest in the Spring catalog, that's an investment that we'll incur the costs for in Q4. But again, early days, to John's point on the return on investment, but the early indicators are that we're very pleased with the outcome.

In terms of your question around how accretive are these customers, we're still getting into the details of the customers that we generated through the catalog themselves. But when you look at average AOV on new customers versus existing customers in September, it's 30-plus percent higher, so it's very accretive, these new customers. It's, again, another reason why we feel compelled to increase and lean into the Spring catalog as well. Hopefully, that provides a little bit of color.

I think your question on the delivered and written sales for Q4, we don't really get into the guide on quarterly written and delivered. But I can tell you in Q3, I highlighted the variable comp impact in our P&L. It's kind of an odd thing, but we do compensate our sales force on written sales. Written sales were about 20% higher than delivered sales in Q3. So you can imagine that distortion where you're paying for essentially deferred revenue. That's okay. The model works. We've had it this way for years. But when you have these periods where the quarter ends with a lot more written than delivered, you can have that distortion, so it's about 100 basis points of temporary impact on the P&L that will fully reverse out in Q4.

When you look at Q4 and you say, "Okay, if you wrote 20% more than you delivered in Q3, what does that look like for Q4?", right now we're modeling that Q4 delivered will be about 15% higher than written. But again, those numbers are still moving around a lot. Hopefully, that provides a little bit of color on the dynamics between delivered and written.

Tara Atwood-Saja

And, Jon, just one thing …

Jonathan Matuszewski

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Thanks so much and best of luck.

John Reed

Thank you.

Tara Atwood-Saja

We'll go on to the next question.

Operator

Our next question is from Steve Forbes with Guggenheim Securities. Please proceed with your question.

Jake Nivasch

Hey, guys. Good morning. This is Jake Nivasch on for Steve here.

I just wanted to piggyback on that one, but zeroing in on marketing here and the strategy altogether. Understanding the idea of expanding the catalog circulation, but can you elaborate on these targeted marketing initiatives and promo events that you've outlined today? What specifically was done? What did you learn? Really, just from a brand awareness standpoint, do you see an uplift in existing markets to the same degree as newer markets? Just trying to get a general sense of what the potential is here. Thank you.

John Reed

Jake, I can start that.

As far as markets go, it truly has been across the board. We are targeting markets rather evenly or a little heavier in some of the newer markets, where we're not known quite as well. But the response has been fantastic in both.

We're not doing anything different as far as promotions in that than normal. We had the same promotion last year and the year before in the third quarter, so we're not changing our promotions at all. New product is working unbelievably well. We're seeing big drive of that is one of the big reasons, not only the marketing part, but the product has really resonated with our consumer.

Some of that product really was getting to a few stores because it was new stuff. But after we're testing and that, we're really encouraged to get the new really high-flying product out to all the stores, so we see a great future coming up in 2027 as well.

Jake Nivasch

Perfect. Thank you. Just one follow-up here. For eCommerce, understanding trying to lean into that some more. But just curious, how do you balance the growth between in-store showroom versus eCommerce? I know you made the point that they are mutually exclusive to a large extent, but just curious if you can elaborate on that strategy, maybe from a product and marketing standpoint and how that may differ from the in-showroom. Thank you, guys.

John Reed

As Mike said, we have a new head of eComm. There's just a lot of low-hanging fruit that we can do on our website that will not only enhance and help sales on the website side, but also it'll drive a lot more

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consumers into the stores. When people are purchasing a large amount of furniture, they really love to come in, touch it, feel it, but they always start their transaction online. We think the enhancements we're already planning to do, and some of them we're literally starting already on the eComm digital side, is going to help both and I think help both evenly.

Jake Nivasch

Perfect. Thank you, guys.

John Reed

Thanks, Jake.

Operator

Our next question is from Peter Keith with Piper Sandler. Please proceed with your question.

Peter Keith

Thanks. Good morning, guys. Congrats on the second consecutive quarter of the double-digit written demand.

I did want to focus on that catalog that you mailed out in Q3. You talked about a doubling of the catalog shipments, a 4x increase in prospecting. With the increased marketing expense for the Spring catalog, is that something that what you did with Fall you're going to repeat now with the Spring catalog? Is that $3 million of expense the total amount or will it be something that carries over into Q1?

Michael Lee

Yes, Peter. It's Mike here. Good question on the accounting.

We've run this a few different ways, but the clear reality is that accounting rules require that all of the catalogs get shipped at the time of delivery to the shipper. As much as that creates a matching issue between expenses and revenue, that's how the accounting works. There's a bit of a—think of it as a prepayment impact in December that we're going to incur with this shipment. But again, we continue to manage the business for long-term value creation, and it's absolutely the right investment for us to make. It's a few million dollars, so it's something over the grand scheme of things isn't a huge investment, but it's worthwhile.

Going back to the question from Jake earlier around what are we learning, what are we experimenting with, one of the things that we are experimenting with is how we prospect and making sure that we're taking a balanced approach between some of the bigger, more mature markets and some of the markets where we're newer and developing. We've been in California for only a few years, and that's an area where we continue to look for ways to build brand awareness. With this last catalog, we ended up deploying a little more of our circulation into California, particularly into some of those prospect markets where there's high net worth in some of these areas.

When you take a big step back, we think we're really well positioned in some of these newer markets in terms of site selection, in terms of where our Showrooms are. But when you look at where our sales are coming from and you plot that against where all the wealth is, there's still tons of white space opportunity even in some of these markets. So John's really been pushing us on how do we build awareness faster in some of these markets, and we think the catalogs are going to be an important vehicle for us going forward.

The other thing we're experimenting with—and I know this is getting into a little bit of the weeds—but we send out more than just our big book. We send out mailers. We send out some category-level catalogs on

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occasion. There's like an 8:1 trade-off between—we can send out 8 small mailers for every big catalog. We've been challenging ourselves on what's the role of each. The little mailers that are 5 to 7, 10 pages, those are great for creating a pulse reminder to clients, but we don't believe that those stay on the coffee table for months and months, whereas the large catalogs stick around and they tend to be on the coffee table. It might take someone 30 to 60 days of flipping through the catalog to get the order in, but we think it has that staying power. With the work that we're doing on these catalogs, we're so proud of what's in them, we believe that that staying power is really important. So, we're continuing to learn from that in terms of optimization.

Candidly, we're looking at how do we balance across printed versus eComm. We've been leaning into paid search on eComm over the last several months, and we've been seeing good ROI on that as well. So that's that on catalogs.

But getting back to digital, I just want to remind everybody that we see eComm is a $500 million opportunity for Arhaus by 2030. When we take a big step back and look at our five-year plan, we think we can get our eComm business up from—we're at 16% to 17% eComm penetration in terms of mix of our business today. We think we can get that up to 25%. That's an incremental—depending on your watermark here, but that's an incremental $250 million to $275 million versus where we are today.

What's really cool about that is when you look at the revenue growth from that, there's really strong gross margins from that because we don't have occupancy costs with leases and all the OpEx that goes along with running Showrooms. We don't have all the staffing expenses across the Showrooms. Candidly, as we grow eComm, we can support it really efficiently from a G&A perspective, so we think it's absolutely transformational to our P&L. Hence, we're going to lean in really hard over the next 12 to 18 months.

We've already got a CDO, a Chief Digital Officer, in place, and she's coming up to speed quickly. As part of that, we'll be making some selective investments to really build out capabilities on the team in terms of engineering capabilities and UX design-type capabilities and folks that can help us with analytics and CRM and all of that. We've got a very clear roadmap over the next 12 to 18 months of where we're going to make some investments in building out our web capabilities.

Candidly, we think we're in a very strong foundation today in terms of the technology platform, but there are some gaps that we see in our website today that we're going to close pretty rapidly here over the next 12 to 18 months. We can't get into the details of the what and the when. But these aren't massive investments. These are very tactical that are mostly people-led, so our confidence level about delivering on these various initiatives over the next 12 to 18 months is high, and now that we've got dedicated resources to it, we're going to move as quickly as we can.

In terms of the P&L impacts of the short term, we're still working through what that revenue expense profile looks like, but we expect a lot of this to be self-liquidating, where the revenue growth that we get even into next year is going to pay for some of these investments. At a minimum, it should be break-even-type investments, and then it will grow into accretive investments over time.

We'll have more to talk about digital on our Q4 call. Once K.C. gets up to speed, we'll start to share a little more about where we're going and what the profile of the growth looks like. But I'll leave it with that for now, Peter.

Peter Keith

Okay. Thank you very much for all the detail, Mike.

Michael Lee

Yes.

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Operator

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

Adam

Good morning. This is Adam asking a question on behalf of Simeon.

I'm just curious, are customers primarily buying individual pieces or are you seeing more demand for complete rooms or multiple-room projects? Can you talk a little bit about how the mix has changed recently? Thank you.

John Reed

I think we said that in our earnings call that we're seeing folks spend more money. We're seeing some larger sales, very nice growth as Mike just said on the call.

In the third quarter, we saw both. We saw more traffic in the stores. We've seen more individual sales, but more importantly, we've been seeing some more of the larger sales have really been adding up. Like I said, people aren't moving. They're fixing up their homes and they're putting money into it. Our customers are certainly elevated where they are earning enough money to put money back into their homes and we're getting the benefit of that.

Michael Lee

To build on that, Adam, one of the things that we're really excited about in the business is how we alluded to in our remarks how broad-based the growth was. Just to build on what John was talking about, when you look at traffic, we saw Showroom traffic grow low single digits during the quarter. eComm traffic was up double digits during the quarter, which was great.

Then you get into the sales equation. Order count was up in the teens in the quarter. If you look at it on a comp basis, our order count was up high single digit. Our AOV was up high single digit, and that was really driven by growth in both units per transaction—so it gets at your question, Adam, about are people buying one big piece or multiple pieces? We saw growth in units per transaction, so that should answer your question. Then average unit retail is obviously up year-over-year with the pricing actions that we have taken.

Then, just going back to some of the transaction sizes, really happy with the continued premiumization of the business with orders above $25,000 growing 35% in the quarter, which we thought was really impressive.

When you look at it from a product perspective, one thing we didn't comment on but we're really excited about is special order. Special order is growing share of our business. Special orders actually grew about 50% faster than the overall business to just give you a sense of how excited some of these new categories are where we have special-order options that we didn't have in the past.

Newness continues to be a huge priority for us. Our merch team is moving faster than ever before. The feedback that we're hearing from customers and the orders that they're placing on newness has been really, really impressive.

We don't always highlight this, but when you look at the quarter, customer satisfaction continues to perform well. When you look at some of the metrics around cancellations and returns and exchanges, all improved versus prior year, which means that we're executing well, customers are happy with what they're getting, and we're seeing fewer cancellations and returns.

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Really, I couldn't emphasize more how broad-based that performance has been for the last quarter and in many ways with Q2 as well.

Adam

Thank you so much.

Operator

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

Cristina Fernandez

Hi. Good morning. I wanted to see if you could frame the 2026 guidance. What are the key factors to get to the low end versus the high end? As you look at the strong demand trends you're seeing, to the extent that that continues in the fourth quarter, is the philosophy to reinvest that into the business as you did in the third quarter, or to let some of it flow to the bottom line? Thanks.

Michael Lee

Good question, Cristina. That's always the balance, right?

We are really excited about what we're seeing from our written order perspective, and there's so many things that are working well now. We have had, I'd say, a bias toward investment, but it's a balanced approach. We continue to apply the same financial rigor that we've talked about quarter and quarter, over and over, and we are in a bit of an investment mode. The catalog investments that we're making we think are working really well. We're leaning into digital, and there's going to be some investments there, but it's going to be a balanced approach, Cristina. We can't do everything at once. It's really with a focus toward, let's continue to grow the business, but let's make sure that we're balancing against execution, because we got to—it's not just taking the orders, we got to get them out, right? We've got to manage the supply chain along the way and make sure we keep customer satisfaction up.

But in terms of what frames Q4, we talked about the investments, so those are kind of set at this point. But what will really drive Q4 is on the delivery of the current open orders. We are pushing hard on the supply chain. We're asking a lot of them. We are setting records every week and every month now in terms of total delivered throughput, so they're really killing it from an execution perspective. If we can exceed even our current expectations, we can come in on the top side because there's plenty of demand out there that's open orders. It's just: How much can we actually get out the door?

We continue to be well positioned from an inventory perspective, from an in-stock now status, but we have seen a little bit of a dip in-stock now, just with the outsized growth that we experienced in Q3, but nowhere near some of the challenges that we had last year at this time. We're continuing to navigate through that.

In a nutshell, Cristina, it's how much can we actually get delivered. We're pretty comfortable on the low end. The high end would require a few more record-setting weeks from a delivery perspective.

Operator

Our next question is from Bobby Griffin with Raymond James. Please proceed with your question.

Alexandra Jimenez

Good morning. This is Alexandra Jimenez on for Bobby Griffin. Thank you for taking our question. I wanted to follow up on gross margins and the transportation efficiencies.

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You guided to $1 million to $2 million of the TMS savings in '26, and then $4 million to $5 million at full implementation. When should we expect to realize the full run rate benefit?

Then more broadly, how should we think about the underlying gross margin trajectory into '27, particularly as we lap one-time tariff refund benefits? Could you also remind us what the tariff refund impact was in 3Q, and then what you're expecting for 4Q?

Michael Lee

There's a lot there. Let me think. Where do we start here?

In terms of the margin profile going into next year, we're well into our budget cycle for fiscal '27. When you look at some of the foundational assumptions going in, we are expecting—well, I shouldn't say expecting. We are forecasting into our plan elevated fuel costs will continue into next year, right? Right now, we're kind of modeling through half of next year that we'll continue to see these elevated fuel surcharges. It's been very volatile, as you guys know, but the fuel surcharges have hovered anywhere as high as 11%, 12% during the quarter, as low as 8%, so it's really moved around a lot. I think we're doing a good job of managing it, but it's a very dynamic environment.

The delivery fee increases that we took are helping to mitigate some of that, but in hindsight, we look like geniuses pushing for our TMS technology to be the first out of the gate on our transformation initiative. We launched our TMS, which is our Transportation Management System, for folks on the call, if you don't know all these acronyms. This is the technology that we deployed this past summer to help us improve effectiveness on how we route product. It's helping us on improving how much we put on a truck, and it's actually helping us to optimize the lanes that we select. In the quarter, on a base rate perspective, we saw around 80 basis points of benefit from a delivery perspective. We can't assign all of the benefit to TMS, but we know TMS is really driving a majority of that.

So at this point, I'm comfortable saying that from a TMS perspective, we're going to exceed the $1 million to $2 million target that we set this year and going into next year, we expect to be at that $4 million to $5 million run rate and potentially even higher. We're really happy with what we're seeing on this technology.

In terms of the delivery fee that we took, we took that, as a reminder, in June, and that was on all written orders starting in June, and it takes a couple of months for it to flow through. We're starting to see that flow-through benefit, and that will come to full maturity in Q1 of next year. I think that was around a $5 million annualized impact. Between that and the TMS benefits, we're hoping that that will offset a lot of the fuel surcharges that we're seeing.

The other thing that we don't talk about, but it's also an economic impact I want you guys to be aware of, is there's been a lot of mention in the press around just ocean containers. I just want to squeeze this into your question because we buy $6,000 to $7,000 of containers a year, and the costs on those containers have gone up, and availability has been challenged. In fact, our supply chain team has really been doing a great job of managing through what's been a very challenging shipping situation, particularly in places like India and Vietnam where container availability has been a backlog. Even if you're willing to pay spot prices, availability has been a challenge.

The good news is we're starting to see it loosen on availability and spot prices are starting to moderate a little bit. But our latest forecast is when you run through what we've seen year-to-date September and what we've got forecast for Q4, we're expecting a $5 million to $6 million, just a rate impact from this past year. Now, all that flows into inventory as part of our landed costs, and that will flow out into next year. But this is the kind of stuff that we're taking into account when we forecast out next year.

When you put all this together, we took some price increases in October in large reaction to some of these headwinds that we're talking about between ocean freight and fuel surcharges and all of that, but when you

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look at next year's margin profile, despite the fact that we're not going to have a big refund in our numbers, we're hoping to target a gross margin with a 4-handle on it, not a 3-handle.

More to come on our Q4 call, but we're really pushing hard. John has really pushed the teams on protecting margins, and I've seen him in action on all these decisions as well, so we're aligned as a management team. It's really just about executing.

Alexandra Jimenez

Thank you.

Operator

Our last question will be from Andrew Carter with Stifel. Please proceed with your question.

Andrew Carter

Hey, thank you. Good morning. I just want to clarify something real quick.

You did say earlier in the call that you expected written to be 15 points below demand. You were guiding to 6% to 12% comparable sales growth in the fourth quarter. That, by my math, that would be minus 9% to minus 3% written sales in the fourth quarter, which is down from 13% in September. You also have pricing going into place. Is that just a conservatism in your guidance or is there a significant breakdown starting in October or something in comparison, something to worry about, something with demand conversion, higher cancellation rates, anything? Thank you.

Michael Lee

Andrew, the numbers I was quoting around the ratio between written and delivered was not off of our comp basis. It was off of total because that's the total business. We don't get into monthly disclosures, but we're pretty happy with October results. It's been in many ways a continuation of the strength that we've been seeing.

We'll leave it with that for now, but we're really confident with the guidance that we're putting out for Q4. Getting back to the earlier question in terms of what's going to drive low end of the range versus the high end, it's really going to be our ability to get the deliveries out over the next six to seven weeks.

Andrew Carter

It would still be negative demand in the fourth quarter even off the top though then, would be what's in the guidance.

Michael Lee

We're not forecasting a negative comp for Q4.

Andrew Carter

I mean, delivered is what I'm saying. Delivered written would still be negative off that 15-point commentary.

Michael Lee

We're not forecasting a negative comp for written or delivered in Q4.

Andrew Carter

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Okay. Thank you.

Michael Lee

All right. Thank you.

Tara Atwood-Saja

Thank you.

John Reed

Thanks everybody.

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