Arhaus, Inc.

Second Quarter 2026 Earnings Call

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PRESENTATION

Operator

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

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

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

Tara Atwood-Saja

Good morning and thank you for joining us for the Arhaus Second 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 press release and Form 10-Q for the quarter ended June 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.

This morning, we reported second-quarter results that reflect the continued strength of the Arhaus brand and the resilience of our business. We generated record net revenue and strong comparable written sales, reflecting continued client engagement and momentum across our three customer demand channels, which is a testament to the strength of our differentiated model.

While the broader environment remains dynamic, the high-end consumer continues to demonstrate resilience, supported by a relatively healthy U.S. economy, solid consumer spending, and the positive wealth effect of higher stock prices.

We delivered record net revenue of $385 million, above the high end of our guidance range. Comparable written sales increased 12.5% in the quarter, bringing year-to-date comparable written sales to 2.8%. Our clients remain highly engaged and continue to prioritize investments in their homes, driving strong demand for our differentiated product assortment and the elevated experience Arhaus provides.

Turning to Product, for 40 years Arhaus has been built on the belief that furniture and décor should be responsibly sourced, lovingly made and built to last for generations. That philosophy continues to differentiate our brand and remains one of the strongest drivers of client demand.

During the quarter, we saw strength across our assortment and collections. Clients responded to our distinctive mix of heirloom-quality furnishings, globally curated designs, and handcrafted pieces made with natural materials and time-honored techniques.

Strong written sales reflected continued interest in new product introductions alongside our extensive customization capabilities, giving clients the opportunity to create spaces that feel uniquely their own. This balance of timeless design and thoughtful innovation continues to resonate with both new and existing clients.

Demand was broad-based across categories, including upholstery, outdoor, and The Collected Home, our vintage-inspired collection celebrating craftsmanship, heritage and enduring designs.

Our domestic upholstery manufacturing capabilities in North Carolina remains an important competitive advantage, allowing us to deliver exceptional quality, customization, and service while providing greater flexibility and control over production.

We remain committed to keeping our assortment fresh while staying true to the aesthetics that defines Arhaus. We believe the strength of our product strategy lies in offering distinctive furnishings that are difficult to replicate, supported by disciplined merchandising, continuous product innovation, and meaningful investments in our product pipeline.

Looking ahead, we have several important events in the coming weeks to engage with our clients. We will launch our special 40th anniversary Fall catalog, reaching more than double the number of households compared to our Spring catalog, including a focus on high-potential prospective clients, followed by our September Semi-Annual Storewide Sale. Combined with compelling new product introductions and a strong in-stock position, we believe this positions us well for the important Fall selling season. Better inventory availability allows us to offer clients more of what they want, when they want it, supporting higher conversion, stronger delivered sales, and an even better client experience.

I want to thank our Product team and our artisan partners around the world. Their passion for great design, commitment to craftsmanship, and ability to anticipate emerging trends continue to differentiate the Arhaus brand and bring our vision to life for our clients.

Turning to our clients, the second quarter reinforced the breadth and quality of demand across all three demand channels – our Core Customers, Arhaus Interior Design, and Trade.

Throughout the quarter, we continued to see clients investing in home through larger, higher-value projects, reflecting healthy engagement with our premium assortment and no meaningful evidence of trade-down. We believe this speaks to the resilience of our client base, the differentiated value of the Arhaus brand, and the enduring appeal of our product offering.

Interior Design continued to be an important driver for client engagement, as more clients used our complimentary design services to bring larger, whole-home projects to life. These relationships not only create a highly personalized experience but also creates deeper client loyalty and long-term engagement with Arhaus.

We have also been encouraged by the early response to our enhanced Trade program which relaunched earlier this year. Supported by a dedicated team focused on expanding relationships with design professionals, we believe the program represents a meaningful long-term opportunity to broaden our reach to cultivate a growing base of recurring, project-driven business.

Overall, the continued strength across our core customer, Interior Design and Trade channels highlights the multiple ways clients choose to engage with Arhaus. We believe this diversified demand model, combined with our differentiated products and elevated client experience positions us well to continue building lasting customer relationships and supporting sustainable long-term growth.

Turning to Showrooms, our showrooms are the front door of the Arhaus brand and one of our most important drivers of awareness, engagement, and conversion. They bring our product to life, support our Interior Design and Trade channels, and provide an immersive client experience that differentiates Arhaus.

Demand across the Showroom portfolio was broad-based during the quarter. We generated strong written sales growth across every region and all of our Showroom formats, including our traditional and Design Studio Showrooms. This breadth gives us confidence that demand is not dependent on a single geography or market, and that our product and brand resonates with clients from coast to coast.

We continue to see significant white space for expansion while maintaining a disciplined approach to growth. During the second quarter, we opened a nearly 20,000-square-foot traditional Showroom in Ashburn, Virginia; relocated our Westlake, Ohio Showroom; and expanded our Park Meadows Showroom in Lone Tree, Colorado. And just last week, we opened our newly relocated Charlotte, North Carolina Showroom at The Village at SouthPark. At approximately 35,000 square feet, it is our second-largest traditional Showroom after our Pasadena, California Showroom, and provides an elevated, immersive destination for our clients in an important market for us. The opening also reflects our longstanding connection to North Carolina, where skilled artisans craft many of our signature upholstery pieces.

For 2026, we continue to expect approximately 10 to 14 total Showroom projects, including 4 to 6 new openings, 6 to 8 relocations, renovations, or expansions. We maintain a disciplined approach to evaluating projects against our targeted return criteria, and recent openings have continued to perform in line with our expectations.

A key reason our Showrooms perform well is our people. Ashburn demonstrates the importance of combining the right location with an experienced team. We placed established leaders from nearby Showrooms at the location and hired and trained the broader team well ahead of opening. As a result, Ashburn opened with a team that understood our product, client, design services, and service model, and the Showroom has performed ahead of our expectations since opening. We continue to believe our physical presence remains an important competitive advantage and a meaningful driver of awareness, client engagement, and conversion.

As we look ahead, we remain focused on executing the strategy that has served us well for four decades – creating exceptional products, delivering an elevated client experience, and investing thoughtfully in the long-term growth of the Arhaus brand. We believe we are well positioned for the important Fall selling seasons and remain confident in the significant opportunities ahead.

I want to thank our team members and artisan partners around the world for their passion, craftsmanship, and commitment to excellence. Their dedication is what makes Arhaus special and continues to strengthen the relationship we have with our clients.

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

Michael Lee

Thanks, John, and good morning everyone.

Our second quarter performance reflected disciplined execution against our most difficult year-over-year comparison of 2026. We delivered results above the high end of our guidance range across all of our key financial metrics and generated strong comparable written sales, reinforcing our confidence in the full-year outlook. This marked our seventh consecutive quarter of delivering results at or above our guidance.

Before I turn to our results, I want to address an unplanned benefit related to IEEPA tariffs that was recognized in the quarter and not included in our previous financial guidance.

Arhaus requested refunds of $37.8 million for IEEPA tariffs previously paid. As of June 30, 2026, we recognized a receivable of $32.7 million, which is included in prepaid and other current assets within the balance sheet, and we received $5.1 million in cash refunds.

During the second quarter, we recognized a benefit of $23.8 million for the recovery of IEEPA tariffs paid, of which $15.5 million is related to inventory sold prior to April 2026, and $8.3 million related to inventory sold in the quarter. Additionally, we recorded $14 million, primarily related to the reductions in inventory costs in merchandise inventory net within the balance sheet. As of today, we have received the full tariff refund in cash.

Moving on to our results for the quarter, net revenue was approximately $385 million in the second quarter, up 7.4% year-over-year, marking the highest net revenue in our 40-year history. This performance is particularly notable as we lapped a prior-year period that benefitted greatly from the accelerated ramp following the in-sourcing of our Dallas distribution center. We grew over that comparison, and year-over-year comparisons ease through the balance of 2026.

Gross profit was $172 million, up 16.1% versus last year. This increase included a recognized $23.8 million benefit from the recovery of previously-paid IEEPA tariffs, of which $15.5 million related to inventory sold prior to April 2026. Excluding this benefit, and to better reflect a more normalized gross profit for the quarter, gross profit would have been $157 million, up 5.6% versus last year, primarily due to higher net revenue.

Gross margin was 44.7%, an increase of 330 basis points versus last year. This increased included 400-basis point benefit related to IEEPA tariff recoveries associated with inventory sold prior to April 2026. Excluding this benefit, gross margin would have been 40.7%, down 70 basis points versus last year, driven largely by higher fuel and shipping costs. Notably, we increased our delivery fee in June to help offset these inflationary pressures and this will start to flow through in the third quarter.

Selling, general and administrative expenses were $118 million, up 16.1% versus last year. The increase was primarily driven by an $8.4 million increase in general and administrative costs, including approximately $3 million of strategic investment related to technology licensing and other costs incurred to support our business transformation. We also saw a $7.9 million increase in selling expenses, primarily related to new Showrooms and increased demand for our products.

As a result, SG&A load increased 230 basis points to 30.6%. While our strategic investments create some near-term expense pressure, we believe they are important to strengthening the client experience, improving scalability, and supporting long-term profitable growth.

Net income was $40 million, up 13.1% versus last year, and Adjusted EBITDA was $70 million, up 16.8% versus last year, both above the high end of our guidance range. Excluding the $15.5 million tariff refund benefit associated with inventory sold prior to April 2026, Adjusted EBITDA would have been $55 million, down 8.9% versus last year, primarily reflecting higher fuel and shipping costs, increased selling expenses associated with new Showrooms, and strategic investments to support the long-term growth of the business.

Adjusted EBITDA margin was 18.3% an increase of 150 basis points versus last year. Excluding the 400-basis point tariff refund benefit associated with inventory sold prior to April 2026, Adjusted EBITDA margin would have been 14.3%, down 250 basis points versus last year, driven largely by higher fuel and shipping costs, increased selling expenses associated with new Showrooms, and strategic investments to support the long-term growth of the business.

Turning to our comparable metrics, comparable delivered sales increased 4% in the second quarter, exceeding the high end of our guidance range against our most difficult delivered sales comparison for the year. Year-to-date, comparable delivered sales were 1.4%, consistent with our full-year outlook of flat to positive 3.0%. Comparable written sales increased 12.5%, bringing year-to-date comparable written sales to positive 2.8%.

We believe the second quarter acceleration reflected a combination of factors. As John mentioned, we saw broad-based strength across our product assortment, including newness, upholstery, customization, outdoor, and our The Collected Home assortment. In addition, our Interior Design team, continued to generate strong momentum by inspiring clients, deepening engagement with the brand, and helping convert larger, more complex projects. We also benefited from increased marketing activity designed to drive engagement, conversion and brand awareness. These efforts included incremental investment in paid search and digital optimization, as well as our planned catalog expansion to additional households.

As we have seen historically, periods of temporary softness can be followed by stronger demand as clients reengage. Overall, we believe this second quarter performance reflected a combination of some recovered demand from the first quarter and healthy underlying momentum across the Arhaus brand.

Before turning to our balance sheet and outlook, I would like to provide additional context around our long-term financial framework and how we are positioning Arhaus for sustainable growth.

While quarterly results can vary based on the timing of written-to-delivered conversion, promotional cadence, investment timing and the broader macroeconomic environment, our long-term strategy remains consistent. We are focused on building a larger, more profitable business by balancing market-leading revenue growth with expanding profitability over time. This is summarized by our three strategic imperatives, as follows.

First, achieving market-leading sales growth. We continue to see meaningful opportunities to grow the Arhaus brand by simplifying the selling experience across our channels, creating a more seamless omniluxury journey for our clients, expanding our Showroom footprint, growing our Interior Design, Trade, and Contract businesses, broadening brand awareness, and strengthening our digital and eCommerce capabilities. Together, we believe these initiatives deepen client engagement, expand our market share and support sustainable long-term growth.

Second, strengthening product leadership. Our product remains our greatest point of differentiation and the foundation of the Arhaus brand. We continue to invest in innovation and newness while preserving the timeless design aesthetic that defines us. Our focus remains on extending our leadership in luxury upholstery, building on the strength of our best-selling collections and attracting luxury customers through fresh, relevant assortments.

Third, advancing operational excellence and perfecting the client experience. As we grow, we remain focused on building a more efficient and scalable operating model by accelerating product flow from concept to showroom, enhancing execution across the business, and digitally enabling the enterprise. Technology is a key enabler of this strategy and during the second quarter we successfully launched TMS, and our ERP and OMS implementations remain on track for a February 2027 go-live. In addition, we are opportunistically pulling forward the implementation of our new modern POS platform into the fourth quarter of this year, ahead of our original timeline. This pull-forward simplifies our overall technology roadmap, accelerates our transition from legacy systems, and equips our Showroom teams with a more modern and intuitive selling platform.

Over time, we believe these investments will create a more seamless, connected experience across our customer demand channels, improve operational efficiency, and further elevate the client experience.

Turning to our balance sheet and liquidity, we ended the quarter with $226 million in cash and cash equivalents, maintaining a strong liquidity position.

Net merchandise inventory totaled $354 million, up 4.3% from December 31, 2025. The composition of our inventory remains healthy, with aged inventory down both sequentially and year-over-year. Importantly, best-seller inventory improved during the quarter and we exited June with strong in-stock levels across the network. Overall, we believe we are well positioned in inventory to support current demand, continued product newness, and the conversion of written orders into net revenue.

Client deposits ended the quarter at approximately $264 million, up 11.8% year over year, reflecting the strength of our second quarter written demand.

Turning to tariffs and sourcing, following the recent implementation of the new Section 301 tariff framework, we estimate our 2026 tariff impact to be approximately $30 million to $40 million. We continue to address this headwind through our diversified global sourcing strategy, vendor negotiations, pricing actions, and ongoing operational efficiencies. These initiatives provide us with many levers to help mitigate tariff-related costs while maintaining our focus on product quality, value and long-term profitability. While the tariff environment remains dynamic, our diversified sourcing model and disciplined operating approach position us well to adapt as policies evolve. We will continue to monitor developments and adjust our sourcing and pricing strategies as appropriate.

Turning now to our outlook, as I mentioned earlier, the second quarter marked our seventh consecutive quarter of delivering results at or above our guidance. This consistency reflects our understanding of the business, our disciplined execution, a measured approach to forecasting in an environment that remains dynamic.

We were very pleased with our second quarter results and the meaningful acceleration in comparable written sales. The quarter strengthened our confidence in the full-year outlook. At the same time, we believe it remains appropriate to maintain a prudent net revenue range that reflects multiple potential scenarios for the consumer environment.

For the full year, we continue to expect net revenue between $1.43 billions and $1.47 billion, representing year-over-year growth of 3.7% to 6.6%. We continue to expect comparable delivered sales of flat to plus 3%.

We are updating our full-year profitability guidance to reflect the benefit recognized from the recovery of previously paid IEEPA tariffs and we now expect net income of $71 million to $80 million and Adjusted EBITDA of between $160 million and $171 million.

As we've discussed, we view the IEEPA tariff recovery as a discrete, one-time benefit that is being allocated as follows.

First, consistent with our long-term capital allocation philosophy, we are reinvesting a portion of these recoveries back into the business to support strategic growth imperatives. These investments include more than doubling the distribution of our Fall catalog, and increasing our Spring 2027 catalog circulation in a similar manner, as well as expanding our marketing and digital investments, and pulling forward the implementation of our new POS system. These incremental investments, which are reflected in our updated guide, are expected to total between $7 million to $10 million during fiscal 2026.

Second, the recovery helps offset meaningful cost pressures we continue to face across the business, including approximately $10 million of elevated fuel expense and $10 million of higher shipping costs for the year driven by disruption in the Middle East, as well as ongoing labor and inflationary pressures, while preserving flexibility as the tariff environment continues to evolve.

And finally, after funding these strategic investments and offsetting the incremental costs, the remaining benefit of approximately $10 million flows through to Adjusted EBITDA and is reflected in our updated full-year profitability guidance range.

Importantly, our outlook does not assume a meaningful improvement in housing turnover, consumer confidence, or the broader macroeconomic environment.

Turning to the third quarter, we expect continued business momentum balanced against ongoing macroeconomic uncertainty, and variability in the timing of written sales conversion to delivered sales. Our outlook is supported by healthy product availability, continued strength across our Interior Design and Trade channels, compelling new product introductions, our 40th anniversary Fall catalog, and our September Semi-Annual Storewide Sale.

From a profitability perspective, we expect the third quarter to reflect the continued impact of tariffs, elevated fuel and shipping costs, and planned investments in technology and marketing. These pressures are expected to be partially offset by the growing benefit of our June delivery fee increase, pricing actions we've taken, and transportation productivity initiatives including the initial TMS benefits as well as continued disciplined expense management.

For the third quarter of 2026, we expect net revenue between $355 million and $375 million, representing year-over-year growth of 3% and 8.8%. We expect comparable delivered sales of minus 1% to plus 5%, net income of between $8 million and $13 million, and Adjusted EBITDA of between $26 million and $34 million.

We are pleased with our second quarter results and the progress we have made across Arhaus. We delivered results above the high end of our guidance, we saw a meaningful acceleration in written sales, and we continue to execute against the operational and strategic priorities supporting long-term growth.

While the environment remains dynamic, we are focused on the factors within our control, which include driving demand, improving conversion, managing costs with discipline, and building a stronger, more scalable, and more profitable business. I want to thank our teams across Arhaus for their continued focus and execution, and our shareholders for their ongoing support.

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

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. Please limit yourself to one question. 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.

Our first question will come from Jonathan Matuszewski with Jefferies.

Jonathan Matuszewski

Great. Good morning, John and Mike. Nice results here. Your results confirm an area that's kind of building around a widening divergence in affluent consumer spend on this category relative to maybe a mass consumer. Can you add some more context around your 2Q demand trend? As you think about the acceleration, how much of that has been driven by an uptick in new customers entering your files? How much did discrete pricing adjustments contribute? And it sounds like mix is playing a role as well with consumers maybe leaning towards higher value complex projects. So how did your 2Q demand break down across some of those drivers? Thank you.

John Reed

Sure, Jonathan. I can try to answer the first part of that. First of all, across the board, we didn't see any meaningful change in new customers versus existing customers. It stayed pretty much as it has been. The product assortment has gotten so much better that we're seeing basically larger sales per customer. A lot of people are renovating, some new home builds, but a lot of people are putting money back into their homes as they've decided maybe not to move. So we're seeing a really nice increase in people coming in being very serious about renovating a room or an entire house and that certainly has helped our business.

Anything to add, Mike?

Michael Lee

Sure, I can build on that, Jonathan. I'd say just looking at overall traffic in the quarter, we're very happy with traffic. It was a big rebound versus Q1.

When you break down the fundamentals of existing versus new customers, I agree with John, it was very consistent, but in total up versus where we were in Q1.

Looking at things like average order value, units per transaction, those all continue to perform quite strong. Then even looking at order sizes and order counts for large sales, we were very happy with Q2 looking at orders above $10,000, orders above $25,000, orders above $100,000, it was quite strong.

So we are very happy with what we're seeing from our customer base and would concur that the high-end consumer continues to perform well.

Jonathan Matuszewski

Thank you. Best of luck.

John Reed

Thank you, Jonathan.

Operator

Our next question will come from Steve Forbes with Guggenheim Securities.

Jake Nivasch

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

So, John, just a question on the trade program. So given the strength and written demand trends, I'm curious if you can expand upon the trade program, how it's performing, and maybe give us some high-level commentary on the size of that business today, if you're able to quantify, and what key initiatives you're leaning into to scale it here. Thank you very much.

John Reed

Sure, Jake. Be glad to. The Trade program is one that we've focused as we've been talking about.

A few things we've done. We've adjusted or given an option on how the trade folks can earn money on buying our products. We had been paying a commission-based thing, now we're doing a discount as well so we're letting the trade members decide which way they want to go, which has been extremely successful.

We've been adding thousands of new trade members each month actually, since we started that, and that just launched a few months ago.

With that, we've also added a significant amount to the team, folks that are living all over the country that were in the trade business or are in the trade business that are helping us attract new trade design firms to come and work with us because we offer everything. They can come in and do everything from the lighting to the rugs to the upholstery. It's a full-service shop, whereas most trade members have to go through catalogs and order things from all these different companies and we make it simple. We warehouse it for them, we stand behind it, we repair it if something happens to it, and the trade members are loving that. So we think it's a huge opportunity. We're just really getting started with it, and the future should be amazing.

Jake Nivasch

Perfect. Thank you very much.

John Reed

Thank you.

Operator

Moving next to Madeline Cech with Bank of America.

Madeline Cech

Great, thanks. Thank you for taking our question. Could you provide a little more color on how comps progressed through the quarter, including the exit rate in June and what trends you saw in July that keep you confident in your full-year outlook?

Michael Lee

Hi, Madeline. It's Mike here. We don't get into monthly disclosures anymore, but I will tell you that we were happy with the quarter overall.

We alluded to the fact on our last call, I think we referred it to kind of a V-shaped recovery as we were getting into the second half of the April timeframe. I'd say overall for the quarter, we were quite happy with the performance. Normal seasonality ebbs and flows with the flow of our promotions, but quite happy.

The other thing, just to build on that, Madeline, in terms of promotions, one of the things that we started doing in the quarter that we really plan to continue over the next six months is the promotion strategy that we implemented around some of these up to 50% off discounts. We're really focused on some of our long-dated inventory and we found that it proved to be a really good traffic driver, created a lot of excitement in the Showrooms, and also allowed us to move through some of that long-dated inventory. When you look at the margin impacts of that, it was quite modest because those up to discount offers were really limited to mid-single-digit mix of sales overall so it didn't have a lot of impact in terms of the financials, didn't have a lot of impact in terms of mix of sales, but allowed us to move through that inventory.

So we're coming out of Q2 pretty jazzed about our results, and Q3 is, again, shaping up to look pretty well. Consumer continues to be happy. As John mentioned, we're in a great position from a product perspective. We're in a better position from an in-stock status, and we've been in for many months, really, since I got here 14 months ago. So we're very encouraged about where the business is and where it's headed.

Female Speaker

I'll just add to that quickly too—and John, jump in. When we think about coming into the fall, Maddie, we talked about that 40-year anniversary catalog. We're incredibly excited about that. It's doubling in terms of the households that we're getting that to.

Newness we alluded to as well, just the incredible designs, and also that semi-annual sale. So that will certainly provide strength and demand and people coming in and just engagement.

John, I don't know if you want to add anything about the product and newness we're seeing for the fall.

John Reed

Yes, that's the most exciting part in our business is the new product has just truly been killing it, and we're just getting started with it. We rolled out a lot of newness. The first quarter, we tested it in a fair amount of stores, and now that we've seen what is working, we are rushing to get it to all stores in many cases. And when we launch the September catalog, we think it's by far the best ever. I mean most, the best-looking catalog but absolutely the best lineup of new products we truly have ever had and we think it's going to carry us through the certainly third, fourth quarter into next year, for sure. We'll keep going with that. And yes, it's going to be an exciting second half of the year.

Michael Lee

Some of the leading indicators, Madeline, on newness for the Fall, we're starting to get some early indicators from customers that we're going to blow away newness relative to last year as well. So really excited about the newness that's coming out.

John Reed

Yes.

Madeline Cech

Great. Thank you.

John Reed

Thank you.

Operator

Our next question will come from Peter Keith with Piper Sandler.

Alexia Morgan

Hi, this is Alexia Morgan on for Peter Keith. Thanks for taking our question.

We were wondering if you could elaborate more on assumptions around the sustainability of the Q2 momentum for full-year guidance, just since it seems like the full year demand comp guidance assumes some deceleration in the second half. Thank you.

John Reed

Again, I think our business is going to be strong. We certainly are cautious with external things going on in the world, certainly freight costs and the wars and all kinds of things like that that we can't forget about, so we want to be rather conservative in our thinking.

But we think it's going to be strong. Knock on wood, if everything stays the way it is now, it should be pretty strong, and we're very happy with it.

Michael Lee

Alexia, if I could just offer, and tell you we're forecasting our business, we've always got sensitivities around forecasts, (audio interference) when we get into our merch plans and I can tell you that there is a lot of optimism today within our merge teams on the second half possibilities. And we are protecting against some of the high-side forecasts that we're seeing, just to make sure that if the performance continues at Q2 levels that we're well-positioned to support that business.

So that does nothing in terms of the guidance we're providing, but it gives you a little bit of a peek on internal sentiment on the business.

Madeline Cech

Great, thank you.

John Reed

Thank you.

Operator

We'll hear next from Peter Benedict with Baird.

Peter, your line is open.

Peter Benedict

Sorry about that. I was on mute. Thanks for taking the question, guys.

Question on kind of product margins, down 190 basis points in the quarter. If you could dig in a little bit further on what the drivers were there, maybe bucket those? And then how you think about that over the back half of this year, thinking about 4Q in particular, as you lap the inventory impairment.

And related to all that, the delivery fee increase from June 1, how's that kind of impacting the guidance over the back half of the year? Thank you.

Michael Lee

Thank you, Peter. Good question. I can cover some of the key drivers of margin, but we don't get into quarterly guidance on gross margin, per se.

But I'd say the number one driver on margin is tariff assumptions and we continue to expect $30 million to $40 million of tariff impacts for the year. I think last quarter, we had mentioned that we were coming at the lower end of that range. I think with the latest on tariff announcements, we're coming in closer to that midpoint, slightly above the midpoint on that range. But that $30 million to $40 million range continues to be valid.

On fuel, look, this is a tough one to forecast, but we do expect fuel surcharges to remain elevated into Q3 and Q4, at similar levels of what we expected in Q2, but depending on the news of the day, this could change wildly. But our current forecast is assuming about a $10 million impact for the year, $4 million of that's behind us, and you guys know that that $4 million is really Q2 in nature, because in Q1, fuel prices didn't have a big impact. So expecting about a $5 million to $6 million impact balance a year. But again, that's really subject to change based on oil markets and the Iranian war and all of that.

From a shipping supply chain perspective, I think Tara did a nice job in the Investor Relations Investor Deck, laying some of this out in more detail. But we've got about $10 million of impacts factored in our guide on, I'll call it just shipping/supply chain/manufacturing headwinds. The reality is that from a shipping perspective, even though we are largely hedged on shipping because our containers are under contract, when we go to the spot market for additional containers, we're exposed to the spot market prices and spot market prices have really spiked over the last 60 to 90 days. We're navigating through it. Our logistics teams do an amazing job trying to avoid those spot prices where we can, but the reality is we are out there on spot buys. So that's something we're keeping an eye on, something to be mindful of when you're modeling out the second half.

From a manufacturing perspective, this isn't something that's probably obvious to people outside the company. But when you talk about fuel prices, there are fuel inputs that go into things like foam, and our foam costs have gone up in manufacturing. So that's factored into this as well.

But a lot of this comes down to the Middle East conflict and how sticky some of these input prices will be post the war winding down. We've been admittedly a little bit cautious on some of these cost headwinds. We don't see these as long-term durable costs. These are really driven by some of the shocks that we've experienced over the last three to four months.

From a delivery fee perspective, really happy with the move that we made. We implemented new delivery fees in June. This is the first time we've taken a fee increase, really, in three or four years. There's been almost zero impact. We're not hearing much from customers, if anything. We're not hearing much from our internal selling team. So really happy with the move that we made. That's worth about $5 million to $6 million annually in terms of run rate and we would expect that run rate to start to flow through as a benefit in Q3, not a full Q3 benefit, but most of a run rate benefit, just because of the lag effect.

The other thing that we're building into our margin forecast for balance of the year are the benefits of the TMS, the Transportation Management System. We've talked about the benefits of this extensively. You guys know what we're spending on this and what the benefits are. We're projecting $4 million to $5 million of annualized run rate savings when this thing gets going and we are forecasting to see some of that flow through in Q3 and Q4. So really happy with what we're seeing there.

The other thing to be mindful of is just occupancy costs. We continue to open new showrooms and that does serve as a drag on operating gross margin as those showrooms scale. So in Q3, I think the Q3 versus Q2 occupancy costs are similar in nature, and then it starts to moderate in Q4. So to the extent that you're modeling occupancy, that's something to be mindful of.

Then finally, the tariff refunds that I talked about a few minutes ago in my prepared remarks, there will be additional flow-through of the tariff refunds in Q3 and Q4. We're expecting $5 million to $7 million of flow-through benefit in Q3 and similar amount in Q4. It could be a little spiky. It's hard to forecast what's going to flow through and what items have different tariffs attached to it so there's a little bit of variability there, but I think that would be a good range to take into account.

Those are kind of the key drivers that I would be thinking about.

But back to your point, Peter, we did take an impairment on some inventory in Q4 last year. Our margin, I think in Q4 was just above 38% and I think in Q3, we're around 38.7%.

As we look out in the second half, we do expect to come in north of that in our forecasting, despite all the headwinds and tailwinds I went through. We think we're going to see benefits year-over-year from a margin perspective.

Hopefully that's a good build for you. We can always talk later if you have more questions.

Peter Benedict

That was terrific. Thanks so much.

Michael Lee

All right. Thank you, Peter.

Operator

Our next question will come from Simeon Gutman with Morgan Stanley.

Simeon Gutman

Hi, everyone. Hi, John. Hi, Michael. A couple of questions and one quick clarification.

The higher delivery cost, that $5 million to $6 million, does that flow through the comp?

Then my real question is twofold. First, John, when you talk about the excitement around new product, we look at the showroom expansion. You have a pretty good run right here. I guess when does this business get to, I don't know, maybe mid-single-digit comp on a sustainable basis? It feels like it's getting close, but curious if you can underwrite that for ‘27.

Then the other follow-up—this is more for you, Michael. If we look at the second quarter composition, the SG&A dollars rose a lot. I missed some of prepared if there was some stuff related to tariff in there. But if you take out the gross margin benefit from refunds, it looks like core SG&A would have been well above average, such that the flow-through wasn't so great. So I wanted just to get clarification on second quarter, how noisy it was and things that I'm missing in there. Thank you.

John Reed

Sure. Sure. I could speak about the sales and the products.

Looking forward to the third, fourth quarter and into next year, as I said before, our product is really, really resonating with our clients. And it's really in all categories. We're seeing some really nice increases everywhere. We're about to launch some of our newest product that precious products, largest collections that we've ever done coming up in the September and so forth. So I think the product is definitely on track. We've got an incredible team, incredible supply chain out there that's really working with us, shipping on time and so forth, great quality. And we're learning every day on what's going to be hot and we're moving really fast to get that stuff out to the stores and promote it and so forth.

Really, new trends out there that we just absolutely love, done on who we are. We've never been an ultra-modern company, much more eclectic, warmer, incredible woods and stones and so forth. So we're taking some categories, really, really growing them. Upholstery, of course, is our biggest category and we're launching up some new product that's just amazing. And new collections that fit a new customer as well. We're really going after more of a broad depth of a client that certainly hits our demographics, but taste-wise we're hitting a much broader client than we've ever hit and offering a better selection. Things from taking relics and beautiful antiques and replicating them into today's world to doing some more modern product as well. So we're going both directions.

Pricing, same. Higher pricing, some sharper price point product to hit a younger customer. So we think we're hitting on all cylinders right now, and I'm sure that's going to continue into the fall and into next year.

Michael Lee

Simeon, I'll jump in. Just one build to John's comment, getting to that mid-single digit sustainable comp growth rate, a big part of that's e-comm too. We talked a little bit about our aspirations on e-comm.

If you look at our e-comm performance year to date, we're down 1%, 1.5%, and we think that should be a growth business for us. We made an announcement last month about our desire to really improve the focus on this channel over time, but e-comm plays a critical role there.

Getting back to your other questions, the delivery fee is not in the comp, so just be mindful of that.

Then second quarter SG&A, yes, it was a little elevated. Just be mindful of two things. Number one, with the strategic investments that we're making, our IT costs are elevated as we're going through this investment cycle for the year. So that's one note.

The other note is our selling costs were a little bit elevated, and be mindful that some of our selling costs is driven by written sales. So if you have a big written sales month relative to delivered sales you get a little bit of a deleveraging because of that timing. So that will reverse out a little bit as written sales and delivered converge over time.

SG&A overall for the year will be elevated. We've been really clear on that. We factored that into our guide. As we sit here today, we think SG&A is going to land around 100 basis points higher on a percent of revenue basis than prior year. It's just a good anchoring point. You can triangulate that back and say, “Okay, where are those investments going?” It's really the catalog that John highlighted. We're making a big bet on doubling the Fall circ. We're going to increase the Spring circ, which we pay for this year as well. Those are two very prudent investments that help us get to that mid single-digit comp growth that you're talking about.

We're also investing in the POS pull-forward project as well as the digital transformation, so that's in the SG&A outlook.

So there's definitely an investment cycle going on here, but we look forward to the returns on investment that are going to come from that and allow us to sustainably grow this business and expand margins over time. So it's a very necessary investment that we're making right now.

Simeon Gutman

Thank you.

John Reed

Thank you.

Operator

We'll go next to Seth Sigman from Barclays.

Seth Sigman

Great. Good morning, everyone. Thanks for taking the question.

I wanted to ask about pricing. You've raised prices periodically over the last year. Can you just update us on the strategy from here?

And specifically as it relates to the tariff refunds, it doesn't seem like you're investing in price. It seems more focused on some of the longer-term drivers that you talked about, but can you just speak to that and what you're seeing across the industry as it relates to pricing and how folks are using those tariff refunds?

And then just to follow up on that last point around the investment cycle, is it fair to say that you're including the costs here related to that, that $7 million to $10 million, but not necessarily including the sales benefit since you kept the full year sales unchanged? Thanks so much.

John Reed

Sure, Seth. Yes, pricing, we're not doing anything significantly different than we have been for this Spring and Summer. Obviously there are some headwinds with more delivery costs, container costs and so forth, but we've worked with our vendors who are incredible partners with us and we're going to hold pricing right now. We don't see that we have to raise prices. We certainly don't see we have to lower prices as well. So it's kind of a steady point right now for this year and have no plans to change it.

Michael Lee

I can jump in. I think you guys all know but let me just quickly remind everybody, the reinvestments that we're making along with the tariff refund.

So just overall tariff refunds were the $38 million, recognizing $24 million in Q2 and forecasting $5 million to $7 million of additional benefit in Q3 and Q4, respectively. We're going to reinvest about $5 million back into marketing really to accelerate growth further. We're really believers in the catalogs and believe we've got better catalogs than we've ever had, so we're going to double the circulation for the Fall and we're going to increase the circulation in the Spring. Those two investments around $5 million, both of which will hit our P&L this year.

On the technology side, $4 to $6 million of incremental spend relative to what we talked about at the beginning of the year in terms of digital transformation, and it's really driven by the decision to pull forward our new POS system, which was always in our long-term technology roadmap, but was previously planned to follow the ERP, OMS, TMS wave of investments. But in light of the tariff refunds and also in light of the fact that we've learned that by pulling this forward, we can actually wean ourselves off of legacy systems faster and also de-risk the deployment of these technologies, we felt it was a very prudent decision and that is now underway. So that POS pull-forward is going to be $2 million to $3 million of P&L this year. And from a cash perspective, that POS is now overlaid into the Investor Deck that you guys can see for our digital transformation. It's about $20 million over five years with $2 million to $3 million this year. And again, this is a major, major capability win for Arhaus. It will absolutely change the game for the 1,100 sales folks that we have across the organization.

We are also deploying $2 million to $3 million to IT for additional resources to attack our backlog of initiatives. IT is moving really fast right now to really modernize all of our capabilities and in some ways they're ahead of schedule on certain thing. They’re looking for more funding to go after the backlog of projects, so we think that's a prudent use of tariff reimbursements.

And then we talked about some of these cost headwinds, between fuel surcharges and shipping sourcing costs and labor and the rest to (audio interference). So hopefully that makes sense.

In terms of your other question around, does the G&A reflect these investments, it absolutely does. There is a burn rate on these investments that do go to CapEx, that are OpEx in nature. They cannot be capitalized. So that is in our P&L. There is no revenue attached to it because these are all in-flight projects that have not gone live yet.

We are definitely in an investment cycle. We're being very prudent about the projects that we take on. We're being very prudent about making sure we stay on track, on scope, on budget. As we sit here today, we're on schedule for a Q1 go-live of this technology. So it's a really exciting time for Arhaus and we'll continue to provide updates on a quarterly basis.

Seth Sigman

Great. Thank you, guys. All right.

John Reed

Thank you.

Michael Lee

Thank you.

Operator

This now concludes our question-and-answer session. I would like to turn the floor back over to Tara Atwood-Saja for closing comments.

Tara Atwood-Saja

Thank you everyone for joining us.

John Reed

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

Tara Atwood-Saja

Bye.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. You may disconnect your lines and have a wonderful day.