



Arhaus, Inc.

Third Quarter 2025 Earnings Call

6 November 2025

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

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

Operator

Good morning and welcome to the Arhaus Third Quarter 2025 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 Third Quarter 2025 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. After our prepared remarks, we will open the line up for a Q&A session. Jennifer Porter, our Chief Marketing and eCommerce Officer will join us for the Q&A portion of the call. During Q&A, please limit yourself to one question and one follow-up.

We issued our earnings press release and 10-Q for the quarter ended September 30, 2025, 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, 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 defer to certain non-GAAP financial measures, and this morning's press release includes the relevant non-GAAP reconciliations.

Now, I will turn the call over to John.

John Reed

Thanks, Tara. Good morning everyone and thank you for joining us. We appreciate your continued interest in and support of Arhaus.

I am very pleased to report another strong quarter, reflecting the strength of our brand, the appeal of our product offering, and the disciplined execution of our long-term strategy.

Net revenue for the quarter was \$345 million, up 8% year-over-year and near the high end of our guidance range, marking the highest third-quarter net revenue in our company's history. This performance was driven by growth in our Showroom footprints and increased demand for our products.

Comparable growth of 4.1%, reflects healthy underlying client demand and strong operational execution across our distribution network. I'm also very pleased to share that demand comparable growth was 7.4% for the quarter, highlighting the strength of our brand and the continued momentum of our high-end clients.

I'll share a few highlights on demand, including the success of our Fall Collection in a moment, and then Mike will walk you through the details driving quarterly and year-to-date demand performance.

Turning to product, our Fall 2025 Collection represents our strongest launch in company history, resonating deeply with clients across our catalog, website, and Showrooms, and reinforcing our design leadership and highly differentiated, artisan-crafted product.

The collection embodies the essence of Arhaus: warm, inviting, and timeless, blending modern and traditional silhouettes with natural materials and artisan craftsmanship. From warm woods and stone, to tailored upholstery and refined finishes, each piece is designed to feel layered and personal, reflecting our belief that home is a feeling.

Our Fall Product Collection translated directly into record performance supported by newness, upholstery, customization and our in-home design program – core differentiators that create a powerful growth engine driving demand. September marked the highest total demand month in Arhaus' history.

Let me highlight a few additional key performance wins this quarter.

New product introductions achieved the highest level of total demand for September in our history, underscoring the strength of our design leadership and product innovation.

Upholstery also delivered exceptional performance in September. Upholstery has always been at the heart of Arhaus. It's where our story began and remains one of our most powerful differentiators. With nearly 70% of our upholstery sourced domestically as of the third quarter, and the largest portion produced in our own North Carolina facility, our vertically integrated model continues to be a competitive advantage. It allows us to control design, quality, and lead times, while reducing exposure to tariffs and global supply chain volatility. We're proud of our North Carolina artisans, whose craftsmanship, detail, and use of the finest materials has set our upholstery apart.

Customization also remains a key driver of our success, with clients able to personalize pieces across more than 600 fabrics and over 90 leathers – one of the broadest offerings in the industry. Custom orders performed particularly well, achieving the highest September total demand in company history, supported by strong reception to newly introduced upholstery collections that represented a meaningful portion of this growth. The fall upholstery assortment struck the perfect balance of newness and timeless design, resonating deeply with our clients and reinforcing the strength of our upholstery business.

Lastly, our in-home designer program continues to be one of our most powerful differentiators and drivers of demand. September marked record performance for our in-home design team, achieving the highest total demand in company history. Each designer creates a personalized experience tailored to every client's project, priorities, and style. Clients who work with our interior designers generate order values roughly four times higher than those without, a testament to the program's impact on engagement, conversion, and loyalty.

Together, these initiatives create a powerful flywheel: our storytelling through our catalogs and product imagery drives discovery; our newness and customization deepen engagement; and our design services and Showroom experiences convert inspiration into long-term client relationships. Each element strengthens the next, creating a self-reinforcing engine of growth and demand.

Looking ahead to 2026, I am incredibly excited about what's next. Our upcoming collections feature some of the most innovative designs in our history – pieces that will further distinguish Arhaus in creativity, craftsmanship, and design leadership. The enthusiasm across our teams is incredible, and I'm confident our clients will share that excitement when these products debut. I want to recognize the extraordinary work of teams across Arhaus, whose creativity and dedication continue to elevate the Arhaus brand and strengthen our connection with clients.

Moving to Showrooms, with roughly 90% of clients across retail and eCommerce, living within 50 miles of an Arhaus showroom, it is important we have physical presence to drive brand awareness and engaged client relationships.

I am thrilled to share that in October we opened our largest traditional Showroom to date in Pasadena, California, spanning nearly 40,000 square feet within the historic Penn Oil Building. This is a century-old building that we thoughtfully restored in order to honor its architectural heritage. The result is a stunning Showroom that's been warmly received by the local community. The Showroom features our full product assortment, extensive custom upholstery offerings, and our best-in-class design team.

This month, we'll be opening our first Montana Showroom in Bozeman.. Located in a lifestyle-rich setting surrounded by mountain views, Bozeman embodies a remarkable sense of place where design and the outdoors are wholly intertwined.

Turning to sustainability, our commitment in this area has been at the heart of Arhaus since I founded the Company nearly 40 years ago. Our philosophy is simple: furniture should be responsibly sourced, lovingly made, and built to last for generations.

Sustainability extends beyond the products we create to the people, the artisans, and the vendors who bring them to life. We collaborate with skilled artisans around the world who share our values, using sustainably harvested and reclaimed materials, and time-honored techniques that preserve natural resources and celebrate craftsmanship.

Before I close, I want to briefly address the broader macro backdrop. While conditions remain uncertain, we remain confident in our outlook and we are focused on what we can control. Looking ahead, several themes continue to reinforce our confidence and clearly differentiate Arhaus within the industry.

First, our people and culture. Our success is built on the dedication and passion of our teams. Every team member of Arhaus plays a critical role in delivering our exceptional product and experiences. Our people are our greatest asset and the driving force behind our growth and success.

Second, our artisans and vendors. Our unique sourcing model and long-standing relationships with artisans and vendors around the world is a strategic advantage and sets us apart. These trusted relationships built on collaboration, shared values, and exceptional craftsmanship, allow us to adapt to global dynamics while maintaining the high-quality standards that defines our brand. Our strategy is not to compromise on quality at this time as prices have gone up.

Third, our growth strategy. We remain focused on disciplined, profitability growth. Even in a dynamic environment, we continue to lean into innovation, expanding our footprint, launching inspiring new products, and investing in scalable systems and leadership to fuel our next phase of our growth.

Fourth, our operational strength and agility. We continue to operate from a position of strength, supported by our disciplined execution, and our end-to-end control from product development through distribution enables us to adapt quickly to shifting markets dynamics and client demand. And through continued strategic investments, we are enhancing efficiencies, improving service levels, and strengthening our foundation for the future growth.

And fifth, our resilient high-end client base. While the macro environment remains uneven, our high-end client continues to demonstrate engagement and loyalty. We're seeing strength in our in-home design services and trade channels, reflecting the enduring appeal of our brand and strength of our clients.

In short, despite the noise, we're navigating the current environment from a position of strength – debt-free, with ample liquidity. We're confident in our path forward. With a powerful brand, a proven model, and a talented team, Arhaus is well-positioned to continue delivering growth and long-term value to our clients, employees, and shareholders.

With that, I'll turn the call over to Mike Lee, our Chief Financial Officer, to walk you through our financial results. Mike, over to you.

Michael Lee

Thanks, John, and good morning everyone. Today, I will cover both our third-quarter financial performance as well as our latest outlook for the remainder of the year before turning it over to Q&A.

This quarter, we focused on what sets Arhaus apart: bringing exceptional products to market, deepening client relationships, and executing with discipline.

Our team's efforts drove record third quarter net revenue of \$345 million, up 8% year-over-year and near the high end of our guidance range, supported by Showroom expansion and strong demand from our high-end clients.

Comparable growth was 4.1%, reflecting healthy underlying client demand and strong operational execution across our distribution network. Our Dallas DC, which we successfully brought in-house last quarter, continues to ramp effectively and drive meaningful improvements in delivery performance. Our continued investments in our distribution network and technology infrastructure are translating into stronger efficiency and are strengthening the overall client experience.

Demand comparable growth, which measures written orders, was up 7.4% in the quarter, reflecting the strength of our high-end client base and the ongoing appeal of our product offering. I'm incredibly proud of our teams for their creativity and execution, which fueled the strength of demand this quarter. I'm also pleased to share that year to date through the third quarter, Demand comparable growth stands at plus 2.8%.

While demand remained strong in the quarter and year-to-date, as we've discussed previously, near-term demand can fluctuate with macro and geopolitical conditions, as well as our own promotional calendar. Monthly demand volatility is not uncommon for our business. When we do experience short-term softness, demand is typically deferred rather than lost, and this quarter was a clear example of that dynamic.

Following temporary softness in the second quarter, we saw a strong rebound in the third quarter, followed by moderation in October. July demand comps increased 15.7%, reflecting strong early-quarter momentum; August was up 3.3%; and September was up 5.2%, supported by the successful launch of our Fall Collection with newness driving impressive engagement

September marked the highest total demand month ever with particularly strong performance at the end of the month, including the second-highest demand day we've ever recorded, and we believe this strength resulted in some pull-forward of demand into September.

As expected, we saw moderation in October with demand comparable growth down 14.8%. This was largely driven by timing effects, including the shift in our promotional calendar. Last year, our semiannual sale ended in early October, while this year it concluded at September month-end. Monthly fluctuations tied to promotional cadence are typical for our business, and importantly, we continue to see healthy engagement from our high-end client base.

In the third quarter, gross profit was \$133.4 million, up 8.4% versus last year, primarily driven by record net revenue. Gross margin was 38.7%, up 10 basis points from the prior year, reflecting product margin gains and improved operational efficiencies, partially offset by higher Showroom occupancy costs tied to Showroom expansion.

Selling, general and administrative expenses grew 4.1% to \$117 million. This was primarily driven by an increase in selling expenses related to new Showrooms and it was partially offset by a decrease in G&A

costs, due to lower corporate expenses. As a result, SG&A load decreased 120 basis points to 34% of net revenue, reflecting strong cost leverage.

Net income was \$12.2 million, which grew 23.1% versus last year, representing approximately 2.9x earnings leverage on 8% net revenue growth. This performance reflects strong top line results, modest gross margin expansion, and disciplined expense management.

Adjusted EBITDA was \$31.2 million, up 35.2% versus last year, representing approximately 4.4x leverage on 8% net revenue growth.

Adjusted EBITDA margin expanded 180 basis points versus last year to 9.1%, driven by continued operational efficiency and strong flow-through on higher sales.

Turning to our balance sheet, we ended the quarter with \$262 million in cash and cash equivalents and remain debt-free. This level of leverage, delivered without any financial debt, underscores the scalability of our operating model and the earnings power we have as we grow.

Additionally, we had net merchandise inventory of \$329 million, a 10.7% increase from December 31, 2024 to September 30, 2025, reflecting investments in best sellers and new product introductions.

Now let's turn to our operational performance, beginning with sourcing and tariffs.

This has been an unprecedented year for tariff policy, and our diversified sourcing strategy with meaningful domestic exposure continues to serve us well. Our global sourcing footprint spans North America, Europe, and Southeast Asia, and is anchored by long-standing relationships with artisans and vendors, some spanning three to four decades. These strong relationships provide the flexibility and resilience needed as trade policies evolve.

Many of these relationships started here in the U.S. where approximately 30% of our total receipts and nearly 70% of our upholstery was sourced in the third quarter. I recently traveled to Southeast Asia with our Product Development team to meet with several of our artisans and vendors in person as we continue to deepen relationships and remain close to our sourcing network on the ground.

During the third quarter, we saw renewed headlines surrounding the Section 232 investigation into imported furniture. While the direction remains fluid, we've successfully navigated tariff uncertainty before, and our three-point playbook remains clear and effective. First, we protect margins through vendor negotiations, sourcing diversification, and operational efficiencies, passing through costs where appropriate. Second, we continue to maintain deep, long-standing relationships with our global network of vendors and artisans, relationships built on mutual trust and shared values that form the foundation of our resilient, flexible sourcing model. And third, we remain nimble, adjusting quickly as policies evolve and conditions change.

Moving to pricing, since early 2024, we've been testing pricing and promotional levers to deepen our understanding of price elasticity with our high-end client base. What we have found is that when targeted pricing is paired with high quality product and strong value storytelling, demand remains resilient. Even when demand softens, it's typically deferred rather than lost.

This fall, we carefully implemented measured price increases as part of our tariff mitigation strategy, applied surgically across select SKUs rather than broadly, and these targeted adjustments are designed to offset the incremental tariff costs and support margin performance. We remain confident that our high-end clients will continue to recognize the compelling price-to-value proposition of our product assortment and the enduring value of the Arhaus brand. We will continue to assess pricing over the coming months and quarters, and will respond quickly and thoughtfully as conditions evolve, always with the goal of protecting margins and providing value.

Turning to tariff impact, our updated 2025 outlook reflects the estimated impact of incremental tariffs resulting from policy changes announced in the third quarter, which we currently expect to be approximately \$12 million net of mitigation.

Looking ahead to 2026, we expect the tariff impact to be in the range of \$50 million to \$60 million. These estimates reflect third-quarter tariff policy updates, along with benefits from vendor negotiations, sourcing shifts, and operational efficiencies.

In short, Arhaus is well positioned to manage through a dynamic trade environment, supported by our diversified sourcing footprint, strong vendor relationships, and disciplined execution. We remain focused on utilizing all available tools to protect our margins, while continuing to deliver exceptional service and products to our clients.

Let's now turn to our Showroom expansion plans.

Arhaus continues to scale with intention, and showroom growth remains a foundational pillar to our long-term strategy. As John mentioned, in October, we were proud to open our largest traditional showroom to date in Pasadena, California. This new location expands our Southern California presence and marks Arhaus' 15th Showroom in the state and fifth in the greater Los Angeles area. We're also opening our first Montana Showroom in Bozeman this month. We remain on track to complete approximately 12 to 15 total Showroom projects in 2025, consisting of 4 to 6 new openings and 8 to 9 relocations, renovations, or expansions.

In addition to expanding our Showroom footprint, we are making strategic investments to ensure that we scale efficiently, maximizing flow-through. These investments are focused on two key areas: our distribution network and technology infrastructure.

First, on distribution, in recent years, we've opened and expanded major facilities in North Carolina, Ohio, and Texas, including last quarter bringing Dallas operations in-house. We continue to evaluate opportunities to further optimize our network.

Second, on technology, over the past two years we've implemented a new Warehouse Management System across all three distribution centers, along with additional technology enhancements across both our retail and eCommerce channels, and these investments are improving the client experience, strengthening our internal controls, and driving productivity gains.

Our next phase of investment will be focused on replacing our core operating systems for Finance and Operations. We believe these investments will result in an integrated, fit-for-purpose platform for growth that optimizes our workflows, improves our nimbleness, and accelerates our speed to market, enabling us to further elevate our customers' experience through their Arhaus journey. This is the beginning of a digital transformation that will modernize how we work.

I'm happy to share that we have made tremendous progress since our last update in August, and as of this week, our digital transformation is underway. We have assembled a team of high performers from across the Company who will be led by members of our executive team. Our software selections are made, our consulting partners are engaged, and we have officially begun what we expect to be an 18-month long project.

The total incremental program investment is approximately \$30 million including implementation and staffing costs, as well as licensing fees through 2030. This is well below our initial internal estimates and reflects a tighter scope and faster timeline. We expect approximately \$2 million of spend in 2025, weighted to the fourth quarter and already reflected within the \$10 million of strategic investments previously communicated for 2025. We anticipate an additional \$12 million of spend in 2026 and \$10 million of spend in 2027, with cash outflows tapering in early 2028 as we transition to a steady-state run-rate of roughly \$2 million of spend annually through 2030 for ongoing licensing and maintenance costs.

To be clear, this represents a cash investment, not a P&L expense. A large portion of this investment will be capitalized and expensed to the P&L once the systems are ready for go-live, and these payments are being funded through existing operating cash flows.

Because these programs have inherent execution risks, we are designing this program in accordance with proven best practices as follows. We have established a dedicated project team comprised of high performers from across the organization. We have a two-in-the-box approach where business and IT resources are partnered across every major workstream as global process owners and global technology owners. We have a dedicated Change Management Team starting on Day 0 to help ensure full organizational buy-in. We have a clear scope with a commitment to adopting best-practice design and configuration, to the extent possible, to avoid pitfalls of customization. And we have a clear, compelling benefits case with a focus on speed-to-value, and we have executive support all the way to the boardroom.

We believe the potential ROI is compelling as we expect to see 50 basis points of SG&A improvement by 2030 along with additional benefits in transportation and logistics, driven by the capabilities associated with the order management and transportation management systems included in this program. We will keep you updated on these initiatives as the work continues.

Turning to our outlook, we are updating our full-year 2025 outlook, having raised the low end of our prior ranges while maintaining the high end. This reflects the momentum we saw during the third quarter, while maintaining a measured stance on the upper end given continued macro uncertainty. This approach demonstrates both confidence in our execution and discipline in our outlook as we navigate a dynamic environment.

For the full year, we now expect net revenue between \$1.35 billion and \$1.38 billion for a year-over-year growth rate of plus 6.2% to plus 8.6%; comparable growth of flat to plus 2.5%; net income of \$58 million to \$68 million; and Adjusted EBITDA of \$135 million to \$145 million.

For the fourth quarter of 2025, we expect net revenue between \$336 million and \$366 million for a year-over-year growth rate of down 3.3% to plus 5.4%; comparable growth of down 7% to plus 1%; net income of \$6 million to \$16 million; and Adjusted EBITDA of \$25 million to \$35 million.

In closing, we delivered another strong quarter, reflecting the strength of our brand, the resilience of our high-end clients, and the disciplined execution of our long-term strategy. While the macro environment remains dynamic, we enter the final quarter of the year from a position of strength, with a debt-free balance sheet, strong liquidity, and a proven ability to execute through varying market conditions.

Thank you to our teams across the Company for their creativity, passion, and execution, and to our shareholders for their continued confidence in Arhaus.

With that, I'll turn it over to the operator for questions.

Operator

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

Our first question comes from the line of Stephen Forbes with Guggenheim Securities. Please go ahead.

Julio Marquez

Good morning. Thanks for taking our question. This is Julio on for Steve.

Just given the recent launch of the bath collection, I'm curious if you could comment on the initial feedback and engagement from your customers and update us on how the bath collection experience has informed the product expansions into 2026. And then a quick follow-up.

John Reed

Yes. Yes, I'd be glad to answer that. Yes, we launched the bath, what, three months ago? And yes, we're very excited about it. It's doing what we think it's going to do, and we're learning a ton of new ideas that we think are really going to be able to grow it. Already working on the next wave of new products and so forth.

We think it's going to be a good staple part of our business, and it's going to continue to grow and be more and more important.

Julio Marquez

Great. Thank you. Then as a follow-up, just given the recent expansion states, like California and just the size of this Pasadena opening, can you comment on if and how the average store model is evolving as we think through the 2026 class of stores? What will be the average cost? And then, like, the productivity ramp, maybe any cannibalization or productivity that you might see from densifying. Thank you.

John Reed

Yes, I think Mike can answer some of that, if possible. But as far as the evolution of our stores we continue to evolve our stores. We reinvent our stores. Our design team is incredibly creative at coming out with new ways to enhance our stores, to enlighten our consumers.

Pasadena is a perfect example. You walk in there, it is truly magical. It is a place that you walk in and say, "Geez, this is how I want my home to look." And we've done a lot of new things, creative things, to remerchandise things and so forth. New furnishings, new flooring, new ceilings, different objects that we're putting in the stores to really enhance the shopping experience. And then we'll continue that. But Pasadena has just blew us away and it's blowing the customers away.

Mike, do you have?

Michael Lee

Yes, just as a reminder, we've talked about the benefits that come with new Showrooms. Ninety percent of our clients can come from locations that are within 50 miles of a Showroom. We get not just in-store benefits, but also eComm benefits from that as well.

Then, Steve, just as a reminder, when we think about the ramp up of the stores, every store's got a little bit of a different ramp lifecycle but we don't bring them into the comp for 13 months for good reason, really just driven by the fact that these things take time to build.

We are building our presence in Los Angeles. We're building our presence in California. The West Coast will continue to be a priority.

As we continue to learn more and more about our business, one of the things that we think is a critical success factor, not just in existing locations, but also in new locations, is really ramping that trade business as quickly as possible as we enter new locations because that's really a source of fuel to really build awareness and overall customer loyalty.

We'll leave it with that for now.

Julio Marquez

Excellent. Thank you.

John Reed

Thanks, Steve.

Michael Lee

Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Carter with Stifel. Please go ahead.

Andrew Carter

Thank you. Good morning. I wanted to dig in on that October number, the down 14.8. I know you had a promotional shift. Correct me if wrong; you did put some tactical prices in there. So, I guess I wanted to ask, as you've teased it out, do you have a good feel of what the underlying comparable demand number is? The simple average between September and October is minus 4.8. Do you think it's better? Worse than that? Just something to think about as an exit rate we have out of October going into the final two months of the year.

Michael Lee

Yes. Yes. Thanks, Andrew. Good morning.

Maybe I'll jump in on just the macro side of that question and then I'll invite Jen to come in on more of the customer side.

But look, just taking a step back, we are very proud of the performance through Q3.

Our total demand comp is up 2.8% and we are hitting records along the way. Our Q2 net revenue was the biggest quarter we've ever had at 15.9% growth. Our Q3 net revenue was the highest Q3 we've ever had with growth of 8%. Our Q3 demand comp was up 7.4%. Our total demand, including new Showrooms, was at 10.9%.

When you drill into September, September was also record demand with a demand comp of plus 5.2%, really driven by many elements of our strategy. We had record levels of newness in September. We had our second largest upholstery month ever, up 15%. We had strong interest in our newness elements of our upholstery as well and we hit a customization record during the month. And then our designer business, which I mentioned a few minutes ago, continues to grow share of overall sales. So we're very, very encouraged by the momentum that we've seen.

In Q4, looking forward, to your point, we did expect October to be a little bit soft. We made intentional changes to the promotional calendar in October, which we talked about during my remarks. We did have some pull forward into September, just in recognition of the success that we had during the storewide sale.

Again as you think about this, all of these purchases, or at least most of these purchases, are well-thought-out purchases. Much of our business does not come from a customer walking into the store for their first visit and making big purchases. They're working with designers. These are thoughtful, laid-out purchases,

and they knew Storewide Sale was coming and they're making these thoughtful, well-timed decisions to take advantage of the value.

When I think about the Q4 guide, it does reflect our confidence in the momentum that we talked about during my prepared remarks, but it also reflects some of the cautiousness related to the macro backdrop.

There still remains uncertainty in the marketplace when you think about what's going on with consumer sentiment and things like that. But when you get to the fundamentals of our business, as we look ahead into Q4, we're very encouraged by the current levels of client engagement as we head into the holidays, and that's supported by a very strong core product offering. It's supported by newness that is setting records, as I spoke about. Our design services continue to be of high interest to our clients, and all of these elements of our strategy are working together in unison. So we're very, very confident about the go-forward.

I will say, when we look at last year performance quarter-by-quarter, we're cognizant of the fact that Q4 is our biggest overlap. I think our demand comp was up 5.7% in Q4, so that's a little bit of a hill for us to climb. But that's reflected in our current guide as well.

So with that, Jen, anything you want to add?

Jen Porter

Yes. Hi, Andrew. I think Mike really pretty much covered it there.

The one thing that I would add is specifically to your question about price we took in October, you know, as we look at our business, we're not seeing correlation between sales impact and the select SKUs where we took price going into October. So, we don't see that being the primary driving factor.

As Mike mentioned, we were expecting the softer October. We really see it predominantly being the pull-forward into September and that shift in promotional calendar.

I think as we look at our consumer as well, we are not seeing any shift in demo of our consumers as we go throughout the year. We didn't see any shift as we went from Q3 into October. But what we have talked about, which Mike touched on, is that our client this year is being very considered. As they always have been with Arhaus, they're drawn to the product. They're drawn to the quality. They're drawn to the product and the aesthetic that they like. We're seeing higher engagement in those interior designer orders, which are those larger projects that take a little bit more time. We're seeing strong engagement with that custom upholstery, which is a more considered purchase as well. And we continue to be really pleased with how people are engaging with the product, with the marketing, with our teams and are really enthused going into the next few months here.

I'd also call out we're in November, so we have Black Friday coming up. You're already starting to see those promos coming.

So as we're just looking at that choppiness and engagement and the pull-forward versus what's happening there, we'll be looking forward to November and December.

Andrew Carter

Thanks for that. Second question I wanted to ask, you gave a \$50 million to \$60 million annualized tariff number. I want to make sure, number one, that's an annualized number. Therefore, the 12 you're eating this year is in that base, net of mitigation. And just to be clear, that number is a currently net of mitigation number, ie., you have additional arrows in your quiver to mitigate that through pricing or whatever, or is this something you would consider as a potential profit hit? Probably not all of it, but just anything, any comments on that would be helpful. Thank you.

Michael Lee

Yes, I can jump in. And then, John, you could obviously jump in as well if you have anything to add here.

I would just go back to some of the remarks we made a few minutes ago around the three-point plan. We are laser-focused on protecting our margins. And as we work with all of our suppliers, we're looking at things like sourcing, productivity savings, every quiver, as you said, in the bag because this is a challenging, challenging dynamic that we're working through.

I think one thing that has served as a tremendous advantage is John's relationship and engagement throughout this process. John is directly engaged with all of our top suppliers. In fact, we just had one that you've known for 30 years here in the building this week where we were talking about more productivity opportunities in the business. But we have made it clear, John has made it clear that as we navigate through this, we are not sacrificing quality and/or design at all. It's a non-starter.

We're really focused on finding ways to navigate through productivity, sourcing changes, and quite honestly, asking more of our suppliers in some cases as they are benefiting from, I'll call it the economies of scale of Arhaus growth. As we grow, their fixed costs get spread over more and more products and we're asking to participate in some of that.

So, as you think through this we talk about this being continuous negotiations. I would call it continuous collaboration as we're working with all of our suppliers. These relationships remain strong even through this very challenging dynamic. And I would say we're very, very happy about the insulation that we get from our U.S. sourcing. Particularly as upholstery continues to set new records, our U.S. sourcing provides a little bit of a buffer against the impacts of these tariffs.

A couple of things I would highlight, Andrew, just to make it clear. Last quarter, we did provide a range of tariff impacts for FY26, \$40 million to \$45 million. Our new estimate is \$50 million to \$60 million, and that is an annualized number. And that is net of any purchase cost savings or operations savings, but that is not net of pricing actions. So, we will be taking pricing actions, as I mentioned, to protect our margins.

But the big bridge between the old number and the new number is I think shortly after our Q2 earnings call, Mr. Trump announced tariff changes in a few countries, including India, which was about a \$5 million impact to that range. Indonesia was about \$4 million. Then on the back of the 232 investigation, Mexico was about a \$3 million impact.

I know the range is a little bit wider because we do have a very active sourcing team that's continuing to work with our suppliers on finding ways to mitigate. And we're not done. This is going to be one of our top priorities, if not the top priority from an operations perspective over the next year, to figure out how to continue to bring this down over time.

The other thing I wanted to highlight, because we've talked about it in the past is I think at some point we shared a goal of getting to 5% of our sourcing coming from China. And as you guys know, China continues to evolve as Mr. Trump was there a couple of weeks ago. We are currently reevaluating our sourcing based on this new information. The reality is that even though their tariffs still remain high, the gap between China and some of the other locations is narrowed. And as I think John has mentioned in the past, the Chinese are pretty productive when it comes to manufacturing. So, even though their tariffs might be a little bit higher than some other countries, we look at it on a total delivered cost basis and with this recent change it tips the scale on a couple of our items.

This is a very fluid situation and we would not recommend anchoring on this 5% goal for the end of the year at this time. I would anchor on this \$50 million to \$60 million range of impact and that's really what we're managing against and quite honestly trying to reduce as we go forward.

Anything you would add?

John Reed

Yes, I just want to add that the new product that we launched this fall and an incredible amount of new product we're going to be launching in the next year is really priced with tariffs in it and everything else. So, it's not this game of let's take this and raise pricing or not raise pricing and so forth. And it's been amazing. Our partners around the world have worked so well with us at hitting sharper price points without compromising any kind of quality. I'm excited about that because as we get this new product in, it's going to be at a fantastic price. We think we blow the competition away with our models, with our pricing and that's just going to kind of just keep going.

We're hitting on some really, really hot products that we know are just at the tip of the iceberg because a lot of them we're just testing in say a select number of stores or so forth. So, when we roll it out and roll a collection out, a new collection, it's going to be a huge hit. And they're going to be at a price that has already got the tariffs and everything else factored into it.

The other thing I've really been pushing our team to do is continue to grow our domestic upholstery business, which has no tariffs. I think it's 70% of the business now in our upholstery business and I'm pushing to grow that for next year coming up because we can.

Again, with the tariffs and so forth, we can have some of this product made in the States. We're doing some incredibly creative, innovative things that we don't think anybody else is doing to offer new frames that typically couldn't be made in the United States that are now going to be made here, and that's going to be exciting.

Going forward the future is incredibly exciting and that's what I'm focusing on is to bring out all this new product and these new trends that are just happening like crazy right now that—well, the tariffs are what they are, and we'll live with them and move forward.

Michael Lee

I would offer just one final comment. With the growth that we're seeing in upholstery, our manufacturing teams are continuing to hit new levels of productivity as well, so just a shout out to that team because we're doing a really good job of driving productivity across our entire manufacturing.

Then the other element here, Andrew, that's important to highlight is that when we zoom out of the year and kind of look at how we've managed through just a massive amount of transition, we've executed really well. Our buying teams, our merch teams, our sourcing teams, our planning teams, it has been continuous rework throughout the year. I know that John is not happy with how we performed in a couple of categories in terms of just inventory levels, but even with that, the disruption has been minimal from a commercial perspective.

I think it just goes to the strength of the Arhaus team and how we've been able to remain nimble during a very challenging backdrop.

Andrew Carter

Thanks. I'll pass it on.

Operator

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

Jeremy Hamblin

Thanks and congrats on a strong quarter.

John Reed

Thank you.

Jeremy Hamblin

I wanted to get into, you reduced your CapEx guide by quite a bit, I think \$90 million to \$70 million at the midpoint. Just wanted to get an understanding of that. Obviously various projects that are going on with systems and so forth, but you didn't have really any meaningful change here in the Showroom plans. Just wanted to understand the dynamic that's going on with your CapEx expectations, both for this year and then as we kind of look forward, kind of a range of where we should be thinking.

Michael Lee

Thanks, Jeremy. Look, I'd start with the fact that in our original guide we had our technology initiatives kicking off sooner in the year and with some of the management changes that occurred earlier in the year, some of that was put on hold until we had some of the new members of the management team put in place. That was a big part of the change in the CapEx guide.

The other thing is on new Showrooms. Showroom projects, as you know, are ultimately a function of the timing of the buildouts. Earlier in the year, we had a little bit of a different plan in terms of the timing and as certain projects have moved more toward the end of the year, that's impacted some of the spend as well. But what I would highlight is our Showroom pipeline, our guidance of five to new Showrooms annually still remains our target. And we're on pace to finish a record number of Showroom projects this year at between 12 and 15. I know we sit here in the middle of November and say, "Okay, you've still got a big range there," but it just goes to show you how tight some of this is in terms of the calendar.

But our long-term plan is really anchored in the five to seven new Showrooms a year. Some years are going to be higher than that. Some years are going to be lower. We're coming off of a really busy year. And next year we'll be, I think, right in that long-term range that we provided. We've got a couple of things, again, moving around where some things might spill over from a December of one fiscal to the January of the other, but our overall capital allocation strategy hasn't changed. Building out the Showroom pipeline continues to be our number one focus in terms of capital investment.

Jeremy Hamblin

Great. Then just a separate question here, coming back to pricing and how you're thinking about it, really within the industry. We've seen that some peers are getting a bit more promotional, maybe have not had as good a demand. Overall, industry still relatively sluggish, but wanted to see if you could provide some commentary on what you're seeing from some peers who are also—some of them have responded a bit more with setting initial pricing a bit higher related to the tariffs, we think. But wanted to get your assessment of what you're seeing in the industry.

Jen Porter

Yes, it's a great question. I think it continues to be what we're honestly asked every call and what we're very focused on and trying to understand as well.

We pay very close attention to what other people are doing in the industry. And like you mentioned, it's sort of you're seeing a lot. You're continuing to see elevated promotions. I think you could argue that we're seeing those get even more elevated recently. Starting to see Black Friday promotions launching in October by some brands and getting earlier and earlier in November, just as one example.

I think what we've always said is that while we pay very close attention to what everybody else is doing, we are really focused on what we are doing and how our clients are responding and what's working for our business. So our approach to promotional strategy really hasn't changed. Earlier on the call, Mike mentioned that we have for the last 18 months really been testing and learning about our pricing and promotional strategy; that has been continued.

You've been seeing we continue to really like our Buy More, Save More volume discounts and have spoken to those engaging clients and being really pleased with our higher average order value purchases.

We have spoken about how we are continuously evaluating how we message our promotions and the specifics of timings of those details, and we plan to continue to do that.

But I think it's really just a continuation of we need to pay very close attention. We're constantly getting feedback, not only within our data, but also speaking to our store teams and having direct conversation with our clients as well to see how people are actually responding. We were just on a call last week with some of our top interior designers hearing about how clients are engaging with them in the stores through Q3 and into October and we learn a lot from that. And we really base our strategy and approach on those elements.

I think the other thing that I would just really echo is with all of the noise and everything going on, promotional and pricing strategy is obviously a very big topic and a focus for everyone, but it's really only two of the levers that we have of our business. And I want to echo John's comments from earlier as to how excited we are with the reception of our new product from fall, with our marketing from fall. We spoke about how excited we are about our new Showrooms. I think even if you visited our existing Showrooms recently, the product and the visual expression on the floors is just absolutely amazing. I think you can see just with all of the product and the mix on the floor, as we speak to things like the increase of special order purchases, for example, clients are excited. There are new trends and we are showing them and representing them.

So we're focused on trying to build out what is our continued approach to promotions and pricing for the next few months and into next year, but we are even more focused and excited on the new product that is coming in just a couple of months here in spring, the continued response and reaction to marketing campaigns as they go out into the market, and the constant feedback from our design teams and design consultants in stores as to how clients are responding and what they're telling us that they want more of.

Jeremy Hamblin

Thanks so much for the color. Best wishes.

Jen Porter

Thank you, Jeremy.

Operator

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

Maddie Chekhon

Hi. This is Maddie Chekhon for Robbie Ohmes. Thank you for taking our questions. Just first, I wanted to circle back to the expected \$10 million related to systems investments and the \$12 million in net tariff costs this year. Given revenue came in towards the higher end of your expectation in 3Q, how did tariff costs flow through in the third quarter, and what's your expectation for 4Q?

Michael Lee

Yes, Maddie, thanks for the question. Around 20 to 30% of the tariff impact for the fiscal year is behind us in Q3, with the balance being in Q4. Then, sorry, what was the second part of your question? You were faint at the beginning of your question.

Maddie Chekhon

Oh, I apologize. Maybe just how the systems investments are broken down between the third quarter and the fourth quarter.

Michael Lee

Yes. When you think about the—there's a couple of buckets here, so maybe we talk about both of them.

We talked about a technology initiative at the beginning of the year of \$10 million. About \$5 million of that will be in Q4. The other balance is behind us.

And then, just taking a bigger step back on the technology side, because this is something I want to make sure that the analysts take away from this call. We talked about the spend that we've built into the program. But one of the things that I also want to highlight is that we've done a lot of work on this program to identify where the benefits are going to come from. And we don't take this term digital transformation lightly. This is really an opportunity for Arhaus to change the way it works. And it's not just across the finance team or the operations team, but across the organization.

We'll talk about this more in the future, but we do see a lot of savings from a transportation efficiency perspective, from a productivity perspective, across our G&A lines. As we rationalize our technology ecosystem, there's going to be benefits in IT from a staffing and licensing cost perspective.

This is one of the more compelling business cases I've come across in business when you think about a technology program like this. But it's also important to highlight some of the capabilities we're getting in terms of just how we operate.

When we think about pricing, which we just talked about, having a single source of truth to make quick, nimble decisions is really important. When we think about dealing with the hundreds of suppliers we have around the country, how we onboard vendors and manage vendors through our supply chain, this new technology is going to really modernize us in that regard.

We haven't talked about this, but in our SEC filings we have material weaknesses that we've disclosed. We have four of them today and this technology is going to be a big enabler from an internal controls perspective and financial reporting perspective, so that coming out of this initiative we hope to be able to remediate all of these material weaknesses.

From a procurement perspective, when we think about how to drive savings across the organization, having modern technology to put spending controls in place to be able to manage suppliers more effectively, to have greater visibility to procure to pay.

And then from a selling perspective, having reliable information on order fulfillment and faster deliveries to really elevate the customer experience, we really think this is going to be a game-changer for Arhaus.

We get a lot of questions around how AI plays into this, and I can tell you that AI will have both a top line and bottom line benefit to us over time. In the near term, as we do this technology, one of the reasons why we're able to deploy this technology so quickly is a lot of the implementation plans are AI-enabled, right?

Anyway, we're really happy about where we are on the technology cycle. Lots of activity ahead over the next 18 months, and we'll be sure to keep you guys posted as our plans evolve.

Maddie Chekhon

Great. Thank you.

Operator

Thank you. Our next question comes from Seth Sigman with Barclays. Please go ahead.

Seth Sigman

Hey, good morning, everyone. Thanks for squeezing me in here.

I wanted to follow up on demand. Demand was obviously very strong this quarter, but it's been quite volatile month to month. Year-to-date, demand running up 3%. I mean, it's pretty encouraging. I'm just curious. Is that the right run rate to be thinking about the business going forward, or the 7% in Q3, do you think that's more representative because it's normalizing—or I guess we normalize for the event shifts? Or is it somewhere in between? How are you thinking about that?

Michael Lee

Yes, Seth, I can start, and Jen can jump in. We don't guide on demand is the first answer, but we have had a lot of choppiness and that's the one flag that we continue to raise when we talk about why is our guide what it is. There is still uncertainty and the macro backdrop is a big part of it.

When we take a big step back and you think about what's going on with housing, housing is starting to show some signs of life, but it's really from, I'd say coming from a weak perspective. Mortgages are starting to come down, but they're still high. Refinancings are up, which is encouraging, but only 22% of all mortgages are above the current borrowing rate. So you just go down all of it. The S&P 500 is at 23 times forward earnings, and when we think about what drives volatility in our business, it's the wealth effect in some regards as well. So, really hard to predict at times, Seth, and it is choppy.

We can't get into the guide of what's normalized demand for us, but we are mindful of the choppiness. We do want the choppiness to settle down over time, but a big part of this is that macro backdrop.

Jen, is there anything you would add?

Jen Porter

Yes. The only thing that I would add is just a reminder, we do have high-end clients. When we speak to—and I think Mike mentioned this earlier in the prepared remarks, even when we see softening in demand, we see that as being deferred demand, not lost demand.

I would just go back to how excited we are about our September results, which reflects the product that we're launching and the execution that our teams are doing, how excited we are about spring, which is just a couple of months away here, going into January and all that new incredible product that John was mentioning.

There is so much enthusiasm and excitement about what we can control around the organization, and so we are continuing to focus on that.

I would second Mike's call-out. We would love for some of the choppiness to go away, but we feel really good about controlling what we can control in the meantime.

Seth Sigman

Okay. Thank you for that. Then I guess somewhat related, the select price changes that you made this quarter, I think this is the first time you've done that since tariffs have gone into effect. I think your competitors have been a little bit more aggressive in raising prices this year. Can you just elaborate on the scope and the magnitude of the changes you've made to date? Then I'm just trying to think about, of that \$50 to \$60 million of net tariff next year, it doesn't include price offsets. How much could be offset by pricing? Just given your point, strength of your product and the newness, it feels like it would only require a 4% increase in prices across the assortment to offset that, and many of your competitors are already doing that. So I guess, how are you thinking about that?

Michael Lee

Yes, Seth, I'll start. First of all, it's being very disciplined and pragmatic and making sure that we really engage with our Showroom personnel on where the opportunities are, so it's a very collaborative process.

When you get to that \$50 to \$60 million range, our expectation is to cover 100% of that, whether it's through operational savings that hits the margin line or vendor concessions or pricing actions, but our goal is to protect margins.

In terms of the scope and magnitude, it is an item-by-item approach. We have 9,500 SKUs that we keep in stock, and we're looking at every one of those SKUs on a continuous basis with our merge teams to really identify areas of opportunity, and sometimes we take prices down to be competitive. But we've got merch teams that are all over this that are really guiding where we think we have the ability to inch upwards and making sure that we keep our customers in mind along the way.

So to your point, when you scale us back and think about the scope of our business, the tariff impact appears to be something that's digestible. We believe it is, but we just have to be mindful that we've got to keep customers in mind as we do this.

The other thing to be mindful of is that it's not just a pricing decision, but it's also a promo decision. So all of these things work together in unison to make sure that we're providing the right value.

Jen Porter

Yes. The only thing I'd add to that, Seth, and we've spoken about this not so much this year but a lot in prior years, is our focus is always on providing a great value to our clients. And our clients, as we mentioned, are that high-end clientele. They can afford to pay for what they want. They want what they want. And we believe in delivering the most comfortable, the highest quality, the most beautiful, the most innovative product that we can.

All of these decisions are very much we have margin in mind and profitability in mind, but we also have our clients in mind and we want to make sure that they are always getting a great value and that we are building that long-term relationship with those clients.

Seth Sigman

Thank you all. Appreciate it.

Michael Lee

Thanks, Seth.

Operator

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

Tara Atwood-Saja

Thank you everyone for your participation in the call and interest in Arhaus. Have a great day.

John Reed

Thanks, everybody.

Michael Lee

Thank you.

Jen Porter

Thank you.

Tara Atwood-Saja

Good-bye.

Operator

Thank you. Everyone, you may disconnect your lines now. Thank you.