



Arhaus, Inc.

First Quarter 2025 Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Arhaus First Quarter 2025 Earnings Conference 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, Vice President of Investor Relations. Please go ahead.

Tara Atwood

Good morning and thank you for joining us for the Arhaus' First Quarter 2025 Earnings Call.

Joining me on today's call are John Reed, our Founder, Chairman and Chief Executive Officer; Jennifer Porter, our Chief Marketing and eCommerce Officer; and Ryan Brody, our Senior Vice President of Finance. After our prepared remarks, we will open the line up for a Q&A session. During Q&A, please limit to one question and one follow-up.

We issued our earnings press release and 10-Q for the quarter ended March 31, 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-Q as such factors may be updated from time to time in our filings with the SEC. The forward-looking statements are made as of today's date and, except as may be required by the law, the Company undertakes no obligation to update or revise these statements.

We will also refer to certain non-GAAP financial measures, and this morning's press release includes the relevant non-GAAP reconciliations.

Now, I will turn the call over to John.

John Reed

Good morning everyone and thank you for joining us today.

We're pleased with our performance this quarter, delivering first quarter results in line with our expectations, supported by Showroom growth, healthy client engagement across our retail and eCommerce channels, and continued disciplined execution of our operating model.

Net revenue grew a healthy 5.5%, and demand comparable growth was up an impressive 4.1%. We ended the quarter with \$214 million in cash and cash equivalents, and remain debt-free. Our strong financial position provides us the flexibility to invest in strategic growth opportunities and create value for shareholders.

With the huge uncertainty shock the last couple of months, we're focused on what we can control – executing with discipline, investing strategically, and growing our Showroom footprint to support long-term, profitable growth. We believe our differentiated model built on artisan-crafted, high-quality design and a premium client experience continues to be a distinct competitive advantage.

Now, let me walk you through seven proof points that give us confidence in the road ahead, starting with our people.

We're building Arhaus for the long term, and that begins with talent. I'm incredibly proud of our deep bench of experienced leaders across the Company, individuals whose creativity, passion, and discipline continue to drive our success. We're also excited to welcome Michael Lee as our new Chief Financial Officer, starting May 12. Mike brings extensive experience and financial leadership that will be instrumental. And across our Showrooms, our team remains our secret sauce. Their expertise and connection with our clients are a key competitive advantage, one that consistently sets Arhaus apart. The strength of our people is reflected in our ability to execute, especially through the agility of our sourcing and supply chain operations.

Which brings me to my second proof point, our supply chain and sourcing agility.

Today, our sourcing footprint is diversified across North America, Europe, and Southeast Asia, enabling us to adapt quickly to global dynamics while upholding the exceptional quality standards that define Arhaus. It's important to emphasize that our diversification strategy has been in place for many years, long before the current headlines, and reflects our commitment to sourcing from a broad range of trusted global vendors. At Arhaus, product development isn't about sourcing diversification as a starting point; it's about going around the world to find the best of the best. That commitment to exceptional craftsmanship, authentic materials and trusted relationships naturally leads to a sourcing model that is diverse, balanced, and resilient.

In April, United States represented approximately 36% of our total receipts, including our internal manufacturing operation. We continue to invest in U.S. manufacturing, particularly in our domestic upholstery business. Over 70% of our upholstery business comes from the United States with the largest portion coming from our own North Carolina facility, supporting proprietary design, cost control, and our premium positioning.

We also recognize the heightened focus on China sourcing amid evolving tariff dynamics. In April, China represented approximately 13% of our total product receipts. We expect this to decline to approximately 5% or less in the third quarter, and we believe we can reach approximately 1% in the fourth quarter. Our sourcing evolution underscores the agility of our operating model and the successful execution of our teams.

Of course, the strength of our supply chain wouldn't be possible without our vendor relationships, my third proof point. These relationships enable us to maximize agility, minimize financial risk, and move with speed and confidence during times of uncertainty. They are not simply transactional; they are built on mutual trust, shared values, and a long-standing commitment to delivering exceptional quality.

My deep-rooted passion for sourcing keeps me closely connected to this work, from scouring hidden gem, artisan markets to building direct relationships with vendors and artisans around the world. Over the past month, I've had the opportunity to meet face-to-face with many of our global vendors alongside members of our leadership team. These visits reaffirm what we've long known: when it matters most, our vendors show up as an extension of our team. Our success is mutually beneficial, and many vendors and artisans have scaled with us, in some cases for decades. Whether it's helping to offset cost pressures, prioritizing resources and production, or adapting quickly to a dynamic environment, our vendors consistently help us navigate. Together with our vendors, we continue to deliver exceptional value without ever compromising the quality our clients expect and love.

Which brings me to my fourth proof point, our resilient, high-end client base. We believe we are meaningfully overindexed to an affluent consumer who has historically been less reactive to macro volatility. Importantly, this client has consistently been the last to pull back and the first to return when conditions stabilize. And while stock market volatility may be weighing on consumer sentiment more broadly, overall demand was healthy in the first quarter. Our clients remain deeply invested in their homes and consistently prioritize quality, craftsmanship, and long-term value in their purchase decisions.

Proof point five: consistent strategic execution. We remain focused on executing our long-term strategy by continuing to invest in what matters most: best-in-class product quality, thoughtful innovation, and newness that resonates with our clients. We're expanding our physical footprint while deepening client engagement through a multi-touchpoint model, including our catalogs, which remain among our most powerful storytelling tools.

At the same time, we're making strategic investments in technology and eCommerce to further elevate the client experience and strengthen our omnichannel capabilities. This disciplined execution is a key reason we gained market share and recovered faster than many peers coming out of the pandemic, and why we remain confident in our approach going forward.

Proof point number six: Showroom growth and investment. In 2024, we opened 11 new Showrooms which are performing well, while relocations enhance brand visibility and deepened client engagement. Looking ahead, we have 28 total Showroom projects in the pipeline through the end of 2027, with even more opportunities likely. This momentum reflects our disciplined focus on scaling thoughtfully, elevating the Showroom experience, expanding market share, and supporting long-term revenue growth.

Underpinning all of this is my seventh and final proof point, our financial strength. We continue to operate from a position of discipline: debt-free with ample liquidity and a healthy balance sheet. We believe this strong financial foundation allows us to invest confidently in long-term growth, navigate near-term uncertainty, and deliver long-term value for our shareholders.

In short, Arhaus is well-positioned for the future, powered by the strength of our brand, the passion of our people, and the disciplined execution of our strategy.

Now let's take a closer look at our performance in the quarter, beginning with our Showrooms. In the first quarter, we completed five total Showroom projects: one new Traditional Showroom and four strategic relocations. The highlights include Winter Park, Florida, a new Traditional Showroom opened in Winter Park Village, in an upscale lifestyle center; Sarasota, Florida, a relocated Showroom opened in Center Point at Waterside, a key Florida market; and, Burlingame, California. We relocated a Showroom in downtown Burlingame tailored to the local clientele.

Looking ahead, I am pleased to share that we are raising our outlook on this front and now expect to complete approximately 12 to 15 total Showroom projects in 2025. This includes four to six new Showrooms, up from the prior three to five, and eight to nine strategic relocation, remodels, and expansions. Our long-term remains an average of five to seven new Traditional Showrooms annually. Importantly, our timing is driven by readiness, not just the calendar. We open locations when we believe they are prepared to deliver the experience our clients expect.

We encourage you to view our footprint growth through the lens of total Showroom project activity where every project, whether a new opening, relocation, remodel, or expansion is evaluated through the same disciplined return-on-investment approach.

Our Showroom strategy is clear: target premier locations with strong foot traffic, complementary co-tenancies, and opportunities to enhance brand visibility and grow market share. Every decision is made with a focus on sustainable high-quality growth, and attractive expected returns on our investment.

Turning to our product, design is the core to who we are. This season, clients are responding to warmer products, softer silhouettes, eclectic use of color and pattern. Highlights include our outdoor collection featuring premium teak, all-weather wicker, and our first Italian upholstered collection. Upholstery remains a hallmark, handcrafted by skilled artisans. Across collections, rich textures, warm woods, and unexpected materials create a fresh yet familiar look and feel. Looking ahead to 2025, we'll continue to innovate in materials, silhouettes, and personalization, keeping us at the forefront of design, comfort, and quality.

Turning to demand, as I shared earlier, we delivered impressive demand comparable growth of 4.1% in the first quarter. However, demand comparable growth was not linear through the quarter with strong performance in January, up approximately 10%, and March, up approximately 7%, partially offset by softer

results in February, down approximately 6%. As we've said before, a week—even a month—doesn't define a trend, and while there was more volatility, we are very pleased with the overall strength of the quarter.

Looking ahead to the second quarter, April demand was softer than expected with demand comparable growth down 10%, impacted by the shock of the tariff news and the stock market. While near-term volatility remains, our model is built on resilience, and we believe our unique positioning is a powerful long-term advantage.

In closing, our long-term strategy remains clear and focused and anchored by our four key priorities: increasing brand awareness to drive net revenue; growing our Showroom footprint; enhancing our omnichannel client experience; and investing in growth to build scale.

As we look ahead, we remain confident. We have a strong business, a solid foundation, and a strategy that is working. Our team is proactively managing tariffs through sourcing diversification, and we continue to adapt as needed to protect both margin and momentum.

With a premium brand, a loyal and growing client base, and a balance sheet that allows us flexibility, we're well positioned to invest in long-term value creation. I'm proud of what we've accomplished this quarter and even more excited about the opportunities ahead.

Thank you to our teams, clients, and shareholders; your continued support drives everything we do.

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

Jen Porter

Thank you, John, and good morning everyone.

We had a solid quarter across both our retail and eCommerce channels, despite operating in a more volatile environment. Our omnichannel strategy, designed to meet clients wherever and however they choose to shop, continues to drive meaningful engagement and conversion across all touchpoints. This strategy is anchored in six core pillars: Showrooms, eCommerce, Catalogs, In-Home Design Services, Digital & Content, and Client Personalization.

Our Showrooms remain a cornerstone of the Arhaus experience, delivering immersive, elevated environments that inspire clients and drive conversion. Approximately 90% of our clients live within 50 miles of a Showroom and that proximity combined with high-touch, personalized service continues to fuel brand awareness and market share expansion. New Showrooms opened in recent quarters are performing well, supported by our long-tenured, experienced teams. Our Showroom growth contributed meaningfully to healthy net revenue in the first quarter, and Showroom-driven demand was a key contributor to our overall demand strength.

Client engagement remained strong, driven by our unique product mix, refreshed seasonal assortments, and the exceptional performance of our highly trained Showroom teams, including our in-home designers who bring trusted expertise to every interaction. These designer-led services continue to be a key competitive differentiator and growth driver. Designer-driven demand was strong both in-store and virtually, and clients who engage with our design team generate order values four times higher than average. In the quarter, we saw meaningful growth in orders above \$5,000 and \$10,000, along with record-high average order value. These transactions we believe deepen loyalty and increase order depth across categories.

Just as we deliver elevated, personalized experiences in our Showrooms and through our design services, we're creating that same level of inspiration and ease online. Online engagement remained healthy

throughout the quarter, and our eCommerce business delivered strong performance. Growth was driven by strategic investments in technology, platform enhancements, product storytelling, and a compelling product mix. We continue to invest in eCommerce to further elevate the client experience and drive long-term growth.

The online experience is more than transactional; it's a platform to inspire, educate and connect with our clients. Our digital & content engagement continues to drive impressive traffic and deepen brand engagement across channels.

Earlier this Spring, I visited several of our global partners in Italy and Romania. Seeing their craftsmanship firsthand was a powerful reminder of the care and precision behind every piece, the foundation of our storytelling and emotional client connection. What sets Arhaus apart and what we do best is clear: exceptional product quality, broad aesthetic appeal, and our artisan-led approach. Even in a more challenged consumer environment, our storytelling resonates. Clients respond not only to how our products look and feel, but also to the intention, values, and meaning behind them; something we take pride in and believe we do better than anyone else.

Our pricing and promotions strategy remains unchanged. We continue to drive high-quality growth through a differentiated value proposition, educating clients on what makes Arhaus unique – artisan-crafted, high-quality design and a premium client experience. This disciplined approach supports margin stability, protects brand integrity, and reinforces the long-term value of our product, while preserving flexibility when needed.

On tariffs, we are actively monitoring the evolving landscape and remain prepared to respond with discipline. Should targeted pricing adjustments be necessary, we will implement them thoughtfully and communicate clearly, always with a focus on maintaining client trust and delivering exceptional value.

In closing, while the environment remains dynamic, we are staying close to our clients, leaning into our unique strengths, and maintaining disciplined in how we engage, price, and promote. We remain focused on executing across our six omnichannel pillars to drive sustainable, high-quality growth and deepen client relationships.

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

Ryan, over to you.

Ryan Brody

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

Key items from our first quarter 2025 income statement include net revenue was \$311 million, up 5.5% year-over-year, landing near the midpoint of our guidance. Growth was primarily driven by increased demand across both our retail and eCommerce channels, supported by continued Showroom expansion, partially offset by a comparable growth of negative 1.5%, which landed near the midpoint of our guidance range. Demand comparable growth was 4.1%, driven by healthy client response to our products and strong engagement across both our retail and eCommerce channels.

Gross margin was \$116 million, up 0.4% year-over-year. The increase was primarily due to higher net revenue, partially offset by increased product costs of \$7.1 million, higher Showroom occupancy costs of

\$5.2 million, and higher delivery and transportation costs of \$1.7 million. As a percentage of net revenue, gross margin decreased 190 basis points to 37.1% of net revenue, primarily driven by higher Showroom occupancy costs, which increased 120 basis points, and a product margin decrease of 40 basis points.

Selling, general and administrative expenses were \$110 million, up 13.9% year-over-year, primarily due to a \$7.2 million increase in general and administrative costs primarily related to warehouse expenses, marketing investments, and strategic investments to support and drive the growth of the business, including supply chain and technology improvements, in addition to a \$6.2 million increase in selling expenses primarily related to new Showrooms and variable compensation due to higher demand.

Net income was \$5 million, landing near the midpoint of our guidance.

Finally, Adjusted EBITDA was \$19 million, landing at the lower end of our guidance, resulting in an Adjusted EBITDA margin of 6.0%.

Turning to our balance sheet, we ended the quarter with \$214 million in cash and cash equivalents and remain debt-free.

Looking ahead, we remain focused on executing against our long-term strategic priorities including disciplined growth, strategic investments, and continued expansion of brand awareness, while remaining agile in the face of ongoing macro uncertainty.

Given increased volatility driven by tariff shifts and softening consumer sentiment, we are revising and widening our full-year 2025 outlook to reflect a more cautious stance. Notably, the midpoint of our previous outlook now represents the high end of the updated range.

For full-year 2025, we now expect net revenue between \$1.29 billion and \$1.38 billion, reflecting an updated comparable growth range of negative 5% to up 1.5%. As a reminder, comparable growth and demand comparable growth may diverge over shorter time periods but align more closely over the course of the year; net income of \$48 million to \$68 million, and Adjusted EBITDA between \$123 million and \$145 million.

For second quarter 2025, we anticipate net revenue between \$320 million and \$350 million, reflecting a comparable growth range of negative 2% to up 5%; net income of \$17 million to \$24 million; and Adjusted EBITDA between \$41 million and \$48 million.

As it relates to tariffs, our outlook includes the full impact of currently implemented tariff actions including a 170% tariff on goods imported from China, 10% tariff on goods imported from all other countries of origin, and 25% tariffs on imported steel and aluminum. We estimate the total potential P&L impact from incremental 2025 tariffs currently in effect to be net amount of approximately \$10 million which has been factored into the updated guidance.

We believe a portion of the larger tariff impact can be mitigated through strategic sourcing shifts to other countries and vendor cost concessions. There are several factors contributing to this number, including the timing of product receipts and deliveries, as well as the mitigation actions already underway. Simply put, there are a lot of moving parts. While pricing remains a potential lever, no targeted increases are currently reflected in our guidance. We are actively monitoring the evolving trade environment and will respond with discipline.

Let me briefly highlight the strategic investments we're making to drive long-term growth, operational efficiency and client experience and how they're reflected in our 2025 guidance.

In 2024, we completed important foundational upgrades, including a new warehouse management system at our Ohio distribution center, already delivering measurable improvements.

Looking ahead to 2025 and beyond, we're investing in systems and infrastructure to support scalable growth. We're strategically transitioning distribution management at our Dallas Distribution Center in-house, building on proven expertise and implementing our warehouse management system there with completion expected in the second quarter.

We've begun rolling out a new payment platform, expected to be fully implemented across all Showrooms by late May, enabling mobile features like tap to pay, Apple Pay, and Google Pay while driving operational and expense efficiencies. We're also implementing a new inventory planning system to improve forecasting and inventory optimization, and a new ERP platform at our North Carolina upholstery manufacturing facility to increase production visibility and improve efficiency as we scale.

These strategic investments, as well as other key projects, are expected to be approximately \$15 million to \$20 million in SG&A in 2025, mostly in the second half of the year as system implementations ramp up.

We are making these investments from a position of strength, debt-free with a healthy cash position and disciplined capital allocation. We believe these investments are foundational to expanding long-term margin potential and enhancing client experience. With a deep, experienced team, we're confident in our ability to execute.

In closing, our focus is clear – we're executing with discipline and staying agile. We believe our differentiated brand, resilient operating model, and long-term strategic priorities position us to navigate uncertainty and deliver sustainable value for our shareholders. We look forward to sharing continued progress and are pleased to welcome our new CFO, Michael Lee, to the next earnings call.

Thank you for joining us. We are happy to take your questions.

Operator

Thank you. Ladies and gentlemen, we will now be conducting 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.

Thank you. The first question comes from the line of Steven Forbes with Guggenheim Securities. Please go ahead.

Julio Marquez

Hi. This is Julio Marquez on for Steve. Thank you for taking our question. John, very quickly just given the balance sheet strength and your comments on receipts from China at year-end, can you speak to how Arhaus will manage the holistic value proposition you're bringing to market. And I think you mentioned something about pricing. No plans yet, but I guess how is the management thinking about protecting margins during 2025, or do you see 2025 as a year to drive brand awareness and not volume share capture?

John Reed

You're going to have to clarify the first part of your question, but the second part is, yes, we feel good about our margins. With everything going on it's very, very fluid, as you can all know and imagine. But our plans are to try to hold our margin as it is and proceed as business as usual. We're going to focus on what we can do. We cannot—the things that are going on outside our control, but we know what we can control. We've been in business for decades. We've been through recessions and so on and so forth, and crashes, and we know how to handle these kind of things and these kind of times. We've always been extremely successful at it. We've always come out of them stronger than ever and that's what we're planning on doing. We're focusing on the long term and that includes healthy margins, healthy sales and executing our plan.

I'm sorry, what was the first part of your question?

Julio Marquez

Just given your balance sheet strength and just some of the comments around the receipts from China by year-end, anything you can provide on just the holistic value proposition and managing that?

John Reed

Yes, sure. I mean, balance sheet looking great. Again, as I just said, we're in this for the long term, so we are investing in the future and we're going to continue doing that. Certainly we're going to look at it every 30 days or so and if we have to tweak something we will.

As far as China goes, we've been working—we never were nearly as heavy in China as most of our competitors, first of all, and being so strong in the United States on production that we're in great shape. Getting down to we're hoping 1% by the end of the year is just, is amazing, and that's thanks to some of our great, great partners we've had overseas and in the country for many, many years and decades. They're truly our partners. They're working with us; if we need to move things, we're building new factories in other countries and so forth. So we're in a great shape there.

Julio Marquez

Excellent. Just a very quick follow-up on consumer behavior. Are you guys seeing any change in engagement trends? I know you mentioned a meaningful step-up in sales over \$5K and \$10K, but anything that's changed in April that may have informed that change in sales guidance. Curious about the data points that were considered behind the new outlook.

John Reed

Yes, well, you know, we had something called Liberation Day in April. We had something called the stock market was crashing in April. Obviously that affects everybody, including our customers. They're very intelligent people; they're invested in the stock market. Things like that shake people. It's not going to be long term, but short term it shakes people up and they're not sure what to do. That's why we think we had the softer sales—well, we know that's why we had the softer sales in April. Everything works its way out. It's not like people are going to stop buying furniture. They love their homes. Ever since COVID, it's really been a wonderful thing for the home business, especially the good quality home business, and so there's some pent-up demand that maybe people held off a few weeks, a couple of months. That's it and I don't need to tell you guys what happened in April because you read the news as much as I did.

Julio Marquez

Absolutely. Thank you. Much appreciated.

John Reed

You bet.

Operator

Thank you. The next question comes from the line of Seth Sigman from Barclays. Please go ahead.

Serena

Hi. This is Serena on for Seth. Regarding the low end of the comps guidance, can you just give more perspective on how you came up with that negative 5% number? And can you reconcile Q2 versus the drop-off implied for the rest of the year?

Ryan Brody

Yes, with some of the information that we've shared so far for year-to-date trends with demand performance it's been pretty choppy and so the widening of the guidance range is to account for the potential that that continues throughout the rest of the year and really trying to, like John mentioned, every 30 days kind of read and react to what's going on and adjusting our plans as we need to at that point in time. That's the main driver is just to account for that potentially occurring for the rest of the year.

Serena

Great. Thanks.

Operator

Thank you. The next question comes from the line of Cristina Fernandez from Telsey Advisory Group. Please go ahead.

Cristina Fernandez

Good morning. I wanted to ask about the tariff mitigation strategy. You talked about \$10 million embedded in the guidance for the impact. I guess how much of that do you think can be mitigated versus from strategic sourcing shifts and vendor concessions? Can you talk about the timing of how that \$10 million will flow through the rest of the year?

John Reed

Sure. I can start and Ryan can fill us in on the timing of it.

As you know, every country has been put on a 10% tariff, other than China which is a 170%. As we've moved stuff out of China, which we've done I think brilliantly, we're in great shape there.

The other tariffs is the other tariffs, so that's what we're planning on. We have worked with our great, great partners to absorb some of that and I'd be thrilled to announce every partner that we've talked to. Every meaningful partner has really contributed and has really helped us, so what's left is the \$10 million and we think that's pretty darned good number, a very good number considering all these tariffs all over the world. And don't forget, a big, big part of our business is still produced right here in the United States so that helps quite a bit as well.

I don't know when it's going to flow through. Ryan can give you some more specifics on that.

Ryan Brody

In regards to the timing, as you would know, Q1 wouldn't have been impacted by this, as well as getting into April we wouldn't have had any of this incremental cost flow through the P&L, so obviously we're looking into later in that year when that impact would occur, and as we've shared, we're targeting China receipts to be about 5% in Q3. As you can imagine, the flow through of the tariff impact would kind of align with that stepdown coming from China. But it's fluid and it depends on when the majority is received and then delivered to customers, so what we've provided is the approximately \$10 million impact, predominantly factored into the second half of the year.

Cristina Fernandez

Then my follow-up on the real estate strategies, you're opening one more new Showroom, so one or two. Are you seeing I guess better incremental real estate opportunities? I also noticed that you closed two Design Studios during the quarter. Can you talk about what the strategy is there? Was there any disappointment with that performance and how are you thinking about that format going forward?

John Reed

Sure. As we've been growing the business and opening new Showrooms, A, they're profitable; B, it's building brand awareness and more and more people come to the Showrooms, they come to the website. Again, we are strategically running this business to look more forward than this month and next month and the next six months. We're in it for the long term and when you work on Showrooms and so forth, obviously you're out a year or so, or two on new locations, but we're happy to say that we're not slowing down our growth. We had an opportunity that fell back into this year that maybe we had originally planned for next year, and we're always looking for new opportunities as well. We're a very fluid but disciplined company and we take advantage of opportunities as they come about. We've come up with some incredible new opportunities coming up here in the future that we're really excited about and we think are really going to move the needle on keeping business going forward.

Operator

Thank you. The next question comes from the line of Robert Ohmes from Bank of America. Please go ahead.

Robert Ohmes

Thanks for taking my questions. Maybe one follow-up, just on the gross margin. A little help on sort of the occupancy kind of increase, the 120 basis points pressure from occupancy cost. A little color on how we should think about that in modeling the gross margin for the rest of the year and any other kind of thoughts on gross margin in 1Q versus how it could look as you move through the next three quarters.

Ryan Brody

As we mentioned on the call last quarter, we expect gross margin to be roughly flat to LY, so this is more just a function of deleveraging off of the fixed costs related to Showroom occupancy in Q1 because of the lower revenue versus what you'd see in our Q2 guide for revenue.

Robert Ohmes

Got you. That's helpful. Then just on the—you talked about the record-high average order value. Any more color on how the customers are behaving? Are you seeing sort of bigger ticket hold up better than impulse purchases? Any other color you can give on what people were doing during the quarter and then maybe what they're doing in April?

John Reed

Studying the sales big ticket/small tickets, we haven't seen any drop-off on either side, whether it's coming in and buying a couple of pillows or buying an entirely home full of furniture. Jen can give you maybe some more color on that. She follows this very closely.

Jen Porter

Yes. I think that's it. We're really happy seeing those increases in those orders over \$5K and \$10K, as we spoke. We're continuing to see (inaudible) as we spoke about end of last year as well where clients were engaging with interior designers and doing those bigger projects of rooms and homes. But as John mentioned, there's no real shift in consumer behavior across any of our cohorts.

I think to give you a little bit more color just on Q1 and April, as we mentioned Q1 was good but it was choppy, so we were up in that Jan and March, we were down in February. Obviously we were down approximately 10% in April. We did see some softness in traffic in April, but what we're really excited to see is that as clients are coming in and engaging with us, whether online or in Showrooms, they are still responding really well to the product. They're still engaging at the levels that we saw before. We're still seeing those high purchases, so we're really happy.

There might be some hesitancy due to the macro. People walking through the doors are coming in to commit that project, but as John mentioned earlier, that's a shift in timing; it might delay them a few weeks or a few months but when they're in the doors they're still responding really well to our products and we're continuing to see those really nice higher average order value sales.

Tara Atwood

I would just add a little color to April. If you think about April, we also exited April a little bit stronger and that might be slightly helpful.

Robert Ohmes

Got you. Thank you.

Operator

The next question comes from the line of Andrew Carter from Stifel. Please go ahead.

Andrew Carter

Thank you. Good morning. I wanted to ask about the significant disconnect in comparable sales growth and comparable demand. I got that you were like double digits November/December. You said 10% January. That should inform the quarter, and of course deposits are up. I think the 20% on trailing 12. Anything can you speak to there around kind of the extended delivery times for customers, and do you see any risk of cancellations? Thanks.

John Reed

We watch cancellations and there's been zero change in cancellations. Everybody still wants their product even after all the news and excitement in April. But yes, we're all good there. People have not cancelled. You have the noise if something doesn't fit and things like that, but absolutely zero change in that. I just took a look at that yesterday. Year to date it's all good.

Andrew Carter

But then just also kind of focusing in within that, how much of delivery times or wait times increased for customers, and have you had to go back? This is just focusing on the deposits and the disconnect. Thanks.

John Reed

We haven't seen any change in that. A lot of customers still are—if it's the large purchases, they are building or whatever and we're just waiting for the home to be (inaudible) they deliver it. We're sitting on a lot of good product, but again, the percentage isn't changed from the past year or so. So we're not seeing any significant changes in that as well. There's always an amount that people just don't want yet because they're running late getting remodeled or whatever it is, but when they're ready, we're ready. We're in great shape inventory-wise. We're in great shape delivery-wise. We can get the consumers their product when they want it.

Ryan Brody

Speaking to the increase in client deposits that you're referencing, that's basically the difference between what you would see on the demand side, which we provided the plus 4.1% comp in Q1, as well as the lower net revenue performance in Q1. That's the increase that you saw in Q1, which then looking towards the Q2 guide, how we've guided on the high end of the range to a plus 5% comp on the delivered side, that's when we're starting to see that flow through the P&L.

Andrew Carter

Then just, it's 20% of trailing 12. What does that—what should deposits be as a percentage of revenue? That would be my last question. I'll pass it on.

Ryan Brody

I would say where we're currently at is not anything out of the ordinary with where it should be trending. You may have some ebbs and flows from quarter-to-quarter, depending on when there's higher-demand sales quarters versus delivered or net revenue, but overall I wouldn't view us as having an increased backlog like we did over the 2022 and 2023 time periods.

Andrew Carter

Thanks. I'll pass it on. Thank you.

John Reed

Thank you, Andrew.

Operator

The next question comes from the line of Peter Benedict from Baird. Please go ahead.

Peter Benedict

Hey guys, good morning. Thanks for taking the question. I apologize, I missed some of the call so I apologize if this has already been asked. I'm curious if the consumer response to the changes you guys have made in the some of the discount levels related to the Buy More Save More spend threshold, I know you've talked about some good strength at some of the higher price points. Is that when you go to the 20%, 25% off pairing versus the 15% to 20% off pairing, is that really driven a meaningful change in that consumer engagement? Just kind of curious about that and how you're thinking about your pricing architecture going forward. Thank you.

John Reed

Yes, what we like about this model is it can be incredibly flexible and as you we started this model back in the fall of last year, we saw that it's working very well. Customers are responding. They're trading up, so if they're close to a threshold they're trade up so they can get to it which makes perfect sense and we want that.

So, the different percentages, we're playing around with to see what responds, what doesn't respond. If 20 or 15 responds just as well as a 25 then we adjust things every month, and that's what's nice about the model is we can adjust it and we're very flexible. So we're seeing certainly the higher percentages, obviously customers are going to take it. They've been responding and trading up even more so because of that. So, we've been pleased with what we've seen.

Peter Benedict

Got it. Thanks for the perspective.

John Reed

You bet, Peter.

Operator

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

Jeremy Hamblin

Great. Thanks for taking the questions. Good morning. I wanted to just get into the Showroom opening cadence here and just as you've seen a little bit of softening here in kind of overall orders and demand trends, are you seeing some of that show up in newer Showrooms? Then, as we look ahead to maybe a little bit more macro uncertainty that's probably not going to go away that quickly, are you looking at—as we get into '26 kind of Showroom openings—is the plan kind of to stay the course in terms of the number of openings and kind of the locations? Or is there any consideration to maybe a bit more moderate opening schedule?

John Reed

As you can imagine, you sign leases years in advance and you get locked in for the next year or so. But with that said, we decided as a management team that we've got we think the best model in the business. We've got the best product; we're executing very well, and we see no reason to slow down for '26 and '27

and so forth. We're in a great cash position. We can fund these things and not be at all scared about running out of cash or so forth.

We're in it for the long term and in 2027 we think business is going to be good. If business slows down for a while here, as I've seen for many, many years, it will come back and there's a pent-up demand. When there's a pent-up demand, if you're ready to capture that, you take more market share. If we have new stores, that's even more new market share. So that's exactly what we're planning on doing.

Jeremy Hamblin

Then just a follow-up question, I think for Ryan, you saw occupancy deleverage 120 bps in the first quarter. Wanted to get a sense for what you're expecting in terms of occupancy leverage or deleverage over the course of 2025.

Ryan Brody

I think we expect to see maybe slight deleverage but not as pronounced as what you saw in Q1.

Jeremy Hamblin

Okay, and then implying that product margin would be up year-over-year?

Ryan Brody

Approximately, yes, slightly. That's the main other piece that would offset the offsetting the occupancy side, when I mentioned earlier on the call that we expect the gross margin to be approximately flat year-over-year.

Jeremy Hamblin

Got it. Thanks for the color.

John Reed

Thank you, Jeremy.

Operator

We take the next question from the line of Simeon Gutman from Morgan Stanley. Please go ahead..

Simeon Gutman

I wanted to follow-up on gross margin for a sec. The outlook for the total year being flat, and yet the sales outlook, it looks like it's getting worse and the main factor for the first quarter was occupancy deleverage. On top of that, you mentioned that you have this \$10 million tariff hit but you're not putting anything back into price. It didn't sound like you're raising price. How does this flat gross margin come out? Unless you're planning to offset with product margin in other places. Thank you.

Ryan Brody

In general, if you'll recall, the second half of last year wasn't our strongest performance so this year we're up against some easier comps starting in May from a demand comp perspective. As we talked about earlier,

we layered in the volume discount starting in October and we've been pretty happy with the results so far. So there's puts and takes across the P&L and our estimates for the second half of the year, but we still expect it to be roughly flat year-over-year.

Simeon Gutman

Okay. Then as a follow-up, the new space productivity that our models punch out, it's in the 40s. I think you probably have a more accurate number and you said you were happy with new store performance. What does that look like? Because I think ours is affected by the timing.

Then if you take mature comp and then implied in the back half I think it's somewhere down high single, maybe low double digits. What's happening at non-new stores? Is it maturation? Is it just the softer market? Is there some cannibalization happening? Can you talk about the performance in more mature stores? Thank you.

Ryan Brody

You're correct. From the back half, yes, we have an implied on the demand comp side a high single-digit comp in the back half of the year, which as mentioned earlier, that reflects a continuation of the choppiness that we've seen from April year-to-date.

Simeon Gutman

Anything on—the new space productivity that our models are computing suggests 40%. I don't think that's—I don't know if that's right or wrong, if you can comment on that. Is it being skewed because of the timing of when galleries or Showrooms are opening during the quarters?

Ryan Brody

Yes, there's definitely a component to when they open and when we actually start to see deliveries flow through.

Simeon Gutman

Okay. Thanks. Good luck.

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.

Tara Atwood

Thank you everyone for joining the call. We appreciate your time. Have a great day.

John Reed

Thanks everybody.

Ryan Brody

Thank you.

Operator

Thank you. Ladies and gentlemen, thank you for your participation and interest in Arhaus. You may disconnect your lines.