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Celsius Holdings, Inc.

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Company Conference Presentation

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EXECUTIVES

Toby David
Chief of Staff

ANALYSTS

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

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Presentation

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

Okay. We'll go ahead and get started. Mr. Besenjak, good to see you. Good morning. My name is Jon Andersen. I'm the research analyst at William Blair that covers Consumer Products and Celsius. We are pleased to have Celsius' Chief of Staff, Toby David, with us today to present. As most of you know, Celsius is a leader in the energy drink category and now has 2 very complementary brands in Celsius and Alani Nu, which align well with consumer trends towards better-for-you, fitness and functional beverages. Celsius has helped reinvent the energy drink category with its healthier ingredient set, unique flavors and broad demographic appeal. And they recently acquired Alani Nu, which is a female-focused brand with strong health and wellness credentials expands the TAM even further and provides an opportunity to scale the business over the next several years.

So this year, we expect the company to gain additional shelf space and drive demand through enhanced marketing. I'm sure we'll hear more about that with Toby. As such, we think this is going to be a pivotal year for the -- on the company's journey. Before we get going, a couple of housekeeping items immediately following the presentation. There will be a breakout session in the Maher room, M-A-H-E-R, room. So joining us for that for Q&A. And lastly, I just want to inform you that a complete list of research disclosures or potential conflicts of interest can be found on the William Blair website. So with that, I'll toss it over to Toby.

Toby David
Chief of Staff

All right. Pleasure to be here. I love coming to Chicago, getting in this great weather coming from Florida. I appreciate that. Yes, let's talk about Celsius Holdings today. So I'm just going to clear some things up right off the bat, I'm going to talk about Celsius Holdings, which is the portfolio company, Celsius, the brand and Alani Nu. I'll refer to that as selling Holdings today. When I talk about just Celsius, that's the brand Celsius. And then when I talk about Alani Nu, that speaks for itself. So there's going to be 4 key themes that I touch on today regarding Celsius Holdings. The first, category disruption. This is a portfolio of disruptive premium brands driving functional beverage category with unparalleled innovation capabilities. Both Celsius and Alani Nu are clearly the category disruptors. 50% of the energy category growth last year came from Celsius Holdings between these 2 brands.

Number two, large and growing TAM, attractively positioned for expansion as an innovative leader in the large, growing functional beverage category, not just energy, you're starting to see these lines blur between energy and beverage, and you're seeing that with both Celsius and Alani Nu as consumers are pivoting back and forth between CSDs and energy.

Number three, compelling growth strategy. We have an effective strategy and innovation to reach more people, more places and more often. I'm going to touch on that a little bit later.

Number four, strong cash generation profile. We're going to deploy through disciplined capital allocation, driving continued growth and higher returns.

All right. Celsius Holdings at a glance. First, as I mentioned earlier, Celsius contributed over 50% of all energy growth last year. We are the #3 energy drink portfolio in the U.S. Now combined, Celsius and Alani Nu 16.6% market share within the tracked channels, we are actually closer to Monster for that #2 position than the fourth portfolio of brands below us. Now, 16.6%, no one has ever touched that before other than Redbull and Monster.

Brand Celsius hold to 98.7% ACV, sold in over 241,000 U.S. retail outlets. Right now, Alani is tracking in the low 80% range as far as ACV, a lot of upside for them. We're the #9, Celsius, not Celsius Holdings, Celsius is #9 in liquid refreshment beverage. We're going to get to that slide, and then it's very impressive to see who our peers are there. $3.5 billion in retail sales last year for Celsius Holdings.

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All right. I'm getting to a little bit of a history of Celsius Holdings, founded all the way back in 2004. 2009, we launched over in Sweden, which actually back in that time frame, it probably was about half of our revenue. I joined the company in 2013. That's when we initiated our drill deep market strategy. We were a turnaround company at that point. The original founders went thin and wide and tried to market to whole country with not enough cash to do it. Company was really on fumes when we came in, in 2012, 2013. What we did was to scale things back. We initiated a drill deep market strategy. This is where we focused our sales and marketing in 5 markets around the country: New England, South Florida, Tampa, Dallas and Los Angeles. If you look at those markets today, those are actually some of our top-performing markets South Florida, we've said it before, about a mid-20s market share in New York, New England, Boston area, in particular, close to 20% market share, L.A., which is the largest energy drink market in the country, roughly 15 or so market share there as well.

So I think when you take a step back and you look at the opportunity of Celsius, if you look at some of these markets, some of the biggest markets in the country, and we're in the mid-teens, high teens and in the low 20s. 2017, we modernized our branding. Prior to that, we were the world's only negative calorie beverage. We still are. We just don't market ourselves as such. What we market ourselves as this is an energy drink with functional benefits, burning body fat, accelerating the metabolism.

So in 2017, we moved to this can that you see today. In 2020, we launched our Vibe line, which was a subline of our core fruit-forward line. Same formula, same product, just a little bit more fun flavors and packaging. Actually in 2020 also, it's not cited here, that's when we actually expanded our DSD national footprint. We started going into 250 to 300 distributors, predominantly the Anheuser-Busch and independent beer network around the country. That's where you started to see Celsius take off. 2022 is when we signed our deal with Pepsi, August 1, 2022, rolled onto their trucks October 1 and just started some absolutely astounding growth from that point forward.

2024, we acquired Big Beverage, which is a manufacturing facility in North Carolina. That was our foray into vertical integration and it's going to give us a lot of flexibility, and it's going to help drive our margins more favorably moving forward. And then 2025, we launched our hydration package. We'll get into that in a little bit and acquired Alani Nu.

I mentioned this earlier. Top 10 in liquid LRB, liquid refreshment beverages. When you take a look at this list, this is like a who's who within beverage, Coke, Red Bull, Gatorage, Pepsi, Monster, it's -- I mean, having joined the company, I think we were doing about $4 million in revenue when I joined back in 2012, 2013. You take a look here and to be along with some of these names. I think 3 of these brands were from the 1800s. So we've got a ways to go to catch up, but pretty impressive list right there. And this is just Celsius, not even Celsius Holdings.

Let's talk about the energy drink market and how that consumer has evolved over the last 20 years. If you're as old as I am, you'll remember that 20 years ago, this was a very male-dominated predominantly young thrill seekers, very niche category. Remember, congressional hearings, people are trying to figure out what to do with energy drinks. Fast forward 20 years, what does it look like, more gender balanced, more age balance, lifestyle and functional focus and certainly not niche anymore. It's mainstream.

Let's talk about Celsius and our portfolio of products within just Celsius. We have our core line, which is fruit-forward and our 12-ounce can. We have a Vibe line, which we have more fun with, more lifestyle-oriented, more fun with the flavors, Same formula, just different packaging. We have our 16-ounce Essentials line, which is maybe targeting a little bit more of that male demographic, more fluid and a little bit more caffeine as well as having essential amino acids. We have our on-the-go sticks, these do very well for us. And I think it's still a big opportunity. Most of our consumers don't even realize we have these. It's essentially the same product in a packet as our 12-ounce can. And we just launched this year our hydration, think liquid IV type of product. We happen to think it pays a lot better. I'm biased.

All right. Let's talk about the growth strategy. So many of you are probably familiar with Celsius. We're a rocket ship from, call it, 2020 to 2024, triple-digit growth for about 3.5 years. Hit a little bit of a slow period last year. But what we've done over the last 9 months is we've maintained a market share of roughly about 11%. What that tells me is we've got this great foundation of consumers who love our product. And what we need to do is a couple of things, more people, more places and more often.

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More people. We need to bring more people into the category and drinking Celsius, we need to also get people converting over from other energy brands and drinking Celsius. So that's a more people portion.

More places, that's just expanding availability and getting further distribution. We cited earlier in the year, John Fieldly, our CEO, cited about we anticipated about 15% to 20% greater distribution so far this year, that's what we've seen.

And more often, this is really a huge opportunity for us. This is greater frequency of consumption within your existing base of consumers. I mentioned we've got this strong base that roughly has us around 11% share. What we need to do is we need to drive those folks to drink one more can a week, one more can a month, and that can really drive impressive results. You look at some of our strategies throughout the rest of the year and with some other brands, including Alani Nu have done really well, limited time offerings, we call LTOs. We mentioned that we're going to end up doing an LTO later this year for the first time. It's an excellent opportunity to drive frequency with your existing base.

Early in the week, as a matter of fact, we just announced that we're launching a new marketing initiative. It's called LIVE. FIT. GO. And if you're familiar with our brand, we say Live Fit on it. What we're attempting to do here, and we're really confident we're going to do is expand it to a broader message or a broader audience so that people that maybe aren't necessarily just hitting the gym every day that they understand that Celsius is still a brand for them. It's not just for folks that are going to the gym on a daily, weekly basis. Can I play a little video here to show you what that looks like.

[Presentation]

Toby David
Chief of Staff

So LIVE. FIT. GO. That's where we're going this year with Celsius. And that's how we're going to hit more people, more places more often. It's going to be a comprehensive 360 marketing approach. You're going to see it digital, TV, all across the board, social media.

Let's tap into Alani Nu. So many of you might not be as familiar with Alani Nu. So we acquired Alani earlier this year, closed on April 1. Alani was really -- they were right there with C4 and Ghost fighting for that #4 position within energy about 12 months ago. And they just really started to take off. We had our eye on them for a while. We loved their brand. We liked what they were doing. We feel -- I know a lot of people seem to think that there's a lot of crossover between Celsius and Alani Nu, we feel very differently about it.

You take a look at their brand positioning, it's -- their packaging is quite a bit different, the way they position their brand. It's -- while we're a 50-50 male-female split at Celsius, Alani Nu was closer to 90%. More than 90% of their social media followers are female, fun fact. Only about 1% to 2% of their followers follow Celsius. So very differentiated consumer. I would encourage you -- I know we have some product out there. If you've never tried Alani, give it a shot, it tastes very different than Celsius, totally different flavor profile.

Focused on the sugar-free options with vibrant unique flavors that resonate with that 18- to 24-year-old consumer, bright, fun, female-centric, very playful and approachable. They've really done a fantastic job with their marketing and it's quite a bit differentiated than Celsius.

So let's take a look at their portfolio. I showed you Celsius earlier. About 83% of their sales last year came from their energy drinks. They have a little bit more of a differentiated product assortment that Celsius does. We did acquire them for their energy drinks, let's be clear. That's what's growing rapidly. They have some really interesting products. These shakes. Protein, as I think many of us know, that's really on trend right now. It's going to be interesting to see the way that develops throughout the year. It's about 6% of their 2024 sales. And as you can see, they are pre-workout, snacks and other stick packs as well. But energy is certainly where it's at, and that's what we're most interested in.

All right. What's the strategic rationale? It creates a leading better-for-you functional lifestyle platform at the intersection of consumer megatrends. Sugar-free, female, I'm going to tap into that in a second.

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Those are 2 of the fastest-growing segments of energy, combines 2 growing scaled energy brands with clear category tailwinds, complementary brand positioning and attractive consumer demographics, expected to drive incremental category growth, leverages combined strengths and capabilities to drive to the next phase of growth and enhances top line growth algorithm and expect to be cash, EPS accretive in year 1.

Mentioned this earlier. We feel and we know that Alani is incremental to Celsius. Again, it shows you a little bit of the demos. But you can see even just from the images quite a bit different from one another. Celsius higher household income than the category, whereas you have Alani Nu over there, it's a little bit more of a younger consumer base, obviously predominantly female, both have very high repeat rates. The target audience for Celsius, more gender-neutral performance driven with broad appeal for everyday energy and beyond while you've got Alani more female-focused lifestyle oriented for consumers seeking a fun and approachable brand.

Creates this better-for-you functional lifestyle platform, $2 billion roughly in net revenue last year in 2024. And today, we're staring at about a 16.6% category share. So I mentioned this a little bit earlier. When you look at what's driving the energy drink category, it's sugar-free and also the female consumer. There's actually a report that came out last week that really talk so much about women are driving the energy drink growth right now. And I couldn't think of a better portfolio than Celsius and Alani Nu to really capitalize on that.

You can see sugar free for the first time last year, overtook full sugar at more than 50% of the category and that trend is only going to continue. You can see it from 2020, it started and where it's at today. So I mentioned this earlier, Celsius Holdings between Celsius and Alani Nu, that's 50% of the energy category growth last year.

We're still driving the growth, Alani Nu in particular, growing at triple digits right now. Really excited about what they're doing and really excited about the trends you're seeing from the Celsius brand, especially the last, call it, 12 to 14 weeks.

Taking a look at the Energy MULO+ with convenience is a lot of letters right there, basically, that just means the total tracked retail network, whether it's convenience, Amazon, Costco, Walmart, all of them. Take a look at Celsius. Just since Q1 of 2022, that's 10 shares, Celsius Holdings picked up in the last, call it, 3-plus years, pretty amazing right there. You see Red Bull up top at 37%, Monster there at 27.5% and we're chasing them down.

All right. Prime for growth with strong competitive advantages. Function, backed by science, a category leader in growing in health and wellness fitness segment, actually Alani Nu much like Celsius was born in fitness. GNC was the first retailer to carry Alani Nu. So you've got 2 brands are capitalizing on the health and wellness trends. Strong brand affinities, differentiated sales and marketing approach that creates significant demand, loyal consumer bases, very loyal consumer base. Actually some of the Tiktok videos that I've shown of Alani Nu consumers showing up to a Target and some of these younger females, just wipe out the entire -- all they've gotten inventory when there's new flavor launches is pretty cool.

Continuous innovation with the introduction of new flavors and products and best-in-class operations and supply chain capabilities. That's huge opportunity, I'll touch on it a little bit later. But integrating Alani Nu into Celsius Holdings, we have a really a fabulous operations team and a huge opportunity to drive synergies there.

So let's touch on the 2025 profile for Celsius Holdings. So I'm not going to go through every one of these numbers. We did hold a modeling call last week. It's on our website. I encourage all of you to take a look at it if you haven't where we kind of walked through what Alani looked like in 2023 and 2024 and maybe some expectations for '25 as we integrate it in. But you can see here they did roughly $600 million in net revenue, was 46% year-over-year growth.

I referenced it earlier, they're at triple-digit growth year-over-year right now.

So they've really accelerated things quite a bit. Something to remember when you're tracking a brand like Alani Nu, we went through this at Celsius a few years ago. There's always going to be a discrepancy -- or

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not always a lot of times, there's going to be a discrepancy between reported net revenue versus Circana or Nielsen, if you're looking at that. It's just the ebbs and flows and when orders come in and when you're in that growth phase, there's going to be a delta. So we included that just for visibility of what it looked like over the last, call it, 5 quarters. So as you're modeling things out, just keep that in your mind for perspective.

Celsius and Alani Nu pro forma 2024 financials. I referenced this earlier, close to $2 billion in net revenue last year. Gross profit margin of about 48% combined pro forma, and you can see the rest of the numbers there. So on the modeling call, Jarrod, our CFO, walked through this. I'm not going to go through every number, but we wanted to give folks an idea of how they should model things out because this is a work in process. 24 -- we said about 24 months it will take to fully integrate Alani Nu into Celsius, hopefully sooner, but give us 24 months.

There's no reason Alani Nu shouldn't have a very similar, if not the same margin profile as what you see with Celsius today. We've said they're about 2 to 3 years behind us. But you can take a look at what we're forecasting for 2025 from a margin perspective.

Right, Celsius is driving shareholder value. I mentioned the more people, the more places and the more often. So I'm not going to drive that home any further. But we're driving EBITDA margin through operational excellence initiatives designed to deliver strong cash flow generation. We came in at a 52% gross margin in Q1, which is fabulous. We'll see where we land in the remainder of the year. But like I said earlier, our ops team is best-in-class. Paul Storey, our Chief Supply Chain Officer. He led Ops at Monster previously and Rockstar previous to that. So he's got the best relationships in the business and really does a great job for us. Operational excellence driving margin expansion. We boosted innovation and production capabilities with the acquisition of Big Beverages, our contract manufacturing plant in North Carolina in November of 2024.

And I think it's been mentioned before publicly, we foresee that plant being able to, at some point, maybe do about 20% of all of our production and that should be able to represent most of our Southeast business.

Driving innovation, global procurement, supply chain and global marketing through our center of excellence in Dublin. We set that up last year, really have a fabulous team over there that's going to help us ramp up international business as well. Investing in technology and AI-assisted tools to drive sales and improve efficiencies, just like everybody else, AI is something that we're paying close attention to and we're utilizing on a daily basis. And then executing talent strategy to support our growth initiatives.

So we're going to maintain a disciplined capital allocation. You saw some of that with our acquisition of Alani Nu, we invest if you will, organic growth, invest strategically in innovation and marketing initiatives designed to accelerate organic growth and maximize productivity, strengthen our capabilities and expertise and cement foundation for sustainable growth. Two, maintain a strong balance sheet and debt pay down. Any of you have ever met John Fieldly, our CEO. He was a CFO by trade, CPA by trade. We essentially have CFOs running this company. We do not mess around when it comes to expenses and things of that nature. That's why Paul and I are staying at Motel 6 while we're in town.

Nothing like's Motel 6. Robust liquidity position with current net leverage of approximately 1x and ample cash on the balance sheet post Alani Nu transaction, strong cash flow management with the goal of reducing that leverage over time. Number three, we're going to continue to be opportunistic as far as an M&A perspective, and we're always going to evaluate opportunities. That being said, the integration of Alani Nu is our #1 priority right now. And so we're going to keep our eye on what's out there, but the enterprise right now is getting a strong integration and maximizing that opportunity.

Let's investment thesis here. Number one, a leading portfolio of premium functional beverages with strong and growing consumer demand for functional and better-for-you, zero sugar energy solutions. Again, zero sugar, you see Red Bull leaning in heavy, Monster's leaning and heavy. We're the OGs when it comes to zero sugar and Alani Nu as well, 100% of our portfolio is in sugar free. Attractively positioned to capture opportunity in the large and growing functional beverage category through strategic investments and

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innovation. Number three, robust brand equity and awareness with opportunities to expand driven by targeted marketing initiatives and a loyal consumer base.

Number four, a clear path to drive incremental revenue and profit growth through more people, more places more often.

I think that's the sixth time I've referenced that. That's how important it is to us this year, strong financial profile with a well-capitalized balance sheet enabling sustained organic growth, strategic vertical integration, technological advancements and value-accretive acquisitions.
I'm not going to run through all these because there's just a bunch of numbers that you guys can cite, not up here to sort of recite the appendix. So with that, we've got a few minutes left. I know Jon wanted me to try to take up all the time. But if I'm here for Q&A. I know we've got a breakout section here shortly. So it's up to you, Jon, how do you want to do this?

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Question and Answer

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

Yes the energy category slowed last year, and I'm just curious well you're seeing more recently and maybe more importantly, what your expectations are for 2025?

Toby David
Chief of Staff

Yes. I mean you've seen the consumer kind of bounce back as far as our category. You've seen more -- the foot traffic within convenience has improved that could be the gas prices have come down. So I think that's helped, and that's where our preponderance of energy sales come out of convenience. So that's been helpful. You know what Red Bull has leaned in into sugar-free and their LTOs. I think LTOs have really driven a lot of the category growth, whether it's Monster, Red Bull or Alani Nu for sure.

That's something that I referenced earlier, we're going to be -- I think I referenced it earlier, we're going to be launching an LTO in Q3, Q4. So I think that's driving a lot of frequency. I'd like to see -- I don't have enough data yet, but get more consumers entering the category again. I think last year, you saw that slowdown, but I think that had more to do with the macro issues. So the category is growing robustly. It was, I think, 7% in Q1. It's accelerated in the last 4 weeks.

So as we head into summer season, really excited about where the category is, where the trends are for Celsius along with some of the market initiatives that I spoke about.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

And the shelf space that [indiscernible] is that on the Celsius brand? Is that on Celsius and Alani Nu? What's the mix there? And when do those actually hit the shelf?

Toby David
Chief of Staff

Yes. The 15% to 20% reference was for core brand Celsius. That's what John Fieldly, our CEO, had referenced earlier in the year. Those have pretty much all hit the shelves. You see the shelf resets begin to take place in January and they run through May. A couple of large retailers still do hit the shelf. I feel really good about where we're at. We're going to have some innovation and launches over the summer, a couple of SKUs coming out and then we have the LTO coming out later in the year.

So we'll get some additional placements, but a bulk of that 15% to 20% have already occurred for Celsius. We haven't really spoken publicly about Alani Nu's gains this year, but they've been substantial. And I would think that there's a great opportunity for further distribution for them the remainder of the year and then into next year.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

Do you see [indiscernible] integration?

Toby David
Chief of Staff

Yes. So we're not really commenting publicly on that right now. We feel like we've got great optionality between whether it's Pepsi or the current network there in that fragmented AB, independent beer network that we had come from. That network is fabulous. They've lost a lot of key brands over the last 2 or 3 years right now. Alani quite a bit of attention there. There's pros for both networks, but we haven't made any decisions yet and there's really nothing to talk about publicly.

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Jon Robert Andersen
William Blair & Company L.L.C., Research Division

[indiscernible] beyond [indiscernible] to everyday mainstream user for more occasions. Are you -- I like the message, are you going to spending more too? Is it kind of leaning in or having enough on spending?

Toby David
Chief of Staff

Yes. I mean in the modeling call, we've talked a little bit about what the percentage of sales and marketing would be for the remainder of the year, but that's for Celsius Holdings so that includes Alani Nu. I would anticipate there's probably a little bit of additional spend that's going into that initiative. Right now, you're seeing the 2 big players spend quite a bit in marketing, in particular, Red Bull, I can't turn on TV without seeing their cartoons right now. So it's really important that we lean into this marketing campaign, and we're really confident it's going to do well for us.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

The margins points or some percentage points lower than Celsius. Is that the mix of their business where they have more nonenergy drink business? Or is it just scale?

Toby David
Chief of Staff

It's a scale. I mean, it's really where we were 2 or 3 years ago when we were roughly the same size as them. So fully -- I mean, if you look at the back of their can, their ingredients, a lot of the same ingredients, they source the cans from the same 3 big players that we do, a lot of the same manufacturing facilities that we're in. I think just -- we've got a great team, as I referenced earlier, that negotiates great rates for us.

So number one, getting them rolled into our contracts will be fantastic. But then also the scale, you're talking about going from $1.5 billion to $2-plus billion worth of buying power. So I would think that that's actually going to enhance things. So it's going to take some time. Hopefully, it's quicker than the 24 months I mentioned, but there's no reason why they shouldn't have a similar margin profile of the Celsius.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

I want [indiscernible] spend lot of Essentials years ago, labor extensions, but one of the things I hear regularly is -- and maybe part of [indiscernible] feel is a lower gapping version or hand size. Is there anything you're thinking about from innovation perspective that would maybe support [indiscernible] of the customer base.

Toby David
Chief of Staff

Yes. I mean if you take a look at Alani Nu, they actually have a smaller can that's 100 milligrams of caffeine, and it's certainly something that we're exploring for core brands Celsius as well. We look at -- our innovation team looks at a whole host of different opportunities. I would agree with you, done a lot of flavor assortment over the years. I think sometimes maybe fewer, but bigger could be an opportunity for us as we move forward and more focused national campaigns with some of these launches as well as some, what I'd term like true innovation versus flavor innovation.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

And is big beverage to that to be [indiscernible] supply 20% of your for Celsius volume or ...

Toby David
Chief of Staff

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A I would say Celsius and Alani. Yes. It has opportunity. We have 1 line in there now as it's already got some of the infrastructure set up to put a second line in there. North Carolina is, for those who don't know, it's one of the hubs for a lot of manufacturing for beverages in the U.S. There's a few co-packers right in that area, great freight lanes there to get across the Southeast United States. So yes, it's a huge opportunity for us. And obviously, that will be friendly as far as the margins when we're able to produce it yourself.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

Any of the benefits [indiscernible] Celsius.

Toby David
Chief of Staff

Maybe a little bit in Q1. Q4, not necessarily, but I think in Q1, you started to see some of that.

Jon Robert Andersen
William Blair & Company L.L.C., Research Division

We'll take it to the breakout. Thank you, Toby.

Toby David
Chief of Staff
Thank you.

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