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Company Conference Presentation

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	4

Call Participants

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Presentation

Peter K. Grom
UBS Investment Bank, Research Division

All right, everybody. Good afternoon. Welcome to the UBS Global Consumer and Retail Conference here in New York City. My name is Peter Grom. I'm the U.S. consumer staples analyst here at UBS. And we are very excited to have joining us this afternoon from Celsius, CFO, Jarrod Langhans; and Chief of Staff, Toby David. Celsius is a leader in the energy drink category and has been one of the best growth stories in our staples coverage as we speak today. Over the last year or so we've observed remarkable growth in the U.S. energy drink category with Celsius being at the forefront.
We have a lot of ground to cover in terms of format for today. I have a number of questions that I plan to run through for the majority of the conversation here. And yes, and then we can kind of go from there. But before we start, I'm required to read a legal disclaimer. As a research analyst, I'm required to provide certain disclosures relating to the nature of my own relationship and that of UBS with any company on which I express a view on this call today. These disclosures are available at www.ubs.com/disclosures. Alternatively, please reach out to me, and I can provide them to you after the call. So with that, Toby, Jarrod, thank you.

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Question and Answer

Peter K. Grom
UBS Investment Bank, Research Division

So why don't I start with the category growth? Obviously, we've seen the category return to solid growth in '25. That has continued year-to-date. What are you expecting in terms of category growth this year? And even longer term, the company has talked about the household penetration opportunity relative to other nonalcoholic ready-to-drink categories. But curious how quickly you think the energy drink industry can close that gap?

Jarrod Langhans
Chief Financial Officer

Yes. We've never publicly disclosed what we view as where we think the category is going to be. I mean we look at a number of different sources, Mintel being one of them. We certainly believe that energy is going to continue to be the biggest driver within beverage and consumer goods. What I will say about energy, though, it's really pivoted from this impulse consumption type of beverage into more of a daily lifestyle routine for folks. And I know when we were at CAGNY not too long ago, we talked about -- I believe it's 54% of all LRB, Liquid Refreshment Beverages growth is coming out of energy right now. And 85% of all consumption and growth -- excuse me, 85% of growth within energy right now is sugar-free. So I certainly think that Celsius in our portfolio is well positioned to continue to grow and the category is going to continue to grow.

Peter K. Grom
UBS Investment Bank, Research Division

Awesome. In the last few months [indiscernible] pretty topical given what's going on recently, gas prices have ticked higher, obviously, a very uneasy consumer backdrop. As it relates to the convenience channel, are you expecting or have you seen any impact to volume just given the increase in prices? Or is it kind of business as usual? And then maybe related, is there anything you've seen over time as it relates to kind of higher gas prices and the impact it has on consumption either for the channel or for your category?

Jarrod Langhans
Chief Financial Officer

Yes. Good question, Peter. From our perspective, the first couple of months of the year have been great for both brands. We see convenience as a huge opportunity for Alani this year as well as an opportunity for Celsius. The singles in convenience have been a really good growth driver for brand Celsius over the last probably 6 months or so. So we look at that -- look for that to continue to be a good channel for us this year. In terms of foot traffic and those kind of things, I think there's been a couple of reports that have come out lately. One actually came from you guys that looked at kind of correlations between foot traffic, gas prices, beverage sales.

And I think there wasn't a correlation, which is a good thing. There's another report that came out, I think, on Monday talking about foot traffic was actually up in January and February. And then one that came out last week that talked or that looked kind of back to 2022, when we saw some pressure on fuel and things like that and didn't find a correlation either and the energy category continue to grow well. So from a historical perspective, the data points point to it not being a huge issue and that energy will continue to have the opportunity to grow and kind of be the leader in non-alc beverages.

Peter K. Grom
UBS Investment Bank, Research Division

That's helpful, Jarrod, I guess a question on your business and just in terms of the sourcing of sales, right? At CAGNY, you noted the differences in the core consumer. And for the long time, your growth really wasn't coming from kind of the category leaders, but in many ways, it is coming from adjacent categories,

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bringing new consumers into the category, if you will. So is that still the case today? And maybe can you give us some perspective on each of the brands?

Jarrod Langhans
Chief Financial Officer

Yes. I think if you look at where energy is still continuing to source from, including Celsius and Alani, RTD and drip coffee still seem to be really a strong area for us to source from. A lot of opportunities continue there. The biggest coffee players in the country have conditioned their consumers to drink cold caffeinated beverages and we absolutely love that. One of the things you're seeing retailers do from just a space allocation standpoint is you're even starting to see some retailers lean in and maybe shrinking, including in convenience, shrinking the beer case. We're seeing that right now. I think maybe even next year, you'll start to see that even more if the trends continue. But yes, we're sourcing from a number of categories, whether it's hydration, coffee, premium waters. So we feel really good about -- I mean, I mentioned it out. I feel really good about the category, the strength of it. There's just so many different usage occasions for energy right now that it's continuing to source from all these different categories.

Peter K. Grom
UBS Investment Bank, Research Division

Great. A lot of changes to the business over the last year, and we'll get into a lot of that. But I think one of the bigger shifts, if you will, has been the category captainship with the Pepsi system. And so for those in the room or listening that might not be aware, can you explain what that means? How is it different to -- how the company operated several years ago? And in the few months since the change, I mean, what have been the biggest tangible benefits, if you will? And I guess as we move into the key summer selling season, what are some of the benefits or unlocks that having this captainship will allow you to achieve?

Jarrod Langhans
Chief Financial Officer

I'll jump in that. From -- we went in, in '22 into the Pepsi system and I think over the years, we've learned a lot of things. And one of the things that we've been talking about is how to strengthen that partnership and that relationship. And the captaincy really allows us to do that. So what the captaincy allows us to do is really to focus on being the insights and the growth and marketing engine of the energy category for Pepsi and allows them to use their world-class DSD system to really get the product there, get that white glove service. So we're able to use some pretty strong core competencies and really help drive North American beverages for both our brand and for their brand, and really put our portfolio to work.

It comes with other different things, so there's different priority periods that we get as a part of the captaincy. We're able to really manage the planogram for those Pepsi-controlled coolers across the U.S., whether it's in mom-and-pop shops or Walmarts or things like that across the U.S. So it allows us to have more kind of control over the marketing and management of that piece and really allows Pepsi to make sure that we've got the strongest ACV and distribution that we can get to. So it's really strengthened the partnership, given us certain things, but really think about it as more as really focused and structured so that we can win together.

Peter K. Grom
UBS Investment Bank, Research Division

Okay. And then another big change in the last year has been the acquisition of Alani Nu. So I'd be curious what you've learned in terms of the level of interaction and overlap across both the core Celsius brand and Alani Nu. I know we'll get into this a little bit more, but more recently in the data, we've observed some slowing growth for the core Celsius franchise, while growth for Alani Nu seems to be accelerating. So could there be greater overlap, particularly as you're expanding distribution and shelf reset benefits start to take hold for Alani Nu?

Jarrod Langhans
Chief Financial Officer

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So I think we went through the acquisition last year, and we announced it at CAGNY, we cited some data that really looked at the crossover consumer between Alani and Celsius. And what we observed was it was very similar to what we see with Red Bull and Monster. So it wasn't as significant as I think some people had suspected. Now fast forward 12 months, and you saw a triple-digit growth for Alani off of a pretty robust number already. And we ran the same data set to see what had changed over the past 12 months. And really, we didn't see any significant change in that data. And I think a couple of things.

Number one, if you go back to Q1 of last year, Celsius was at negative growth at that point in time year-over-year and I believe Alani was somewhere between 70% to 75% growth when we acquired them. And then what you saw was Alani accelerated into triple-digit growth and just accelerated, whereas Celsius turned the business around from negative growth into -- in Q4, we saw a 12%, 13% scanner at the register. So you saw this Alani brand really take off. And at the same time, Celsius was able to grow as well. And those are just some data points. But I think anybody who's tried the products say they taste completely different. And just like there's different male consumers, I think it's taken some time for maybe some folks to wrap their heads around the fact that there's different female consumers also. And if you try a Celsius, it's more fruit forward, that is sweet flavored and you try an Alani, Lime Slush is here, the LTO that we've got out for them right now. It's a very sweet profile, very different consumer. And when you look at the category, I mentioned it earlier, the two biggest growth drivers in the category right now are female and sugar-free. I can't think of a better portfolio that I want to have out there than both an Alani and Celsius profile.

Peter K. Grom
UBS Investment Bank, Research Division

That makes sense. And I know you don't want to make too much out of a few weeks of data but have you been able to uncover maybe why trends have been a little bit weaker for the core Celsius brand? It looks like Essentials is underperforming for a bit. And I think like -- look, I think the concern people have, especially considering the net inventory impact in 4Q, that this is a sign of things to come, particularly as the brand, right, you alluded to the fact that Celsius was declining at this point in the year and you've turned it around. So this slowdown is kind of occurring. I think people are a little bit concerned that as comparisons get more difficult, could this be a sign of things to come?

Jarrod Langhans
Chief Financial Officer

Yes. So there's a few things going on right now. So when you look at Celsius, what we're doing a couple of things. We've talked about it for probably the last 9 months or so that we were going to go through a SKU rationalization process that coincides with trying to put the fast cars on the track, which that simply means we're trying to take our highest velocity SKUs and expand their distribution as much as possible. And that's what you're seeing right now in Q1 as we're trimming the tail of the least productive SKUs. And we're a company that some people have thought was over skewed, and we're trimming that right now.

And at the same time, we're trying to take -- take Orange, for example, our top-selling SKU in the low 80s ACV. That's something we're aspiring to try to get that in the mid-90s, upper 90s ACV. But we've got a whole host of flavors that are in the mid-50s in an -- from an ACV perspective, and we want to get those up to 80% or above. So what I encourage everyone to do is over the next like 8 weeks as the data continues to roll out, take a look at our top 10 to 15 SKUs, you're going to see those continue to go up in ACV, and we're putting the most productive SKUs out there. And that's really for the health and well-being and foundation of the brand. And then what you'll see is we're going to start layering on our innovation in Q2, Q3 and Q4. And when you take a look at Q1 last year, we had 4 flavor launches in Q1 last year.

So we're lapping that with zero launches this year. And we just think this is in the best interest of the business. We've got a healthy business right now. Jarrod alluded to it earlier. We've been outpacing the category in singles and in convenience for the last 6 months, 7 months. Most months were over 20% growth in convenience. That tells me that the brand is doing very well. Essentials, yes, sure. We'd like to see that, that brand do better. That's been a little bit of a drag. I don't think that speaks to the health of Celsius. I think that's just an area of focus that we need to have this year to improve upon. But overall, we're really excited about where the brand is today and where it's going.

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Peter K. Grom
UBS Investment Bank, Research Division

Okay. No, that makes sense. And maybe in a second, I want to get to the innovation. But just on Essentials, any thoughts on maybe why it's been a little bit weaker? How committed are you to the brand?

Jarrod Langhans
Chief Financial Officer

Yes. The 16-ounce format is one that's important to us because it's a little bit different consumer. I think it's a matter of maybe some different marketing tactics and ways to differentiate that brand versus core brand Celsius. We don't want it to be viewed as just a value brand because it's 16 ounces versus 12 ounces. So that's a work in progress, and we expect for that to improve throughout the year. We're certainly not giving up on that format. But again, we're very confident in the brand Celsius, what we're seeing, the health of that brand and the growth that we're seeing in most other channels for it.

Peter K. Grom
UBS Investment Bank, Research Division

Awesome. So maybe on -- you alluded to the innovation. Can you just talk about for core Celsius, the innovation pipeline, right, Fizz-Free flavors, what should investors be looking for in the coming months?

Jarrod Langhans
Chief Financial Officer

Yes. So as far as Fizz-Free, I wouldn't classify that as true innovation. So that's -- our Fizz-Free's are noncarbonated line. We decided to do more of a marketing campaign as well as that's -- a couple of those SKUs are ones that we're really trying to expand the TDP for. We had two flavors that we launched last year that are only about 30% ACV. I would expect to see those go up quite a bit. Peach Mango is one of our top-performing SKUs. We want to grow that one as well. So Fizz-Free is more of a marketing play and trying to get further distribution there.

From an innovation standpoint, it's about cadence for us. So right now, for Alani, you see the Lime Slush is the LTO that's out. As you start to see that wind down, I would expect to see a Celsius LTO come to fruition. And then as that one winds down, I would expect for an Alani LTO to reappear. And then as that winds down, I would expect to see a Celsius LTO. So it's really about cadence for us throughout the year, make sure there's as little overlap as possible between the two brands. And really for us, this year, it's an opportunity to become much more efficient with the two brands. When we took over Alani last year, April 1, much of the promotional cadence had been set up for the year. So we had a lot of retailers that would be running overlapping promotions with Celsius. And that's obviously not a great benefit. So this year, it was really critical for us that we didn't have that overlap but instead that we were able to, between Alani, Celsius and Rockstar, make sure that one of our three portfolio brands is always on promotion, but with as little overlap as possible so we could take full advantage of it.

Peter K. Grom
UBS Investment Bank, Research Division

Great. And then maybe pivoting to the LTO strategy. I know we're going to get into this for a lot of new, but you dove into the LTO strategy with Celsius a few months back. So you could just talk about key learnings and how that informs your strategy moving forward?

Jarrod Langhans
Chief Financial Officer

Yes. I mean Alani has had quite a bit of success with the LTOs, obviously. When we've taken a look and evaluated what they've done, you obviously see the big spikes in sales, but -- and that's great. Obviously, we're capitalists here. We want to drive as much revenue as possible. But it's really about brand health and lifting the totality of the brand. So if you take a look at where Alani is typically right before an LTO versus right after, that lift big spike that you see ends up lifting the overall portfolio for Alani, and you continue to cycle that through the year, and they've had quite a bit of success with that.

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Now what we did with Spritz Vibe, the first Celsius LTO last year was it was really an opportunity for us to dip our toe in the water, not only for Celsius, but within the Pepsi distribution system before we migrated Alani over to Pepsi. And we took a lot of key learnings from that. And then we had Cherry Bomb come out for Alani, which was a very successful LTO. At the same time, took some additional key learnings so that we're going to be able to fully maximize lime slush and then future LTOs. So really excited about the LTOs that are coming out for Alani and Celsius this year. I would expect for Alani to be bigger because their community is more accustomed to them. But that doesn't mean that the Celsius ones can't drive success and lift the entire portfolio as well.

Peter K. Grom
UBS Investment Bank, Research Division

Can you just touch on the LTO strategy for Alani Nu and maybe why -- you touched on why it's been such a driver of success. But like what does it do to the broader franchise?

Jarrod Langhans
Chief Financial Officer

Well, it creates excitement within their community. I mean, if you ever log on to TikTok when some of these LTOs, and I know you're a big TikTok guy. So I know that whenever you log on to TikTok or some other social media platforms, you can see the sell -- or excuse me, Alani consumers showing up to a Target or some other retailer, and they're actually videotaping themselves, like wiping out entire inventories of a particular flavor and you hear about this quite often. So it creates excitement. I think the #1 thing that you see with LTOs, whether it's an Alani or a Red Bull or a Monster is it drives frequency of consumption within your existing base, but it also provides an opportunity to maybe recruit some new users because you've got some different fun flavors.

So when Alani we launched Cotton Candy last year, it drove incredible excitement, and I believe it brought in some -- a really nice base of consumers. And it also provides us an opportunity to evaluate those new flavors as they come out and say, you know what, that performed so well. We want to bring that back full time, which is what we did when we migrated over to Pepsi. There was 3 flavors that were LTOs early last year, Cotton Candy, Sherbet Swirl, and Strawberry Sunrise that we relaunched. And now Cotton Candy is the top-performing SKU in our portfolio, and it's only at a 40% ACV. It's really remarkable, ton of upside left.

Unknown Executive

It's about like listening to the community. So a lot of the flavors are actually born out of requests coming from listening to the consumer. And so you'll see some of these flavors come out and people are super stoked because they've been asking for them. And then some of the flavors like the Cotton Candy coming back is that was such a popular flavor and the consumer just kept asking, bring it back, bring it back. So we decided let's bring it back, and it's been great.

Peter K. Grom
UBS Investment Bank, Research Division

How do you decide that? Like, I mean, they kind of -- because they generate a lot of buzz. But then to your point, they want it more frequently. So how do you kind of make that decision around like when something becomes from an LTO to something that's more permanent?

Jarrod Langhans
Chief Financial Officer

I think it's listening to the consumer, right? So it's how well was it doing? What was the velocity looking like? What are the consumers telling us? The Lane team does a fantastic job of listening and communicating back and forth with the consumers. So there's a lot of data that we can get just from those insights and from doing different types of activities and doing different surveys and things. So they do a great job with that, and that helps us. The other thing that helped us is we -- as we were going to expand our ACV, we also wanted to expand the SKU count for Alani. So we had the opportunity to add a handful of

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SKUs. So it was just the perfect time to add those SKUs in and reward the consumer for the -- for being a good buyer of our products.

Unknown Executive

Yes. I'd also add that some of the LTOs are more seasonally based. So you typically see that later in the year with their Witch's Brew and their Winter Wonderland. I wouldn't expect us to launch a Witch's Brew in February. So we'll keep those where those are, but some of the other flavors are not as seasonally oriented, let's say. And those are the ones that you evaluate and say, okay, these makes sense to bring back.

Peter K. Grom
UBS Investment Bank, Research Division

I know plenty of people that like to celebrate Halloween and Christmas year around, so you never know. So I guess maybe just going back and just looking at Alani in totality, right? Just early observations as you've moved into the [pet season], the growth in the data has been exceptional, as you alluded to. So maybe just how would you characterize the performance of the brand relative to what you would have thought? And then I guess, what should we expect as we kind of look forward here, right? It's been very, very strong year-to-date. Toby, you alluded the fact that comparisons do get a little bit more difficult. So just how would you kind of frame growth expectations for the brand from here?

Jarrod Langhans
Chief Financial Officer

I think Alani has massive opportunity this year. They've -- I think they've outpaced probably our expectations this quickly. I certainly felt like they were a brand that could get to like a 9% or a 10% share. I don't know if I would have thought it would have been in less than 12 months. And what is really incredible about that is that's mostly without the power of the Pepsi distribution system, only a couple of months of that. We've barely scratched the surface of what we're going to get in planograms as the planogram resets actually occur in January through May. So we're barely getting into that right now.

And just from a brand awareness standpoint, I mean so many people that whenever I bring up Celsius, they say, "Oh, I love Celsius. I know Celsius. And say, well, you know a lot new and most people are scratching their head. They've never heard of a lot new before, which is a huge opportunity. That's why that's great. I love hearing that. And there are so many regional areas around the country where they're just really being underserviced right now. I mean, good luck finding a lot in New York City right now. And I think that's, again, a great opportunity for the brand. The coasts are a great opportunity. They're really strong in the central part of the U.S. So the fact that they're sitting at the market share they're sitting now, the growth they're sitting now and you have all those items that I just referenced as opportunity for future growth, it really gets us excited.

Peter K. Grom
UBS Investment Bank, Research Division

So we put some guard that probably [indiscernible] maybe just one pivot back to the LTO strategy. And I guess you're probably not going to say much on this, but I feel like I have to ask. But like anything in terms of specifics that you can share as we move into the key summer selling season number of LTOs, size relative to what you did last year? And just maybe more specifically, right, it sounds like there's -- they're coming for both brands. I guess, how do you balance the strategies around LTO for Celsius and Alani Nu?

Jarrod Langhans
Chief Financial Officer

Yes. I would say, number one, just don't believe everything you read on Reddit. So if you're on there trying to figure out what date the new LTOs are coming, be careful with that. For us, I would anticipate a similar number of LTOs for Alani this year. I mean there could be a slight modification, but I would expect something similar. For Celsius, we only had one last year. There's going to be multiple for Celsius this year. And again, this is really to drive frequency of consumption within your existing base, gain excitement,

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hopefully recruit some new users or even to re-recruit some folks that maybe had stepped away from the brand before. So that's the way we're looking at it. And then for Celsius, there's some potential for some back half of the year innovation that's not necessarily LTO driven. So we're really excited about the plans for the year and really think it's going to -- and believe it's going to uplift the entire portfolio.

Peter K. Grom
UBS Investment Bank, Research Division

Okay. And then when you think about market share, both brands have been gaining share. Longer term, is a -- is there a world where Alani has a larger share of energy drinks versus Celsius just given the momentum you just talked about?

Jarrod Langhans
Chief Financial Officer

Yes, that's a good question. They're pretty close to us right now, and I just outlaid a pretty encouraging path forward for them. I don't know if we're necessarily looking at it from that perspective. Obviously, we're aware of that dynamic. Now that we've gone from a singular brand Celsius to portfolio, it's really for us, it's about what's the health of the entire portfolio, how do we drive growth for the two brands, Celsius and Alani, how do we flatten out Rockstar before we start growing that one again in the future. And we look at it from that perspective. But you look at what Alani is doing right now, and it's -- I mean, there's a pretty significant path forward.

Now for Celsius, our goal is to get back to category growth and exceed that. If you had told me last year or the beginning of the year that Celsius would have grown 13% in scanner in Q4, I have thought, okay, that means we're probably gaining market share now with Alani growing at triple digits and Monster had a really incredible quarter as well with some lofty numbers within the category, and the category is still dynamic. As I think it comes back down to Earth, I think there's a great opportunity for us with this foundational work we're doing right now in Q1, then layering on the innovation throughout the year for Celsius to grow category share as well. So we look at it as a portfolio, we think 20% share, that's certainly not where we expect to finish the year.

Peter K. Grom
UBS Investment Bank, Research Division

Got it. And then on Rockstar, maybe just to round out the brand discussion. Can you just talk about the opportunity and if we're sitting here a year from now, what does success look like for that brand?

Unknown Executive

I'll jump in there. Yes. I mean think about this year is really about stabilizing the business. So we're rationalizing some SKUs. We're really going to focus on the core SKUs that drive the sales and drive the revenue of this business, really focus on the core consumer. So skew back and really focus on more of a male-heavy type consumer, 16-ounce and get refocused. And so kind of a year from now, it's probably too soon, but the goal is really stabilize that business and get that business back into growth. We believe it's incremental to our portfolio. It does go after a different demographic and a different consumer segment. That's actually a big segment within the energy category. So we've got a lot of people that were with Rockstar back in the day and really going back to a lot of the tactics that made Rockstar, Rockstar and really going back to that focus. And then, like I said, stability and then growth.

Peter K. Grom
UBS Investment Bank, Research Division

Great. And then maybe pivoting over to international. It's been less of a topic of discussion, but there's a lot of white space for the category, certainly a lot of white space for your portfolio. So can you just give us an update on the international strategy, key takeaways as you moved into new markets like the U.K. in recent years? And I guess, how do you assess when to make it a bigger push or a bigger priority, if you will, particularly as you just announced the new Head of International very quickly.

Jarrod Langhans

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Chief Financial Officer

Yes. I mean there's a ton of white space there, right? Our -- the #2 player is 40% international in terms of sales. So we see that as an opportunity. We're 5%. So tons of white space. We added [Garrett] recently. He's about 4 months in. So he's kind of formalizing his plan to compare against the kind of global expansion plans we had. We have been tweaking them, doing the Alani acquisition and the Rockstar acquisition, it did drive some additional priorities. So the #1 focus, obviously, is integrating these businesses and really getting that 17% shelf space for Celsius and 100-plus percent shelf space for Alani. So we're staying focused, but there is a huge global opportunity. I think as you look out 3 to 5 years, you'll see much more activity then. We're also looking at different options around that.

There's different markets that make sense to not necessarily go in with a premium finished goods model, but there could be a concentrate model or a license model or a franchise type model. So we're looking at kind of all the alternatives across the world to see what makes the most sense, and then we'll line up that timing and sequencing, but a huge opportunity for us. We did announce Iberia, so we did just launch Iberia in March. So we'll continue to add markets as we go and continue to make sure we're investing behind the markets we're in, in order for those to be successful, but definitely more to come in that area.

Peter K. Grom
UBS Investment Bank, Research Division

And then I guess on that, the dynamic we've seen in the U.S. around the energy category, zero sugar, health and wellness, female consumers, older consumers. Is that the same opportunity outside the U.S.?

Jarrod Langhans
Chief Financial Officer

Absolutely. I mean we've seen that in all the markets we've gone into, where sugar-free is growing. Female consumer is growing. That functional beverage is growing, the same kind of macro trends, healthy, better-for-you, functional, great tasting and energy are in all the markets we've been in and all the markets that we're evaluating as well.

Peter K. Grom
UBS Investment Bank, Research Division

Awesome. Just two last questions on top line. And I guess just more near term, I guess, but just last quarter, the $25 million net inventory benefit, -- maybe just, Jarrod, you spoke to the fact on the call that maybe at least quarter-to-date shipments were more in line with consumption. Is that still the case as we sit here today? And then just given that Alani is still building distribution, doing incredibly well, how should investors think about kind of the reported growth for the brand versus maybe what we observe in the track data?

Jarrod Langhans
Chief Financial Officer

So there's a couple of things there to unpack. So as had [Garrett] referenced on our earnings call, we are seeing that the Celsius scanner is looking very similar to the sell-in of Pepsi from the inventory dynamic. For aligning new, that $25 million that we had net revenue benefit that we saw in Q4, kind of see that as a little bit of a pull forward out of Q1 into Q4. I'll give you an example of why. the Cherry Bomb LTO was a Q1 phenomenon in scanner data sold completely in Q1. We loaded that into the Pepsi system in December. So we captured that revenue in December, and you won't be picking up any of that in Q1. So that was a big bulk of that $25 million. I would also just be cautious about anticipating some sort of pipe fill -- additional pipe fill. We feel like December, Pepsi, that was the full pipe that ended up coming to fruition. They've got plenty of inventory right now.

And also remember, Alani has far fewer SKUs than Celsius had when we launched in Pepsi. So it's easier for them to monitor. And as distribution ramps up and we head into the summer season, it doesn't necessarily mean that they're going to start carrying more days on hand. Days on hand is a function of what's getting sold through the system and at the retail. And we expect for that to hopefully maintain

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some sort of a linear line instead of having peaks and valleys, and we're doing the best we can to manage that with Pepsi. And we've got 4 years of experience now with the system. We've got better alignment, brought on Eric Hanson as our President, who has 26 years of work with those folks. We have two new Board members from Pepsi that really help tying us in even more with that organization. And just quite frankly, we just -- we're able to work better with them now.

And then being category captain, we're just tied even more, not just a traditional Allied brand. I mean, just being the eyes and ears and really the energy lead for them that this alignment hopefully is going to be able to mitigate some of these inventory swings that we've seen in the past. We'll see what ends up coming to fruition throughout the year. We certainly think that we're in a much better position now than we've ever been.

Peter K. Grom
UBS Investment Bank, Research Division

So it sounds like this dynamic that occurred several years ago, you don't anticipate a similar dynamic.

Jarrod Langhans
Chief Financial Officer

Yes, I hope not. So I mean, listen, we're doing the best we can with them right now. And obviously, they manage their inventory to the levels they feel are necessary. That being said, we're working very closely with them to make sure that we can mitigate that.

Peter K. Grom
UBS Investment Bank, Research Division

Okay. No, that's really helpful, guys. So maybe pivoting to profitability. And I think last quarter, you guys framed 2026 as a step-up story each quarter from 4Q from a gross margin standpoint. Can you maybe just remind folks what to expect from first half -- second half perspective? And what gives you confidence in delivering another year of margin expansion?

Jarrod Langhans
Chief Financial Officer

Yes. So we talked about in kind of Q4, if you start from there, more of a stair-step approach as you get to Q1, Q2 and then kind of back half of the year back into the low 50s. We did have some one-timers in Q4 as we were moving out of the old distribution system and into the new distribution system, obviously, that being Pepsi. So there's some scrap and returns and freight and things that are more onetime type costs. In addition, we'll have Alani fully baked into our system and our orbit model by the end of this month.

Some of that in terms of timing and sequencing, you do have some rollover of the inventory that existed for Alani inventory on our books back in kind of at the end of Q4. So there's some of that rolling in, which is why it's more of a stair step. So as you get to Q2, you'll have kind of the fully baked in Alani margin profile. Rockstar is about a quarter behind. Remember, we didn't buy them until August 28 of last year. So there's a little bit more work to be done there. They'll be fully integrated by the end of Q2. And then as we roll into the back half of next year, we'll see that benefit come through. And it's savings across freight by getting them into our orbit model. It's savings across raw materials by getting them into our supply chain and the scale that we've built within that supply chain. And then there's another -- a number of other factors that we'll see improvements upon scrap, aged inventory and those kind of things.

Peter K. Grom
UBS Investment Bank, Research Division

Awesome. And then maybe related, right, there's been a lot of discussion on aluminum, the Midwest Premium. As spot rates for aluminum have continued to rise, Midwest Premium is still going higher. How do you think about managing that exposure going forward relative to maybe what you've done historically, especially as you're kind of integrating these two brands into the system?

Jarrod Langhans

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Chief Financial Officer

Yes. So we're pulling them fully into our contracts and our supply chain. So the same tactics we use with Celsius, will be used with Alani and Rockstar. As we get scale, we will get some savings because of that scale. Some of that at the moment will have to be used to offset some of the aluminum costs and the tariffs as well. As you look at that step model, we did have kind of the increase in aluminum and the tariffs kick in, in the back half of last year. So we will be rolling over that as opposed to that being an additional cost, but now Midwest Premium has gone up a little bit. If you kind of look back 2 weeks ago when we had our earnings call, we kind of factored in those different things for the year. There is obviously some short-term, hopefully, issues that we're dealing with right now with the activity going on in the Middle East. Not ready to call that one way or the other. I'm hoping it ends quickly and we can all move on. If it doesn't, I think short term, we're comfortable. I know some people are concerned about does the Middle East get shut off completely, which is about 9% of the aluminum production. We don't currently source from there at the moment.

So short term, we're good. But as you look out into kind of 2027 and beyond, you're seeing a lot of capacity come into the system across a number of areas. And that capacity is set up to be more than enough to offset that. We're hoping that it gets -- it doesn't get turned off, that it can get going in the next couple of weeks here, and then you've got additional capacity coming into the system in '27 and '28 to be beneficial to us. If not, you're probably just looking at some short-term gaps, but there's different levers we can pull if we need to with those.

Peter K. Grom
UBS Investment Bank, Research Division

No, that's great. And I guess maybe related, right, it sounds like some of the savings will be used to offset inflation. I mean, how do you think about pricing right? A key competitor of yours has been a little bit more active on the pricing front. So I guess, as we think about '26, how are you thinking about the pricing and promo optimization for Celsius in totality? And I guess, how do you balance potential pricing opportunities against the momentum that both of your brands are seeing right now?

Jarrod Langhans
Chief Financial Officer

Yes. I mean, this year, as we were kind of getting to the middle of last year and starting to plan for this year, it's much different than we historically have done because historically, we've gone in with just one brand. And it's a completely different mentality. If you're going one brand and you're kind of getting pinched by all the other brands around you. With the portfolio, it allows us to really have not only kind of like a price pack promotion strategy, but a multi-brand price pack promotion strategy and really allows us to use revenue growth management from an exponential level.

So some of the core things we're doing, Toby mentioned it, we're working on -- you don't want to promote on top of each other. You want to promote against the competition. You don't want to help the competition. The other things we're looking at is really setting it up so that Alani is kind of our super premium play. Celsius is our premium play and Rockstar is kind of what we call premium economy play. And so there's different things we can do with that. And so we're looking at by channel, we're looking by retailer. We're looking by different demographics and also different regions in terms of how to set that up across the board. So there could be instances where we got to move some of those around. If Rockstar is higher priced in certain areas, that's not necessarily where we want it to be in the portfolio. So there's opportunity from a price pack and really promotional strategy to start driving additional margin and additional profits across the board and really drive additional velocity and additional efficiency by using that portfolio together.

Peter K. Grom
UBS Investment Bank, Research Division

Makes sense. And I guess rounding out the gross margin discussion, when you think about the long-term profile, I mean, what are the 2 or 3 most important drivers to get from where you are today from

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ultimately where you want to be? And Jarrod, I think you mentioned on earnings that you felt like there was a clear line of sight to, call it, mid-50% gross margin. How quickly can that be achieved?

Jarrod Langhans
Chief Financial Officer

So I think we said a handful of years on the call a couple of weeks ago. There's a number of tactics and levers that we'll look to pull. Some of that will depend on what the macro environment is doing. But we see additional opportunity in the cost of raw materials. We see additional opportunity in our freight lanes. We see additional opportunity in tolling charges with manufacturers. We've got a second line that will be going online in the back half of this year, really a Q4, which will give us opportunity to get additional margins. So as we continue to scale our business, having an additional line that we're operating in the same plant, which in general will drive additional efficiencies because you're driving it with 2 lines instead of 1 line. So there's different opportunities from vertical integration, from cost savings in the COGS line. And then really RGM is a big opportunity for us really with that promotional pack strategy to really drive additional margin to get into that mid-50s.

Peter K. Grom
UBS Investment Bank, Research Division

Makes sense. And I guess maybe pivoting to selling and marketing and just other opportunities for leverage. I mean you made significant investments in marketing people over the last year. As this business grows and matures into a multi-brand portfolio, how do you think about the right level of investment going forward? Like where do you see the most opportunity to drive efficiency?

Jarrod Langhans
Chief Financial Officer

You want to add that?

Unknown Executive

Yes, sure. So I think when you look from a sales and marketing perspective, I wouldn't expect for us to slow that down. We need to continue to press forward. It's a very competitive space right now. Obviously, you've got the two biggest players that invest quite a bit. One is public and another one is private and the private one is dumping quite a bit of money into the category. And then you've got so many new players coming in. And we still expect to grow. So if we want to grow, we need to continue to fuel this thing. So historically, we've been in that 22% to 24% of revenue has been our sales and marketing costs. I'd anticipate it probably being in the same neighborhood in the near future. We're going to invest in more people on the sales front. I mean you got to win in the streets. Both of those 2 large organizations have a lot of folks on the street, and we need to be competitive out there. So we're going to continue to invest there. Over time, that's something we could probably lever, but certainly not right now. I think G&A is an area that is an opportunity for us to continue to improve upon as we scale. And then even above the line that flows down is promotional allowances. I think that's an area that we can continue to work on and improve the overall margins of the company. So I think those are the areas we're going to focus on right now and continue to really press forward. We're really excited about the plans we have in place for all 3 brands really. But in order to do that, we need to continue to fund it.

Peter K. Grom
UBS Investment Bank, Research Division

Awesome. Last one from my end, and it's just maybe rounding out the discussion on capital allocation. So with this integration work largely going to be -- or expect to be behind you by midyear, like how are you thinking about your capital allocation priorities as free cash flow normalizes?

Jarrod Langhans
Chief Financial Officer

Yes. I mean we're a high cash generating business, right? So we do have a lot of cash on the balance sheet, and we'll continue to build that. There's a number of things that we'll look at. Of course, we're

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going to focus on what Toby was just talking about really investing into the growth of the businesses. International is an opportunity as well to continue to invest in that. Do we turn that on a little more as we bring [Garrett] on and as we've scaled our team in Dublin, where we've got basically a supply chain built out and really the international or global leads from a sales and marketing perspective.

We also got the debt to pay down. So we have about $700 million in debt that we'll look to continue to pay down. And then we've got a share buyback program. We've got $40 million we spent back in Q4. So we had $260 million left on that to continue to work on. So those will kind of be the top 3. And then obviously, from an opportunistic perspective, M&As will be on the table if there's something that we see that will be incremental and value add and drive value for our shareholders. That's kind of the core areas we're staying focused on.

Peter K. Grom
UBS Investment Bank, Research Division

Great. Well, we are at time. So on behalf of UBS, everyone in the room, those listening online, thank you both for being here today. We wish you nothing but the best, and we'll have lots moving forward.

Jarrod Langhans
Chief Financial Officer

Thanks a lot.

Peter K. Grom
UBS Investment Bank, Research Division
Thank you. Great to be here.

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