

**S&P Global**  
Market Intelligence

# **Celsius Holdings, Inc.**

NasdaqCM:CELH

*Company Conference Presentation*

*Tuesday, May 12, 2026 1:00 PM GMT*

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# Call Participants

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## ANALYSTS

**Bonnie Lee Herzog**  
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# Presentation

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**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Good morning, everyone. Welcome to our Staples Forum. It's a pleasure to introduce our first speakers of the day, Jarrod Langhans, CFO; and Toby David, Chief of Staff of Celsius Holdings. It's certainly an exciting time for Celsius having fully integrated the Alani Nu and Rockstar acquisitions into Pepsi distribution system, while the company's full portfolio of brands now holds an impressive 21% dollar share of the fast-growing energy drink category.

Now Celsius just released impressive Q1 results last week and has some exciting new innovation within the better-for-you functional beverage space that is poised to generate significant shelf space gains this spring. So with that, let's jump into things this morning. Welcome, you two. Thank you so much for joining us.

**Toby David**

*Chief of Staff*

Thanks for having us.

## Question and Answer

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**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

All right. So I thought we'd start off high level on the category. And it's really been on fire this year. It's incredible how fast the growth has been despite some of the macro headwinds that we've seen, and I'm thinking about lapping the tough comps from last year. So curious to hear from your perspective, really what's been driving this recent category growth? And ultimately, where has this category been sourcing from?

**Toby David**

*Chief of Staff*

Yes. I think when you take a look at the category, it's really the evolution of energy really over the last 15 years has gone from more of an impulse-driven male-oriented category, convenience store driven to it's really morphed into an occasion, a part of a lifestyle. You look at the different iterations of energy out there, sugar-free is really driving it, lifestyle. So instead of just strictly that impulse convenience, you're seeing the growth across MULO. You see it becoming part of a daily lifestyle for people, whether it's something they drink before going to the gym, pairing it with meals, later in the day just for a pick me up instead of maybe an evening to get you going for the evening or in the morning to get you going for the day.

So the category really is exceptionally strong. I think it's probably exceeded most people's expectations, even ourselves. This year coming off -- you mentioned the tough comps from last year, I thought maybe it would be in upper single digits this year. But I mean, really across the board from the 2 biggest players, including our green friends out there in Corona, they're having a tremendous year. Alani is really driving the category quite a bit. You take a step back and look at when we acquired Alani last year, I think they're about a 4% share. And you look at it today, and they're really getting close to a double-digit market share with so much room for growth to continue, still growing at 50-plus percent.

And really, the whole category, it's an exciting time. We're getting a ton of shelf space, the category as a whole, as you see other categories are getting shrunk, alcohol. I think alcohol is really the interesting one. I don't know if you'll see it as much this year in the resets, but I think even next year, as you see the consumers really -- I mean, everyone's spoken about this at length. So no reason to really dive into it. But I think you're going to continue to see energy as a category grow in space. And you'll see maybe alcohol could see some space, especially within convenience. When you're growing as much as this category is, I mean, the retailers see it. So a really exciting time within the category and the view forward is really strong.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

And that's helpful. And are you also seeing some of the existing consumers in the category consuming more? So has their usage occasion also increased once you convert or..

**Toby David**

*Chief of Staff*

Yes. I think -- I mean, there's -- you're seeing a lot of different iterations in packaging. Even Alani, for example, we have the minis out there that are maybe a different daypart later in the afternoon, people are sometimes concerned to really maybe should I have an energy drink at 3 or 4 in the afternoon. So I think having some different iterations out there are helping within our portfolio right now. But yes, you're seeing people -- I mean, it's really -- caffeine's always been a staple for a large portion of folks out there, whether we start with coffee and now with energy.

But you look at it and people really consuming energy early in the morning. But throughout the day now, it's becoming part of that lifestyle, as I mentioned earlier, whether it's going before you go to gym or

just as a pick me up in the afternoon or with the meal. So yes, you are seeing people pick up a second beverage throughout the day and the growth has been phenomenal.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

All right. Let's pivot a little bit, thinking about your results last week, impressive 138% top line growth in Q1, certainly a benefit from the Alani Nu acquisition. Thinking about your Celsius brand, growth has been a bit tempered recently. So I wanted to kind of unpack that a little bit and maybe hear from you what you see as some of the drivers more recently of some of this slowdown? Is it limited innovation, I think we've talked about before, maybe some cannibalization occurring from Alani Nu and then certainly the SKU rationalization. Anything else or...

**Jarrold Langhans**

*Chief Financial Officer*

I mean it's a bit of each of those, right? We've got an optimization project that we undertook with brand Celsius to really boost productivity, boost velocity, dollars per location. You're starting to see that come through. At the same time, we moved Alani into the distribution system. We finished integrating Alani as a business. We got significantly along the path on plan with the Rockstar business as well. So we undertook quite a bit in Q1.

I'd say probably the optimization project in terms of -- from an execution perspective, we hadn't -- we want it to be a little quicker than it was. So it's probably kind of like Eric said last week, about a 2-quarter roll as opposed to a little quicker from that perspective. So I'll let Toby talk about a few of the data points, but we had some of that. We also, from an innovation perspective, we pushed some of our innovation out to early 2027 for brand Celsius. That would have provided a little bit of a buffer when we're going through that process.

So if you kind of look at those as a mix, we did executed phenomenally on a lot of what we did, but probably there, we were a little slower than we had anticipated. As you look at our resets, they're going well. And if you look at kind of the space gains, they're going well. In addition, we're doing -- seeing a lot of permanent space gains. So think of more of coolers, what we call IVARs, which are kind of the -- they're not cold, but they're these big units that you find throughout retail, the kind of hangers. And so we're getting a lot of good space that's more permanent in nature and not kind of temporary. So that's all coming through, and we should see more or less the optimization and the space gains all completed by the end of this quarter.

**Toby David**

*Chief of Staff*

Yes. And just to piggyback off of what Jarrod mentioned, listen, we talk to folks all the time. Obviously, everybody is looking at the scanner data. The one thing that definitely want to get across today is we are really pumped about where brand Celsius is today. Obviously, everybody is looking at the revenue numbers and the tough laps and comps we have from last year, but there's really 3 things that we're looking at. First of all, through the optimization progress, we're putting those fast cars on the track. Would we like to get them there a little bit quicker? Absolutely, it's going to come.

But first of all, if you look at where we were in terms of dollars per TDP back in January and where we closed April, we're up 17% in terms of velocity, in terms of dollars per TDP. So from a velocity standpoint, strong. Number two, Jarrod mentioned the optimization project that's underway. When you look at a couple of different data points and really the health of the brand, brand Celsius. On Amazon, in the last year-to-date, we're up 23% on Amazon. That's an area where we didn't undergo a SKU rationalization because that's where we're flowing through the remainder of the product that we were optimizing out of the portfolio.

So when you look at the disconnect that you're seeing in the scanner data, it's really being driven by this optimization process and just a little bit of a short window in time versus what's really for the benefit of the portfolio and of the brand over the mid and long term. So on Amazon, we're up 27% just the last

week. So when people are looking at the scanner data and seeing a little bit of pressure right now, when you don't have the rationalization process as part of it, you're seeing strong growth. And even in New York City. So in New York City, we didn't undergo as much of a rationalization process. We kept a number of the SKUs in there because our folks up here, our distributor said, "Hey, listen, some of these are our stronger SKUs, so we're keeping them in New York City."

In New York City, we're up -- I believe it's around 23% in Q1. We're up 29% or 27% just in the last month. So really, when you take a step back, the health of the brand is really strong. This is a moment in time. We're setting up that foundation for the remainder of the year, the back half of the year. And then in '27, we have some incredible innovation we're going to layer on with these fast cars that we have on the track, the most productive SKUs. So we feel really good about where the brand is. Obviously, we don't like this little disconnect in timing, but we feel great about where the brand is today.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Got it. Two follow-ons. So the optimization, is it halfway finished? Because now you mentioned it's also going to continue lower this quarter? Or is it more than halfway done as you kind of again optimized or rationalized. And then would love to hear if you could help quantify what you're removing, the SKUs that you're removing from the Celsius brand and maybe what percentage of the mix they represent in terms of either volume or sales?

**Toby David**

*Chief of Staff*

Yes, I would say without putting a firm dollar amount on it, it's a significant chunk of revenue. I don't want to put the figure out there today. But -- and the issue that we've seen is that the SKUs fall off that we're optimizing out of the portfolio prior to when we're getting the faster-moving velocity SKUs on the track. So there is a little bit disconnect in timing. I would expect that over the next handful of weeks, you should start to see some improvement.

I do think when you look at it, and Jarrod kind of alluded to it a little bit, we have one of the larger retailers in the country without naming them. When you see -- because I know a lot of people look at TDP as an example, we're down 10% at that particular retailer in TDP. But the overall space gains that we're getting because of incremental placements, we're going to be up when the optimization is done, up 45% in total space within that store. And where we're getting that space gains from is these incremental end caps that are going to be permanent. We're getting a ton of cooler placements. So you're getting higher velocity locations in the store instead of the warm placement on the shelf.

Now the issue that we've seen is the SKUs fall off first, and then sometimes it's up to a 12-month process to get all of these -- or excuse me, 12-week process to get all these SKUs put on the shelves in these incremental placements. So unfortunately, there is this timing dynamic that we're seeing right now. But that's why we referenced at CAGNY, we are still confident about getting 17% shelf space gains in totality, but it's just taking a little bit more time, tough comps from last year. There's that disconnect in timing. That's why I wanted to reference those data points earlier because the health of the brand, Celsius, is actually really strong. And once we get this -- the whole process complete, we're going to be really set up for success.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

And then remind me because you touched on innovation, too. My understanding is it's more limited innovation this year versus prior, you had several launches behind Celsius. And now I believe you've rolled out Electric Vibe, and I think you've mentioned there's one other. Do we know what that is?

**Toby David**

*Chief of Staff*

Yes. Yes. So last year, we -- I mean -- and really for the last 3 or 4 years, we had quite a bit of innovation at Celsius, and that's part of the reason why we've undergone this optimization process. I mean we used to get questions of do you guys have too many SKUs? Maybe. And that's why we've kind of trimmed the tail. But what we're seeing right now is we've had a limited innovation launch. Now part of the reason -- logic behind that is when you're integrating a \$1 billion to \$1.5 billion Alani business into the Pepsi system, we really wanted to create an environment where we simplified that. So you weren't launching a bunch of SKUs like we did last year. I think last year, we launched 4 SKUs, 4 flavors in Q1, a couple of flavors in Q2.

So as part of the integration process with Alani, we decide, okay, let's limit the innovation for the first half of this year. Let's make sure that we get all the right Alani SKUs on the shelf as part of this integration. You're seeing a lot of success with Alani because of that, which I think is still exceeding folks' expectations because of that integration process. But because of that, we limited it for Celsius. That being said, we do have an LTO that we will be rolling out in Q3. It might have some crossover in terms of revenue into Q2 because of the timing of when we have to sell out the Pepsi system.

I don't think we've announced what that flavor is. My marketing team would kill me if I announced it up here. I'm sure folks could find it on Reddit or wherever else they're looking these days to find the innovation. But between Celsius, we do have another LTO coming out in July. We'll have another one in the back half of the year as well. And then Alani has a very robust innovation pipeline. We'll probably talk about it later, but I'll reference it now. I know we have some tough comps with Alani because of how productive they were last year with our Cotton Candy launch in June of last year.

We're going to be -- we have an LTO for them that's going to be coming out roughly around the same time that we're really excited about. I think it's going to -- it's really going to do well. We're confident in that one. So Alani, we've really maintained the same cadence and maybe even a little bit more as far as innovation this year. And for Celsius, we did limit it this year. I would expect that you'll see quite a bit more in '27 once you've had Alani fully integrated into the Pepsi system, gotten them the strong expansion that we expect this year. And again, we feel really good about the portfolio right now. We're sitting at roughly a 21% market share.

I mean think about that, 1 out of every 5 cans of energy drinks consumed today is part of our portfolio. And while I know that people are looking at the pressure that Celsius is under, it's really, I mean, almost entirely because of this optimization process. And once we get that complete, we feel great about where we're at.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

And you bring up a good point in thinking about the acquisition, you mentioned Alani's share being so much smaller. And these 2 brands, would you agree are better coexisting at this point? Any learnings from that given what are we close to a year in, in terms of putting these brands together?

**Toby David**

*Chief of Staff*

Yes, absolutely. Listen, I know that you look at Celsius, and I think we were probably the original brand that was characterized as maybe female leaning or -- and even though we were neutral 50-50. So when most women were coming into the category originally, it was really an opportunity for us to capitalize on that. You've seen some other brands come into the fold, Alani really being the most significant one. But as I always say, I know people speak about cannibalization quite a bit.

We really haven't seen up to this point any more cannibalization with Alani than we see with a Red Bull. So you look at the -- and what I'd like to talk to folks about is just try an Alani. And if you stop in and meet with us today, we have some Alani in there as well. So if you're familiar with the taste profile of the Celsius, it's a very different taste profile, has a sweeter profile more whether it's a Cotton Candy or a Pink Slush or more and more fruit forward leaning. They are a strong female demo, but a little bit it's a younger female, but that's expanding into even an older female and even some males are starting to enter the fray there.

But it's a very different taste profile. We feel like -- as you look at what's growing in the category, the 2 biggest drivers are sugar-free and female. And I can't think of a portfolio that is going to be able to lean into that any more than Celsius. So we're well positioned. Obviously, we have Rockstar as well, which we don't have a lot of conversations about them. We're still excited about what we can do with Rockstar. We're trying to temper expectations, undersell, overdeliver. That's a very different profile of very male leaning. But as far as Alani, it's a different profile than we have for Celsius. And I'd just say try the product, and you'll see it's a different consumer than it's consuming Celsius.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

You touched on this a little earlier because Alani Nu, the growth has been so robust. And you mentioned difficult comps. So ultimately, what gives you the confidence that Alani's growth is going to continue? I mean you mentioned some of the innovation. Anything else that gives you the confidence that...

**Toby David**

*Chief of Staff*

Yes, I think just distribution. They're just getting into convenience for the first time, obviously, the biggest growth driver within the category. I was in a 7-Eleven, I believe it was Sunday, but one that I happen to frequent that's by my house, I heard an ad coming over the radio or sound system within the 7-Eleven, it was talking about Alani, which always gets me excited when I hear one of our brands being advertised while I'm in there. And these retailers are really leaning in into especially convenience to the female consumer because it's a new different dynamic and drawing the female from the pump in the store now that -- prior, you had really Celsius was the only one when they might go in and consume.

Now it's Alani. Convenience is a huge opportunity for them because they're underdeveloped there within convenience. You look at geographically, I mean, they're really strong up the central part of the country, coastal. I mean, good luck in New York City right now. It's very limited. It's a huge opportunity here down in Florida, the whole East Coast, the West Coast. I talk to folks all the time, and they know Celsius. Now it's really changed. I've been with the company, it's my 14th year. Back in the day, it was more -- it was like spotting big foot when somebody actually knew what Celsius was. Now everybody knows what Celsius is.

When I tell them, oh, have you heard -- we own Alani Nu, you have to kind of like spell the name for them or they don't even understand what you're saying, you're like, this is great. I love that. That speaks to the opportunity as people are learning this brand. So there's a ton of runway left. You have the power of the Pepsi distribution system for not only the planogram traditional retail, but the up and down the street, the foodservice opportunity, the university opportunity. There's quite a bit of runway left with Alani. I think that's what's most exciting.

If you think about where this brand was last year when we acquired them. I think a lot of the folks probably listening in the room today, they had to do some quick recon back at CAGNY last year when we announced Alani Nu, like who is this brand? And you see this high growth. I think Alani was growing around 70% at that time, then accelerated in the triple-digit growth. And if you had told anybody 12 months ago, that Alani would be sitting close to double-digit market share, I think people would say, holy cow, what is the opportunity for this portfolio. And we're sitting on a 21% share today, and we certainly think there's quite a bit of runway left, not only with Alani, but as we get back to Celsius, as we get Celsius and that foundation firmed up over the next month or 2 and then get into the back half of the year and early next year, we certainly expect Celsius to grow again.

That's why I wanted to give those anecdotal data points on what you're seeing on Amazon, what you're seeing in New York City, what you're seeing with the velocity, there's, I mean, a ton of runway left with both of these brands.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

A couple of thoughts on Alani before maybe we move on. You mentioned differentiated customer for Alani. I think you mentioned that last week. So how are you expanding the reach. And then what are some of the key innovations on Alani Nu that you're excited about in the near term that you're rolling out that you can share.

**Jarrold Langhans**

*Chief Financial Officer*

Just one more thing out there that gives us confidence is if you look at as we're expanding the ACV and expanding all these distribution points, you're seeing the velocity sticking, if not even getting stronger in some places. So especially convenience where they were -- they're underdeveloped there, but the velocity is very strong there. So sometimes we get comments about a female-focused brand, how is it going to do in convenience. And as we expand into convenience, we're seeing the velocities really hold, if not strengthen. Alani has got a super strong velocity, a super loyal following.

From an LTO perspective, we've got a lot of good flavors and a lot of good things in the hopper. I think when we get to the back half of the year, when you see the Witch's Brew, we got something interesting and unique that will be coming out from that perspective. So that's something we're excited about. And the team is just -- it's such a great community, and they continue to expand that community as they expand the distribution points, and it's a very loyal following from that perspective.

**Toby David**

*Chief of Staff*

Yes. And I would just add, I mentioned Celsius' strong velocity that we've seen from January through April through this optimization project. You look at Alani, and I think the expectation from a lot of folks was as you get this really robust growth from a TDP standpoint because they were so underdeveloped in convenience, that there was an expectation that, okay, velocity will probably dip and then it will have to climb back through the remainder of the year. What we've, in fact, seen with Alani is their community is so strong and there's such a passionate base in people that want this product is that their dollars per TDP from January through April went up 13%. It actually increased, which I think was surprising to a lot of folks.

And that's again, when you talk about what gives you confidence about Alani is I think a lot of people thought, okay, as they get stretched out across the country, will it reach a tipping point, I think maybe some of the bear cases was, okay, they're going to tap out and max out. What we're seeing now is velocity increasing as they're getting all these massive TDP gains. So as people get accustomed to walking into stores and seeing a full shelf, shelf and half of Alani in convenience, there's really a huge opportunity in the back half of the year to capitalize on that with these increased velocity numbers as we're getting this higher TDP number.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. That's helpful. And one other thing I wanted to ask you about and talk about is obviously now in Pepsi systems and they're distributing it. Can you talk about or how should we think about the contra revenue on Alani Nu now that it is again being distributed by Pepsi? Will that start to increase as we think about greater distribution from Pepsi and maybe the cost of doing so.

**Jarrold Langhans**

*Chief Financial Officer*

I think it's -- like if you're talking margins, I wouldn't say there's a huge disconnect on the margin profile. From a contra perspective, it's -- there's a couple of things. There's the channel mix, there's the pack mix and then there's the DSD versus direct mix. So as we're going into places like convenience or food service or what we call OTS, which is where the metals programs are, these are locations that you really need that white glove service to get to. And so that's where we're really seeing our ACV expansion.

And so we are moving a bit into more of DSD areas with Alani. They were underdeveloped in those locations that while you don't really have access to foodservice and OTS if you don't have a blue truck or a red truck. So from that perspective, we're getting incremental space that we wouldn't have gotten. And a lot of these areas are higher velocity like Toby was talking about convenience as an example. And so from a margin profile perspective, it doesn't necessarily change the margin profile. There's a different cost structure to it. But because of the turns and because of the opportunities, it's more of an incremental play for us.

So it's -- we're seeing really good gains out of that. I think the mix that we're seeing is kind of ending up somewhere in the 60-40 range in terms of DSD versus non-DSD. They were much more developed from a direct perspective when we picked them up than Celsius was when we moved into the Pepsi system. So there was a little bit of shifting that happened where they were probably more like 50-50 DSD versus direct, and now it's more 60-40. So you saw a little bit of that happen in Q1 on the bridge. But that was really just a matter of getting into, from a mix perspective, more areas that are DSD focused as opposed to direct focused.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

I guess maybe the message is as we look at the scanner data, which you're right, a lot of us obsess over, but we've got to think potentially about hair cutting that growth that we're seeing for Alani Nu as it flows through the P&L.

**Jarrold Langhans**

*Chief Financial Officer*

Yes, from a DSD because as we're mixing a bit more into DSD, there's a little bit of a shift in terms of the -- a little bit more of the contra.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. But bottom line, long runway, innovation, channels, increased channels and further penetration, right, and shelf space.

**Toby David**

*Chief of Staff*

Even next year, I mean, the retailer meetings that we're having right now for the portfolio as we meet with some of the larger retailers in the country because these really start early around this time of the year, super productive. They're excited, obviously, about Alani and what the opportunity is there. But even with Celsius, there is a lot of excitement about what the opportunities are there. They like the innovation that we're talking about for '27. They see the stronger velocity numbers.

So as we sit here today and you're near 21% market share as a portfolio, retailers are leaning in. We're excited about next year from a distribution standpoint, I would anticipate Alani is going to continue to get very robust distribution into next year as well. So there's a lot of expectations for this year. You're seeing it flow through. But even for next year, there's quite a bit of runway left for Alani.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. And then in the context of all of this, I wanted to ask you about pricing. And maybe can you talk at a high level how you're thinking about pricing on a go-forward basis and more importantly, revenue growth management. Maybe talk a little bit about some of your capabilities, the initiatives and what you're implementing on your broader portfolio?

**Jarrold Langhans**

*Chief Financial Officer*

Yes. So for revenue growth management, it's really changing for us. So it's changed multiple times because we started out as a year ago or a year and a couple of months ago, a single brand, right? So a single strategy. As we added Alani, it was, okay, now a 2-brand strategy. And then we added Rockstar and now it's a whole portfolio strategy. So as we've been doing that, we have been building the team. It's really about people, processes and technology. There are some things -- I always say you got to do them in that order.

There are ways to speed it up. So there are things we have done. We've brought the leadership on that. They're really managing the RGM process for us and the strategy. So we've got the leadership teams in place to do that. We're working through all the processes. There's some low-hanging fruit that you can do such as looking at some different price packs, looking at kind of the sequencing. So Alani needs to be the super premium, Celsius is premium, Rockstar premium economy. So we're kind of getting that sequence in order. Those are some quick easy wins you can do, making sure that the multipacks are set up properly.

And then it's kind of going retailer by retailer or channel by channel to make sure that we structure everything properly. And also, we need to -- where we are versus our competition, right? So we don't want to be at the very top. We don't want to be at the very bottom, but there's different price points that we're working through in terms of where does each of those brands play. And that strategy will help us drive more efficiencies. Other things that are easy low-hanging fruit is not promoting on top of each other, right?

So if we're going to promote -- do a huge Alani promotion, pull back on the Celsius ones, so they're not promoting against each other. You can see that in more of like the club channels or some of the direct channels where that can be much more impactful. So being more thoughtful about those kind of things, but it is a 12- to 18-month process to get everything set up. So if you talk about August 28 of last year was just when we got Rockstar in the system. So there's some work to do, but you'll see in the back half of this year, you'll see us take advantage of some of the quick wins. And then as we go into 2027, you'll see a ton of opportunity from an RGM perspective.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Is there a way to -- I'm thinking about your promos, which you just mentioned, staggering those. If you were to kind of think through your promos today versus where they were maybe in Q4 and a year ago, are they up, down the promo spending?

**Jarrod Langhans**

*Chief Financial Officer*

It's probably fairly consistent at the moment. You'll start to see that change as we get to the back half of the year and into next year. We were just moving Pepsi -- or sorry, Alani into the Pepsi system in December. So there's only so much work you can do. And a lot of times, you have to do it during certain time periods. So you'll see some of that in the back half of the year versus kind of what you've seen now. Some of this is getting the people and the processes in place, and then we'll start moving through actual seeing changes come through.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. I wanted to ask a little bit more about the shelf space gains. I mean, I know you talked about this earlier this year about 17% space gains for Celsius and triple digits for Alani Nu. How should we think about where most of the space will come from for Celsius. I know you called out, I think, one of the larger retailers. And I think you just touched on this, Toby, I mean without saying who that retailer is. Is that where the bulk of that space, that 17% increase will come from? Or is it more evenly split on Celsius across different channels?

**Toby David**

*Chief of Staff*

Yes. I think it's going to be across the board, probably leaning a little bit more into just MULO because within -- when we talk about shelf space, and I know, unfortunately, there's only certain metrics that are privy to the public, and I know a lot of folks are looking at the TDPs. And TDPs are just how many SKUs you have in the store. So if you're actually going through a rationalization process or an optimization process, you're actually going to see a little bit of a dip in TDP. But what we're actually seeing is far more space that we're getting, and that's not going to be on the warm shelf that you're traditionally seeing in the planogram. It's going to be in your incremental placements within the store.

So as I referenced and alluded to, it's the retailer that I mentioned, which we've all heard of in this room that will go unnamed, you saw that dip in TDP, but a 45% growth in total shelf space. And a lot of times within convenience, you don't have a lot of opportunities for incremental placements in the store. You won't get a display occasionally within a 7-Eleven. But within MULO, that's where you get the opportunity for the end caps, more cooler placements, IOD and NOD, so getting displays. I think that's another big opportunity for Celsius to capitalize on and Alani this year. So you're going to see these incremental placements in stores.

And what's really important is we believe we're going to be getting higher velocity locations within these -- that 17% space gains that we referenced at CAGNY because if it's cold, it's sold is the language we always use. And if you're getting incremental cooler placements or in the front checkout coolers, and I'd much rather be there than on a warm shelf in the back corner of the store somewhere. So that's where we would anticipate mostly in MULO, but you'll see some incremental placements within convenience as well.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. And then before we run out of time, I want to pivot to gross margins, of course, which is always topical. How should we think about your cadence of margins for the rest of the year? I know you mentioned, I guess, last week that Q2 gross margins, we should think about being more in line, I believe, with Q1 or flat. And then should we expect a ramp in the back half, but maybe not getting quite to that 50%, but possibly into next year? Or how do we think about that path back to low 50% gross margins given...

**Jarrold Langhans**

*Chief Financial Officer*

Yes, that's consistent with kind of what we walked through last week. If you look at kind of the plan in terms of where we're going to get the margin expansion, if you go back to when we acquired Alani and when we acquired Rockstar, Rockstar was probably a 30% to 35% margin profile. Alani was probably low 40s. So the path to there was really if you go and kind of look at the Celsius profile from a freight perspective, we were probably 3%, 3.5% outbound freight, which we include in our gross margin.

If you looked at Alani and Rockstar, they were running between 6% and 9%. So huge gain there. So getting them into our orbit model and getting into our freight infrastructure, it also takes a lot of miles off. So even with fuel costs spiking, if you got much less miles in your orbit, you can keep those costs down. So that's a big piece. The other piece is the raw materials. Now we have seen commodity inflation. With that said, getting them into our contracts allows us to get some of those costs down. Some of those costs are already locked in. So by getting them into our contracts, we move from, call it, a more variable to a more fixed with a lot of ingredients with the conversion. We do have a little bit of pressure from the LME and from the Midwest premium, which most people do because typically, you don't lock everything out because you want to have a little bit of optionality there.

Also, when we acquired Alani, when we acquired Rockstar, some of those costs were already inflated to begin with. So you can't kind of eliminate costs that already exist. So there's some of that. Some of that was already built in. Some of that we're seeing some of the pressure because of recent spikes back in March and April. But overall, we have a path to getting them into our scale, our orbit model, our raw material purchasing, and you'll see that improve as we get into Q3 and then again, as we get into Q4. We've also got a number of other projects. So we've done some direct sourcing, but we've got opportunity to do more direct sourcing of ingredients.

We've got our second line coming on, I think, July of this year, July, August for Big Beverages. So that will be up and running fully in Q4, and then we'll get that full benefit in '27. There's some other vertical integration things we're in the middle of working on. I'm not ready to talk about them right now, but they're in process. So those will come to fruition in 2027 as well. And then we have additional opportunities from a scale perspective and then working with our manufacturers and in our orbit structure. So good line of sight to get there. A little bit of hedging because we don't know where the commodities are going. We're at kind of all-time highs. If they go above that, that could put a little bit of pressure on getting to our target.

We do see the ability to get there. Can we get there by the end of the year? Does it take a little bit into 2027. That will kind of be dependent on where we see commodities go. But we've got a good plan in place, and then we've got opportunities again in 2027 as well.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

All right. We only have a minute left, and I did want to ask a couple of things. I wanted to talk a little more on Rockstar, but maybe we should talk on international because quarter was quite impressive, 55% growth. How should we think about that business for you in the next few years? I mean we've just talked through the long runway of growth you see in the United States. But increasingly, is that going to be a bigger priority for your business? And if so, what are the advantages that you think you have to succeed?

**Jarrold Langhans**

*Chief Financial Officer*

Yes, a huge opportunity internationally. I mean you can see what the competition is doing. Same kind of macro and same kind of trends that you see here, you see there. So we think modern energy is a huge opportunity there. We're seeing with the fruit forward, with the flavor profile, with the lifestyle, with the fitness that's resonating in the markets we're going into with brand Celsius. We see the opportunity to do the same thing with brand Alani. We see sugar-free is taking -- is becoming a bigger play, especially in, let's call it, some of your more Western locations.

And then we see it even moving into kind of the EMEA region and into Asia and those kind of markets as well. So we think sugar-free is a huge opportunity. We think the female consumer will continue to be a big opportunity. And we see huge runway for both Alani and Celsius as we look out over the next 3 to 5 years from a global perspective. And we do have kind of that team built up now in Dublin that can really help launch our international expansion.

**Bonnie Lee Herzog**

*Goldman Sachs Group, Inc., Research Division*

Okay. That's great. Thank you so much for your time today. It's great catching up with both of you. Thank you.

**Toby David**

*Chief of Staff*

Thanks, Bonnie.

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