S&P Global
Market Intelligence

Celsius Holdings, Inc.

NasdaqCM:CELH

Earnings Call

Tuesday, August 6, 2024 1:00 PM GMT

Call Participants

EXECUTIVES

Jarrod Langhans
Chief Financial Officer

John Fieldly
President, CEO & Chairman

Paul Wiseman
Senior Vice President of Communications & Investor Relations

ANALYSTS

Jonathan Daniel Keypour
BofA Securities, Research Division

Kaumil S. Gajrawala
Jefferies LLC, Research Division

Mark Stiefel Astrachan
Stifel, Nicolaus & Company, Incorporated, Research Division

Michael Scott Lavery
Piper Sandler & Co., Research Division

Peter K. Grom
UBS Investment Bank, Research Division

William Bates Chappell
Truist Securities, Inc., Research Division

Presentation

Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Celsius Holdings, Inc. Second Quarter 2024 Earnings Conference Call. [Operator Instructions]

I'd now like to turn the call over to Paul Wiseman, Investor Relations. Please go ahead.

Paul Wiseman
Senior Vice President of Communications & Investor Relations

Thank you, and good morning, everyone. We appreciate you joining us today for Celsius Holdings Second Quarter 2024 Earnings Webcast. Joining me today John Fieldly, Chairman and Chief Executive Officer; Jarrod Langhans, Chief Financial Officer; and Toby David, Chief of Staff. The speakers will take questions following the prepared remarks.

The company released its second quarter earnings press release earlier this morning, and all materials are available on the company's website, ir.celsiusholdingsinc.com, as well as on SEC's website, sec.gov. As a reminder, an audio replay of this webcast will be available later today and can be accessed with the same link used to join today's webcast.

Please be aware that this discussion may contain forward-looking statements, which are based on forecasts, expectations and other information available to management at this time. These statements involve numerous risks and uncertainties, including many that are beyond the company's control. Except to the extent as required by law, Celsius Holdings undertakes no obligations and disclaims any duty to update any of these forward-looking statements. We encourage you to review in full our safe harbor statements and risk factors contained in today's press release and in our quarterly filings with the SEC for additional information, which contain a description of risks that may result in actual results differing materially from those contemplated by our forward-looking statements.

Additionally, management will share operating results on both a GAAP and non-GAAP basis. Descriptions of these non-GAAP financial measures that we use, such as non-GAAP adjusted EBITDA, and reconciliations of these measures to our results as reported in accordance with GAAP are detailed in our earnings release for the second quarter of 2024.

With that, I'd like to hand it over to Chairman and Chief Executive Officer, John Fieldly, for his prepared remarks.

John Fieldly
President, CEO & Chairman

Thank you, Paul, and good morning, everyone. I hope you've all cracked open a cold CELSIUS to kick start our early morning start time this quarter. Celsius reported record second quarter 2024 financial results this morning across revenue, profit, gross margin that broadly reflect our positive momentum in an otherwise challenging macro environment.

Despite systematic and unanticipated category growth pressure in the second quarter, Celsius was resilient and delivered delicious new innovation, expanded in-store shelf presence, and continued to bring new consumers into the category, contributing 47% of all category growth in the quarter, making Celsius the clear category growth leader.

Total revenue for the second quarter of 2024 increased 23% year-over-year to $402 million, and 2024 first half revenue increased 29% to $757.7 million. International revenue increased 30% in the second quarter to $19.6 million. Celsius achieved fantastic shelf space gains during the seasons, shelf resets, increasing our average SKU sold per store by more than 35% according to Circana's last 4-week read ending July 14, 2024, compared to the last 4 weeks ending December 3, 2023.

Within the convenience channel, our average SKUs selling per store increased 43% across the same period. While we achieved strong space gains, we also began to feel the effects of the same macroeconomic factors that are pressuring same-store sales and affecting consumer purchasing habits. Just last week, 1 of the largest convenience chains noted their same-store sales were down more than 4%. These and other factors contributed to the second quarter energy drink category slowdown.

Competition within the energy category has never been greater, which is why we continue to add resources across sales, merchandising, key accounts, and field marketing. The full-sugar energy category subset has stagnated for several years, and the growth fight has moved to the sugar-free sector, which is now approximately half of the category.

Celsius is the second largest brand within the sugar-free energy subset, and it is from here that we are driving the entire category's growth this year. We believe that we have set our business up for long-term success, but we see short-term impacts from competition and macroeconomic factors along the way.

The combination of macroeconomic headwinds, delayed resets and programs, and increased competition applied a lot of pressure to our business in the second quarter. Despite these pressures, Celsius still grew at a 10x the category growth rate in the second quarter. We responded to pressures during the quarter and saw our market share stabilize.

Now as we begin to recapture lost share, we're moving aggressively to gain our growth and momentum, and we believe that we have great programs for the back half of the third quarter and into the fourth quarter. We also expect that macroeconomic forces will continue to impact the category. With a solid set of programming, promotional programs, incentive programs, and cash in the bank, we are eager and ready to take on the challenges ahead of us.

Additionally, we are formulating several fantastic programs for 2025, including new innovation, new channel and product opportunities, international expansions and new partnerships. Our partnership with Pepsi remains strong. The added incentive program announced last quarter continues to percolate through the system and is expected to be fully ramped in the second half of this year, where we have fully incentivized our partner to lean in with us.

Celsius share in MULOC in the last 4-week period ending July 14, was 11%, an increase of 1.4% compared to the year-ago period and down 0.5 of a percentage point quarter-over-quarter. Beginning this quarter, we're going to reference Circana's new MULO Plus geography, which includes tracked channels captured in MULO and adds online retailers and club channel. We believe that when coupled with the convenience store geography, this measure better represents today's consumer purchasing habits and patterns. In addition, we have seen some shifting among the channels, and this metric will provide a more holistic category view. Celsius' share in MULO Plus with convenience as rolling 4 weeks period ending July 14, 2024, was 12.04%.

The energy drink category has always been highly competitive and right now is no different. Celsius is disrupting the category status quo and we remain resilient in our pursuit to become the world's #1 energy drink brand by growing the category through leadership, high-quality innovation and premium marketing. Our field marketing team grew by 50% in the past year. They are a driving force behind our drill deep marketing strategy, which focuses resources on the most important markets for our growth. We currently have 16 markets that are above or within 2 points of a 15% share, and our drill deep strategy is driving force behind our growth.

Looking ahead, we are implementing several programs across the back half of 2024 to invest in our growth, such as shopper marketing programs, promotional programs and investments across our marketing platforms. Similar to the top 2 competitors in the category, we believe that there is room for further pricing, and this is something we believe will benefit us in 2025, and act as an offset in commodity inflation, freight lanes, our distribution infrastructure, and our supply chain infrastructure.

Celsius launched 3 new great-tasting flavors, very refreshing, perfectly timed for summer, including CELSIUS Sparkling Watermelon Lemonade, Sparkling Kiwi Strawberry, and Sparkling Cherry Cola. I'm sure you'll see these great new Celsius Flavors poolside and at backyard cookouts throughout summer and beyond. Also CELSIUS Sparkling Green Apple Cherry launched in Canada last quarter, making 6 delicious flavors now available in the country. Three of our most popular CELSIUS Vibe flavors launched as CELSIUS On-the-Go powders in the second quarter, adding Peach Vibe, Tropical Vibe, and Arctic Vibe to the very portable and customizable energy powder form.

We are also working on some very interesting concepts for the first quarter of 2025, and more to come on that. Nontrack channels, including club, e-commerce and food service continue to be tailwinds to our overall growth. Club sales in the second quarter increased 30% to $88 million compared to $68 million in the same period of 2023.

For the 3 months ending June 30, Celsius' sales on Amazon increased 41% year-over-year to $39.9 million, up from $28.2 million in the prior year period. Celsius ended the second quarter with a 19.7% share compared to Monster with a 21.8% share and Red Bull with a 14% share according to Stackline's last 14-week period ending July 6, 2024.

Celsius performed exceptionally well on Amazon during July's Prime Day, pushing our share in the energy category on the platform to 22.1% in the last 4-week read ending July 20, and we recaptured our #1 position compared to Monster at 21.5% and Red Bull at 13.8%, according to Stackline. Approximately 12.1% of Celsius' total North America sales to PepsiCo in the quarter was to the foodservice channel with strong results in workplace, restaurants, recreation, lodging and gaming sales.

Celsius' increase in international revenue in the second quarter was driven by improved velocity and brand awareness. Growth in Canada continued to exceed our initial expectations, and the product is performing well across all platforms with notable strength in the club and convenience channels. We are running our new marketing entry playbook and building a solid foundation in gyms and fitness communities as well as making new entries into the foodservice category.

Sales of Celsius began in U.K. and Ireland in the second quarter, and we're following our international expansion playbook to see product launch with a key retailer and grow international launch. Similar to Canada, our progress in these new global markets is exceeding initial expectations. Our plans for Australia, New Zealand and France remain on track for launches later in the year, and we're expected to continue to grow our global growth strategy this year by pursuing favorable distribution partnerships in opportunistic energy drink markets.

Here in the States and abroad, Celsius' marketing and sales teams are spreading the Celsius Live Fit messaging and supporting our customers' pursuit on their own health and positive fitness lifestyles. Our 100 days of summer programming is meaningful increasing the number of eye-catching in-store displays featuring exciting Celsius marketing activations like our Ferrari F1 tied-in promotion, which is designed to increase customer trial and loyalty.

As I mentioned earlier, we continue to invest in our marketing and sales to drive continued growth and to be the most valuable beverage partner to our retail customers. In the last 12 months, we've grown our field sales team by more than 250%, and we're still hiring to drive growth in opportunistic markets.

I'll now turn the call over to Celsius' Chief Financial Officer, Jarrod Langhans.

Jarrod Langhans
Chief Financial Officer

Thank you, John. Celsius delivered another record-setting quarter, producing strong returns while we grew the business and levered in certain areas. Revenue for the 3 months ended June 30, 2024, was approximately $402 million, an increase of 23% from $326 million in the prior year period. North American revenue, which includes the United States and Canada, was $382 million, an increase of 23% from the prior year period.

International revenue grew 30% to $20 million as velocity continued to increase. We attribute our sales volume growth for the quarter to several key factors, including our ability to drive increased consumer demand, strong innovation, and excellent in-store execution by our key account and field sales teams, offset in part by inventory timing movements or days on hand associated with our largest distributor.

During the quarter, we publicly stated that the impact of the inventory movements during the middle of June was approximately $20 million to $30 million. As we closed the quarter, we saw a slight uptick in the days on hand, and as a result, the impact was at the lower end of that range. Keep in mind, the energy drink category second quarter year-over-year unit sales volume was flat.

Celsius unit sales volume increased 30.6% in the same period, increasing our unit share by 2.8 points versus a year ago. Strength in the club, e-commerce and food service channels also continued to serve as solid drivers of our revenue growth in the quarter, as did strong quarterly year-over-year share gains of 34% or 2.5 points in the convenience and gas channel.

With that said, the category overall softened in Q2 and has impacted the overall growth trajectory of the category. We have a solid foundation, and we look to continue to drive the category through innovation, bringing new consumers to the channel and increasing consumption opportunities.

Gross profit in the second quarter increased 32% to $209 million, up from $159 million in the prior year period. Gross profit margins in the second quarter were 52% of revenues compared to approximately 49% for the prior year period. The improvement in gross profit margins is attributed to reduced raw material costs and freight costs. Second quarter freight costs as a percentage of net invoice sales decreased 81 basis points year-over-year, and cost of goods sold decreased 236 basis points.

The first half of the year showed the strength of our business and our ability to leverage our supply and distribution systems. As we look to the second half of the year, we have a number of key drivers that we are monitoring such as raw materials, including the specific commodity cost of aluminum and fuel. In addition, we will invest in growth with a wider promotional incentive calendar. As a result, we are sticking with a conservative approach for the remainder of the year and target gross margins in the high 40s to 50 range in the back half of the year.

Sales and marketing expenses for the second quarter came in within our targeted range of 20% to 23% at 22.6% of revenue. We continued to hire across sales and marketing in the second quarter and would look to these new employees to assist us in further driving growth and share gains as we look across the back half of the year and into 2025.

As we look to Q3, with the timing of some of our programs, we anticipate that our spend will likely move above the high end of the range for the quarter as we further train our newer workforce and implement in test market some additional tactics. Based on the success of these tactics, we will adjust our spending across Q4 and into 2025.

General and administrative expenses for the second quarter of 2024 were approximately $24 million, a decrease of 24% relative to Q2 2023, when we incurred a $7.9 million legal charge. As a percentage of sales, G&A was 6% compared to 10% in the prior year period, as we continue to leverage and due to the lower third-party costs such as legal fees. As we look across the remainder of the year, we anticipate some ebbs and flows within G&A, but we remain confident that we'll be able to leverage this area relative to the prior year. Non-GAAP adjusted EBITDA increased 29% to approximately $100 million in the second quarter, compared to $78 million in the prior year period, driven by our solid top line growth and gross margin profile.

Net income increased 55% to approximately $80 million in the quarter ended June 30, 2024, compared to approximately $52 million in the prior year period. Net income attributed to common shareholders increased 63% to approximately $67 million in the quarter or $0.28 per diluted share compared to $0.17 in the prior year period.

Revenue for the 6 months ended June 30, 2024, was approximately $758 million, an increase of 29% from $586 million for the 6 months ended June 30, 2023. North America revenue year-to-date was $722 million, an increase of 29% from the same period in 2023. International revenue grew 36% to $36 million in the first 6 months of the year.

Gross profit margins in the first 6 months were approximately 51.6% of revenues compared to approximately 46.6% for the prior year period. The improvement in gross profit margin in the first half of 2024 is attributable to favorable freight and raw material costs. As a percentage of sales, sales and marketing was 22% in the first 6 months of 2024 compared to 19% in the prior year period. G&A expense as a percentage of sales was 6% in the first 6 months of 2024 compared to 9% in the prior year period. Non-GAAP adjusted EBITDA increased 48% to approximately $188 million year-to-date compared to $127 million in the prior year period. Net income increased 70% to $158 million in the first half of 2024 compared to $93 million in the prior year period. Net income attributed to common shareholders increased 82% to $132 million in the first half of 2024 or $0.55 per diluted share compared to $0.31 in the prior year period.

We ended the quarter with approximately $903 million of cash on hand, which continues to accrue interest and remains available for strategic growth initiatives.
This concludes our prepared remarks. Operator, you may now open the lines for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Kaumil Gajrawala with Jefferies.

Kaumil S. Gajrawala
Jefferies LLC, Research Division

I see that on the 1st of August, there were some new sort of employment agreements, which included an amendment related to change in control. Can you maybe just talk about what the purpose is or what's different there?

John Fieldly
President, CEO & Chairman

Yes. Good morning, Kaumil. Hope everything is going well. We did have some change in regards to change of control, which the compensation committee conducted a review to standardize the executive team in accordance to similar standards within change of control associated with the employment agreements that we have.

Jarrod Langhans
Chief Financial Officer

Yes. So just add a little bit more clarity on that. John and I had agreements in place. And as we're expanding globally and shifting some of the responsibilities with our team, you'll have seen earlier in the year, where we announced some changes in the leadership with Tony Guilfoyle taking the Chief Commercial Officer role, Paul Storey taking the Chief Supply Chain Officer role, Kyle Watson taking the Chief Marketing Officer role, and then we've also added Richard in Q4 of last year taking on the CLO role. So I look at it as more of an administrative thing of getting everybody up to par with where John and I are in terms of the severance packages and change of control.

Kaumil S. Gajrawala
Jefferies LLC, Research Division

Okay. Great. And you mentioned some specifics on stabilizing of market share and such. Could you maybe just give us some more details on July or what you're seeing specifically?

John Fieldly
President, CEO & Chairman

Yes. When you look at the quarter, as we mentioned on the prior comments, we saw some share loss on the weekly data and data that come in through 11 to 10. There's been a lot of competition in the category, and also the consumers challenges we're seeing in the environment. I talked about on the prescript about 1 of the largest convenience store chains seeing sales down 4%. So there's some challenges within the overall consumer. We're really trying to understand that. We're going to put some additional strategic targeted investments, both on top line and below the line to continue to drive growth within our portfolio.

When you look at the share in our weekly reads, it can be manipulated or not manipulated, but you're seeing a lot of -- there's a variety of timing of promotions, prior year cycling, as well as innovation from some competition there. So when you look at it, we are still the category driver at 47%, and we're looking for the category to continue to grow. We know we are in a growth category, we have a great portfolio, we're leading the sugar-free growth movement, and we're confident in the strategies we have. We're driving over 10% growth compared to the category.

So July, we did see further softness within the category within the Circana scan data. We're watching that closely. And there's a lots in the fourth quarter to pick up and get back into growth mode. But that's a little bit further out, and we really need to be cautious as we go forward and really continue to drive new consumers to the Celsius portfolio. We have 1 of the most refreshing brands and portfolios and new flavors in the category we feel.

Operator

Your next question comes from the line of Mark Astrachan with Stifel.

Mark Stiefel Astrachan
Stifel, Nicolaus & Company, Incorporated, Research Division

Yes. I guess first question is probably 1 that we get most frequently, which is why is Celsius' growth meaningfully ahead of the category, yet your market share has contracted? If you look at the last 6 weeks as an example, I think Celsius is something like 15% in the expanded Circana data, that compares to 1% growth for the category, and yet market share is down, call it, 20 bps in the last couple of weeks versus the 6-week average. Is there anything that you can highlight there that you think would impact those numbers given, obviously, that you're growing faster than the category and the share suggests otherwise.

John Fieldly
President, CEO & Chairman

Yes. I think when you look at the other brands within the category, especially when you look at Red Bull, Red Bull had some great launches and gained some share points recently. So when you look at -- there's such a large dollar as a percentage of the total category, even though we're growing 10x the category growth rate, 1 share growth or 1.5 share growth kind of on the mix of that will impact those figures.

Mark Stiefel Astrachan
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then maybe thinking about things a bit longer term, does that normalize, does your market share stabilize, start to improve? I know you don't want to give guidance, but I'm talking more big picture kind of directionally. And then like related to that, is there anything in your data that you're seeing to suggest that consumers are switching from Celsius to these other brands?

John Fieldly
President, CEO & Chairman

Yes. I think when you look at -- everyone is very focused on the 1 week, we're watching 1 week, 4 weeks, 12 weeks. I mean, we're watching the data very closely. We're seeing there is a variety of new innovation that comes in. It does get trial, but we do see consumers come back. So I think we have a really strong loyal consumer base. As consumers become more price sensitive, those promotional pricing strategies that the other brands are doing, how does that impact the consumer as we're entering?

At this point, if you look at LRB, water is up. There's a variety of things that are happening in total LRB, within the categories as well. So we're seeing indicating that private label sales are up in other categories. So I think we're optimally cautious as we go forward. But I think when you look at the brand positioning, you look at the tailwinds we have, the functional ingredients, the positioning of our fitness lifestyle or great flavor innovation, and the consumers that we're bringing into the category, we're still driving great value for consumers and within premiumization in the energy category.

So the share number goes, we're keeping an eye on it. Obviously, we want to grow share. When you look at where we are on Amazon to where we are holistically on track channels, there's a huge opportunity. And then if you look at other markets, we're over 15% share. That gives us great confidence and the ability to close those gaps, especially with the largest resets we've seen that we just received this year. So settling these resets and continue to build upon that. We got great relationships with our retailers. And we're driving excitement. I mean, our retail partners are really excited about Celsius portfolio and what we offer.

Mark Stiefel Astrachan
Stifel, Nicolaus & Company, Incorporated, Research Division

And just on the share, not to put you on the spot, but could you wager to guess when you might start to see that stabilization there and sales and market share kind of look the same?

John Fieldly
President, CEO & Chairman

I mean, we're not going to provide forward-looking guidance on that, but we've exceeded 10 shares we said. And you look at the Amazon number. I assure you our teams are looking to close the gaps. We're looking to bring more markets over the 15% share target. We're expanding our drill deep strategy. We're further focusing on additional markets to really give those through. We have a variety of markets that are within 2 share points of closing that gap. So we're working on that, especially during the 100 days of summer. .

There's so many other variables on the share number that happen on a weekly, 4-week, 12-week reads, but we're confident in the long position and the trajectory of the company to be a leader in the energy drink category, both domestically and abroad. So I think that's the trajectory, how quickly we get there. That's timing and sequencing. There's a lot of other headwinds that we have against us as we go forward. But what we do know, sugar-free has now been 50% of the energy drink category for the first time. So the tailwinds that we have are moving in that direction, and we're looking to be a leader in the sugar-free segment.

Operator

Your next question comes from the line of Michael Lavery with Piper Sandler.

Michael Scott Lavery
Piper Sandler & Co., Research Division

I might just start with a follow-up on Mark's question. I appreciate that the 15-or-so percent year-over-year growth and the 1-or-so-percent year-over-year category growth is year-over-year, so it's kind of an apples and oranges to the sequential share moves. Your year-over-year share, of course, is up very nicely, but on a sequential basis, it's a secure momentum. Even if it's a little lumpy, it's certainly slower.

How then, I guess, do you think about pricing? You mentioned that this is slated to come maybe later this year or early next. And I appreciate the aluminum cost pressure, but with sugar-free portfolio, you get some relief on sugar costs. I guess what's just some of how you think about the pricing approach and any more specifics you can give there?

John Fieldly
President, CEO & Chairman

Yes. I mean, as I mentioned in the prepared remarks, 2 of the top competitors are taking pricing. We're going to maintain our premium position in the category, but we're also being cautious about that as well, because we're keeping a close eye on the consumers, where they're shopping, and the patterns that we're seeing. So our pricing promotional strategy and architecture is really key as we go forward.

As we mentioned in the prepared remarks, we have a variety of retail marketing programs we're working on, working closely with retailers, and increasing our investments in the third quarter as well. So I think as we continue to move forward, the teams are doing a great job. We're building out our sales force and our staff, and we're going to continue to -- our main focus is to drive share and to drive share profitably and continue to build this brand and take it to more consumers looking to live a healthy active lifestyle and let it resonate.

If you look at some of our partners we've expanded with like Noah Lyles did an amazing job with the race over the weekend, World Champion, Olympic Champion, Gold. Our brand is resonating, and it's resonating with a broader consumer than ever before. So we're getting some headwinds in regards to the environment that we're in, but we're going to prevail and come out strong on the other side. And we see great opportunities ahead.

Michael Scott Lavery

Piper Sandler & Co., Research Division

No, that consumer traction is certainly clear, we see that. Just as we've heard from a lot of companies, how the -- at least certain consumers, certain cohorts of consumers are under some pressure. Assumingly, that's part of what's driving your strength on Amazon, where it's a bigger bulk pack at a better value per can. Have you seen that shift -- C-store obviously is under pressure. Amazon is your kind of best performing channel. Are you seeing that accelerate? Was it just sort of Prime Day related that might have given a boost there? Maybe just help us understand some of the channel dynamics and what you're seeing?

John Fieldly
President, CEO & Chairman

Yes. I mean, it is interesting. We were doing -- when you look at Amazon, even the club business. Club business is doing really well. That's a larger pack size. So on a per can basis, you get some value there, but it's also a big dollar rate on a unit purchase when you look at that. So those are things we're understanding. We're trying to understand the change in consumer patterns. I think what you saw for the first time, when you look at like sales mix, the MULOC Plus convenience, which includes Amazon and club and all reported channels, convenience as a percent of total energy drink sales were down again.

So it seems to be consumers are purchasing in expanded channels. And I think what's great about Celsius, when you look at those other channels that were club and also Amazon, we overperformed there. So we have embraced an omnichannel world from the beginning, and consumers want it, when they want it, how they want it, we've embraced that. So I think we're in a great position as consumers look to adapt to their purchasing patterns and some of the channels that they're purchasing in, and we're going to capture that. But those are dynamics we're looking at. When the consumer is challenged, maybe go to more of a unit purchase, right, a lower dollar basket range versus a larger. So those are things we're watching closely and you're spot on.

Operator

Your next question comes from the line of Jonathan Keypour with Bank of America.

Jonathan Daniel Keypour
BofA Securities, Research Division

So the first question I have is about shipments versus consumption. On the last call, you guys pointed out that there was a $20 million drag from Pepsi tweaking its inventories on efficiencies. And then you said there would be a similar drag in 2Q, and then I guess, after a conference intra-quarter, you mentioned another $20 million to $30 million. So I think people were coming into this quarter expecting there was some kind of drag from shipment timing. I'm just wondering if you guys can size that for us, so we can get a sense of what it actually ended up being in the quarter?

John Fieldly
President, CEO & Chairman

Yes, Jon, I'll let Jarrod kind of dive into that, because in regards to our main partner as well as retail shipments, we do see some fluctuation that we've experienced last several quarters. We'll talk about that. So this quarter will be no different, but I'll turn it over to Jarrod.

Jarrod Langhans
Chief Financial Officer

Yes. So I mentioned in the prepared remarks and back in June that there was kind of a potential $20 million to $30 million headwind because of the DOH changes. So that ended up on the back half of -- so the lower end of that range, so more in the $20 million to $25 million range as opposed to the higher end of the range. So that's where we ended the quarter when it relates to that piece.

Jonathan Daniel Keypour
BofA Securities, Research Division

Okay. And should we expect anything -- I guess, it's going to be the continuing $20 million that you guys mentioned in 1Q, that will carry through 3Q and 4Q as well, correct, on a year-over-year basis?

Jarrod Langhans
Chief Financial Officer

Yes. I mean, we'll have to see where it ends up. It's from their perspective. They're the 1 managing their inventory. So we'll have to see where they end up where we are today. I think we're in pretty good shape.

Jonathan Daniel Keypour
BofA Securities, Research Division

Cool. And then if I can, it looks like, based on the Nielsen data, at least, shelf resets are done, I think you guys mentioned that they were -- so the question is like when you look at the velocity data, it makes sense that you guys are getting new shelf space. TDPs go up, so velocity comes down, that's mathematically sensible. But now that the shelf resets appear to be done, we're still seeing sequential velocity decline. I was just looking at the recent 1 week Nielsen data that came out. It looks like the decline continues, and it's a little bit steeper than the category itself. So I'm wondering if there's anything you guys can point to about why -- I don't know if it's a timing -- I know that the shelf resets were pushed out. I don't know if it's an activation thing and maybe August will kind of recover some of that. Just anything you can give us on potentially why the velocity has been somewhat sluggish to date and what we can expect going through the rest of the summer?

Jarrod Langhans
Chief Financial Officer

Yes. I think there's a couple of things. It's timing and sequencing. You saw something similar back at the end of '22 and the beginning of '23, when we saw some pretty big pickups as we moved into the Pepsi system. So unfortunately, the Celsius bus doesn't pull up and dump out all the Celsius consumers right away when we see the reset. So it's something that there's some timing and sequencing there. There was some delays in some of the resets, which also delayed some of our promotional activity, but we've got a really good promotional incentive calendar in Q3 and Q4, in the back half of Q3 and throughout Q4.

So we're looking to get those velocities turned around now that we've got the space. We didn't want to start pushing a lot of stuff and a lot of activity before we got the space, because then that would just do the math, and we want to make sure we're getting the ROI on these activities. So we do got a lot of good programs in place, so that we can start pulling the Celsius bus up to the curve and start getting the velocity improving.

John Fieldly
President, CEO & Chairman

Yes. And I think you just got to be cautious with the -- there's a lot of noise in the weekly data, right, and the weekly reads, especially. You need to pay attention to what promos were prior year. There's just a lot of noise there. I think we've got great strategies, we've got great positioning, and we've been holding right around that 11% share. It's been going up and down. So we're holding. We need to continue to take it to the next level. And that's what the teams are working on this summer.

Jonathan Daniel Keypour
BofA Securities, Research Division

Got it. And it sounds like you guys have -- you mentioned some of your sponsorships and things like that. It sounds like you have a lot more in the pipe than you did last year. So it stands to reason that Q3 and Q4 should see probably more resilient velocities in shares than last year. I mean, last year from September through December, there was a little bit of a drop-off, makes sense. It seems like that's probably less likely this year. Is that fair to say?

John Fieldly
President, CEO & Chairman

I mean, we're focused on driving share. When you look at it at this point, when the category was it last week, it was down for the first time on that weekly read. So those are challenges. We're driving the category growth rate. The category is not growing. We're over-indexing with new to category.

So we need this category to get back to growth rate, and that's a big area we're focusing on. And we want to drive more consumers to the category. That's what we're working with our retailers on doing that. We got some great programs coming out this summer. Talked about refreshing barbecues, some great new flavors, crack-a-cold CELSIUS, a variety of marketing programs that we have, and new tentpole programs, wrapping that around with retailer and new consumer segments. So we're confident in our position. And as the back half of this year, I think it's going to be an exciting time for Celsius.

Operator

Your next question comes from the line of Bill Chappell with Truist.

William Bates Chappell
Truist Securities, Inc., Research Division

Just a little bit more commentary about kind of the -- and I know this is kind of a best guess, but the slowing of the overall category, any thoughts of why that's happening now, what you're seeing? Is it consumer preferences to other categories? Is it weather? Just trying to understand why the overall category is starting to see some softness over these past 3, 4 months?

John Fieldly
President, CEO & Chairman

Yes. No, when we're looking at total LRB data, so that's Liquid Refrigerated Beverages, and you look at some of the segments from energy to CSDs to water, sports drinks, teas and juices, we're still seeing the pressure of decreases coming from juices and coffee and tea. Sports drinks has picked up the last -- if you look at July 14, starting to see more growth in sports drinks. And then water, we saw growth as well as CSDs. So in the energy category, on a 4-week read, looking at July 14, was up about 2%. So much slower than the growth rate we saw in the first quarter of this year and obviously versus the prior year.

So those are things we're seeing. It looks like overall, the category is. consumers are maybe taking a pause. There's a lot of pressures from interest rates. We know the pressures are out there within the news and you guys are watching the consumers extremely closely, just like we are. I think at the end of the day, the energy category has a massive upside potential to grow and to continue to grow. It is truly a functional beverage that's aligned with lifestyles these days and Celsius is positioned to capture that.

So I think we're just cycling great growth rates in the energy category from last year as well. So we need to be cognizant of that and see how this plays out in the back half. I think a lot of people are optimistic for Q4, but time will tell.

William Bates Chappell
Truist Securities, Inc., Research Division

Okay. Great. And then just as you're looking, and you might have touched upon this kind of the growth year-to-date, have the newer flavored products been as incremental as you would have expected, better than expected? Just trying to understand what's driving the growth? Is it kind of the core offerings? Or are you really seeing kind of expanding the usage with some of the new offerings?

John Fieldly
President, CEO & Chairman

We've got a variety of new flavors out there. It's a combination. We have a total portfolio play that we're leveraging. We talked about some of the new flavors, the Sparkling Watermelon Lemonade, which is amazing, the Kiwi Strawberry, and our Cherry Cola. So it's a combination of how that portfolio works together. We're driving the total portfolio, not a specific flavor, but we do have lead launches with key retailers on flavors, although like a Cherry Cola launches. It's at AMP as a lead launch. So it's a new flavor also available on Amazon and Vitamin Shoppe.

If you haven't tried it, I suggest you try it, it's a really great flavor. But as we look at it, we're really driving our total portfolio. And then you have our Celsius Essentials as a great innovation in 16-ounce offering. That's performed very well since launch, and we're going to continue to grow upon that.

Operator

The next question comes from the line of Peter Grom with UBS.

Peter K. Grom
UBS Investment Bank, Research Division

Maybe 1 housekeeping and 1 bigger picture question here. I mean maybe just to start going back to Jonathan's question, just the Pepsi inventory dynamic. Like I just want to be clear, should we expect another headwind as it pertains to 3Q to kind of take what we're seeing in the track data and then kind of back that $20 million headwind? Or do you anticipate that track data in your reported sales would be more aligned. I just wanted to clarify that. I know there's a lot of moving pieces in 3Q and 4Q. So I think just unpacking that would be helpful.

And then just bigger picture, I guess I would love to get some perspective on innovation and kind of future shelf space. I mean, we touched on Essentials in the release. It reads pretty positive, but the share data has kind of largely been flat for some time. And you touched on some new innovation. But with total company share performance flattish or down sequentially, Essentials kind of flat, how does what you're seeing now inform your view on how much shelf space you may get looking ahead?

I'm just trying to get a sense of how you see shelf space evolving? Whether you're confident retailers are going to give you the incremental space for innovation that you intend to bring to market, just given the trends we're kind of seeing today?

John Fieldly
President, CEO & Chairman

I'll let Jarrod talk about the inventory, and I'll take on innovation.

Jarrod Langhans
Chief Financial Officer

So like I said, it was $20 million to $30 million when we were talking in June, ended up closer to the lower end of that range. Time will tell as we get to Q3 in terms of where we land. I think in mid-June, we were at a good point in terms of providing what we expected. I think we'll have to see where we go. So unfortunately, I can't predict what our partners will do. That's really up to them to continue to optimize their system. And if it's fully optimized, then we'll be in good shape. But there's still some flexibility within that system for them to further optimize. We'll have to see where that goes.

John Fieldly
President, CEO & Chairman

In regards to innovation, Peter, really setting it up for next year. I think what's really key is that we continue to drive the category growth rate, right, and outpacing the category. I think as we continue to do that, we have a really good selling story to retailers that, number one, we're incremental. We have data that supports that. And you're driving the category growth rate within sugar-free. Those are megatrends within the category.

We have a lot of great innovation planned for 2025, which we're really excited about. And we actually just started initial discussions with a variety of key retailers for next year, so that have been fairly positive. So we're just kicking some of those off. We're really close to our retailers. And so I think we're in good shape as it stands now. There's a lot of time left before now and the resets for next year. But I think we're in a really good position, and our selling story is really strong, why retailers need more Celsius and what we offer and bring to them.

Also, when you look at innovation, our On-the-Go powder offerings, huge opportunity there, done extremely well in a variety of national retailers. And we're going to continue to build upon that. So we got great innovation coming for '25. When you look at On-the-Go beyond the can and the growth within water bottles and Stanley cups and a variety of other packages out there as consumers move beyond plastics, so we want to be part of that and offer that energy offering. And it's been great acceptance within that.

Operator

I will now turn the call back over to John Fieldly for closing remarks. Please go ahead.

John Fieldly
President, CEO & Chairman

Thank you, operator, and thank you, everyone, for attending our webcast this morning. Our comments today convey the confidence we maintain in our company's strength and long-term growth potential. No other brand in the last decade has disrupted the category like Celsius and we are as well or better positioned than anyone else to capture new consumers and remain the energy drink growth driver. We have excellent high-quality products that outperform with taste and refreshment, a long runway, both domestically and internationally, and this season's strong shelf resets are tailwinds for us to capture greater share.

Thank you to all of our employees, investors, our partners, and our customers for their unwavering effort and achievement and a vision to become the #1 energy drink brand in the world.

To all, have a safe and healthy summer. Grab a refreshing CELSIUS and lift it.

Operator
Ladies and gentlemen, that concludes today's conference. Thank you all for joining, and you may now disconnect.