

S&P Global
Market Intelligence

Celsius Holdings, Inc.

NasdaqCM:CELH

Earnings Call

Thursday, November 6, 2025 1:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	8

Call Participants

EXECUTIVES

Jarrold Langhans
Chief Financial Officer

John Fieldly
CEO & Chairman

Paul Wiseman
*Senior Vice President of
Communications & Investor
Relations*

ANALYSTS

Bonnie Lee Herzog
*Goldman Sachs Group, Inc.,
Research Division*

Eric Adam Serotta
Morgan Stanley, Research Division

Gerald John Pascarelli
*Needham & Company, LLC,
Research Division*

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

Kaumil S. Gajrawala
Jefferies LLC, Research Division

Michael Scott Lavery
*Piper Sandler & Co., Research
Division*

Sean Patrick McGowan
*ROTH Capital Partners, LLC,
Research Division*

Presentation

Operator

Good morning, and welcome to the Celsius Holdings Third Quarter 2025 Earnings Conference Call.
[Operator Instructions]

I will now hand the call over to Paul Wiseman, Investor Relations. Please go ahead.

Paul Wiseman

Senior Vice President of Communications & Investor Relations

Good morning, and thank you for joining Celsius Holdings Third Quarter 2025 Earnings Webcast. With me today are John Fieldly, Chairman and CEO; Jarrod Langhans, Chief Financial Officer; and Toby David, Chief of Staff.

We'll take questions following the prepared remarks. Our third quarter earnings press release was issued this morning with all materials available on our website, ir.celsiusholdingsinc.com and on the SEC's website, sec.gov. An audio replay of this webcast will also be accessible later today.

Today's discussion includes forward-looking statements based on our current expectations and information. These statements involve risks and uncertainties many beyond the company's control. Celsius Holdings disclaims any duty to update forward-looking statements, except as required by law.

Please review our safe harbor statements and risk factors in today's press release and in our most recent filings with the SEC, which contain additional information and a description of risks that may result in actual results differing materially from those contemplated by our forward-looking statements. We will present results on both a GAAP and non-GAAP basis. Non-GAAP measures like adjusted EBITDA, adjusted EBITDA margin, adjusted diluted earnings per share, adjusted SG&A and adjusted SG&A as a percentage of revenue and their GAAP reconciliations are detailed in our Q3 earnings release, and non-GAAP financial measures should not be used as a substitute for our results reported in accordance with GAAP.

With that, I'll turn it over to John.

John Fieldly

CEO & Chairman

Thank you, Paul. Good morning, everyone, and thank you for joining us today. The third quarter of 2025 was another pivotal period in what continues to be a transformational year for Celsius Holdings, setting the stage for our next phase of growth.

Building on the Alani Nu acquisition in April and our ongoing international expansion, we've deepened our partnership with PepsiCo, added Rockstar Energy to create a total energy portfolio and strengthened our leadership team to lead the next era of modern energy.

Before getting into the highlights of our business, I want to thank our employees, our retail and distribution partners and our loyal consumers for their commitment and belief in what we're building. Their energy continues to drive ours. In August, we announced an important expansion of our long-term partnership with PepsiCo, a milestone that deepens our collaboration and establishes Celsius Holdings as PepsiCo's U.S. Strategic Energy Drink Captain. This new role gives Celsius a leadership position within PepsiCo's energy portfolio and greater control over the distribution of our leading portfolio of brands, including Celsius, Alani Nu and now Rockstar Energy.

With the expanded partnership, we're further increasing our ability to shape planograms, prioritize SKUs, align promotional periods and bring a unified commercial strategy to life across channels. In short, we're helping lead how energy shows up in retail for the consumer from the aisle to the checkout cooler and everywhere in between. As part of the same transaction, a large portion of the U.S. Alani Nu-based DSD network is joining the PepsiCo distribution network starting December 1, 2025, a move that over time is expected to expand Alani Nu's reach and accelerate its growth trajectory.

For Celsius Holdings, this is a meaningful near-term catalyst, and we intend to execute the transition with the same efficiency that made our original Celsius integration into PepsiCo's leading distribution system a success. We also acquired the Rockstar Energy brand in the U.S. and Canada at the end of August, adding one of the most recognizable brands in energy to our total energy portfolio.

Rockstar extends our reach into new consumer segments and strengthens our ability to serve a broader spectrum of energy consumers from fitness to lifestyle to culture and music. Together, we believe that these steps, category accountancy, Alani Nu's expanded distribution and the Rockstar acquisition represent a meaningful advancement for our company. It gives us greater scale, control and the platform to compete from a position of strength.

Importantly, this also comes with an endorsement of PepsiCo's increased ownership stake in Celsius Holdings and an additional Board representation, a vote of confidence in our shared long-term trajectory.

In the third quarter of 2025, our combined portfolio represented more than 20% share of the U.S. energy drink market in tracked channels and grew 31% year-over-year according to Circana, nearly twice as fast as the overall energy drink category. Only 2 years ago, Celsius Holdings was celebrating after surpassing a 10% share with the Celsius brand alone.

Now through both organic growth and strategic expansion, we've doubled the share position with our total energy portfolio. It's a remarkable achievement that validates the power of our brands and our disciplined execution. Over the last 52 weeks, our portfolio generated more than \$5 billion in retail sales in U.S. tracked channels according to Circana. That success is supported by strong retailer partnerships and consistent consumer demand for functional, great tasting modern energy innovation.

Across major retail and convenience partners, we continue to expand our space and distribution. Winning new displays at Target, end caps at Walgreens and CVS and achieving double-digit growth in unit sales across Walmart, Circle K and Dollar General, just to name a few. In Walmart alone, Celsius Holdings portfolio gained more than 2 share points year-over-year, and Alani recorded its best ever sales week in August, led by Witches Brew.

The Celsius brand achieved double-digit retail sales growth in the third quarter of 2025 at a 13% year-over-year. Alani Nu grew triple digits at 115% year-over-year, and Rockstar began selling under our ownership. Together, these brands are defining what a modern energy company looks like, inclusive, functional, culturally relevant and growing.

Marketing and culture continue to drive how we win. Seasonal flavor offerings once again delivered strong results with Alani Nu, Witches Brew notching record sales, reinforcing the power of flavor, innovation to excite consumers and drive velocity.

In October, we launched our first Celsius limited time offering, Spritz Vibe, and we are seeing strong consumer response from U.S. and Canada retailers. Our Celsius Live Fit Go campaign continues to strengthen awareness, trial and repeat purchase for our core brand, connecting performance energy through an inspirational lifestyle. And we're extending the same storytelling across the entire portfolio, ensuring each brand stands for something clear and inspirational.

Celsius, fitness and lifestyle performance. Celsius Essentials, high performance energy; Alani Nu, female-focused lifestyle energy; and Rockstar Energy, culture, music, next-generation energy. Last week, I and along with several of our leaders had the opportunity to speak directly to 30,000 PepsiCo employees at one of their national town halls. We showcased our total portfolio approach and shared how Celsius Holdings has become the energy partner capable of powering every consumer occasion.

Our goal in the conversation was simple, to inspire 30,000 teammates across PepsiCo to rally behind our portfolio and help us win in the category together. At the National Association of Convenience Stores Trade Show in mid-October, we spent time on the floor meeting with retailers. The excitement around our new portfolio was incredible. You could feel the confidence building for our growth in 2026. We believe that the message from consumers was clear.

Celsius Holdings continues to be the growth engine of the energy category and retailers want to partner with us to share in the opportunities that lie ahead. We're also proud of how we continue to invest in our people and culture. Our annual Celsius University Summit brought together more than 200 of our student marketing ambassadors from across the U.S. and Canada, the next generation of marketers who are helping us stay culturally connected to our consumers. It's one of the many ways we build brand advocacy from the inside out.

As our business grows, so does the depth of our leadership team. We've recently welcomed Rishi Daing as Chief Marketing Officer, who brings more than 2 decades of global marketing and commercial leadership experience, including senior roles at PepsiCo and Mark Anthony brands. We also had 2 other important leadership appointments, including Garrett Quigley as President, Celsius International; and Ghire Shivprasad, as Chief Human Resource Officer. Each brings valuable experience that complements the strong bench already leading the company.

Our approach remains team first, execution-driven, focused on empowering our people and integrating new expertise, while at the same time, maintaining the entrepreneurial energy that defines Celsius. Across the organization, we're executing with focus, advancing Alani Nu's integration, capturing early synergies, onboarding Rockstar and preparing for what we believe will be an even stronger 2026.

The third quarter was another step in a series of transformational moves for our global functional beverage portfolio future. We're now operating at true scale in the U.S., and we're currently beginning to build that same foundation internationally. In markets like Australia, performance has continued to exceed our expectations. In the U.K., we've learned valuable lessons that will make us even stronger as we enter 2026.

We're refreshing the Celsius Fizz Free line and incorporating new limited time offers into Celsius brand portfolio, starting with Spritz Vibe, which has now launched in the U.S., Canada and the Nordics. Alani's highly successful Witches Brew proved again in the third quarter that limited time offers that create consumer excitement also can lift the whole trademark around them.

This week, another Alani fan favorite, Winter Wonderland, returns for the holidays, and we have more great innovation in store for 2026 that I'm excited to share with you soon. We're optimizing our Rockstar Energy portfolio with a medium-term goal of stabilizing the brand and recapturing the magic that makes Rockstar an iconic and powerful force to grow the next generation of energy drink consumers.

We've entered a new era for Celsius Holdings in 2025, one defined by scale, partnership and purposeful growth. We're building a portfolio that reaches more consumers during more occasions, and we're doing it with discipline, collaboration and a commitment to organizational excellence. I look forward to what's ahead in 2026 and beyond.

I'll now turn the call over to Jarrod to discuss third quarter financial results. Jarrod?

Jarrod Langhans
Chief Financial Officer

Thank you, John, and good morning, everyone. Turning to the financials. For the quarter ended September 30, 2025, consolidated revenue was approximately \$725 million, up 173% from a year ago. The Celsius brand's third quarter 2025 U.S. scanner growth rate was 13%, driven by favorable product mix and increases in total distribution points. A number of factors can cause the scanner data to vary from reported results such as promotions and incentives and the success of such programs, timing of acquisitions and timing of customer orders, which can vary from time to time based on various inventory builds for promotions, cash management programs, limited time offering programs as well as a number of other factors.

The difference between the 44% revenue growth rate at the Celsius brand versus the U.S. scanner growth rate of 13% was primarily driven by year-over-year inventory movements across the company's customer base, including a net benefit relative to the inventory optimization program with our largest distributor in the prior year quarter as well as increased promotional activity and our international expansion.

Alani Nu revenue nearly doubled, up 99%, driven by strong limited time offerings, particularly Witches Brew, which delivered record sell-through as well as organic core SKU growth. Rockstar Energy contributed roughly \$11 million in revenue in its first month under Celsius ownership. An additional portion of Rockstar sales, roughly \$7 million was recorded in other income due to GAAP accounting. Combined, the total impact from Rockstar Energy was about \$18 million in Q3. We expect this accounting treatment to continue through Q4 before normalizing in 2026.

Year-to-date, consolidated sales are up roughly 75% or \$770 million with Alani Nu accounting for the majority of that growth and Celsius up 12% through the first 9 months of the year. Gross margin for the quarter was 51.3% compared with 46% a year ago. Year-to-date gross margin was 51.6%, up from 50.2% last year. The improvement reflects the lapping benefits of the prior year inventory optimization, lower net portfolio promotional spend, pack mix, favorable channel mix and scale benefits on raw materials from higher volume, partially offset by tariffs and the impact of Alani Nu and Rockstar Energy's lower margin profiles.

We expect to improve Rockstar Energy margins over time, starting in the first half of 2026 as we integrate sourcing and production, much like the progress we've seen with Alani Nu since its acquisition. Sales and marketing expenses were elevated, reflecting continued investment behind brand building, including the Celsius Live Fit Go campaign.

Sales and marketing represented about 20% of sales, consistent with our reinvestment strategy. In connection with Alani Nu transition into Pepsi's DSD network, we recorded approximately \$247 million in distributor termination expenses during the quarter. These costs are fully funded by PepsiCo under our long-term agreement. And while they are recognized in our P&L under GAAP, the reimbursements are deferred on the balance sheet and amortized into gross sales over the life of the distribution agreement, making the transactions cash neutral to Celsius Holdings.

General and administrative expenses remained well controlled at approximately 6% of sales, excluding acquisition costs, down from 9% last year, reflecting efficiency initiatives and cost discipline. Operating income benefited from higher margins and overhead efficiency, partially offset by marketing and integration investments. We ended the quarter with a strong balance sheet and cash position, giving us flexibility to fund future growth and integration initiatives.

Shortly after quarter end, we reduced debt by \$200 million and reduced our term note by 75 basis points, bringing total debt to roughly \$700 million and reducing our annual interest rate expense by approximately \$20 million beginning in 2026. Our near-term priorities remain unchanged: continue investing in brand growth, capture synergies from our acquisitions and further strengthen the balance sheet through debt reduction and disciplined capital allocation.

As Alani begins distribution in the U.S. Pepsi system in December, most of the financial benefit is expected to be realized in Q1 2026 due to a phased load-in approach ramping from Q4 into Q1 as retailers reset and inventory builds across the Pepsi network.

Looking ahead, we expect continued growth in both Celsius and Alani Nu with a focus on stabilizing Rockstar Energy as we optimize the product assortment and reestablish the identity that makes that brand so relatable to consumers. We anticipate Q4 will be a noisy quarter, reflecting year-end timing effects from promotions, integration activities and cash management from our larger customers, along with some incremental freight and tariff pressure.

We are looking at the potential for more pressure on our gross margins in Q4 2025 relative to the prior 3 quarters due to promotions, higher scrap and freight from the integration of Alani into the Pepsi system and tariff pressure before re-expanding in Q1 2026. We also expect sales and marketing to represent 23% to 25% of sales in Q4 as we continue investing in our Celsius Live Fit Go campaign and complete the Alani Nu transition.

In summary, we delivered strong top line growth, maintained margins above 50% and continued investing for the future. Celsius is once again growing ahead of the category. Alani Nu continues to outperform expectations, and Rockstar Energy strengthens our total energy portfolio by expanding our reach to new

energy consumers. We remain focused on balancing investment with profitability, maintaining a strong balance sheet and creating sustainable long-term value for shareholders. With that, I'll turn the call back to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from the line of Gerald Pascarelli with Needham.

Gerald John Pascarelli

Needham & Company, LLC, Research Division

I just wanted to go back to core Celsius here. The 44% growth in core Celsius off of that depressed year ago base period implies a meaningful negative delta between the 13% growth that we saw in measured channels when you add back the \$110 million to \$120 million to the base. So I'm just curious on some of the mechanics on what's driving that negative delta. It would seem that the add-back to the base period should have been maybe much lower than the \$110 million to \$120 million. So I'm just curious if that's part of what happened in the quarter? And then if that's not the case, how do you explain just the wide variance between what you reported versus what we saw in the measured channels?

John Fieldly

CEO & Chairman

Yes, Gerald, thank you for the question. In our prepared remarks, Jarrod touched on that and some of the deltas that we're seeing in regards to the variety of numerous factors that are really impacting that difference from the 44% to the 13%. But I'll turn it over to Jarrod just to further reiterate some of his remarks he had.

Jarrold Langhans

Chief Financial Officer

Gerald, the short answer is yes, but there were a bunch of puts and takes. It's not a perfect apples-to-apples comparison. Over the 52 weeks, mix can change, promos can change, timing can change. For instance, Q2, we had some benefit from the Prime Day buildup, which happened in early Q3. So there's a number of factors built into that, but it was a lower number. It wasn't a perfect one-to-one comparison year-over-year when you're talking about the inventory optimization. With that said...

Gerald John Pascarelli

Needham & Company, LLC, Research Division

Understood. So sorry, go ahead Jarrod.

Jarrold Langhans

Chief Financial Officer

Yes. With that said, we're at 13% on the scanner growth. We believe the scanner is a good barometer of the health of the business. If you look at October, we're up ahead of the category growth from an energy perspective. So yes, definitely a lot of noise in the quarter with timing and sequencing of various things and Q4 will be a bit noisy as well.

Gerald John Pascarelli

Needham & Company, LLC, Research Division

Understood. So lower base and then maybe just a little bit more of a variance than we saw over the past couple of quarters, given multiple factors.

Jarrold Langhans

Chief Financial Officer

Yes.

John Fieldly
CEO & Chairman

Yes, that's correct. And I think when you look at the 13% growth rate at the register, as Jarrod mentioned and reiterated, it was great to see really the rally come behind the brand. We started off slow in the first quarter and second quarter, not keeping up with the category growth rates. And heading into the back half, especially the end of the quarter, our Live Fit Go campaign that we kicked off really is adding more excitement around the brand, gaining more trial, more repeat purchase, which sets us up really nicely heading into resets in 2026 for the Celsius portfolio.

Operator

Your next question comes from the line of Kaumil Gajrawala with Jefferies.

Kaumil S. Gajrawala
Jefferies LLC, Research Division

A lot of conversations these days about pricing. Monster has announced some pricing. It sounds like it might be even higher than the 5% they have announced despite some promotions back. Curious how you're thinking about the price point, not just of Celsius, but also Alani and Rockstar.

John Fieldly
CEO & Chairman

Yes. Kaumil, it's something that is an extremely hot topic with a lot of the headwinds, even on the last earnings call that we had, we talked about some of the headwinds we're seeing, especially with tariff impacts, higher cost of commodities and then the investments behind these brands. So it's something we are contemplating and looking at. There's a variety of ways in addition to taking frontline price, promotional strategies we're evaluating. We're really also building out a revenue management team as well to further enhance our capabilities around that.

So we can be more precise, building out further our key accounts team. But there is -- we think there's opportunities there. We're tracking it very closely, but we're not going to make any formal announcements today.

Kaumil S. Gajrawala
Jefferies LLC, Research Division

Okay. Got it. And then on some of this timing and integration stuff for Q4, if you could just go over it maybe in a little bit more detail. It sounds like there's some additional integration stuff and timing that moves into 1Q or Q4? Or is Q4 messy and then it's back to sort of ordinary course of business by the time we get to 1Q?

John Fieldly
CEO & Chairman

Yes, I'll turn it over to Jarrod to further enhance some of his prepared remarks.

Jarrold Langhans
Chief Financial Officer

Yes. So it's -- I mean, it's Q4 and it's December when the activity is happening. If you go back to when Celsius went into the Pepsi system, it was October 1. We're going in on December 1. So obviously, a lot of CPG companies, there's not a lot of activity at the very end of December. Also, if you recall, when we went in, we were replacing Bang. So it was a one-for-one swap out. So there was a ton of space that needed to be filled immediately. So it was a bit quicker of a push. So it's going to be more of a phased approach. And because we're so close to kind of the timing of resets and when the OTS, the kind of up and down the street programs are reloaded, we're going to kind of phase it in as opposed to have all this open space that will get shoved into.

So I think -- it won't be quite as quick as you saw back in '22. But across kind of December and Q1, you'll see us really ramp up from Alani perspective. But there will be some crossover in the quarter as we build that inventory and as we roll it out across really Q1.

John Fieldly
CEO & Chairman

And I'll just add additional color around the strategic energy drink case within the Pepsi partnership further enhances those capabilities. So it's not a one-for-one replacement. But as Alani rolls through the network, we're able to really have control over the planograms. And we have over 30,000 PepsiCo team members and our dedicated team really working to further penetrate, gain ACV, distribution and really maximize the sets for the highest quality offerings for the specific channels and regions that we'll see the expansion.

Operator

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

Michael Scott Lavery
Piper Sandler & Co., Research Division

You cited that this transition could lead to optimized warehouse and distribution that may affect inventory levels. Can you be more specific, what exactly are you expecting? And how much does the intra-quarter transition mitigate disruptions that might be puts and takes within 4Q? Any just more detail on 4Q and into next year, what your comments there are pointing to would be great.

Jarrold Langhans
Chief Financial Officer

Yes. I think we're just trying to be transparent and lay out what some of the puts and takes you could see in the quarter are. So typically, if you look at most large CPG companies, they do have some cash management activity in Q4. You'll also -- if we're going into a system in a warehouse and we're starting to build some inventory, last time, we didn't have any inventory in that system. So when we went in, it was just us going in as opposed to us being a part of that process.

So I think there's just going to be some movement as we build the line and as we roll it out across really kind of December and Q1. And so we just wanted to list out some things that could cause some noise and really just let everybody know that there's going to be a lot of puts and takes in the quarter. It's going to be a really noisy quarter. So expect it to be noisy and not to be perfect.

Michael Scott Lavery
Piper Sandler & Co., Research Division

Can you just maybe unpack noise a little more? I mean you cited puts and takes. Where does it net out?

Jarrold Langhans
Chief Financial Officer

Well, again, it's going to depend on how quickly we roll things out. So there's a lot that could happen over the course of the next 6 weeks. So instead of kind of put my foot in my mouth and throw a bunch of numbers out at you, I'm going to say it's going to be really noisy. I'd look at the scanner data that's going to tell you about the health of the business, and that's what all we're going to give you right now.

John Fieldly
CEO & Chairman

Yes. I'll just -- Michael, I'll jump in, in regards to some of the additional variances. As an example, we'll be picking up inventory on returns from the prior distribution network. So you've got increased costs there on logistical movements, also secondary warehousing, right, that you wouldn't have under a normal course of business.

Also, as our really supply chain is not optimized and fully integrated as now we are strategically tied in with the routes servicing the warehouse through the PepsiCo network, and we're going to need to optimize that. We need to optimize the co-packing facilities, procurement, logistics. We want to make sure we're running 1-day hauls to optimize the freight lanes and making sure we have the right inventory in the right locations around the U.S. So there will be some pressure on margins as well and then also the puts and takes on inventory levels and returns.

Michael Scott Lavery

Piper Sandler & Co., Research Division

And just a quick clarification. So I appreciate some of the cost headwinds or the margin drags. As you get these returns, that's a reduction of sales, correct? And if so, would we hear you correctly that directionally you think that coming in could come more quickly than you refill pipeline going out that maybe directionally net that you at least are trying to make us aware of the possibility of a net drag as opposed to kind of all else equal?

John Fieldly

CEO & Chairman

Yes. I think we're not -- I mean, we need to be conservative on that, and that could be a scenario that plays out. We're just -- it's too early for us. We're not -- we don't have year-end orders in yet. So we got several weeks of orders in initially, but we got to see how the rest of the quarter plays out in Q4. And really, the return pickup is unknown right now. So we're evaluating that, but we'll have to see as we get closer. So making any firm predictions at this point is not really plausible.

Jarrold Langhans

Chief Financial Officer

I would say if you go back to '22, we did -- the team did a great job managing that process so that there wasn't a significant impact. But with that said, it is a different time of year. There is different timing and sequencing that's going on. So we will manage that to the best we can, and we'll look to manage it as efficiently as we did before. And that's the plan. But we'll see what -- where things kind of pan out when you're talking about 250-plus distributors that you're working to drive down their inventory, build up another set of inventory and take returns at the same time.

Operator

Your next question comes from the line of Eric Serotta with Morgan Stanley.

Eric Adam Serotta

Morgan Stanley, Research Division

Great. Just a housekeeping item to not try not to beat a dead horse on the inventory and situation with respect to the third quarter. But did your inventories with Pepsi decline sequentially? I know you referred to the year-on-year variances, Jarrod, but was there any change sequentially? And then bigger picture, in terms of Alani growth, we have seen it flow in scanner over -- really since the second quarter. You obviously had 2 totally incremental LTOs in the second quarter, one large but not fully incremental LTO in the third quarter.

So how are you thinking about the Alani growth rate on a going-forward basis for sort of the core brand and then whatever sort of incremental contribution from LTOs that you expect over time, realizing the LTO timing is going to always vary a bit.

John Fieldly

CEO & Chairman

Yes. Thank you, Eric. I'll take the second part of that question in regards to Alani. We're really excited about the portfolio. And we've talked about in prior, there will be some lumpiness in regards to the timing of these LTOs and then the phase out. And we're seeing that right now with Celsius, with Spritz Vibe that's now rolling out. But in the quarter, you had Witches Brew, which was phenomenal, great success, amazing

flavor. It was its fifth year, more than doubled prior year sales results and got everyone really excited. It was the talk of NACS with a lot of retailers as well.

When you're looking at the growth rates and you look at the ACV where Alani is to where Celsius is in the PepsiCo system, I think there's a lot of underlying distribution and TDP gains that we're going to be able to capture as we move through 2026 and really leverage the benefit of the PepsiCo distribution network as well as the excitement behind the brand and all the work our key accounts team has been working on.

When you look at large format, especially within food and mass and you look at Celsius and Alani, it is a large percentage of the overall energy drink category sales. So that really gives us a great leverage and to really further optimize and really create some unique programs for that channel. And as I mentioned in the prepared remarks, coming out of NACS, retailers are really excited about what Alani is doing to the category. It's incremental, really driving increased female consumption rates. And they really like the uniqueness of what Alani brings to the table within the category, some of its flavor profiles, Sherbet Swirl and so on.

And right now, we have Winter Wonderland launching, which is rolling out in retailers. So we do anticipate that will not be as large as Witch's Brew. Witch's Brew historically has been one of the larger LTOs. And also Winter Wonderland, amazing flavor profile, check out the social media activations and in-store execution. It's been phenomenal. But it is crossing over through a transitional period with Alani moving from the prior distribution network into Pepsi December 1 in North America or in the U.S. So that likely will not be to its full potential as we're hoping to see next year there.

So those are some of the puts and takes. The good news is and which we're really excited about is these LTOs bring up -- are growing the core SKU offering, which is great to see as well. So adding excitement, bringing incrementality and growing the base within Velocity.

Jarrold Langhans
Chief Financial Officer

Yes. On the first part of the question, back on to the LTOs, John was talking about it, the Spritz Vibe was great for brand Celsius. I think we've got a great lineup for next year as well across the entire portfolio, in particular, Alani and Celsius. So I think that we were setting ourselves up well for 2026 from. In terms of the inventory rollover, it's not perfect. It's always a point in time. There was some noise in there. Pack size will change, mix will change over the last 52 weeks, the promos have changed. So there's a lot of puts and takes that went into it as well as timing of the inventory movements. And so that's where you got a little bit of a lower number that came through than maybe you had expected if it was a perfect one-to-one rollover.

Eric Adam Serotta
Morgan Stanley, Research Division

Okay. And any comments sequentially? I know the year-on-year is tougher, but given all those noise factors you mentioned, but any change in the inventory sequentially. I realize there's probably some seasonality to it. But going back 1.5 years or so, you would talk inventory impact sequentially.

Jarrold Langhans
Chief Financial Officer

Yes. I think what we've said thus far, that's really all we're going to go with.

Operator

Your next question comes from the line of Bonnie Herzog with Goldman Sachs.

Bonnie Lee Herzog
Goldman Sachs Group, Inc., Research Division

I had a question on gross margins in the quarter. I guess I'm hoping for some more color on the puts and takes and how we should think about gross margins moving forward. Maybe remind us of the impact, if

any, from tariffs and then how big of an impact was the inflation we're seeing on the Midwest premium and then your hedging strategy on that?

John Fieldly
CEO & Chairman

Thank you for the question. And that's an area of opportunity for us within the gross profit line, especially as we further integrate Alani and Rockstar into the network we've built. And there's a lot of efficiencies in the areas we're focusing on. Midwest premium is impacted. We don't do hedging, but that is -- we do some forward buys that -- but long-term hedging is something we haven't implemented, and it's an opportunity and something we continue to evaluate. And as we have a larger purchasing power and a greater number of capacity, that's something that's on our radar. So more to come on that.

In regards to tariff, we're seeing greater tariff impacts. We started to see it slightly in Q2, a little bit more in Q3. We anticipate even larger in Q4. Now we're trying to offset some of that with the scale and the synergies we're seeing as we're bringing and starting to really kick off the production of Alani. So also leveraging the vertical integration of our co-packer we acquired back in November. There's opportunities there as we look to '26, we'll be adding a second line to further enhance the capabilities of that and drive more efficiencies.

But I'll turn it over to Jarrod, do you have any additional color in regards to addition to your prepared remarks.

Jarrod Langhans
Chief Financial Officer

Yes. So I mean, John kind of covered the tariffs. We talked about last quarter that we'd see a little bit in Q3. It would increase a bit in Q4. At the same time, as we're integrating Alani, we were driving improved margin as an offset. Also with our scale, we're seeing the opportunity, and you've seen that across the last year from a raw material perspective. Even with the tariffs, there's still opportunity to take some of that pricing down.

We've seen some movement internationally with the U.S. and other countries where we may actually see some benefit from tariffs. And then there's a variety of other tactics and other programs that we're putting in to further drive raw material savings across the board as we scale up. Like John said, we've got a new line coming in our plant next year that will help drive some savings as well.

We're looking to continue to save freight as we bring all 3 brands together. If you look at brand Celsius, it's roughly kind of 3% of sales. Alani is a bit ahead of that as is Rockstar. So we'll be able to bring that down as an offset. But that will take some time. We talked about Rockstar, really, you'll start to see the margin from that business improve in the really first half of '26. Alani, we're on track to capture most of that by, I believe, in the modeling call we did in May, we'd look to capture it by the end of Q1.

So there's a number of good guys coming through. They're just not coming through necessarily as quickly as some of the pressures. So that's why we called out there's probably going to be a little bit of pressure in Q4. We'll have some scrap and some returns and things like that, that will drive some pressure on the margin like you saw back in '22 when we transitioned Celsius into the Pepsi system, and you saw kind of some of those onetime impacts that came through and then we were able to then leverage the business from there on. So you'll see a similar thing happen in Q4 before we start to see a lot of those benefits come through in the first half of '26.

Operator

Your next question comes from the line of Sean McGowan with ROTH Capital Partners.

Sean Patrick McGowan
ROTH Capital Partners, LLC, Research Division

Questions about international. Now that we're deeper into the ownership of Alani and you've had some time to think about what to do with Rockstar. What are the plans there internationally? And then more broadly, how do you feel about how the performance has gone internationally?

John Fieldly
CEO & Chairman

Yes. No, great question. Thank you, Sean. Lots of opportunity in international. We just hired our first President of our international expansion. We've been really building a foundation over the last several years. As you know, we've started off in Sweden and Finland, been great markets for us for a long time and really just expanded into Australia, the U.K., Ireland, New Zealand, France and Benelux markets. And just getting started there. We started -- we built out small but yet impactful sales organizations and marketing organizations and really building that first foundation.

And I think as you look for '26, we're going to lean in further. Those same opportunities we see in the health and wellness trends in the U.S., they're global trends. We're getting a lot of excitement from retailers and consumers as the world is just one click away. So as we look for '26, we are making further strategic investments in given markets. We've had a lot of key learnings as well, taking those key learnings and going to continue to build upon them. Our biggest successful market in the last -- from last year and into this year and an early expansion market has been Australia, really 7-Eleven leaned in, and we're seeing some great expansion opportunities which will position us really well as we're entering '26.

And then when you look at the other markets in Europe, they're really foundational and working really closely with retailers and some of our key partners we kicked off our university ambassador programs and leaning into fitness, health and wellness. We're really well positioned. Celsius is our first push leading in, and then we see opportunities with Alani as well. So more to come on that, but definitely a growth driver for years to come.

Operator

The next question comes from the line of Jon Andersen with William Blair.

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

Quick question on Alani Nu, kind of a 2-parter. Currently well below the Celsius on ACV and TDPs in particular. How do you see the distribution kind of ramp for Alani Nu kind of playing out? And do you think it has the -- ultimately has the potential -- the appeal to kind of reach the kind of level that Celsius is in the market today?

And then the second part is, I know there '24 or '23 was a really strong distribution build with Pepsi for Celsius. It did seem to result in quite a bit of inventory optimization in 2024. How do you kind of work with PepsiCo? Are you collaborating with them this time to avoid that kind of experience as you look to take aligning to new levels?

Jarrold Langhans
Chief Financial Officer

Let me take the second one, and then John can jump on the first one. So from an inventory perspective, I think together, we've learned a lot. We've already gone through the process of putting a fast triple-digit growing business into their system. So we've got a lot of learnings. I think our teams are much more tightly connected today than they were in the past. We also have the captaincy, which gives us more control and more say in terms of what products we're putting in the coolers and how we're going to set that up within the Pepsi system, but also within our key accounts across the board.

So I think overall, there's a lot more communication, and we also have brought Eric on, who was a long-time Pepsi person who is coordinating pretty tightly with them. So we're very confident that when it comes to kind of inventory movements, we've got a lot of learnings that we'll be utilizing so that we can make sure it flows efficiently and smoothly on a go-forward basis with the Alani business.

And then I'll throw the other one over to John.

John Fieldly
CEO & Chairman

Yes. In regards to ACV and TDP and the opportunity and the appeal, I think specifically looking at Alani, and we're really attracted to it. And what we hear is there's a lot of appeal for it. It's done extremely well in convenience. If you look at the latest convenience numbers, it's performing well. Huge opportunity there, especially, as I mentioned before, coming out of NACS. I think the one-for-one swap out with Celsius moving into the bang really planograms and a lot of the AOM accounts and broader distribution within Pepsi.

I think that happened very rapidly versus Alani with the captaincy, we're able to control those planograms. So the opportunity still lies there, but it could be more of a quarterly transition over the next 3 to 6 months as we continue to really reset those and work our way through 2026 and the resets. Eventually, -- but the same opportunity on ACV and TDPs lies within Alani. And it's -- we have a bigger key accounts team. We have a bigger distributor management team and the excitement just last week when we were up at the Pepsi Town Hall meeting, really excited about that. And then in food service is a big opportunity.

Now as the -- really the category energy captain, we're able to get further enhancements and placements within the food service opportunities throughout PepsiCo. So I think the same opportunity within ACV and TDPs lies with all of our portfolio.

Operator

And that is it for our question-and-answer session. I will now turn the call over to John Fieldly for closing remarks.

John Fieldly
CEO & Chairman

Thanks again for joining us today. Q3 was another strong quarter and a transformational year, marked by strength, partnerships, portfolio expansion and our commitment to organizational excellence. The energy drink category is a standout growth area in staples, supported by consumers' growing preferences for functional better-for-you modern energy offerings. We believe that we're very well positioned to continue to benefit from and lead the execution of this revolution that's taking place in the energy category.

Thank you to all of our employees and partners for all their hard work, dedication that enables our success. Until next time, grab a Celsius and live fit.

Operator

This concludes today's conference call. We thank you for your participation. You may now disconnect your lines. Have a pleasant day.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2025 S&P Global Market Intelligence.