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Earnings Call

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Call Participants

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President & COO

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John Fieldly
CEO & Chairman

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Peter Thomas Galbo
BofA Securities, Research Division

Presentation

Operator

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Hello, everyone. Thank you for joining us, and welcome to the Celsius Holdings' First Quarter 2026 Earnings Conference Call. [Operator Instructions]

I will now hand the conference 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' First Quarter 2026 Earnings Webcast. With me today are John Fieldly, Chairman and CEO; Eric Hansen, President and Chief Operating Officer; Jarrod Langhans, Chief Financial Officer; and Toby David, Chief of Staff.

We'll take questions following the prepared remarks. Our first 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 statement 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 Q1 press 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 to discuss our first quarter 2026 results. We delivered a record first quarter revenue of $783 million. And across the portfolio, we continue to see the kind of progress that reinforces the strategy we laid out coming into the year. In Circana tracked channels, our combined portfolio continued to expand its share position over the course of the quarter.

This trend has continued into April, with portfolio dollar share reaching 20.9% in the 4 weeks ending April 12. Our portfolio strategy is resonating with both consumers and retail partners. The quarter reflects what we said we would focus on strengthening the platform, executing with discipline and staying closely aligned with the consumer. And as we look at the progress across CELSIUS, Alani Nu and Rockstar, we are confident about the position we are in as we enter Q2 and the summer beverage season.

At the core, our focus remains straightforward. We stay close to the consumer and we execute with consistency alongside PepsiCo and our retail partners, which creates the opportunity to grow in a sustainable and profitable way over time. Today, our portfolio reaches more consumers, more places, more occasions and more price points across the category than it did a year ago. And that is increasingly showing up in the marketplace.

Our combined portfolio represents approximately 1/5 of the U.S. energy drink market in tracked channels. And that share is expanding. Said another way, 1 out of every 5 energy drinks purchased in the U.S. is a

CELSIUS portfolio product. We have 2 billion-dollar brands. And what is becoming clear is that the portfolio is giving us more ways to grow with each brand playing a distinct role and helping us participate more fully across channels and usage occasions.

CELSIUS continues to perform across a broad range of channels and occasions. Alani Nu is expanding our reach with a differentiated consumer base and a meaningful runway and channels where it remains underpenetrated. And over time, Rockstar gives us another point of participation in the category as we continue to integrate the brand into our platform. Even as the broader consumer staples environment remains challenging, energy continues to be one of the strongest performing categories in beverage, which reinforces our conviction in the long-term opportunity.

As the portfolio is scaled, we have [since] equally focused on strengthening how we operate, improving alignment across the business and building a more repeatable and scalable operating model over time. One of the most important areas of progress in the quarter was execution across our integrations.

Starting with Alani Nu. We completed the integration, and we have captured approximately $50 million in synergies we outlined at our modeling call last May. That is an important milestone. It simplifies our operating model and creates a more connected commercial structure. I want to recognize our team members across our organization and at PepsiCo for making this happen.

We also made substantial progress on the Alani Nu distribution transition with the majority of the work completed across December and January. With Rockstar, the integration remains on track for completion in the first half of 2026. This is not just about completing an integration, it's about strengthening our growing portfolio. With the SKUs transition now substantially complete, and the reset activity taking hold, we are starting to see the early signs of improved velocities on the core items we are prioritizing.

We view 2026 as a stabilization year for Rockstar. We expect to have more to share on the brand's trajectory as we move through the balance of the year. Innovation remains central to how we grew in the quarter, driving trial, reinforcing the core and keeping us aligned with consumer preferences. At Alani Nu, the Lime Slush limited time offer performed especially well and became the brand's top-selling flavor in tracked channels.

We view that as an important proof point that the brand's innovation model is durable and that is not dependent on any one particular hero flavor. Following the success of Cherry Bomb, Lime Slush reinforces that the flavor rotation strategy is working, and we continue to see Alani Nu innovations supporting share gains and strengthening the connection between the brand and consumers. More than just product launches, Alani's limited time offers have become seasonal community moments that we believe consumers look forward to, which is a meaningful part of what makes the brand so strong.

At CELSIUS, fizz-free continues to emerge as a meaningful platform. We saw encouraging expansion in distribution across multiple flavors, including Dragon Fruit Lime, Pink Lemonade and Blue Razz Lemonade. Fizz-free is now broadly distributed, but still early in terms of items per store, which represents a meaningful opportunity to expand as the platform matures. As we look at CELSIUS innovation for the year, Q1 was focused on prioritizing the assortment and strengthening the foundation of the portfolio. With that work substantially in place, we are now moving into a more active period across Q2 and the back half of the year.

We just launched Electric Vibe, a limited edition flavor inspired by soccer culture, timed ahead of the global soccer tournament taking place in North America this summer. It's a great example of how we're using innovation to connect the brand to broader cultural moments and reach new consumers. That same focus and discipline is also shaping how we manage the shelf.

We continue to sharpen the portfolio through disciplined SKU optimization and recent resets, putting more emphasis behind the items that perform best with consumers and that is starting to come together and show up in the data. Across our single-serve portfolio, the items gaining distribution represent a significant majority of tracked channel dollar growth in volume, which gives us confidence that the shelf is becoming more aligned with demand.

We are seeing that in the flavors such as Cherry Cola, Retro Vibe, Playa Vibe, and Grape Rush, which continues to build distribution and momentum. The resets are about quality of assortment as much as space. Heading into the summer selling season, we remain confident in the space gains we outlined at CAGNY, approximately 17% for brand CELSIUS, driven by expanding cooler placements and additional points of sale across national chains and over 100% for Alani across all channels and for Rockstar, maintain net space alongside reconfigured items and assortments.

International represents a meaningful long-term growth opportunity for us. And we took another step forward in the quarter with the launch of the brand CELSIUS in Spain through exclusive sales and distribution agreement with Suntory Beverage & Food Spain. This builds on our core existing collaboration with Suntory and other international markets and reflects our approach to focus on key markets, strong local partnerships, disciplined launch plans and sustained marketing and distribution support.

Portugal is next on the European footprint, also with our Suntory partnership. With our global headquarters in Dublin now established, we have the operating infrastructure in place to accelerate deeper execution within existing markets and new market entries in years ahead. As we look ahead, the progress we made in Q1 positions us well for the next phase of the year.

We expect to build on the recent resets as we move through Q2, and we have additional innovation planned across both CELSIUS and Alani Nu, including a summer CELSIUS limited time offer that we are excited about. Our partnerships and activations are also part of how we support the momentum as we enter the summer beverage season.

We are proud to announce a multiyear global partnership with Aston Martin Aramco Formula One Team as our official global energy drink partner. We have also kicked off a global partnership with Palm Tree Music Festival as well as our continued partnership with Breakaway. Building on strong preference, we have established at the intersection of music, fitness and culture. And at Alani Nu, we opened our first ever slush pop-up in Fort Lauderdale, which reflects the kind of consumer-facing activations we are building and bringing to life beyond the traditional retail.

For Rockstar, we kicked off the Formula DRIFT season opener in April. We also announced a new partnership with 23XI Racing and Tyler Reddick who has had one of the most remarkable starts to the NASCAR Cup season in recent history. These partnerships continue to connect the brand with its core motorsports and action sports audience. These programs are designed to connect awareness to trial and then the retail activation. Taken together, Q1 was a quarter where the strategy translated into results across the portfolio, across our integrations and at the register.

With that, I'll turn it over to Jarrod to walk through the financials.

Jarrod Langhans
Chief Financial Officer

Thanks, John, and good morning, everyone. From a financial perspective, I will walk through the quarter by brand, then cover the rest of the P&L, operating discipline and capital allocation before handing it back to John for closing remarks.

We delivered record first quarter revenue of $783 million, reflecting continued strength across the portfolio and solid execution against the operating priorities we laid out coming into 2026.

Starting with brand CELSIUS. We delivered net sales of $348 million in the quarter, representing growth of approximately 6% year-over-year. As we discussed last quarter, we have been focused on tightening the alignment between shipments and underlying consumer takeaway and we saw progress on that front in Q1.

As John mentioned, we undertook a SKU optimization project during the quarter, and we are seeing the velocity improvements that have resulted from that work. We are moving into a more active innovation period for brand CELSIUS, including activations around the global soccer tournament this summer in North America and our 100 days of summer programming.

Turning to Alani Nu. The brand delivered net sales of $368 million in the quarter, representing a pro forma growth of approximately 60% year-over-year. As a reminder, we acquired Alani Nu on April 1, 2025. We continue to see strong execution as the brand builds on the distribution gains from the PepsiCo system transition. With the integration now complete, we are operating with a cleaner structure and believe we are well positioned to continue expanding reach and solidifying execution through the balance of the year.

For Rockstar, net sales were $67 million for the quarter. With the SKU reconfiguration and reset activity substantially complete, we are focusing on stabilizing the brand as we complete the integration in the first half of 2026. The U.S. business is substantially on the finished goods model with some remaining components still in transition.

Let me spend a moment on Alani. As tracked scanner growth and reported growth are 2 different numbers this quarter, and I want to walk through how to get from one to the other. We have also included a bridge in our investor deck posted online. Tracked scanner data shows Alani at approximately 100% year-over-year. The cleanest comparison number is 85%. That adjusts for Cherry Bomb, which sold in during Q4 2025, but landed in Q1 2026 scanner data.

To translate 85% scanner growth into reported revenue, the right starting point is Q1 2025 RTD U.S. Energy revenue, which was $198 million after excluding the Canadian and U.S. non-energy business. From there, the 85% growth implies organic Q1 2026 RTD revenue of about $340 million when adjusting for the higher sales mix associated with the DSD system relative to our direct business as our ACV gains have been focused in DSD channels.

Adding back Canada and the remaining non-U.S. energy business, which together contributed $28 million, brings reported Alani revenue for Q1 2026 to $368 million or approximately 60% growth year-over-year. Bottom line, the underlying business is healthy and scanner growth remains strong.

Turning to profitability. The integration-related cost headwinds we discussed in Q4 have largely rolled off, which gives us a cleaner foundation entering the year. And the underlying initiatives that drive margin expansion, our orbit model, which optimizes how we move inventory across our manufacturing and distribution network, freight structure improvements, raw material alignment across Alani and Rockstar and mix improvements through price-pack architecture continue to progress.

In Q1, gross margin was approximately 48.3%. Underlying raw material COGS improved quarter-over-quarter as we continue to bring Alani and Rockstar into our purchasing structure with the COGS write-offs and transition costs from Q4 largely behind us. We did see a few discrete items in the quarter that partially offset that progress. The Midwest aluminum premium moved higher as did the LME. Severe winter weather in parts of the Northeast created incremental freight costs and we incurred some additional freight expense as we rebalanced Rockstar inventory across our network.

On commodity and input costs more broadly, we are watching the macro environment closely, including aluminum, freight, fuel and resin pricing. While we have sourcing strategies in place, if the elevated costs remain across the year, we will see some impact on the timing and sequencing of our margin expansion back to the low 50s.

None of these changed the broader trajectory and the underlying initiatives that drive margin expansion, our orbit model, freight structure optimization, raw material alignment and mix improvement through price-pack architecture continue to progress. At the same time, we remain disciplined on operating expenses. Adjusted SG&A came in at approximately 26.4% of revenue, down from 31.8% in Q4, reflecting continued cost control across the business and the benefits of operating leverage as revenue scales.

We also continue to make progress on the SKU optimization work I mentioned earlier, which supports a more productive operating model over time. Taken together, those efforts remain important components of how we think about margin progression and overall quality of earnings through the balance of the year. As we move through 2026, we remain focused on investing behind our brands to support growth including additional marketing investment across the summer selling period while continuing to improve the quality and consistency of our earnings profile.

The progress in Q1 gives us additional flexibility to lean into those investments while sustaining the operating discipline we have built. On profitability, we reported GAAP net income of $110 million in the quarter, more than double the $44 million we reported in the prior year quarter. Adjusted EBITDA was $195 million, an increase of approximately $125 million versus a year ago, and adjusted EBITDA margin expanded to 24.9% from 21.2% and roughly 370 basis points of margin improvement year-over-year.

The result reflects continued top line momentum, the benefit of the operating model work we have been doing across the portfolio and the benefit of the synergies captured from the Alani integration. On capital deployment, our balance sheet remains a source of strength and flexibility. During the first quarter, we repurchased approximately 700,000 shares for $24.1 million at a weighted average price of $35.39. At quarter end, $236.1 million remained available under the $300 million repurchase program the Board authorized in November 2025.

We have continued to utilize this program in the second quarter. Our approach to capital deployment continues to be grounded in 3 priorities: investing to support brand growth and integration execution, maintaining the strength of the balance sheet and returning capital to shareholders. We will continue to evaluate repurchase activity based on cash generation, market conditions and capital priorities while preserving flexibility for strategic opportunities.

Overall, Q1 demonstrated the consistency of our financial plan and the operating leverage available as the business scales. We are executing against the priorities we laid out coming into the year, and we are well positioned for the balance of 2026.
With that, I will turn the call back to the operator to open the lines for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Bonnie Herzog with Goldman Sachs.

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

I wanted to ask about the CELSIUS brand. I guess I was hoping for some more color on the growth, which has been moderating. Could you give us a sense of the drivers behind this and maybe frame or quantify the impact the brand is facing from limited innovation during Q1 versus last year, the SKU rationalization? And then I assume the cannibalization it's experiencing from Alani Nu. I guess how should we think about growth on CELSIUS for the rest of the year between any kind of shelf space gains and planned innovation?

John Fieldly
CEO & Chairman

Thank you, Bonnie. Great question. Regards to CELSIUS portfolio, you've touched on a variety of initiatives that really impacted that in the quarter. One thing we did focus on in the quarter is the fizz-free. We see great opportunities within fizz-free as we're optimizing the distribution to get a broader consistent ACV across the U.S. in the U.S. market. And we've seen the focus on that in the first quarter seeing velocity and takeaways increase. And we see a lot of opportunity within that really differentiated segment within the category.

Within the optimization, there's a little bit of a timing sequence there as we've optimized some of the slower items. But we are trying to get and as we progress out of resets, looking to really get optimized, consistent placements across the portfolio that are driving the highest velocity in ACV. I have Eric Hansen, our President and Chief Operating Officer with us today as well. I'm going to have him make some comments around CELSIUS and the distribution gains we anticipated coming out of NACS where we made some comments.

Eric Hanson
President & COO

Yes, I think to John's point, as we talked about coming into the year, we said we would be focused on optimizing the SKU assortment, driving focus on fizz-free as a permanent innovation and leveraging our LTOs and partnerships to continue to drive growth for the brand. Optimization, generally, as John mentioned, plays out over a couple of quarters where we see the reduction faster than the ACV build. We are continuing to progress on that, and we'll continue to see that build over the next quarter or so.

We do have 2 LTOs on the brand here over the next several months, Electric Vibe, which is launching now and then another one that will be available in summer. So we feel that will continue to drive excitement and anchor strong merchandising for the brand. And we'll continue to make sure that we're managing our space appropriately. As we build out more space, we are seeing for example, increases on dollars per total point of distribution. We'll see TDPs soften a little bit as you think about TDP is really about total SKUs available. While we gain space, we're getting more holding power and more ability to translate that into growth for the brand. So we feel good about the plans ahead. And obviously, we're monitoring it closely and we'll continue to work through.

Operator

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

Peter K. Grom
UBS Investment Bank, Research Division

So I wanted to come back to Alani Nu, Jarrod, the bridge that you provided and walked through was helpful. But in the release, you mentioned that there was increased orders from Pepsi. So just trying to understand whether there was any sort of shipment benefit or an inventory build that occurred in the quarter and maybe the delta is just kind of the impact from the promo and allowances as you move into the Pepsi system.

Jarrod Langhans
Chief Financial Officer

Yes. I think that comment was more to refer to that as we were going more into the Pepsi system across Q1 that we're building ACV and therefore, building expanding the locations that the availability of the brand was in terms of average SKUs per location and in terms of just locations in general, which was helped driving the scanner growth and helped driving our internal GAAP numbers.

Another question you may ask in terms of some of this build, the DSD to direct mix. There's a couple of things -- a couple of nuances that are different between brand CELSIUS and between Alani. The first is, as we were moving into the DSD system for our largest distributor, when we were brand CELSIUS, our direct business was smaller than the Alani business. The Alani had built out and we had helped build out the direct business pretty well by the time we moved into the DSD system of Pepsi. You can see that in the ACV that existed between CELSIUS and Alani at the time of moving.

The other piece is we were taking pricing with brand CELSIUS as we're moving in, that was back in 2022. So that helped as you moved in and had a little bit of that mix shift. And then the third thing is there is a bit of GAAP impact in terms of roughly $5 million, where a couple of things happened. If you remember back in 2022, we had the preferred shares that we issued and we also had -- going into the distribution system, we had the terminations that were paid for by Pepsi. We had to record those expenses immediately on the P&L, but then we recorded the actual payments on our balance sheet and are amortizing those over. That impacted the CELSIUS brand by about $1 million a quarter. So very minor, and you didn't really notice it. With Alani because we also had a couple of other things going on when we did this transaction, including the [indiscernible], there's about a $5 million impact in that number that's in the bridge. That's really a non-cash item. That's just the amortization from the balance sheet.

Operator

Your next question comes from the line of Filippo Falorni with Citi.

Filippo Falorni
Citigroup Inc., Research Division

I wanted to go back to the shelf space gains for both CELSIUS and Alani. Maybe on CELSIUS first, you mentioned previously 17% shelf gains, including foodservice. Can you give us a sense of how much food service distribution you have in the figure? How much you're realizing in more tracked channels?

And then on Alani, obviously, a lot of the distribution, you mentioned over 100% in gas and convenience. How far along are you in that shelf space gains? How much have you realized so far? And when do you think we should see more of those flowing through in tracked channels? That would be helpful.

John Fieldly
CEO & Chairman

Yes. No, I appreciate the question. It's really an exciting time within the energy category. When you look at the energy category overall, it's one of the fastest growing within LRB. We're seeing new consumers enter the category than ever before and retailers are leaning in. Historically, over 60% of the sales were derived from convenience, impulse purchases, and we're seeing retailers lean in, in a much bigger way than ever before and when you look at the Celsius Holdings portfolio with CELSIUS, Alani and Rockstar, we have differentiated offerings, hitting differentiated consumer segments and really being incremental and driving incremental growth.

With that, I'll turn it over to Eric to add a little bit more color around the distribution gains we anticipate and what we're seeing in the overall environment.

Eric Hanson

President & COO

Yes, I think to John's point, and we've had a number of conversations with retailers, obviously, over the last several weeks and months. And I think what we hear generally is that the category, they feel very strongly about the category and the growth trajectory. They anticipate adding more overall energy space, in some cases, very significantly. And so while we're also talking about shelf gains, it's also about permanency on space outside of the main gondola. Cold space has been expanding rapidly across a lot of different formats and then obviously within CNG expanding overall doors. And so we continue to see that space opportunity. Obviously, for Alani, a very strong space opportunity. And a lot of that is largely in place. You'll continue to see some resets finalized here probably through the course of May and June, but probably before summer, we'll be almost fully done. And again, we're going to plan that space according to the best SKUs that we have available and ensure that we've got the best velocity profile and efficiency of space in those. And so we feel very good about the conversations that we've had.

On your question around foodservice, difficult to break that out. In some cases, foodservice becomes a zero-sum game, you're in or you're not. And so it's really about adding new outlets that help in overall space gains. And we'll continue to put a lot of focus on driving workplace, college, university and the relevant channels, restaurants, et cetera, and continue to make progress on that front as well.

John Fieldly
CEO & Chairman

And I think when you look at it as well when you look at the first quarter, and you see that we are -- really, this is the first quarter of the organization managing a portfolio of brands under the category of [indiscernible] within the energy category of PepsiCo. So that has really unlocked a lot of opportunities. As Eric mentioned, foodservice, a variety of nonreported tracked channels as well. So those opportunities are going to continue to progress throughout the year and years to come as we further leverage the capabilities of this partnership that we forged.

Operator

Your next question comes from the line of Gerald Pascarelli with Needham & Company LLC.

Gerald John Pascarelli
Needham & Company, LLC, Research Division

A question for John. Just on your LTO strategy, like Cherry Bomb and Lime Slush where -- they were big contributors to the underlying strength in offtake this quarter. And so as we move forward, just given the success of some of these new rollouts that you've had, like how do you think about balancing new flavor innovation for these LTOs versus bringing some of these same flavors back every single year, just given how popular they are. I'd be curious of your thoughts there.

John Fieldly
CEO & Chairman

No, I think it's a great question. It really gives us a lot of optionality when you're looking at leveraging the portfolio and planning within our forecasting and strategies for the coming year. If you look at -- the LTO strategy allows us to do a lot of surprise and delight, especially with the Alani portfolio as well as leverage the seasonal trends.

When you see the opportunities with the success of Cherry Bomb and Lime Slush and just with the CELSIUS portfolio, Electric Vibe, we have a lot of great opportunities ahead. We get trial. We get feedback and then we can bring that in as a permanent SKU, midyear resets or even into the new selling season as we're entering the new year.

So I think it gives -- as you look at our brand managers, it gives them optionality -- trial, gets to learn, and we get the leverage and learn the capabilities of the PepsiCo distribution network and really maximize that to our capabilities. So when you look at really Cherry Bomb was really the first LTO launch within the PepsiCo system. Number two is Lime Slush. Now we have Electric Vibe coming in. We're going to have a variety of others throughout the back half of this year. We're learning our collaboration. We're learning the partnerships and flavor. But when you look at the LTO strategy in flavors, it's driving. It's driving trial, it's driving awareness, it's driving new incremental consumers into the category.

We have a 21% share in the U.S. with the portfolio today. And it's an exciting time within the opportunities you have here managing the CELSIUS portfolio, our brand teams are super excited about what's to come.

Operator

Your next question comes from the line of Peter Galbo with Bank of America.

Peter Thomas Galbo
BofA Securities, Research Division

John, Jarrod, just wanted to come back on the margin piece, obviously, with Midwest premium and LME moving up. Maybe you can just kind of help us think about if there is a resolution of the conflict, kind of what you're starting to hear or starting to see in terms of potential downside for aluminum. I know that, that may stall or hinder the ability to get back to low 50s by the back half of this year. But maybe you can help us think about the trajectory over the next, call it, 18 months.

John Fieldly
CEO & Chairman

Yes. No, we're not unique to any other consumer products company out there. Those are real costs we're looking at. I'll turn it over to Jarrod for more comments around that on the operation where the environment we're operating under and some of the opportunities we see ahead of us and some of the disciplined approach we've taken and strategies in the past that we're going to be able to leverage today and into the future, especially as we further optimize and integrate this portfolio. Jarrod?

Jarrod Langhans
Chief Financial Officer

Yes. Probably I have a little bit of a long drawn-out response. So kind of as we discussed in our prepared remarks, gross margin in Q1 was roughly 48.3%, which represented an improvement of around 90 basis points from Q4. So we are moving in the right direction. We saw a few discrete items partially offset that progress. We had severe winter weather in parts of the Northeast creating incremental freight and freeze protection costs in February. We incurred some additional long-haul freight as we continue to rebalance Rockstar inventory across our network during integration.

And then to your point, we saw both the LME and the Midwest aluminum premium move higher through the quarter. As John mentioned, that's best described as an industry-wide packaging dynamic, not a company-specific issue. The first 2 of these are largely behind us as we move through the second quarter with the latter being more impactful in Q2 versus Q1 as it really started to spike in March.

With that said, as we noted in our prepared remarks, we are watching the macro environment closely, aluminum, freight, fuel, resin pricing. We do have sourcing strategies in place across the major input categories. We're fully locked on aluminum conversion. We've also got price locks on a variety of other ingredients and vitamins. We've also -- we're working actively to extend coverage into 2027 and 2028 across the back half of this year. But if elevated costs do remain across the year, we may see some impact on the timing and sequencing of our ramp back to the low 50s. But the broader trajectory and the structural margin algorithm are intact.

The underlying initiatives that drive our margin expansion continue to progress. We mentioned those in the prepared remarks, the orbit model, freight structure optimization, raw material alignment as we bring Alani and Rockstar fully into our structure, mix improvement through price-pack architecture. So we do have a clear plan and a clear path back to the low 50s.

We also have another opportunity, as you mentioned, going out 12, 18 months that we're working through, something a little sooner. Back half of the year, we'll see our second manufacturing line in North Carolina begin producing. So we'll start to see some benefit in the back half of the year with full benefit in

2027. We've got some other vertical integration opportunities that we're in the middle of securing that will benefit us in '27 and beyond.

We also have some direct sourcing opportunities that we're working through that will benefit us. And then the price-pack architecture programming that we're working on is really a -- we'll see some initial impacts in the back half of the year, but we'll see a lot more when we look at 2027 and 2028. So we do have good visibility to get to the 50s. Depending upon where commodities fall, whether they stay where they are for the whole year or whether they subside can impact a little bit of that timing. But we do see -- we do have visibility into the low 50s and beyond with the initiatives and the programs that we have in place.

I think one more thing just for modeling purposes while we're at it, probably as we look at 2026 in particular, Q2 is probably more of a side-step-type activity and then Q3 and Q4, where you're going to see the stair step and then continue on to 2027 with further stair steps.

Operator

Your next question comes from the line of Andrea Teixeira with JPM.

Andrea Faria Teixeira
JPMorgan Chase & Co, Research Division

So if we step back and analyze the CELSIUS brand as you exit the quarter and some of the puts and takes you mentioned, right, rationalization of the SKUs, can you help us understand like on a more comparable basis, like if the places where you had the [stats] perfectly fine in the new planogram you wanted. How has that performed relative to what we calculated being the North America performance for CELSIUS?

And in terms of the intersection between Alani and CELSIUS, that has an intersection of consumer, have you seen kind of that cannibalization kind of phase off? Or you think that's going to -- that's the way we should be thinking and take the company as a portfolio and go from there.

And then a clarification of the margin commentary that you just gave, should we be thinking so [side-step], meaning on a sequential basis, you're probably flattish against first quarter? Or is there any improvement? As you said, you don't -- you obviously have higher aluminum, higher Midwest premium but then you don't have those freight one-timers that you had in the first quarter, how we should be thinking sequentially, as you said, like and then in the second half, above 50% already in the third quarter. Just want to make sure that we understood it correctly.

John Fieldly
CEO & Chairman

Excellent questions. Andrea, I appreciate that. Like we've made some prepared remarks as well as some comments earlier, the CELSIUS brand. We're really bullish on the CELSIUS portfolio. It has a unique consumer segment. When you look at the rational optimization that we've done with some of the slower items, as we're getting consistency across the portfolio, we're seeing those SKUs increase velocity with the optimization of larger ACV gains and consistency across the U.S.

One thing we know is that we need to have consistent flavors and consistent SKUs amongst all of the retailers. And that's something we've been working on over a variety of years. And we're really leaning in to get that really optimized. So when you come in and you see watermelon, you see Grape Rush. You see a lot of our great flavors in Peach Vibe. It is consistent. Consistency drives repeat purchase. And that's one thing we're really leaning on.

Where we saw great success is in the quarter, the organization leaned in on fizz-free. We saw those SKUs optimize at higher velocity rates as it was scaling ACV, which is really promising. We think fizz-free is a great opportunity as a sub-line for CELSIUS we're going to build upon. When you look at the cost of aluminum, and Midwest premium, it is at a high level. And we're keeping -- we're watching that extremely closely. As Jarrod mentioned, on the prior question, those -- if those stay at sustained higher levels, it could provide further impact. When you're looking at Q1 to Q2, we're anticipating for modeling purposes, a sidestep in overall margin with additional opportunities for further enhancements leading into Q3 and Q4 as we progress closer to that low 50% gross profit target.

And as the optimizations and investments we're making into vertical integration, that will further help that margin profile as well as the revenue management opportunities and pack size strategies that we have in place.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back to John Fieldly, Chairman and CEO, for closing remarks.

John Fieldly
CEO & Chairman

Thank you again for joining us today. We believe Q1 was a strong start to the year. We delivered record revenue of $783 million, expanded our portfolio share in tracked channels, completed a major integration milestone with Alani Nu, continued to advance the Rockstar integration, expanded our international footprint with the launch in Spain through Suntory and saw encouraging consumer responses and innovation across both CELSIUS and Alani.

We're also entering Q2 with a clear set of priorities. We expect to build upon the recent resets, layer in additional innovation across CELSIUS and Alani Nu and activate the brands across the summer cultural moments, including Formula 1, the global soccer event, music, fitness and motorsports. And we are heading into the most important selling season for the category with a winning portfolio that reaches more consumers and more places and during more occasions.

I want to thank everyone for this opportunity. I want to thank our employees and our partners and all of our customers for their focus and their teamwork and making this all possible. So everyone listening today, we appreciate your support and look forward to updating you next quarter. Until then, grab a CELSIUS and live fit.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.