

EXECUTIVE SUMMARY

I am recommending a sell of Celsius Holdings (CELH) based on my financial analysis of the company, its future growth prospects, potential competition it could soon face in its niche, as well as concerns about its management team. While the company has performed strongly in recent years, warning signs that the company is overvalued have started to flash more brightly in the past few quarters and the market has taken notice. Despite a steep drop in the stock after market participants realized exorbitant growth wouldn't continue forever, I believe the company is still materially overvalued and the market is pricing in too high of a chance of best-case outcomes. My target price under a base case scenario that largely incorporates management projections is \$22.56 a share, which represents an over 38% drop in equity value from the date of analysis (04/15/2025, share price of \$36.80).

COMPANY AND INDUSTRY OVERVIEW

CELH is a functional beverage provider that has taken strong market share (11.8% as of FYE24) in the energy drink category over recent years. They sell products under 4 main product lines: Celsius Originals which is their 12oz energy drink, Celsius Essentials which is their 16oz line with Amino acids, Celsius on-the-go powder which is the same as their ready-to-drink "RTD" energy drinks but in powder form, and Celsius Hydration which is their zero-sugar electrolyte drink. The companies' slogan "Live Fit" ties in with their positioning in the energy drink market where they reside in the "better-for-you" space in order to attract more health-conscious consumers. They also market their "MetaPlus" formula that they state helps consumers maintain essential energy, accelerate metabolism, and burn body fat.

Competitors in the space include: Red Bull (36.6% market share as of FYE24), Monster (27.7%), Alani Nu (3.6%), C4 (3.4%), and a handful of other smaller competitors who each hold 3.0% or less market share. Early in 2025, CELH announced its intention to acquire Alani Nu which is positioned as an "approachable" brand that broadly targets and holds a mostly female customer base (92% female social media following) compared to CELH's ~50/50 gender split. Management expects to hold ~16% market share after the acquisition to be completed in 2Q25, placing Celsius in a solid #3 spot in terms of market share.

The industry as a whole, with the exception of a couple of recent quarters, has been growing steadily. Most research firms are projecting yearly growth in the energy drink sector to be in the mid to high single digits over the next decade. Up until recently, CELH has made up an outsized portion of the growth in the space which has allowed them to capture market share. Analysts have noted that Alani Nu has taken some of its own market share from what CELH held, and there are questions as to whether the two brands can both maintain their impressive growth moving forward.

INVESTMENT THESIS

I am recommending a sell of CELH. My first concern is their future growth prospects. While their stock price went up in tandem with their explosive top-line growth in 2023 and early 2024, that growth has since petered out and started to normalize with the rest of the industry. I do not think it is prudent to project outsized growth to continue for CELH beyond the standard growth in the category. Market share for Red Bull and Monster has stabilized so it does not appear that CELH is going to steal any material amount of customers from them. Management has also stated they are focused on objectives like bringing *new* consumers into the space as well as increasing consumption frequency which is likely a slower path to growth than taking existing customers from your competitors.

My second concern is more competition for the health-conscious consumer. Alani Nu appears to have some overlap in consumer base with CELH and, despite the acquisition, there is still real concern that Alani products will cannibalize sales from CELH as analysts have pointed out has already happened in recent quarters. I did not hear a good response from management on this problem, and as such, expect some amount of cannibalization to show through in lower growth rates for both CELH and Alani. In addition to the Alani overlap, the sugar-free space in the energy drink market is growing and has now eclipsed 50% for the first time. All of their competitors are likely to offer some sugar free option, which could lower the appeal of CELH as one of the only “healthy” options in the space.

My last concern is the management team. Given that the path forward for CELH would likely need to be international expansion, I think you need very strong operators to be able to execute well and convert on the growth opportunities they will need to fight for. The first thing that concerned me was the lengthy lawsuit section of the 10-K where many of the lawsuits involve current executives misrepresenting company information or not adhering to contracts. While I am not a legal expert, I have read plenty of company filings and this one stands out as pretty bad from the lawsuit side. Next, I think management’s handling of more difficult questions on company calls sounds weak. They tend to deflect and go back to their rehearsed script when they would otherwise have to point out a weakness in their business and how they are looking to improve it. Lastly, while this wouldn’t mean much by itself, on top of the other concerns I also don’t see any “spark” in their backgrounds. They are mostly general corporate career people with unimpressive resumes outside of maybe 1-2 more senior board members. For all of the reasons listed, these are not people I am thrilled about managing a go-forward environment that is likely to require much more decisiveness than the previous couple of years.

CATALYSTS

I think there are a few key catalysts that could arise to move the stock lower. First, if revenue stays flat after accounting for sector growth for another couple quarters through Summer, I think we will start to see other market participants lower their likelihood of continued outsized growth thus bringing down the stock price. A second catalyst I see is if there is a lack of cost savings being reflected in margin improvement with the Alani acquisition. I am pricing in management's estimate of \$50mm in recurring savings over 2 years from the Alani acquisition in my base case, but if the synergies are not realized or if Alani cannibalization is higher than anticipated, we could see the stock reprice. Additionally, any step-up in efforts from Red Bull or Monster in marketing sugar-free or more health-conscious alternatives within their product lines would be highly concerning for CELH. Lastly, if CELH fails to expand internationally as they hope, I think that it would be difficult to make a case that they can continue to outgrow the sector leading to a lower stock price.

BULL VIEW

While the Bear view is as I have stated in my write-up, I do think it is worth looking at what the Bulls may think and what may potentially signal that it is time to exit the trade early. The only way to justify the current stock price is through continued strong growth. This is most likely to come from, as suggested by management, international expansion. International currently makes up a small portion of CELH's sales, but with U.S. growth stagnating for them they would be looking to expand on that. In addition, Bulls could be expecting higher synergistic margin expansion as a result of the Alani acquisition and see less concern from cannibalization. Some Bulls also believe that the Alani acquisition will allow them to corner the female market given Alani's strong presence in that space. If we start to see either continued high growth in both the Alani and CELH portfolios and/or strong margin expansion toward the higher margins someone like Monster has then perhaps that would signal a stronger synergistic fit with Alani than the Bears might think.

VALUATION

For my valuation, I look at 3 separate scenarios: a base scenario which I have referenced earlier, an upside scenario, and a downside scenario. My base scenario factors in the acquisition of Alani as well as continued growth after acquisition that reflects growth in-line with the energy drink sector as a whole as well as flat gross profit margins that are currently a bit below 50%. I also use management's projections for \$50mm in synergistic benefits from the acquisition. I use an EBITDA multiple of 12x that is in line with what CELH will pay to acquire Alani. These assumptions lead to a share price of \$22.56, which is over 38% below the current market price of \$36.80 as of 04/15/2025.

My downside case reflects zero cost-saving synergies as well as a drop in gross profit margin closer to what they have seen in the past of around 44%. The Downside scenario also has 0% growth, which I believe in theory could be negative if they are losing share to competitors who are introducing sugar-free options. The resulting stock price under these assumptions outputs a stock price of \$14.13 which is a ~60% drop in value from where they are currently trading.

The most interesting case, in my view, is the upside scenario. I use an increase in Alani synergies of 50% above management guidance (\$50mm) to \$75mm in savings over 2 years. I have them growing at a rate of double the research projected market growth (8.5% yearly) at 17.0% a year. I also bake in margin expansion to match what Monster has at 53.7% gross margin, or up almost 5 percentage points from where they currently are. Despite these very generous assumptions, I am seeing a resulting stock price of only \$32.92 in my model. This is still decently where they are currently trading.

CONCLUSION

In conclusion, while I believe CELH is a reasonable company providing a quality product within their niche, I think that the market has gotten ahead of itself in terms of valuing their growth prospects. The largest players in the space have stabilized their market share and put a strong cap on where CELH can grow. International expansion lines up as their best avenue for growth, but they have had mediocre success internationally so far and I am not convinced this management team will be able to convert on that initiative. Finally, even in my generous upside scenario, the company still looks to only be priced accurately. Without a weighting of nearly 100% on an upside case the current stock price does not seem logical. I believe that this company should be sold short until valuations more closely align with reality.