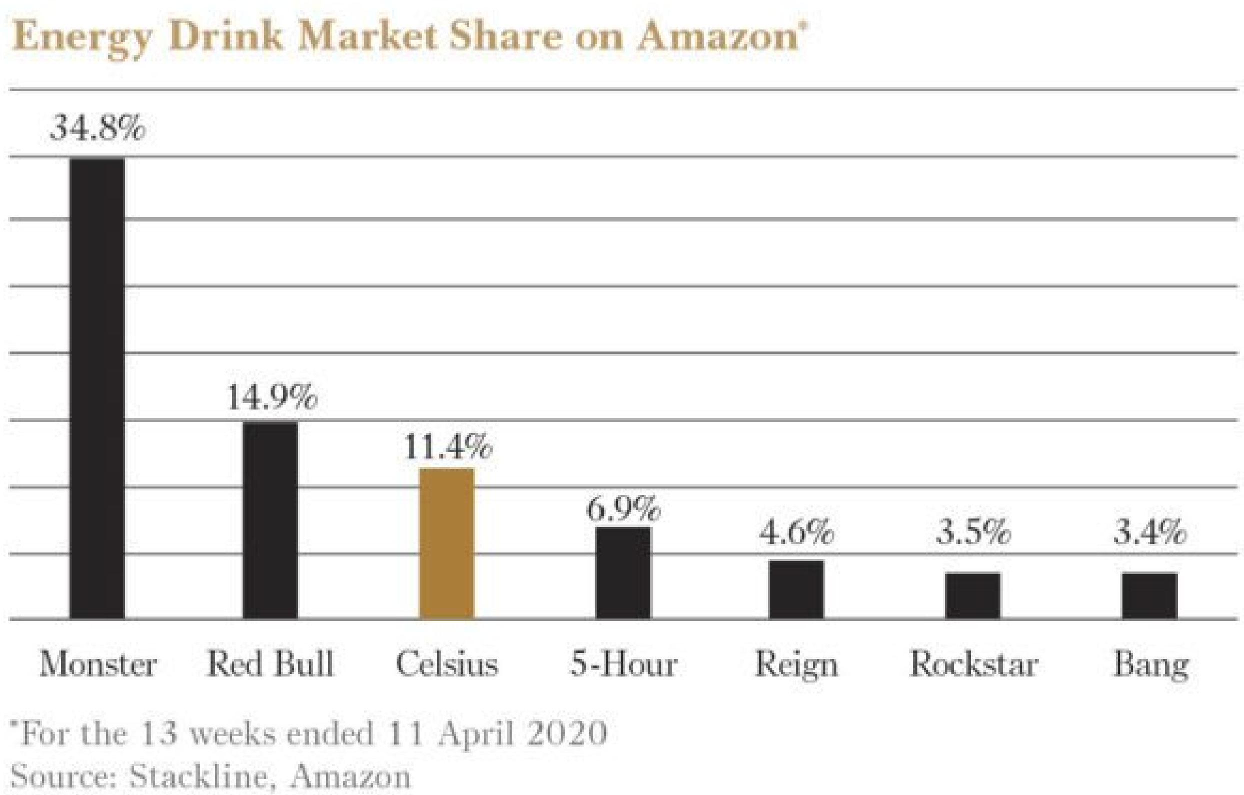
Many Degrees of Celsius

Celsius manufactures and distributes its products in the hypercompetitive energy drinks market. With globally established marketing juggernauts like **Monster** (Nasdaq:MNST) and Red Bull competing alongside hundreds of new startups every year, it isn't easy to make your caffeinated lolly water stand out from the rest. But the rewards for the winners are enormous.

With revenue of less than $100m, Monster itself was a $50m minnow back in 2002. In less than 20 years, sales have grown to more than $4bn and investors have made some 700 times their money. Our expectations are more modest than that. But Celsius has been able to build a niche among gym-goers and image conscious consumers as a healthier alternative to the established players. It's a niche that is growing rapidly.

From just over $10m of sales in 2013, Celsius reported more than $75m of sales last year and is expected to exceed $115m in 2020. If the first quarter is anything to go by, it should sail on by that. Its products are now the third best selling energy drinks on Amazon, with a market share of 11%.



We need it to keep growing rapidly. The share price has more than doubled since our first purchase and the market capitalisation is now just north of $800m. While we are usually wary of such lofty expectations, our confidence in future growth is high. In fact, the blue sky scenario here could involve them capturing up to 10% of the $14bn US energy drinks market, resulting in $1.4bn of sales—more than 10 times the current run-rate.

> FROM JUST OVER $10M OF SALES IN 2013, CELSIUS REPORTED MORE THAN $75M OF SALES LAST YEAR AND IS EXPECTED TO EXCEED $115M IN 2020.

While it already sells nationally in shops such as Target, CVS and Walmart, Celsius is currently in advanced negotiations with several large Direct Store Delivery (“DSD”) partners for significant regional expansion. These partners bring thousands of new stores, inclusion in coolers, better shelf placement and reduced inventory shortages. A recent due diligence trip to a few stores in the US showed a much more significant presence today than six months ago.

While the company expects organic growth of 30% from its traditional channels, this growth rate could more than double when DSD partnerships are added.

The company remains one of our largest investments, despite having taken significant money off the table as the share price has risen rapidly. We will continue to do so if the price keeps rising. But this business has a bright future. In March, **PepsiCo** (Nasdaq:PEP) agreed to buy Rockstar Energy for US$3.85bn. We believe a similar fate ultimately awaits Celsius, and we would like to be shareholders when it happens.

To delve deeper into the other businesses we invest in, access our June 2020 Quarterly report here.