

# An Investment Analysis Case Study: Celsius Eats



## Project Logistics

*This case is a group project that is due on March 19 before class at 10.30 am*

**Stating the obvious:** Each group will turn in one report (sounds obvious but I might as well make it explicit) **electronically (as a pdf file)**. While you should include your cash flows tables in your report, you don't have to attach any excel spreadsheets.

**Cover page:** Each report should have a cover page that contains the following – the names of the group members in alphabetical order and the following summary information on the analysis:

1. Decision on Investment: Invest or Do not invest
2. Cost of capital: % value
3. Return on capital: % value
4. NPV – 15-year life: \$ value
5. NPV- Longer life: \$ value

**Report format:** Please try to keep your report brief. In the report, be clear about:

- a. Any assumptions you made to get to your conclusion
- b. Your final recommendation

**Exhibits:** Please make sure that you include the following in your exhibits

- a. The table of earnings/cash flows by year, with line-item details.
- b. Your computation of cost of equity/capital/discount rate

**Time:** To keep time straight, you can assume the following:

Next year: Year 1

Most recent year: Just ended

Right now: Time 0. Any “up front” expenditure is incurred immediately.

## Celsius Eats

### Company Background

In a business (beverages) that is mature and dominated by giant brand names, Celsius has not only found a niche, but has done so in a hurry. With its “healthy” energy drinks, the company has also built its brand name around a lifestyle of exercise and fitness, and its customers have been willing to pay premium prices. The market has rewarded its combination of growth and profitability by pushing up the company’s stock price, which soared close to \$100 in the middle of 2024, but as you can see in the graph below, there has been a come down, as revenue growth slackens:

Market Summary > Celsius Holdings Inc

**22.41** USD

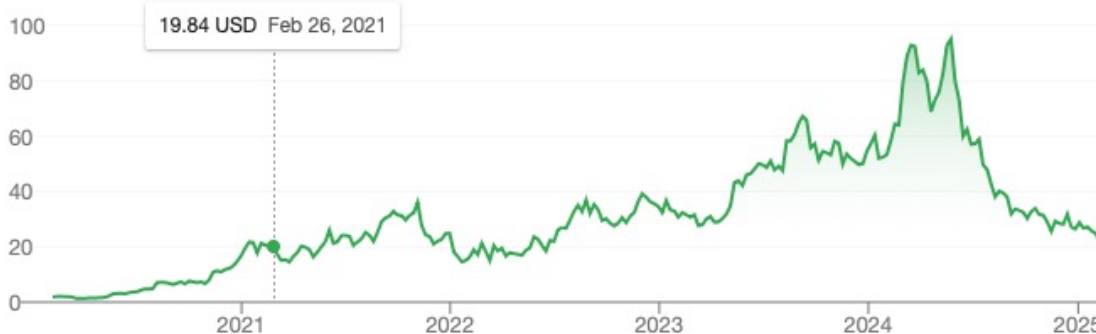
+ Follow

+20.51 (1,079.47%) ↑ past 5 years

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After hours 22.35 -0.056 (0.25%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	21.88	Mkt cap	5.27B	52-wk high	99.62
High	22.58	P/E ratio	31.09	52-wk low	21.65
Low	21.65	Div yield	-		

The company’s business is built around its premium beverages, but the leveling of growth has left the company searching for new growth opportunities, building on its customer base and brand name. The company has also faced a combination of lawsuits, about false claims on its drinks, and bad publicity that have hurt its sales. Exhibit 1A summarizes Celsius’s

income statement for the most recent financial years, and Exhibit 1B summarizes its balance sheets for the last few years.

### ***The Eats Investment***

Looking to augment growth, Celsius is thinking of entering the food snack market, hoping to preserve its health and lifestyle focus. This expansion, though, will require major investments in product research, development and manufacture and you have collected the data to make the assessment and have come back with the following information:

1. Starting Investment: To get established in the healthy snack market, Celsius will **spend \$ 250 million immediately** to acquire interests in small organic and health food makers. This investment will be depreciated over ten years, using straight line depreciation, starting in year 3.
2. Product introduction: The first Celsius Eat is expected to be hit the market at the start of year 3, and starting in year 4, Celsius plans to add a new snack at the beginning of each year for ten years (Years 4-13). The cost of developing each new snack is expected to **be \$ 100 million in year 4** and grow at the inflation rate beyond that. These product development costs will be depreciated using straight-line depreciation over ten years, starting the year of each investment.
3. Geographic breakdown: Celsius expects to generate its revenues in the Europe, United States and Latin America in the following proportions.

<i>Region</i>	<i>% of Revenues</i>
United States	50%
Europe	30%
Latin America	20%
<b>Total</b>	<b>100%</b>

For the rest of the case, the revenues and expenses will be converted into and presented in US dollar terms.

4. Market Testing: Celsius has already spent \$50 million, testing the market for its healthy eats, and it will be unable to recoup the money, if it decides not to go ahead with the investment.
5. Product Revenues: Each of the products is expected to generate \$60 million in revenues in its first year on the market, and these product revenues are expected to grow at the

inflation rate (which is 3%) thereafter. Thus, there will be one product generating \$ 60 million in revenues in year 3, two products each generating \$ 61.80 million in revenues in year 4, three products each generating \$ 63.65 million in year 5... After year 13, the number of products will be capped at eleven products, but the growth in revenues per product will continue to track the inflation rate.

6. Profit Margins: The pre-tax gross profit margins (prior to depreciation, advertising expenses and allocations of corporate costs) are expected to be 60% of revenues on product revenues, higher than the 50% gross margins on its beverage business.
7. Allocated costs: Celsius will allocate 5% of its existing G&A costs to the new division, starting in year 3. These G&A costs now total \$200 million for the entire firm and are expected to grow 5% a year in the long term. In addition, because of this project, it is expected that Celsius will see an **increase of \$ 50 million in general and administrative costs in year 3** when the new food products start generating revenues, and this amount will grow at 10% a year until year 13, and at the inflation rate of 3% thereafter.
8. Logistics Investment: While the new business will need distributional support, it is anticipated that Celsius can use excess capacity in its existing storage and logistics network. The current beverage business is currently using 60% of the distribution capacity, but the demand for this capacity from this business is growing 5% a year (it will use 63% next year, 66.15% the year after and so on.). The food business will use 8% of the capacity in year 3 (which is the first year of revenue generation) and its usage will track number of food products in the market after that. (Thus, when the number of food products increases from one in year 3 to two in year 4 to three in year 5, the usage of capacity will rise from 8% to 16% to 24%..) When Celsius runs out of logistics capacity, it will have to pay for an expansion of its logistical network, a major endeavor that will cost a substantial amount. (The current estimate of the **cost of expansion is \$200 million**, but this cost will grow at the inflation rate. You can assume that investment in distribution capacity is also depreciated straight line over 10 years)
9. Advertising: Celsius spent \$ 150 million in advertising expenses in the most recent year and expects these expenses to grow 3% a year for the next 15 years, if it does not invest in the food business. If the food business is added to the company, the total advertising

costs will be 15% higher than they would have been without the food business each year from year 3 (the first year of food sales) for as long as the food business is in operation.<sup>1</sup>

10. Working Capital: The food division will create working capital needs, which you have estimated below:

- Waiting for payments from food distributors will create accounts receivable amounting to 10% of revenues each year.
- Inventory (of raw material and food products) will be approximately 10% of the cost of goods sold (not including depreciation, allocations, or advertising expenses).
- The credit offered by suppliers will be 5% of the cost of goods sold (not including depreciation, allocations, or advertising expenses).

These working capital investments will have to be made at the beginning of each year in which goods are sold. Thus, the working capital investment for the third year will have to be made at the beginning of the third year.

11. Side Benefits: If Celsius enters the food business, some of the customers who try Celsius Eats will buy more Celsius beverages, **creating \$50 million in additional annual sales to the beverage business**, in current dollars, growing at the inflation rate over time, and Celsius expects to generate an operating margin on these sales that are approximately equal to what it earned as a pre-tax operating margin in its most recent twelve months on the beverage business. (See Exhibit 1A).

12. Risk Measures: The raw beta for Celsius is 1.543, calculated using weekly returns over the last 2 years and against the S&P 500 Index; you can assume that this is an adequate measure of Celsius's current operating and financial risk exposure, from its beverage businesses. The details of the beta calculation are included in Exhibit 2 and the top holders of shares in Celsius are listed in Exhibit 3. Celsius does not have a bond rating, but given its standing (strong earnings, but small size) it can afford to borrow money

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<sup>1</sup> For instance, if you have \$164 million in year 3 and \$169 million in advertising expenses in year 4 without the Eats business, the advertising expenses will be \$188 million in year 3 (15% higher than \$164 million) and \$194 million (15% higher than \$1606 million) in year 4 if you take the Eats project.

at a rate that reflects a BBB rating; the default spread for BBB rated bonds is 1.50% (over and above the 10-year treasury bond rate).

13. Debt and Leases: Celsius has only \$5.8 million in interest-bearing debt in its most recent balance sheet, with interest expenses of \$200,000 in the most recent twelve months and a weighted average maturity of 4 years. To fund the food business, though, Celsius plans to use a mix of 20% debt and 80% equity, based upon what bigger food companies were using to as financial leverage.
14. Taxes: Celsius’s average effective tax rate over the last five years has been 22%, but it faces a marginal tax rate of 25%.
15. Macro Data on Rates and ERP: The current 3-month treasury bill rate is 4.4%, the 10-year US treasury bond rate is 4.75%, and the expected inflation rate in US dollars is 3%. The equity risk premium for the US is 4.33%, but you are provided with a breakdown of regional equity risk premiums in the table below:

<i>Region</i>	<i>Weighted Average: ERP</i>
Africa	12.64%
Asia	5.87%
Australia & New Zealand	4.33%
Caribbean	12.43%
Central and South America	9.15%
Eastern Europe	7.73%
Middle East	6.43%
North America	4.33%
Western Europe	5.45%
Global	5.76%

16. Peer group: You have collected information on other food products companies in Exhibit 4. The data includes the betas of these companies, their market values for debt (including operating leases), equity and cash holdings. You can assume that the marginal tax rate for these companies is also 25%.

## Questions on the Project

### 1. Accounting Return Analysis

- Estimate the operating income from the proposed investment to Celsius Eats over the next 15 years.
- Estimate the after-tax return on capital for the operating portion of this period (Years 3-15)
- Based upon the after-tax return on capital, would you accept or reject this project?

This will require you to make some assumptions about allocation and expensing.

Make your assumptions as consistent as you can and estimate the return on capital.

### 2. Cash Flow Analysis

- Estimate the after-tax incremental cash flows from the proposed investment to Celsius Eats over the next 15 years.
- If the project is terminated at the end of the 15th year, and both working capital and investment in other assets can be sold for book value at the end of that year, estimate the net present value of this project to Celsius Eats. Develop a net present value profile and estimate the internal rate of return for this project.
- If the Eats business is expected to have a life much longer than 15 years, estimate the net present value of this project, making reasonable and consistent assumptions about investments and cash flows after year 15. Develop a net present value profile and estimate the internal rate of return for this project.

### 3. The Decision

Based on your analysis, would you accept this project or reject it? Remember that this does not just have to be about the numbers but explain your decision (briefly).



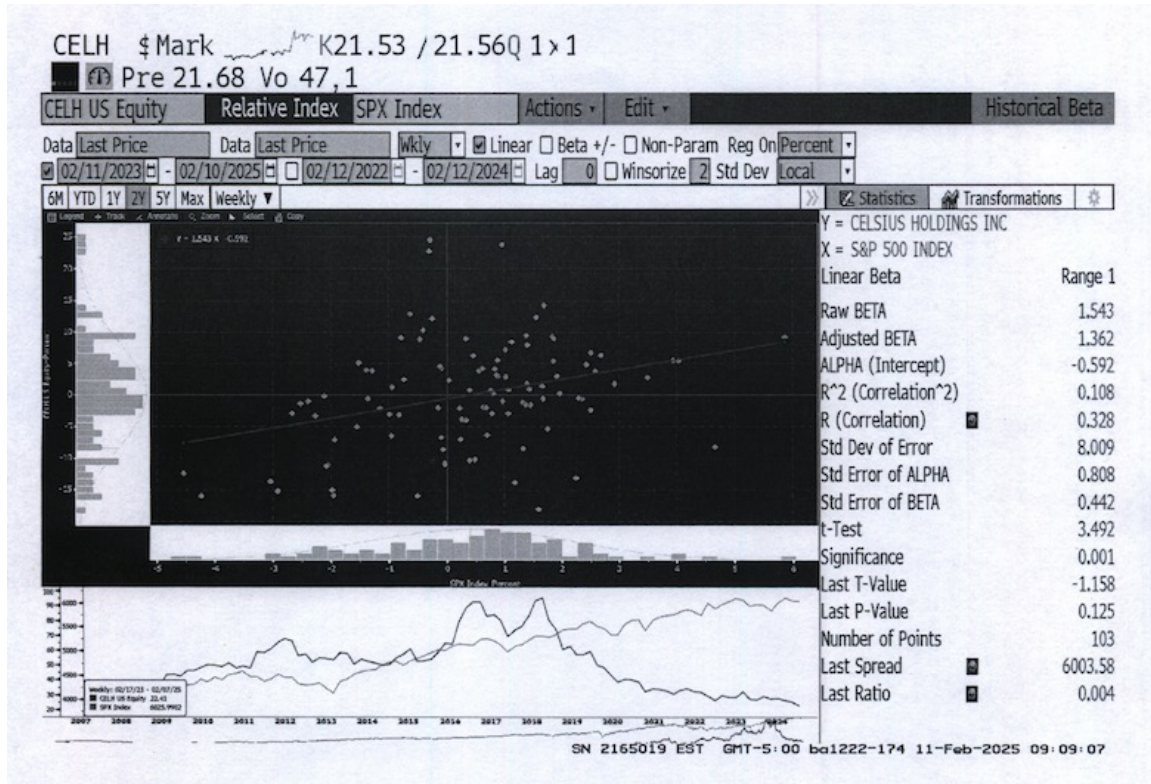
**Exhibit 1A: Historical Income Statements for Celsius (in \$ millions)**

	2019	2020	2021	2022	2023	Last 12 months
Revenue	\$75.15	\$130.73	\$314.27	\$653.60	\$1,318.01	\$1,370.87
-Cost Of Goods Sold	\$43.84	\$69.75	\$186.10	\$382.74	\$684.88	\$691.09
Gross Profit	\$31.30	\$60.97	\$128.17	\$270.87	\$633.14	\$679.78
-Selling General & Admin Exp.	\$32.75	\$53.06	\$131.06	\$424.39	\$363.67	\$440.91
-Depreciation & Amort.	-	-	\$0.60	\$1.40	\$2.60	\$5.40
- Amort. of Intangibles	-	-	\$0.60	\$0.50	\$0.50	\$0.50
Operating Income	-\$1.40	\$7.91	-\$4.10	-\$155.40	\$266.37	\$233.17
-Interest Expense	-\$1.40	-\$1.10	\$0.00	-	-	-
+Interest Income	\$0.38	\$0.36	\$0.32	\$5.53	\$26.63	\$40.26
+ Currency Exchange Gains (Loss)	-	\$1.38	-\$0.30	-\$0.40	-\$1.20	-\$0.40
EBT Excl. Unusual Items	-\$2.50	\$8.57	-\$4.10	-\$150.30	\$291.75	\$273.05
Gain (Loss) On Sale Of Invest.	\$12.46	-	-	-	-	-
Asset Writedown	-	-	-	-\$2.40	-	-
EBT Incl. Unusual Items	\$9.97	\$8.72	-\$4.10	-\$152.70	\$291.75	\$273.05
Income Tax Expense	-	\$0.20	-\$8.00	\$34.62	\$64.95	\$58.99
Net Income	\$9.97	\$8.52	\$3.94	-\$187.30	\$226.80	\$214.07

*Exhibit 1B: Historical Balance Sheets – Celsius (in \$ millions)*

	Dec-31-2019	31-Dec-20	Dec-31-2021	Dec-31-2022	Dec-31-2023	Sep-30-2024
<b>ASSETS</b>						
Cash And Equivalents	\$43.25	\$16.26	\$614.16	\$755.98	\$755.98	\$903.75
<b>Total Cash &amp; ST Investments</b>	<b>\$43.25</b>	<b>\$16.26</b>	<b>\$614.16</b>	<b>\$755.98</b>	<b>\$755.98</b>	<b>\$903.75</b>
Accounts Receivable	\$14.99	\$38.74	\$63.31	\$183.70	\$183.70	\$208.77
Notes Receivable	\$1.89	\$2.59	\$2.98	\$2.32	\$2.32	\$1.03
<b>Total Receivables</b>	<b>\$16.87</b>	<b>\$41.33</b>	<b>\$66.29</b>	<b>\$186.02</b>	<b>\$186.02</b>	<b>\$209.80</b>
Inventory	\$18.40	\$191.22	\$173.29	\$229.28	\$229.28	\$197.57
Prepaid Exp.	\$14.63	\$13.56	\$11.34	\$19.50	\$19.50	\$38.23
Restricted Cash	-	-	\$38.77	-	-	-
Other Current Assets	-	-	\$14.12	\$14.12	\$14.12	\$14.12
<b>Total Current Assets</b>	<b>\$93.15</b>	<b>\$262.36</b>	<b>\$917.97</b>	<b>\$1,204.90</b>	<b>\$1,204.90</b>	<b>\$1,363.47</b>
Gross Property, Plant & Equipment	\$2.10	\$5.46	\$13.45	\$31.68	\$31.68	\$53.00
Accumulated Depreciation	-\$0.50	-\$1.10	-\$2.10	-\$4.70	-\$4.70	-\$8.90
<b>Net Property, Plant &amp; Equipment</b>	<b>\$1.58</b>	<b>\$4.39</b>	<b>\$11.37</b>	<b>\$27.03</b>	<b>\$27.03</b>	<b>\$44.09</b>
Goodwill	\$10.42	\$14.53	\$13.68	\$14.17	\$14.17	\$14.36
Other Intangibles	\$16.59	\$16.30	\$12.25	\$12.14	\$12.14	\$11.88
Loans Receivable Long-Term	\$9.43	\$7.12	\$3.57	-	-	-
Deferred Tax Assets, LT	-	\$9.02	\$0.50	\$29.52	\$29.52	\$24.19
Deferred Charges, LT	-	-	\$262.46	\$248.34	\$248.34	\$237.75
Other Long-Term Assets	\$0.12	\$0.30	\$0.26	\$0.29	\$0.29	\$8.59
<b>Total Assets</b>	<b>\$131.29</b>	<b>\$314.02</b>	<b>\$1,222.07</b>	<b>\$1,536.40</b>	<b>\$1,536.40</b>	<b>\$1,704.32</b>
<b>LIABILITIES</b>						
Accounts Payable	\$11.89	\$41.26	\$44.92	\$54.69	\$54.69	\$45.75
Accrued Exp.	\$13.52	\$50.22	\$66.58	\$150.88	\$150.88	\$219.02
Short-term Borrowings	-	-	-	-	-	-
Curr. Port. of LT Debt	-	-	-	-	-	-
Curr. Port. of Leases	\$0.53	\$0.67	\$0.73	\$1.04	\$1.04	\$1.46
Curr. Income Taxes Payable	-	-	\$1.19	\$50.42	\$50.42	\$0.74
Unearned Revenue, Current	-	-	\$9.68	\$9.51	\$9.51	\$9.51
Other Current Liabilities	\$0.43	\$0.98	\$38.20	\$10.07	\$10.07	\$12.98
<b>Total Current Liabilities</b>	<b>\$26.37</b>	<b>\$93.12</b>	<b>\$161.30</b>	<b>\$276.61</b>	<b>\$276.61</b>	<b>\$289.46</b>
Long-Term Debt	-	-	-	-	-	-
Long-Term Leases	\$0.60	\$0.70	\$0.49	\$1.15	\$1.15	\$4.38
Unearned Revenue, Non-Current	-	-	\$179.79	\$167.23	\$167.23	\$160.09
Def. Tax Liability, Non-Curr.	-	\$3.15	\$15.92	\$2.88	\$2.88	\$2.28
Other Non-Current Liabilities	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>\$26.96</b>	<b>\$96.97</b>	<b>\$357.49</b>	<b>\$447.87</b>	<b>\$447.87</b>	<b>\$456.21</b>
Pref. Stock, Non-Redeem.	-	-	-	-	-	-
Pref. Stock, Convertible	-	-	\$824.49	\$824.49	\$824.49	\$824.49
<b>Total Pref. Equity</b>	<b>-</b>	<b>-</b>	<b>\$824.49</b>	<b>\$824.49</b>	<b>\$824.49</b>	<b>\$824.49</b>
Common Stock	\$0.07	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08
Additional Paid In Capital	\$159.88	\$267.85	\$280.67	\$276.72	\$276.72	\$292.58
Retained Earnings	-\$55.40	-\$51.50	-\$238.80	-\$12.10	-\$12.10	\$131.31
Treasury Stock	-	-	-	-	-	-
Comprehensive Inc. and Other	-\$0.20	\$0.61	-\$1.90	-\$0.70	-\$0.70	-\$0.30
<b>Total Common Equity</b>	<b>\$104.33</b>	<b>\$217.05</b>	<b>\$40.09</b>	<b>\$264.04</b>	<b>\$264.04</b>	<b>\$423.63</b>
<b>Total Equity</b>	<b>\$104.33</b>	<b>\$217.05</b>	<b>\$864.58</b>	<b>\$1,088.53</b>	<b>\$1,088.53</b>	<b>\$1,248.11</b>
<b>Total Liabilities And Equity</b>	<b>\$131.29</b>	<b>\$314.02</b>	<b>\$1,222.07</b>	<b>\$1,536.40</b>	<b>\$1,536.40</b>	<b>\$1,704.32</b>

**Exhibit 2: Beta Calculation for Celsius**



**Exhibit 3: Holdings Analysis for Celsius**

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CELH US Equity Export Settings Security Ownership

CELSIUS HOLDINGS INC CUSIP 15118V20

Search Name Default - No Search Selected Save Search Delete Search Refine Search  
Text Search Holder Group All Holders Investment Manager View

Color Legend Shrs Out 235.0M % Out 99.75 Float/Shrs Out 71.71 SI % Out 13.37

Holder Name	Portfolio Name	Source	Shrs	% Out	Latest Cdg	File Pt
1. ESTATE OF CARL DESANTIS		ULT-AGG	35,499,656	15.08	-428,574	05/29/24
2. Vanguard Group Inc/The		ULT-AGG	15,467,273	6.58	-122,124	09/30/24
3. Blackrock Inc		ULT-AGG	15,173,869	6.46	-883,879	12/31/24
4. AllianceBernstein Holding LP		ULT-AGG	13,894,915	5.93	-33,907	12/31/24
5. JP MORGAN CHASE & CO	JPMorgan Chase & Co	13F	11,108,616	4.73	-8,226,664	09/30/24
6. Li Ka-shing		13G	10,027,516	4.27	0	12/31/22
7. Akia Fund Management Ltd	Multiple Portfolios	MF-AGG	8,464,000	3.60	8,380,000	06/30/24
8. Chau Hoi Shuen		13G	7,680,323	3.27	0	12/31/23
9. T Rowe Price Group Inc		ULT-AGG	7,609,678	3.24	-21,097	09/30/24
10. Capital Group Cos Inc/The	Multiple Portfolios	13F	5,889,023	2.51	-4,923,377	09/30/24
11. State Street Corp		ULT-AGG	5,320,760	2.26	165,325	09/30/24
12. Alyeska Investment Group LP	Alyeska Investment Group LP	13F	4,286,573	1.82	3,408,744	09/30/24
13. Virtus Investment Partners Inc		ULT-AGG	3,943,507	1.68	213,050	10/31/24
14. Desantis Deborah L		Form 4	3,545,167	1.51	1,965,988	05/29/24
15. Bank of New York Mellon Corp/The		ULT-AGG	3,454,480	1.47	-678,681	12/31/24
16. Invesco Ltd		ULT-AGG	3,071,347	1.33	92,031	09/30/24
17. Geode Capital Management LLC	Geode Capital Management LLC	13F	3,000,805	1.28	104,896	09/30/24
18. Wellington Management Group LLP	Wellington Management Group LLP	13F	2,950,751	1.26	-213,282	09/30/24
19. Citigroup Inc		ULT-AGG	2,776,300	1.18	849,263	09/30/24
20. Desantis Damon		Form 4	2,684,711	1.14	1,965,988	05/29/24
21. FPR LLC		ULT-AGG	2,469,309	1.05	-7,974,222	09/30/24

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**Exhibit 4: Comparable Company Data (Food Companies)**

<i>Company Name</i>	<i>Beta</i>	<i>Total Debt</i>	<i>Market Cap</i>	<i>Cash</i>
General Mills, Inc.	1.19	\$13,315.10	\$32,480.40	\$418.00
Seneca Foods Corporation	0.91	\$650.80	\$506.30	\$4.48
Flowers Foods, Inc.	1.03	\$1,344.60	\$4,020.30	\$5.01
The Campbell's Company	1.04	\$7,542.00	\$11,188.00	\$108.00
Kellanova	1.35	\$6,342.00	\$28,368.60	\$694.00
The Kraft Heinz Company	0.88	\$20,649.00	\$35,428.80	\$1,400.00
Conagra Brands, Inc.	0.84	\$8,652.90	\$11,847.10	\$77.70
The Hershey Company	0.79	\$5,102.20	\$31,350.80	\$730.70
John B. Sanfilippo & Son, Inc.	1.08	\$55.60	\$802.30	\$0.48
Mondelez International, Inc.	1.08	\$18,544.00	\$75,606.50	\$1,351.00
Tootsie Roll Industries, Inc.	0.75	\$15.90	\$2,096.00	\$171.40
Tyson Foods, Inc.	0.91	\$10,481.00	\$20,637.90	\$1,727.00
McCormick & Company, Incorporated	0.87	\$4,602.10	\$21,007.20	\$186.10
Lassonde Industries Inc.	1.17	\$162.50	\$871.80	\$15.00
B&G Foods, Inc.	0.83	\$2,117.50	\$459.90	\$41.10
The Hain Celestial Group, Inc.	0.95	\$835.70	\$423.00	\$61.80
Hormel Foods Corporation	0.64	\$3,012.10	\$16,031.20	\$766.60
The Simply Good Foods Company	1.35	\$437.30	\$3,724.10	\$132.50
The J. M. Smucker Company	0.75	\$8,559.10	\$10,990.60	\$62.00
Post Holdings, Inc.	0.80	\$7,068.60	\$6,548.20	\$788.40
Utz Brands, Inc.	0.74	\$987.30	\$1,103.50	\$52.00
Lancaster Colony Corporation	0.78	\$57.70	\$5,203.10	\$163.40
TreeHouse Foods, Inc.	0.82	\$1,601.60	\$1,736.20	\$320.30
High Liner Foods Incorporated	1.02	\$253.60	\$329.20	\$7.30
Rogers Sugar Inc.	0.73	\$285.10	\$498.20	\$14.70
J&J Snack Foods Corp.	0.44	\$160.50	\$2,384.40	\$73.40
Saputo Inc.	0.99	\$2,943.60	\$7,026.80	\$344.10
Premium Brands Holdings Corporation	1.12	\$1,994.70	\$2,332.40	\$20.90
Lamb Weston Holdings, Inc.	0.89	\$3,968.10	\$8,403.00	\$71.40
Calavo Growers, Inc.	0.67	\$25.90	\$394.00	\$57.00
SunOpta Inc.	1.00	\$396.70	\$880.50	\$0.31
Mama's Creations, Inc.	1.03	\$13.10	\$269.10	\$11.00

*Beta: Regression beta*