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THE BIG SECRET ON WALL STREET

Bulls Balls

- Breaking the Billion-Dollar Barrier
- The Last Time This Happened, Investors Earned a 2,000% Return

FROM THE DESK OF PORTER STANSBERRY

#45
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Bulls Balls

Breaking the Billion-Dollar Barrier
The Last Time This Happened, Investors Earned a 2,000% Return

"The secret ingredient comes from bull testicles."

In the early 1990s, this wildfire rumor about the source of the mystery chemical taurine in Red Bull energy drinks was – in hindsight – genius.

For most consumer-product companies, it would have been a public relations nightmare. But for Red Bull founder Dietric Mateschitz, it was a manna-from-heaven marketing moment. And it helped make him one of the world's wealthiest men.

The bull balls story begins a decade earlier in Thailand, when Mateschitz – then a 38-year old marketing executive for Blendax, Europe's largest toothpaste maker – discovered the energy-boosting effects of taurine. Suffering from a severe case of jet lag, Mateschitz consumed a local drink called Krating Daeng, which Thailand's laborers chugged to grind through 12-hour shifts of punishing manual labor.

The mystery tonic, containing sugar, caffeine, B vitamins, and taurine, instantly brought the weary Mateschitz back to life. The drink's effectiveness made him wonder why the magical elixir had not made its way to the west.

Spoiler alert: taurine does not, in fact, come from a bull's nether regions. It's a naturally occurring amino acid in humans, and was first put into drink form in the 1960s after the Japanese government outlawed amphetamines – better known as speed. In 1962, experimenting with a safer energy-boosting alternative, a Japanese pharmaceutical company came up with an "energizing tonic" containing a synthetic taurine and caffeine. Branded as Lipovitan, it was the world's first energy drink.

Taurine-based energy drinks became popular throughout Asia by the mid-1980s, but they had yet to reach the U.S. and Europe. Mateschitz saw a massive opportunity to unleash such an energy product on the west.

In 1984, he quit his corporate job and poured his life savings of $500,000 into a partnership with the owners of the Krating Daeng. Mateschitz swapped 51% of his new company for the rights to distribute the drink internationally. He called it Red Bull – the English translation of Krating Daeng.

Mateschitz understood that the value of a consumer product was in its branding – rather than in the capital-intensive business of actually making the product and getting it to consumers. So he outsourced Red Bull's bottling and distribution, and focused on building the brand.

He then spent the next three years developing Red Bull's marketing and branding strategy. The perfectionist Materschitz went through 50 different iterations on the can design. Finding the right slogan was an even tougher battle.

Mateschitz's college friend Johannes Kastner, who owned an ad agency, agreed to develop the slogan for free. For the next 18 months, Mateschitz rejected every proposal that came across his desk. Exasperated, Kastner threatened to walk.

Mateschitz convinced him to think about it for one more day. Tossing and turning in his sleep that night, inspiration struck at 3 a.m. Kastner phoned Mateschitz and gave him his last idea – "Red Bull gives you wings."

Mateschitz loved it... and with that, Red Bull was ready to launch.

By the time Mateschitz put the first Red Bull drinks on store shelves in his home country of Austria in 1987, the company's finances were running on fumes.

Red Bull Goes Full Guerilla

With no cash for a media campaign or advertising, Mateschitz put together what became one of the world's most successful guerrilla marketing campaigns – an unconventional strategy that delivers maximum brand exposure at minimal cost.

He arranged to strew thousands of empty Red Bull cans in places popular with young men, his target demographic. The Potemkin village of demand, near bars, college campuses, concerts, and nightclubs across Europe, in turn generated real demand.

The company's next guerrilla marketing effort was to then deploy battalions of scantily-clad "Red Bull Girls" to hand out samples in college libraries during midterms, or outside pubs during peak hours.

These successful, though small scale, early efforts bootstrapped the Red Bull brand into local European markets in the late 1980s and early 1990s.

But it was the testicular-based taurine rumors that took Red Bull to the next level. Possibly started by Red Bull itself, the rumor quickly spread across Europe and then the world.

Mateschitz instantly embraced the bull-ball story. As a seasoned marketer, he knew that any press was good press.

He designed an entire PR and marketing strategy to fan the flames, including an entire page on the company's website dedicated to the far-fetched tale.

The bull-testicle rumors became a global phenomenon, boosting Red Bull's brand. It became one of the world's first viral marketing campaigns.

Red Bull sales boomed. Then came the controversy.

Several high-profile deaths were reported from high school athletes and college party-goers, who reportedly consumed several cans of Red Bull before they died.

Red Bull was not found legally liable for the deaths, but the news sparked a backlash against the brand. France imposed a nationwide ban on Red Bull in 1998, and the European press labeled the drink "speed in a can" and "liquid cocaine." High schools banned Red Bull.

As it happened (and as any parent might have predicted), telling teenagers what *not* to do – what they weren't allowed to drink – was more marketing gold for Red Bull. In a 2010 *Bloomberg* interview, when asked if the rumors and controversy were all part of a master marketing plan, Mateschitz replied:

> *"Yes. We expected it. It was a part of the strategy from the beginning. We would make the brand interesting enough that people wanted to get their hands on it."*

By the year 2000, Red Bull was a global phenomenon, selling more than a billion cans per year across 50 countries. Booming sales provided Red Bull with a war chest to up the ante on its shock-and-awe marketing campaign. The company invested heavily into sponsorships and endorsement partnerships, focusing on extreme sports and daredevil athletes who gained international notoriety for pulling off out-of-this-world stunts… literally.

Perhaps most famously, Red Bull spent $30 million to sponsor the world's boldest sky-diving jump… from space.

On October 12, 2012, Austrian daredevil Felix Baumgartner jumped out of a helium balloon 24 miles above Earth's surface, wearing a Red Bull-branded space suit:

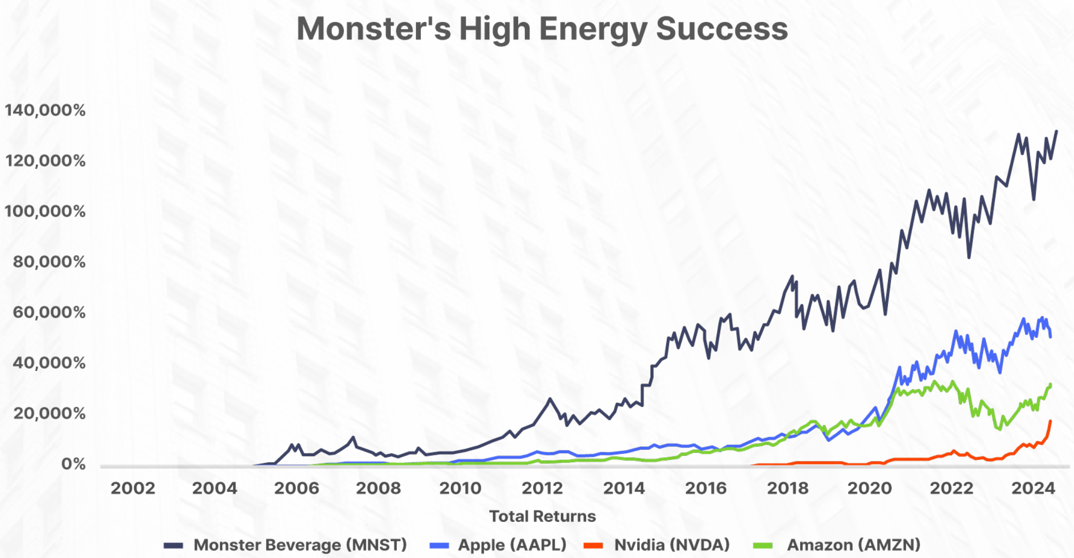
Baumgartner set world records for the highest skydive and the fastest speeds reached during a free-fall descent. He maxed out at 843.6 miles per hour – faster than a jetliner. The event was broadcasted by 40 TV stations and 130 digital news outlets.

In the days that followed, the stunt was derided as ludicrous and reckless. The outrage only further promoted Red Bull's brand and sales – playing perfectly into Mateschitz's marketing master plan.

By the time Mateschitz passed away in 2022 at age 78, Red Bull had made him one of the world's richest men, with a net worth of $27 billion.

Guerilla marketing was only part of the source of Red Bull's success. The company's early decision to outsource the bottling and distribution made it an incredibly capital efficient enterprise that could distribute a huge chunk of earnings to its owners each year. In 2021, for example, Mateschitz earned $865 million in dividends from (privately held) Red Bull.

Big profit margins attracted countless imitators over the last three decades. All failed to make a meaningful dent in Red Bull's dominant market share – until Monster Energy arrived in 2002. Like Red Bull, Monster outsourced bottling and distribution and focused solely on marketing and brand building. This made Monster Beverage (MNST) one of the best-performing stocks of all time. Since 2002, the shares have generated an incredible 132,200% return – outperforming tech giants like Apple, Nvidia, and Amazon, which themselves have been outshining the market.



Source: Bloomberg | Returns from Jan. 1, 2002 through Mar. 6, 2024

Even investors who did not buy shares until Monster broke the billion-dollar annual sales barrier in Q3 2008 (demand for energy drinks continued growing through the 2008 Great Financial Crisis) have still generated a market-crushing 2,047% total return since then. That compares with a 493% return in the S&P 500 over the same period.

Today, that same opportunity has presented itself. For only the third time in history, a new energy drink has surpassed the billion-dollar mark in annual sales in the U.S.

But there's one key difference this time around that could propel this brand beyond what both Monster and Red Bull achieved.

You see, Monster's success came from following the Red Bull playbook, and thus it took market share from the same target audience. This new brand is stealing market share from its two larger rivals, while also opening up the energy-drink category to a massive new consumer cohort – one that its predecessors purposefully ignored.

And it's created another opportunity for Red Bull- and Monster-style shareholder returns.

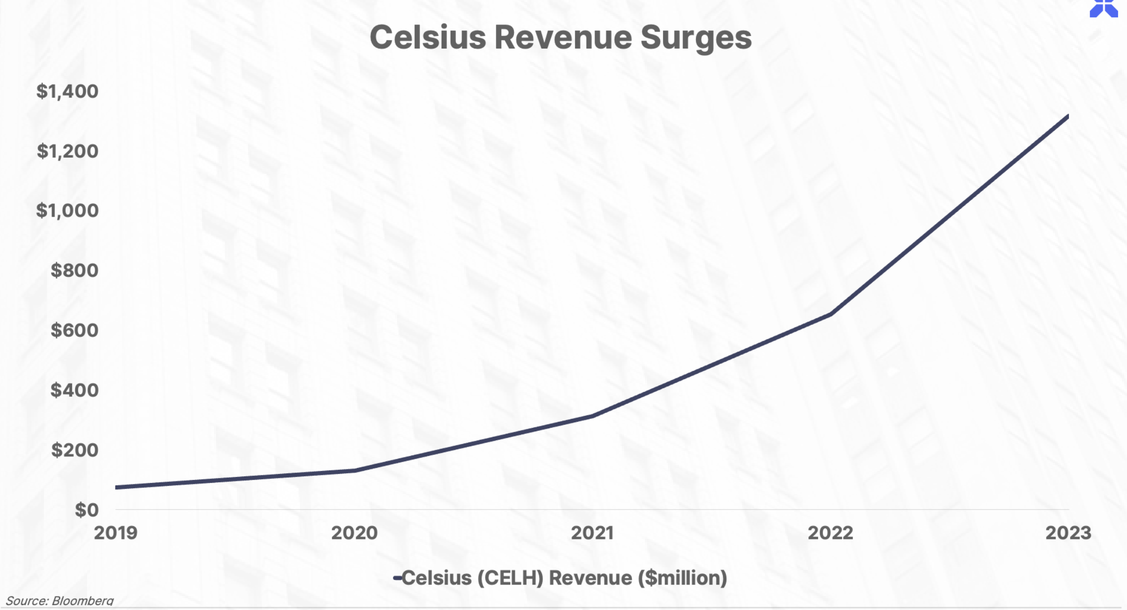
Let's get started...

Supercharging the Energy-Drink Market

In this issue we're recommending **Celsius Holdings (Nasdaq: CELH)**, owner of the Celsius brand of energy drinks.

The company sells what it calls "better for you" energy drinks. The product formula contains mostly natural ingredients, and doesn't contain the high sugar content, artificial colors, flavors, and chemical preservatives found in most energy drinks. But these natural ingredients pack a punch, delivering 200 milligrams (mg) of caffeine per 12-ounce serving. That's roughly 75% more than the 114 mg of caffeine in the same serving of Red Bull and 120 mg for Monster, currently the top two best-selling energy drinks. It's also more than the 123 mg of caffeine found in the average 12-ounce cup of coffee.

Celsius is the fastest-growing energy-drink brand in the U.S. market, which makes up over 90% of its $1.3 billion in annual sales. In the last five years, the company has grown its sales by an unheard-of compounded annual rate of 105%.

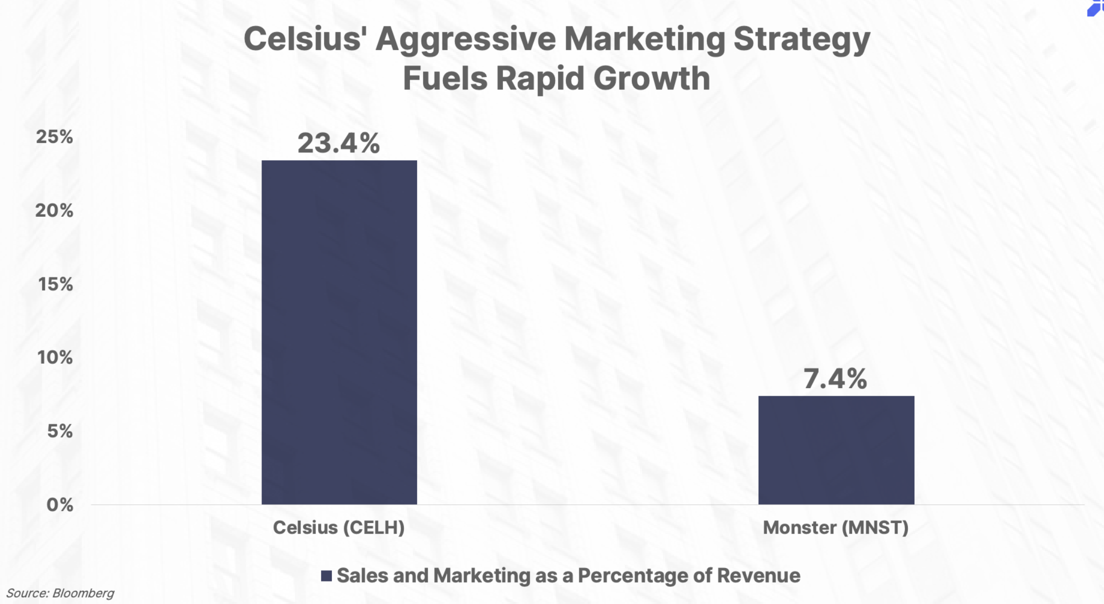


Last year, the brand increased its U.S. market share from 4.5% to 10.5% in the span of 12 months. That surge made it the first energy drink since Monster to surpass $1 billion in annual sales, and accomplish double-digit U.S. market penetration. Those gains have come at the expense of its two larger rivals, with the combined market share for Red Bull and Monster falling from 76% to 70% in the last year.

While Red Bull (with $11 billion in 2023 revenue) and Monster (at $7.1 billion) each dwarf the upstart in annual sales, in some key retail channels, Celsius has already displaced its two largest rivals. With e-commerce giant Amazon, Celsius ended 2023 as the best-selling energy drink with 19.7% market share, compared with 19.6% for Monster and 12.3% for Red Bull. Celsius is also the best-selling energy drink on grocery-delivery platform Instacart.

For now, Celsius is investing heavily into building its brand awareness, choosing growth over profitability and returns on capital. But even with this emphasis on growth, the company turned profitable in 2023, earning a 14% net profit margin on $1.3 billion in revenue, producing $189 million in net income. Like Red Bull and Monster, Celsius outsources the capital-intensive bottling and distribution of its drinks to third parties. This makes the business highly capital efficient, generating a 28% return on invested capital and a 32% return on equity last year.

By not tying up capital in bottling and production, Celsius can invest aggressively into sales and marketing to fuel growth. Last year, the company spent $309 million on sales and marketing, or 23% of revenue. By comparison, Monster spent $529 million on sales and marketing last year, or 7.4% of sales.



Thus, Celsius is spending 60% as much on sales and marketing as Monster, even though its business is only 20% the size. This strategy of spending disproportionately on sales and marketing is the playbook Monster used to catch up with its larger rival, Red Bull, in the early 2000s.

Celsius' rapid rise shares many parallels with the ascent of Monster, both of which sprung from early missteps.

A False Start Sets the Stage for Future Success

Monster failed with its original energy drink, Hansen Energy, that it launched in the late 1990s (before becoming the Monster Beverage Corporation in 2012, the business was called Hansen Natural Company). When the company rebooted its efforts to launch a second energy drink, management noted in a Q4 2003 earnings call the key lessons learned:

> *"When we started in energy, we came out and we competed initially with Red Bull. At that time, the size of the company was such that we probably didn't have enough manpower and marketing to put behind the brand… In hindsight, we probably should have put more behind it… [Red Bull] spent, for many years, disproportionately… in order to establish the brand, and they did a good job."*

The failure set Hansen back years and cost it millions of dollars. The company only found success after dramatically beefing up its marketing muscle when it launched Monster, its second energy-drink iteration, in 2002. This included increasing the size of its sales and marketing team nearly 10-fold, from 63 employees in 2002 to 591 by 2006.

Like Monster, Celsius learned the importance of brand building the hard way.

Celsius launched its original energy drink in 2005 and promoted it as a weight-loss product. Instead of spending aggressively to build the brand, it focused on funding academic studies in 2009 to showcase the drink's weight-loss benefits. The science was compelling, indicating that a single serving of Celsius burned 100 to 140 calories by increasing the body's metabolism by an average of 12%. But consumers don't buy energy drinks based on science. The lessons of Red Bull and Monster show that consumers buy based on brand power.

Celsius sales enjoyed a brief spurt of initial success, boosted by a distribution agreement with retail giant Costco Wholesale, which sold 60% of the company's drinks in 2011. But the early momentum fizzled, and by 2012 Costco dropped Celsius from its shelves due to sluggish sales. That same year, with the company hemorrhaging cash and its share price in free fall, the stock was delisted from the Nasdaq.

The silver lining from Celsius' early failure was that it provided an opportunity for the company to reinvent itself and its brand. Through that reinvention, the company tapped into a massive new target audience that went well beyond what Red Bull or Monster ever sought to achieve.

And Celsius had just the right man for the job.

Creating an Aspirational Lifestyle Brand

Billionaire investor Carl DeSantis became an early believer in Celsius after his business partner bought him a six pack of the original drink in 2006. He invested heavily into the upstart company, becoming its largest single shareholder by the time Celsius first went public in 2008.

But the first iteration of the company didn't go well. After three money-losing years and a delisting from the Nasdaq in 2012, DeSantis stepped in as an activist investor. He changed the management team, and then reimagined the company's branding and marketing strategy.

DeSantis was a natural-born salesman, who knew the power of the right marketing approach. His career as a salesman began at age 13, when he created makeshift ads to sell parakeets he began breeding in his garage. DeSantis went on to amass a nine-figure fortune after selling his 17% stake in the vitamin company he founded, Rexall Sundown, for $1.8 billion in 2000.

From that success, DeSantis funded the overhaul of Celsius' branding approach starting in 2012. He called on advertising guru Jack Trout, who helped devise the "Live Fit" mantra and marketing approach. The goal was to change Celsius from selling a science-based product aimed at losing weight, to an aspirational brand centered around living a healthy, fit lifestyle.

Key to this new marketing strategy involved tapping into one of the biggest consumer trends of the last two decades: the booming demand for healthier, naturally sourced ingredients.

Studies from the International Food Information Council (IFIC) indicate that 64% of American households try to purchase foods with "clean" ingredients – meaning those without "chemical-sounding" names.

The trend began in the mid-2000s, sparked by popular documentaries like the 2007 *King Corn*, which detailed the dangerous infiltration of high fructose corn syrup into thousands of foods on supermarket shelves. *Food Inc.*, released in 2008, showcased the dangers of America's industrialized food supply. These and other documentaries sparked greater consumer awareness about the importance of reading food labels, looking for natural versus chemically processed ingredients.

One company that successfully tapped into this trend toward natural food ingredients was burrito giant Chipotle Mexican Grill (CMG). Chipotle offered free nationwide screenings of *Food Inc.* in July 2009, using it as a marketing platform to amplify its "food with integrity" message. The company's emphasis on natural ingredients, including meat from animals raised without excess antibiotics or hormones, has delivered market-crushing results for shareholders over the last two decades:

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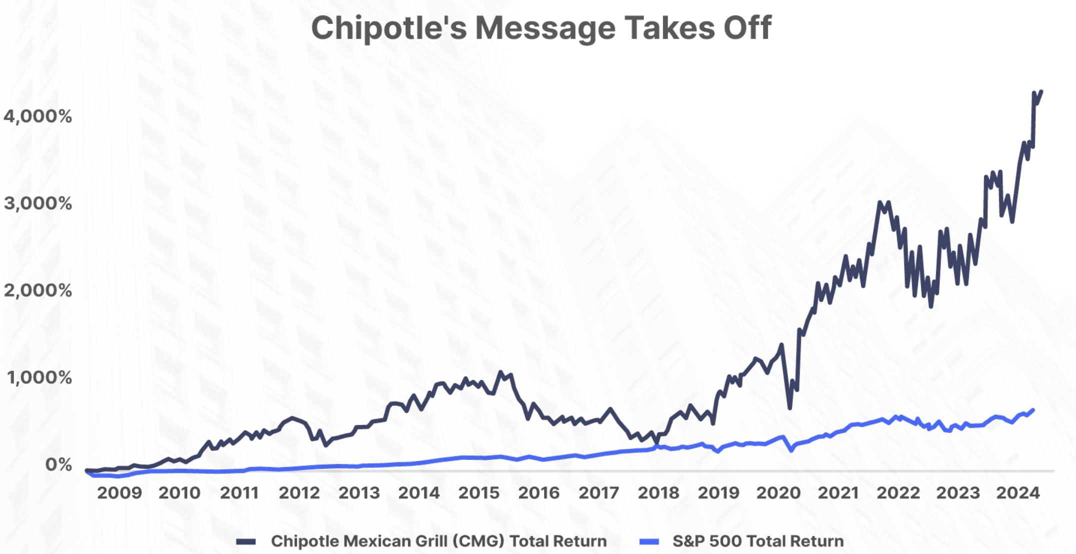


Source: Bloomberg | Returns from Jan. 1, 2009 through Mar. 6, 2024

Celsius tapped into the same consumer megatrend, beginning with a full makeover of its product formula. It avoided the high sugar content found in traditional Red Bull (34 grams per 12-ounce serving) and Monster (38 grams per 12-ounce serving), making all of its drinks sugar free. Unlike Red Bull and Monster, it doesn't use artificial flavors and colors. Finally, Celsius created a shelf-stable formula that requires no preservatives. Compare this with the chemical preservatives used by its two largest rivals that include sorbic acid, benzoic acid, sodium bicarbonate, and xanthan gum – not ingredients consumers would consider "clean."

DeSantis' investment and marketing insights allowed Celsius to market its product as a "better for you" energy drink. And it prominently displays this key differentiation versus Monster and Red Bull on its biggest marketing device – the can itself. Celsius is the only energy drink of the big three that claims no sugar, no preservatives, and no artificial flavors or colors across its entire product line:

Creating a more natural product with a cleaner ingredient list was the first big move Celsius made that distinguished it from its two larger rivals.

The second was Celsius' revamped marketing approach that tapped into a much broader consumer demographic – and one that Red Bull and Monster left wide open.

Bringing Energy Drinks Into the Mainstream

Red Bull and Monster both built their brands by marketing to young, rebellious, and anti-establishment males.

Red Bull exploited this niche with its shock-and-awe guerilla marketing campaign that generated outrage from mainstream institutions, like the press, school systems, and even the governments that once banned its product. Drinking Red Bull was a sign of defiance.

Monster tapped into the same social dynamic, and even sought to avoid tarnishing its anti-establishment brand with mainstream appeal. One energy-drink analyst, Scott Van Winkle, commented on Monster's marketing strategy in a **2012 *Investor's Business Daily* article**:

> *"'Why waste time taking out costly Super Bowl ads with 110 million impressions and reach only a fraction of its audience?' Van Winkle asked. He notes that skateboarding and surfing promotions target Monster's audience exclusively.*
>
> *"Van Winkle quips that the minute Coca-Cola put its name on Full Throttle it undermined its success. 'Anti-establishment' audiences don't crave a Coke energy drink, he says."*

While this strategy worked well, it came with a downside. By taking an anti-mainstream marketing approach, Monster and Red Bull both limited the scope of their addressable market. The biggest demographic they ignored was women.

The scantily clad "Red Bull Girls" and daredevil stunts used in Red Bull's guerilla-marketing efforts didn't tap into the female demographic. When Monster designed its original marketing program, it expressly avoided a feminine vibe. It didn't use white or light colors on its cans, or use terms like "sugar-free." Monster's branding sought to capture pure masculinity, with its aggressive bear-claw logo emblazoned across dark-colored cans, and its "Unleash the Beast!" slogan.

Online consumer-beverage publication *Bevnet* sums up the male-centric energy-drink marketing approach pioneered by Red Bull and Monster:

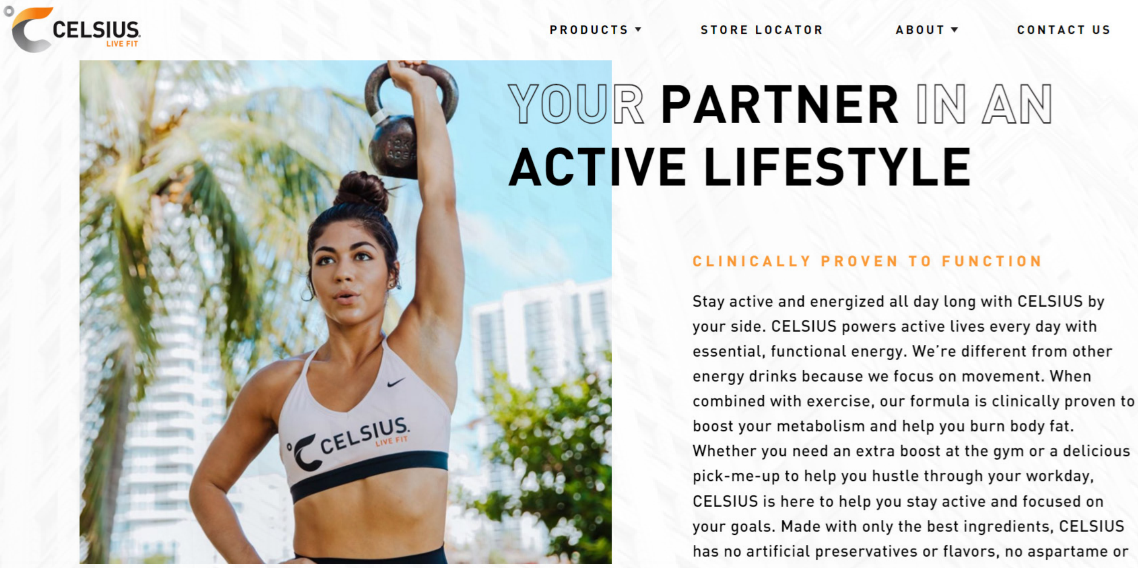
> *"Extreme sports. Dirt bikes. Bikini models. Those images have been such longtime mainstays of energy-drink marketing that for many consumers they've become synonymous with not just a single brand, but the entire category."*

Celsius' marketing vision was to bring energy drinks into the mainstream. This included opening up the category to the previously overlooked female demographic.

When designing its cans, Celsius embraced the feminine branding elements that Monster ran away from. This included an emphasis on white and light coloring, and clearly displaying its "no sugar, no preservatives" labeling.

The website branding of Celsius similarly differentiates it from its two larger peers. The Red Bull and Monster websites are dominated by extreme sports, like BMX biking events and mixed-martial-art competitions.

Then, there's Celsius. In sharp contrast with the testosterone-fueled imagery of its peers, Celsius is the only brand of the three to mostly feature females on its home page:



There's a critical nuance to appreciate in Celsius' marketing approach. That is, the company's brand is not specifically built to cater to women. It's designed to provide an alternative to the previous male-centric marketing regime of energy drinks. Through things like its can designs and online marketing, the company aims to make its brand more accessible to the previously overlooked female demographic.

The ultimate goal for Celsius is to strike a balance in reaching both male and female consumers. The company has done a masterful job of walking this demographic tightrope, achieving an equal split of 50/50 between male and female consumers.

Red Bull and Monster don't publish regular data on the demographic split of their consumers, but third-party data can provide a useful estimate.

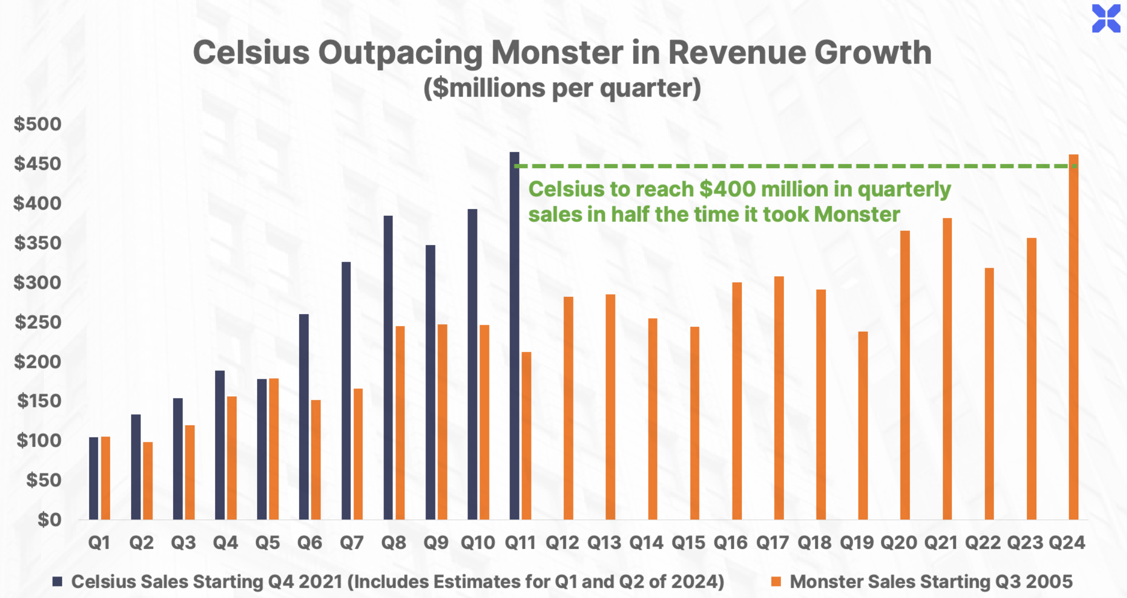
First, there's data from website-traffic analyzers, like SimilarWeb. The service shows that Red Bull's website traffic is 65/35 male/female, with Monster's at 69/31 male/female, and Celsius at 51/49 male/female. Given that Celsius' website traffic trends match the consumer demographic of its customers, we can reasonably infer the same applies to Monster and Red Bull.

Then, there was the following data point provided by Celsius CEO John Fieldy, at an investor conference in September 2023:

> *"We're about 50/50 male/female. We did get the latest data in the convenience channel, from one of the largest convenience stores, and they typically get a 70/30 mix on energy."*

The proof of success for Celsius' more inclusive marketing strategy lies in the company's sales figures. By reaching a much broader audience, Celsius has turbocharged its growth trajectory well beyond what Monster achieved at a similar time in its history.

The chart below compares Celsius' revenue against that of Monster, starting when each company first passed $100 in sales million for a quarter. The chart includes consensus analyst estimates for the next two quarters of revenue, which project Celsius will grow from $347 million in Q4 2023 to $467 million by Q2 of 2024. If Celsius hits these projections, the company will have grown its quarterly sales from $100 million to $400 million in just 10 quarters, compared with the 21 quarters it took Monster to make the same leap:



Source: Bloomberg

Celsius' meteoric rise has only just begun. The key driver that will fuel Celsius' future growth will come from investing its growing earnings stream into a larger marketing budget and international expansion.

From Guerilla Marketing to Global Powerhouse

After overhauling its product formula and marketing strategy, Celsius faced the same early constraint of Red Bull when it first launched: no money to market its product.

So it followed the Red Bull playbook, and launched a low-cost, grassroots guerilla-marketing campaign. The company passed out free samples of Celsius at marathons, volleyball tournaments, and live sponsored workout classes. One of the company's most successful sampling campaigns came from a partnership with Tough Mudder in 2018, where weekend warriors fueled up with Celsius to traverse a mud-filled 12-mile-long endurance obstacle course.

By 2018, Celsius was handing out around 30,000 free samples each weekend at events across the country. When the COVID-19 outbreak struck, the company capitalized on its growing social media presence to launch a "Sweat With Celsius" online workout program livestreamed through Instagram. It also gave half a million cans of Celsius to nurses, doctors, and employees at COVID testing sites during the pandemic.

By 2021, the Celsius brand was firing on all cylinders, and Costco came back. The retail giant became one of the largest distributors of Celsius drinks that year, helping propel Celsius' sales growth 140% in 2021.

The meteoric rise in sales caught the attention of one of the largest global beverage distributors: Pepsi. In August 2022, Pepsi bought an 8.5% share in the company for $550 million. As part of the deal, Pepsi agreed to distribute Celsius through its massive global distribution network that drives over $90 billion in annual sales.

This gave Celsius access to 50,000 to 60,000 new beverage coolers across Pepsi's giant footprint in grocery and convenience stores. The deal also boosted Celsius' presence in a key selling channel – the 61% of U.S. colleges and universities that Pepsi distributes drinks into.

The Pepsi partnership helped fuel Celsius' revenue growth of 108% in 2022 and 102% in 2023.

The real prize of the Pepsi partnership will come from international expansion. As of year end 2023, Celsius generated $54.7 million in international sales, or about 4% of its $1.3 billion in total revenue. By comparison, Monster and Red Bull each generate roughly 40% of sales from markets outside the U.S.

Pepsi's first international distribution point for Celsius began with Canada, starting in January 2024. It's still early days, but on the company's Q4 2023 earnings call in late February, Celsius' management noted "after approximately one month of sales, we are very pleased with the results and even more so to delight our Canadian consumers who have embraced our products."

The next targets include the UK and Ireland, slated for initial sales in Q2 of this year.

Monster provides a case study for what could come next. In 2014, Coca-Cola acquired a 16.7% stake in Monster, which included an agreement to feed Monster drinks through Coke's massive global distribution footprint. Over the next 10 years, Monster's revenue surged from $2.5 billion in 2014 to $7.1 billion in 2023.

But Celsius has the potential to go beyond merely replicating the success of Monster or even Red Bull. By creating a lifestyle brand with mass appeal, it's taking the energy drink beyond the niche world of extreme sports and daredevil stunts into the mainstream.

The First Lifestyle Energy Drink With Mass-Market Appeal

Building on a growing stream of sales and profits, and powerful distribution from Pepsi, Celsius is now creating a global marketing machine to reach consumers at a mass scale.

Thanks to its broad demographic appeal, Celsius is tapping into both the traditional energy-drink audience, while expanding its reach into the mass market.

The company has infiltrated the core marketing events of Red Bull and Monster. This includes sponsorships with Nascar, Formula 1, and the mixed-martial-arts Professional Fighting League and Ultimate Fighting Championship (UFC). Notable high-profile athlete endorsements in this area include UFC fighters Dustin Poirer and Amanda Nunez, as well as YouTube celebrity turned professional boxer Jake Paul.

At the same time, Celsius is promoting its brand through more mainstream marketing channels that Red Bull and Monster have historically shied away from. This includes some of the largest sporting events in the U.S. and globally. Celsius has struck endorsement deals with college football athletes from over a dozen U.S. universities and the National Hockey League, with plans to tap into the National Football League next. It also recently made a multiyear deal with Major League Soccer to become a sponsor for the 2026 World Cup – the most widely viewed sporting event in the world.

The brand is also broadening its reach into marketing events that harness the viral power of social media, ranging from celebrity athletes to reality-TV stars.

As one recent example, the company sponsored a celebrity pickleball tournament, hosted by online media personality David Dobrik at his Los Angeles home. The event featured 200 celebrities with wide-ranging social media appeal, from dancer Tessa Brooks and singer Madison Beer to the cast of ABC's *The Bachelor*.

As guests entered the backyard arena, they were met by a strategically placed Celsius-branded photo-op and bar area that encouraged players to post pictures to their social media accounts. The event produced more than 3 billion media impressions, helped by over 400 tagged social media mentions of Celsius from the celebrity guests.

Celsius has tapped into the core energy-drink demographic and beyond. It's now spreading its brand on a mass scale through major sporting events, celebrity endorsements, and viral social media campaigns. The addressable market for its lifestyle brand spans a massive audience ranging from mixed-martial-art enthusiasts to housewives, and everyone in between:

Thus, the opportunity forCelsius goes beyond battling Monster and Red Bull for the largest slice of the energy-drink pie. The real upside case will come from massively expanding the size of that pie, by bringing in a whole new demographic of consumers.

Both anecdotal data points and the sales figures for the energy-drink category indicate that's exactly what's happening. In 2023, Celsius was only the third largest U.S. energy-drink brand, and yet it single-handedly expanded the category by the largest amount of any brand – contributing $1.09 billion in new sales, or 31% of the total category growth.

Meanwhile, even as Monster surrendered market share to Celsius in 2023, Monster still grew its revenues by 13.1% last year. This indicates that even as Celsius gains share from its larger rivals the overall market is growing at an even faster rate.

The company has also noted that its retailer partners have seen the Celsius brand attract new customers into the energy-drink category. In September 2023, Celsius' management noted that 34% of their consumers are new to the energy-drink category.

This is the most exciting part of the Celsius growth story. If the company can continue taking market share, while also tapping into a whole new segment of consumers, there's reason to believe it could become the industry-leading giant.

Next, let's consider what kind of future returns investors can anticipate from Celsius.

Massive Long-Term Upside, With Near-Term Downside Risks

Celsius is different from the normal stocks we recommended – the "forever businesses" trading at reasonable prices. By all traditional valuation metrics, the stock appears overpriced. On a price-to-earnings (P/E) basis, the current $20 billion market valuation is 101x last year's $189 million in net income. And it trades at a 15x price-to-sales (P/S) ratio.

But fast-growing companies like Celsius will always appear expensive based on backward-looking measures. For example, during Monster's rapid-growth phase in the early 2000s, it routinely traded with a P/E ratio exceeding 60x and a P/S ratio of more than 10x. And yet, investors who bought at any of these apparently high valuations (and held) have generated phenomenal returns, regardless of the entry point.

As mentioned earlier, Celsius is currently growing at roughly twice the rate of Monster during its rapid-growth phase in the early 2000s. From 2002 to 2009, Monster generated a compounded annual growth rate of 43%, and never achieved a full year increase exceeding 100%. Celsius, on the other hand, has surpassed 100% growth in each of the last three years, and compounded its revenues at an annual rate of 104% over the last five years.

Given this incredible growth trajectory, we believe Celsius investors can pay what appears to be a rich valuation multiple, and still earn outsized returns. Let's analyze a few key assumptions to estimate the potential upside in Celsius shares from their current valuation level.

First, how much of the energy market will Celsius capture?

Currently, Red Bull is the top dog in the energy-drink market, with roughly 40% market share and $11 billion in annual revenue.

When Monster arrived on the scene in 2002, Red Bull held over 80% of the market. Now, 15 years after crossing the billion-dollar sales mark in 2008, Monster has achieved 39% market share versus Red Bull's 43% in 2023.

Celsius passed the billion-dollar revenue mark last year, and it's currently growing at roughly twice the rate that Monster did when it first reached that milestone in 2008. Given this growth rate, and the company's success at expanding the overall market while gaining share from its two largest rivals, we see the potential for Celsius to displace both Red Bull and Monster in the long run.

Our upside case is for Celsius to become the largest global energy-drink brand, capturing 50% market share by 2040. However, we also imagine less optimistic scenarios where it captures as little as 20% market share.

The next key question is: how fast will the overall energy drink category grow?

Even before Celsius began expanding the category, energy drinks were the fastest-growing segment of consumer packaged beverage products over the last decade. Now, that growth has accelerated, reaching 13.4% in the U.S. last year. Current industry experts project the market could grow around 8% per year through 2030.

Through 2040, we assume that the overall category will grow by between 5% and 8% per year. This will make the overall category 2x to 4x larger in size than it is today.

Together, these assumptions of 20% to 50% market share and overall category growth of 2x to 4x give a range of future revenue projections of between $10 billion and $50 billion by 2040.

The final key question is: what profit margins will Celsius earn on these revenues?

Today, Celsius is investing heavily into building brand awareness, choosing growth over short-term profits. As the company expands, we expect its profit margins will improve. This will come from greater economies of scale, as the company can spread its biggest expense – sales and marketing – over a larger revenue base. In this way, the company will turn a higher portion of revenue into profits.

Over time, we expect Celsius to achieve profit margins on par with other public beverage makers that outsource their bottling and distribution. This includes Monster and Coca-Cola, which generate net income margins in the range of 22% to 25%. Thus we assume a long-term profit margin of around 22%.

Next, we assume the company's share count remains static. Currently, Celsius is issuing share-based compensation to employees and directors that's expanding its share count by roughly 2% per year. We expect this will change as the company becomes more profitable, and it begins returning capital to shareholders via buybacks. The buybacks will reduce the number of shares outstanding, and offset the dilution from share-based compensation.

Monster followed the same trajectory, with an increasing share count in its early growth phase, followed by a shrinking share count as it became more profitable and began returning capital to investors through repurchases. The company's share count is roughly equivalent with where it was in 2008 when it first passed the billion-dollar mark in annual sales.

Finally, we assume Celsius will trade at the same historic average earnings multiple Monster has traded at over the last decade, around 30x earnings.

The table below incorporates the above assumptions and shows the path of future scenarios for Celsius investors, based on two entry points. First, is from buying at its current market capitalization of $20 billion. Second, is from buying shares at half of their current valuation, at $10 billion.

Bull Case Scenarios for Celsius by 2040

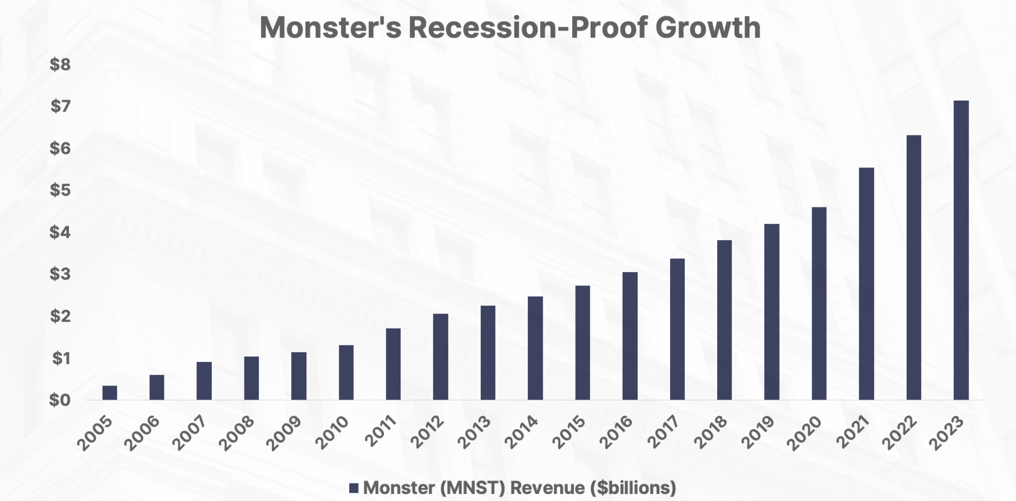
Revenue ($billions)	Net Income at 22% Profit Margin ($billions)	Market Capitalization at 30X Earnings Multiple ($billions)	Upside from $20B Current Valuation	Upside from $10B Valuation
$10	$2.2	$66	230%	560%
$20	$4.4	$132	560%	1,220%
$30	$6.6	$198	890%	1,880%
$40	$8.8	$264	1,220%	2,540%
$50	$11.0	$330	1,550%	3,200%

The table shows that, based on our range of future upside scenarios, a purchase of Celsius shares at their current $20 billion valuation could deliver returns of between 230% and 1,550% through 2040. Alternatively, a purchase of Celsius shares at half of their current valuation, or $10 billion, could produce returns of 560% to 3,200% through 2040.

What would need to happen to give investors the chance to purchase Celsius shares at half of their current valuation?

Given that energy drinks are effectively consumer staples, and Celsius' growth is coming from both taking existing market share and expanding the overall category, we believe it will be largely immune from the macroeconomic cycle.

This is what we observe from studying the history of Monster's business, as it continued growing sales without a hiccup before, during, and after the Great Financial Crisis of 2008-2009:



Source: Bloomberg

But even though Monster's business was immune from the macroeconomic shock of the Great Financial Crisis, its share price was not. From its peak in October 2007, Monster shares fell over 60% to their lows in October 2008 during the panic of the Great Financial Crisis.

Given our views of an upcoming recession and financial-market fallout from the problems lurking in today's banking sector, we expect a similar opportunity could present itself in Celsius shares. Even as the business continues growing, the share price could take a hit of at least 50% from a broader bear market in stock prices.

However, for long-term investors, this would present an attractive opportunity to average down and buy more shares at lower prices, reducing the overall cost basis on the investment. That said, we're still willing to recommend an investment at current levels, given our outlook for the future growth and profitability of the business.

For a point of comparison, consider that a purchase of Monster stock at precisely the worst moment possible – right at the peak of its share price in October 2007 – has delivered 15% compounded returns since then, compared with a 10% compounded return in the S&P 500.

Given the risks of a short-term drop in its share price, we are assigning the highest risk rating of 5 to this investment.

Thus, we're recommending investors buy shares of Celsius today, but with an important caveat.

That is, we suggest limiting your position size to a small enough percentage of your portfolio that you are comfortable holding through a potential drop of 50% or more.

As a general rule, if you would normally allocate a maximum of 5% of your portfolio to the safest, lowest-risk investment, then this recommendation should be limited to a maximum of 1% of your portfolio.

If that decline in the Celsius share price comes, and the business results show continued rapid growth and market-share gains, it would present a tremendous buying opportunity. We would recommend using that potential decline to buy additional shares, reducing the cost basis on the investment.

Action to Take: Buy Celsius Holdings (Nasdaq: CELH) up to $100 per share. This recommendation comes with a risk rating of 5, our highest level, and we urge investors to size their initial positions accordingly.

New to the Porter & Co. Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each edition of The Big Secret, we highlight three current portfolio picks that are at an attractive buy point. In addition to today's recommendation, we suggest you focus on these:

1. Howard Marks is the Warren Buffett of debt. **Oaktree Specialty Lending Corporation (Nasdaq: OCSL)** is a subsidiary of Marks' Oaktree Capital Management and is capitalizing on higher-yielding private loans. Oaktree Specialty Lending makes primarily floating-rate loans to private middle-market companies. Because private companies aren't required to report the same level of disclosure as public companies, they are considered higher risk, and must pay higher rates to issue debt. Oaktree's expertise in analyzing the risks of these private companies gives them an opportunity to capitalize on higher yields from these private market loans. The weighted-average yield on the company's debt portfolio is 12.2%, which it returns to shareholders through an enticing 11.2% dividend. Best of all, Oaktree offers a chance to capitalize on what's likely to be an explosion in the opportunity set for distressed-debt when today's credit cycle turns.

2. **Franco-Nevada (NYSE: FNV)** – the "Gold Digger" That Gets Paid to Do Nothing – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 56% free cash flow ("FCF") margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government shut down a large copper mine that is one of the company's largest royalty assets. The decline is overdone as the market capitalization of Franco-Nevada has fallen by $5.5 billion while the mine is worth roughly $5 billion, effectively pricing in a total loss of the mine. Meanwhile, with the price of gold regularly above $2,000 per ounce, the rest of Franco-Nevada's portfolio is firing on all cylinders. As a result, the shares trade near their lowest valuation on record. (We provided more details of the latest developments in a recent Portfolio Update.)

3. **Philip Morris (NYSE: PM)** owns the international rights to Marlboro, the world's leading traditional tobacco brand. Over the last decade, the company has invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris' smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 40% operating margins and a 24% average return on capital. It's also a recession-proof business, and trades at an attractive valuation of just 14x earnings, with a 5.7% dividend yield.

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

ENERGY & COMMODITIES	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status	Risk Rating (1 - 5)
EQT CORPORATION	EQT	U.S. Gas-Focused E&P	06-02-2022	$48.87	$37.24	1.29%	$1.07	-21.62%	Buy Under $50	4
BWX TECHNOLOGIES, INC.	BWXT	Nuclear Power Equipment	12-22-2022	$58.05	$108.00	0.85%	$0.92	87.63%	Buy Under $80	3
BITCOIN	BTCUSD	Cryptocurrency	05-11-2023	$27,011.85	$67,314.90	0.00%	$0.00	149.21%	Buy Under $50,000	4
PEABODY ENERGY	BTU	Coal Mining	06-22-2023	$21.29	$26.81	1.12%	$0.15	26.63%	Buy Under $25	4
CNX RESOURCES	CNX	U.S. Gas-Focused E&P	09-28-2023	$22.82	$21.04	0.00%	$0.00	-7.80%	Buy Under $30	3
BATTLESHIP STOCKS										
CREDIT ACCEPTANCE CORP	CACC	Consumer Finance	07-28-2022	$560.28	$561.68	0.00%	$0.00	0.25%	Buy Under $600	3
NOVO NORDISK	NVO	Pharmaceuticals	10-27-2022	$53.30	$135.92	0.46%	$0.74	156.39%	Hold	2
WINMARK CORPORATION	WINA	Specialty Apparel Stores	09-15-2022	$217.60	$354.75	0.90%	$17.00	70.84%	Hold	1
FRANCO-NEVADA CORP	FNV	Precious Metals Streamer	05-11-2023	$154.77	$112.24	1.21%	$1.02	-26.82%	Buy Under $125	2
PAYPAL	PYPL	Payment Processor	07-20-2023	$73.02	$58.50	0.00%	$0.00	-19.88%	Hold / Stop Loss at $50	3
FOREVER STOCKS										
DOMINO'S PIZZAS INC	DPZ	Restaurants	02-27-2023	$300.00	$447.37	1.35%	$4.84	50.74%	Hold	3
DEERE & COMPANY	DE	Agricultural Machinery	08-31-2023	$410.94	$375.32	1.57%	$2.82	-7.98%	Buy Under $450	3
DIAGEO PLC	DEO	Alcoholic Beverages	12-14-2023	$145.72	$148.24	3.38%	$0.00	1.73%	Buy Under $160	3
PROPERTY & CASUALTY INSURANCE										
W.R. BERKLEY	WRB	P&C Insurance	05-25-2023	$56.10	$84.16	0.48%	$1.33	52.39%	Buy Under $62	2
PROGRESSIVE CORPORATION	PGR	P&C Insurance	06-08-2023	$131.08	$196.12	0.20%	$1.05	50.42%	Buy Under $160	2
CHUBB LIMITED	CB	P&C Insurance	06-08-2023	$191.60	$248.81	0.16%	$2.58	31.21%	Buy Under $220	2
SKYWARD SPECIALTY	SKWD	P&C Insurance	06-16-2023	$24.66	$35.61	0.00%	$0.00	44.40%	Buy Under $35	2
EXPONENTIAL GROWTH										
TELLURIAN INC.	TELL	U.S. LNG Exporter	06-16-2022	$3.82	$0.81	0.00%	$0.00	-78.80%	Hold	5
EVOLUTION AB	EVVTY	Casinos & Gaming	11-30-2023	$103.77	$128.04	1.69%	$0.00	23.39%	Buy Under $130	4
INMODE	INMD	Medical Devices	01-11-2024	$20.19	$22.67	0.00%	$0.00	12.28%	Buy Under $25	5
BURFORD CAPITAL	BUR	Litigation Finance	02-08-2024	$14.37	$14.14	0.88%	$0.00	-1.60%	Buy Under $20	4
CELSIUS HOLDINGS	CELH	Energy Drinks	03-07-2024	$89.56	$89.56	0.00%	$0.00	0.00%	Buy Under $100	5
HIGH YIELD										
PHILIP MORRIS	PM	Tobacco Maker	07-14-2022	$89.62	$91.51	5.68%	$7.68	10.68%	Buy Under $105	1
VIPER ENERGY	VNOM	Oil and Gas Royalty	09-01-2022	$29.68	$35.00	6.51%	$2.24	25.47%	Buy Under $34	3
BLACK STONE MINERALS	BSM	Oil and Gas Royalty	02-16-2023	$15.90	$15.55	12.22%	$1.90	9.75%	Buy Under $18	2
SABA CAPITAL INCOME & OPPORTUNITIES FUND	BRW	High Yield Bond Fund	03-16-2023	$8.01	$7.44	13.71%	$1.06	6.05%	Buy Under $9	3
OAKTREE SPECIALTY LENDING CORP	OCSL	Specialty Investments	03-30-2023	$18.57	$19.73	11.15%	$1.72	15.51%	Buy Under $22	2
BETTER THAN THE MARKET										
CAMBRIA SHAREHOLDER YIELD	SYLD	Yield Focused ETF	01-05-2023	$70.49	$69.95	2.22%	$1.30	1.08%	Buy Under $65	2
WATCHLIST										
SHERWIN-WILLIAMS	SHW	Specialty Chemicals	NA	-	$344.66	2.81%	-		Buy Under $150	
ULTA BEAUTY	ULTA	Specialty Retail	NA	-	$548.32	0.00%	-		Buy Under $350	
NIKE	NKE	Athletic Footwear & Apparel	NA	-	$98.19	0.00%	-		Buy Under $75	
HOME DEPOT	HD	Home Products Stores	NA	-	$376.35	2.22%	-		Buy Under $240	
PAYCOM SOFTWARE	PAYC	Application Software	NA	-	$181.64	0.83%	-		Buy Under $150	
THE HERSHEY COMPANY	HSY	Consumer Luxury Staples	NA	-	$192.52	2.85%	-		Buy Under $165	

Disclaimer: this hypothetical portfolio should not be considered investment advice or a recommendation to buy/sell any financial instrument. For informational purposes only. Investors should perform their own due diligence before buying or selling any financial instrument. No express or implied guarantee of accuracy or applicability to real-world trading. Risk Ratings are based on a security's fundamentals and business model rather than its current valuation. Cost basis refers to the closing price the day before a security is recommended.

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC.	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

We are officially adding a High Yield section to ***The Big Secret on Wall Street*** Portfolio. The High Yield section consists of five stocks paying out 5% dividends or better. The companies offer a steady income stream, with three of the stocks yielding double digits.

Domino's Returns to Growth

The world's largest pizza seller, **Domino's Pizza (NYSE: DPZ),** has rebounded following a rare revenue slump in Q2 and Q3 of last year. The first extended down period in over a decade came from a combination of weak consumer spending and a labor shortage that made it difficult for the company to hire and keep delivery drivers.

The labor shortages have since eased, helping Domino's secure enough drivers to uphold its "30-minute delivery" promise. Recall from our **original recommendation** that Domino's transformed its business starting in 2009 with a key emphasis on convenience. This included its promise to get fresh, hot pizzas to consumers within 30 minutes of placing an order.

Domino's return to growth was also helped by tapping into a massive new source of customers, through its partnership with third-party food-delivery services. In our previous **Domino's update**, we reported that the company partnered with UberEats and Postmates (both owned by Uber) to offer Domino's delivery to the 88 million users across these third-party apps.

Domino's estimates that 65% of users who order using a third-party app were not previously Domino's customers. Hence, there's a large opportunity for the company to reach an untapped market within these apps. These third-party delivery apps are mainly used by relatively young, high-income earners, who are less price sensitive compared to the traditional Domino's user who orders directly from Domino's itself.

Domino's partnership with Uber is now fully rolled out in the U.S. Both companies will increase their marketing investment in the partnership, which will further drive Domino's third-party sales growth. In Q4, third-party delivery apps made up 1% of Domino's sales, and the company expects this segment to rise to 3% of sales in 2024.

The two companies signed a one-year exclusivity clause, which prevents Domino's from partnering with other third-party delivery apps like DoorDash. Once the exclusivity period ends in early 2025, we expect an even wider roll out to other aggregators, which will expand Domino's customer base even further. Domino's estimates that partnerships with third-party delivery apps could bring in $1 billion in new revenue over the next three years. This would add about 6% to the company's total sales over that period.

On another front, Domino's launched a new rewards program last fall to improve customer engagement and drive increased transactions. The company identified an opportunity to increase engagement among its 45 million disengaged reward members. Domino's innovation to the program is increasing the frequency of both existing active and inactive reward members.

The more that customers spend at Domino's, the more they are rewarded, which results in an incentive for members to order more in the future. Since launching the rewards program in September, Domino's gained 2 million new members, reaching 33 million. In the eight months prior to the re-launch, Domino's active rewards members increased only 1 million. Domino's is seeing more redemptions than ever before and an uptick in active users. As intended, this initiative is driving new sales revenue for franchisees, especially amongst low interaction users.

And there's still a huge untapped opportunity. For example, Domino's launched a promotion to get even more members – by offering a free medium two-topping Emergency Pizza. But the catch is that to get it, the customer must sign up for the Domino's rewards program.

The success of the new rewards program and third-party partnerships was reflected in Domino's Q4 results, highlighted by same-store sales growing 2.9% compared to a 0.6% decline the prior quarter. Overall revenue also increased 4.9% in the fourth quarter. Domino's is well-positioned for years of growth. Plus, the company plans to open 1,000 stores annually internationally – adding to the nearly 20,000 that now operate globally.

The high capital efficiency of Domino's franchise model allows the company to continue returning cash to investors. For the 10th year in a row, Domino's increased its annual dividend and will pay out $4.84 per share in 2024 (for a current yield of 1.4%). Domino's also returned $58.2 million to investors via share buybacks in the fourth quarter, while the board recently authorized an additional $1 billion repurchase program in February. In the last three years, Domino's has reduced its share count 12%.

In November 2022, we added Domino's to the watchlist to buy DPZ shares when the price dipped below $300. We argued that Domino's is a world-class business with a highly capital efficient franchise model. But at the time, Domino's was trading at a premium and we urged patience. Domino's shares subsequently reached our target buy price of $300 in February 2023, and since then have rallied 51% to $447 per share.

Domino's shares are a hold in the *Big Secret* portfolio now.

Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at **mailbag@porterandcompanyresearch.com** to have your questions answered. We'd love to hear from you!

Today's letter comes from G.O. who writes:

"I am a long-time follower of your great work. I am invested in Altria (MO) and was surprised that you took this great old company out of *The Big Secret* stock portfolio. Last summer Joel Litman wrote a review of MO in his *Hidden Alpha* report. I was comforted from his review and have retained my position in MO. I have wished that they would merge with Philip Morris, but that has not happened. To date, I have been using the dividends to reinvest."

Porter's comment: *Thank you for your letter.*

The decision to sell **Altria (NYSE: MO)** *was not taken lightly. With 44% free cash flow margins and a 39% return on capital, it's historically been one of the greatest and most capital efficient businesses of all time.*

The problem is that Altria only looks great when viewed through the rearview mirror. The company's future remains heavily tied to traditional tobacco consumption, and that business is dying.

Big Tobacco is transforming into Big Nicotine. The winners will be those companies with the best smoke-free tobacco alternatives. This includes vaping devices (which vaporize a nicotine-containing liquid for inhalation), oral nicotine pouches, and "heat not burn" products, like the **Philip Morris (NYSE: PM)** *IQOS device.*

Our original bullish thesis on Altria was based on the view that it would successfully tap into this new smoke-free trend. We also believed that, even as the volume in its combustible tobacco business declined, higher prices would offset these fewer units sold.

We decided to sell the shares from the portfolio when it became clear that both of these assumptions were no longer valid.

After failing to develop its own successful vaping device, Altria paid a staggering $12.8 billion in 2019 to acquire the leading U.S. vape maker, Juul. At the time, Juul held 75% of the U.S. vaping market share. But after coming under fire for its aggressive marketing to underage consumers, its business has been hobbled by a regulatory crackdown.

This provided an opening for British American Tobacco's vaping product, Vuse, to take the lead. In the U.S. vaping market, Vuse has risen from single-digit market share in 2019 to 42% today. Meanwhile, Juul's share is in free fall, hitting 25% last year and still declining. Altria has since written down the value of its Juul investment to just $250 million.

Altria hasn't fared much better in the oral nicotine pouch segment. The company's on! Brand of nicotine pouches remains a distant second place to Phillip Morris's Zyn brand, which holds 77% U.S. market share.

As a result, Altria's smoke-free segment remains a minority contributor to sales – making up just 13% of revenue last year. And this segment is not growing enough to offset the rapid declines in Altria's legacy business.

For the last two decades, Altria has raised prices enough to more than overcome volume declines in its combustible tobacco business. More recently, as these volume declines have accelerated, Altria can no longer raise prices fast enough to compensate.

> *Last year, Altria's combustible tobacco segment posted a revenue decline of 2.4%. Without enough offsetting growth in its smoke-free portfolio, Altria's overall revenues declined 1% last year.*
>
> *We believe there's still a chance that Altria will eventually figure out the right smoke-free strategy. If it does, we may revisit and change our tune. But as things stand today, an investment in Altria remains a speculative proposition.*
>
> *The easy, no-brainer bet in this industry is clear: Phillip Morris.*
>
> *The company's IQOS and ZYN products are the two best-selling smoke-free nicotine products in the world. It's been the most successful of all tobacco companies in transitioning its business model, with 39% of its revenues coming from smoke-free products.*
>
> *Meanwhile, Phillip Morris is also enjoying more robust tailwinds from its legacy combustibles business. This is thanks to its geographical presence in emerging markets, where combustible tobacco consumption continues growing. As a result, Phillip Morris posted 2.3% growth in its combustibles business last year.*
>
> *With the world's best smoke-free nicotine products, and a resilient legacy tobacco business, Phillip Morris grew revenues by 11% last year. And it's on pace for mid-single digit growth for the foreseeable future.*
>
> *That's why Phillip Morris remains our best bet among all of the tobacco stocks.*

Porter Stansberry

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**