IMMERSION INVESTMENTS

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Immersion Investment Partners, LP
3Q 2023 Partners Letter
November 2023

Net Returns as of September 30, 2023

	ITD[1]	1 Year	YTD	3Q23
Immersion Investment Partners, LP Net	-27.23%	15.20%	18.54%	-8.62%
Russell 2000 Index	-18.75%	8.27%	2.55%	-5.12%
MSCI Europe Small Cap Index[2]	-22.56%	24.22%	10.03%	-6.16%
Russell Microcap Index	-30.51%	-1.49%	-5.81%	-7.94%

(1) Inception to Date measures from fund launch date of 6/1/2021

(2) iShares MSCI Europe Small Cap ETF

Unaudited; assumes 2% management fee and 20% performance fee

See disclaimers

Dear Partners,

Immersion Investment Partners, LP fell 8.62% vs. a 5.12% decline for the Russell 2000 Index. Please check your individual statements for your quarterly returns.

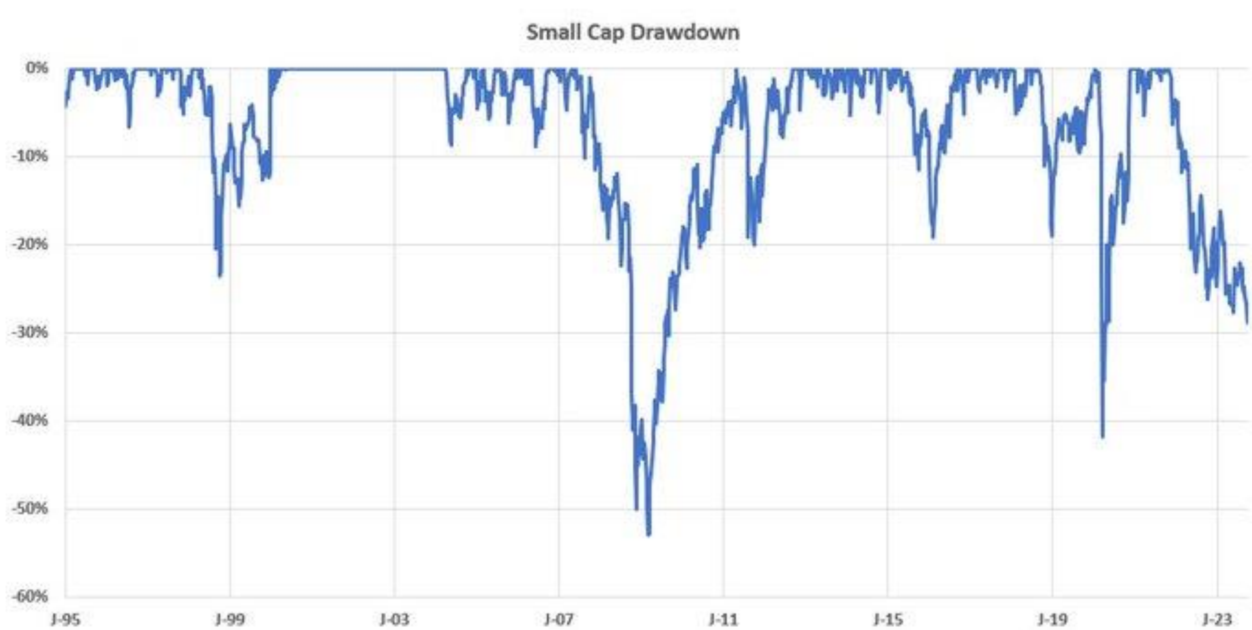
Before we get into the nuts and bolts of the portfolio, we wanted to offer our support to all our Jewish family, friends, and neighbors. We were appalled at the lack of instant condemnation of the terrorist attacks committed against innocent Jewish families; including, but not limited to the murder of women and children. Further, the reaction on college campuses has been both baffling and disgusting. We are not soapbox moral leaders. We are not doctors, nor do we pretend to be cutting edge ethic thought leaders, we are hedge fund managers that are trying to invest for profit. However, we believe condemning terrorist attacks on innocent people should not be considered controversial, and we offer our support to the Jewish community who rightly feel isolated and betrayed.

On a happier note, if not with a clumsy segway, we offer hearty congratulations to David and Melissa who were married in September at a country farm in Maine in what was a spectacular celebration of love, family, and friendship. Congratulations to you both!

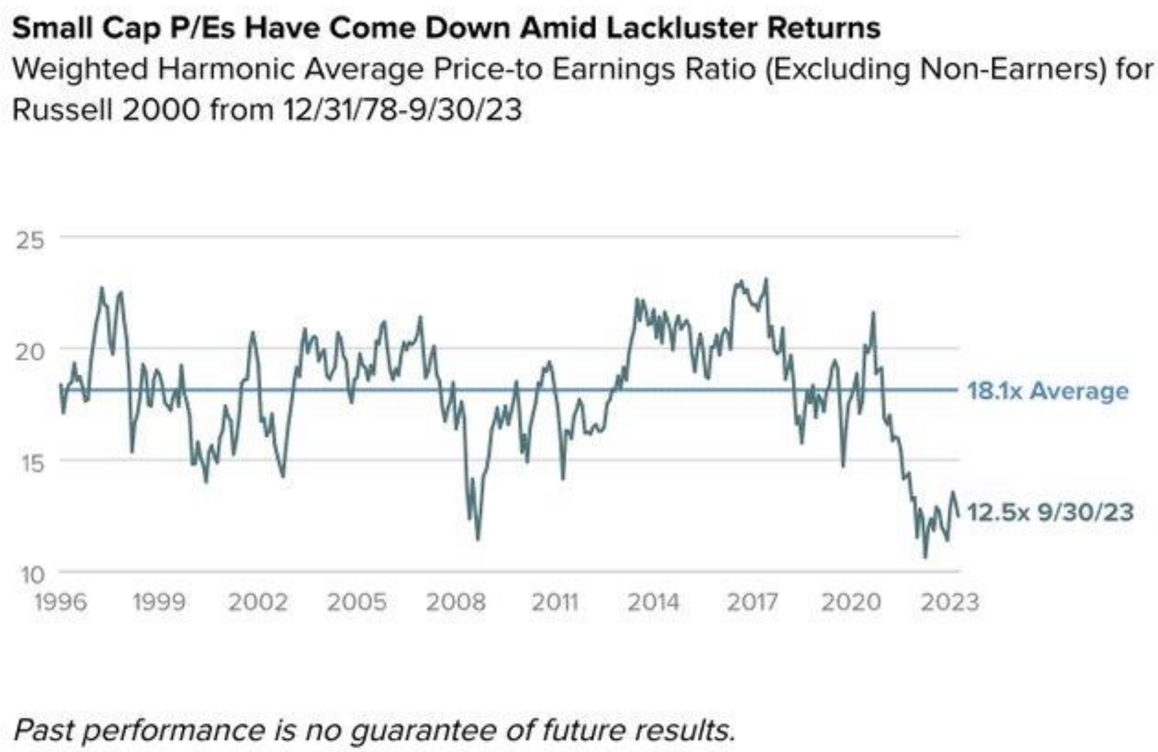
The beauty of what we do revolves around finding companies that have structural changes happening within them that are being overlooked by the market. Often the market ignores a company that is performing extraordinarily well because it is not showing up in a metric that can be easily discerned using screens or traditional financial ratios and metrics. The efficient market hypothesis would have you believe that all information is priced into a stock. We are here to tell you this is not the case but to find those outliers takes a lot of work. Most investment firms consider 3% a large position so a generous reading would be that analysts ignore our sandbox because it is extremely time-consuming and cost inefficient for what they are trying to accomplish; however, we would not rule out that they are lazy. It takes energy and time to find companies that offer well above average returns, and is a deeply involved process, rather than a simple screening of hundreds of stocks at a time. It is easy to overlook a company that is showing signs of future success. We applaud them for their laziness…errr, tools for efficiency…because it lays before us a terrific opportunity set. Where we become annoyed is when our companies do prove that they are doing well and the market still does not react, or it reacts positively for a short period of time instead of giving the names the credit they deserve.

As an example, eDreams has beaten earnings estimates by ~15%, on average, every quarter for the last two years however the stock is basically flat since we launched. Potbelly recently announced a new franchise agreement with a large restaurant franchise group that could improve earnings by 50% over the next five years and the market greets that news with a shrug. Griffon, which sees its largest public competitor report better-than-expected earnings on “sticky garage door pricing” (reminder: garage doors make up almost 100% of GFF’s earnings) and the market ignores the information regardless of the fact that the stock is trading at a single-digit multiple because investors are concerned door pricing will mean-revert (the industry has NEVER lowered pricing on garage doors). We have also resigned ourselves to the fact that Red Violet is just going to stay flat forever, regardless of the 20-30-40% earnings growth it will likely deliver over the next five years.

Small Cap Drawdown from peak. Only worse in modern times was during the GFC and very briefly around the Covid lockdown period.



It seems every investor and institution is scared, which has given us a historic opportunity to buy unbelievably well-heeled companies at depressed prices. Humans are genetically designed to avoid pain, it kept our ancestors alive to produce us, and because a company's share price falling causes pain people sell based on stopping the pain. This is not logical, and it is what produces the opportunity. There also may be a host of other reasons why investors sell: tax loss harvesting, position changes within the portfolio, forced liquidations through lending agreements, etc. But again, none of these are business-related reasons to sell. When we see one of our names going down on no news, we have the same instant reaction as everyone else – fight or flight. We re-underwrite the company to make sure we didn't miss anything, we scour the news to see if a competitor or supplier has made a big announcement, we go through our investment thesis, and barring any new information we add to the position (if sizing is appropriate). In fact, the way our sick minds work, we get excited by it! There is nothing more satisfying than purchasing great companies at a discount because a fund needed to liquidate due to a margin call.



Source: Royce Investment Partners

The average price-to-earnings ratio for the Russell 2000 currently sits at 12.5x vs. the 18.1x long-term average, with the only other worse period being during the great financial recession of 2008.

Through this lens of steadily compressing valuations, the returns this year from our investments have been exemplary. And anyone with a long-term view should be salivating right now. There are scary macro headwinds, but small capitalization stocks are trading at generational lows, being sold off for non-company related issues, and are being ignored by the general investment community. It may take a little longer than one would hope, but we are already seeing what we know to be true, math wins. If you grow your top and bottom-line, if you improve margins, sooner or later investors will notice, and the stock price will rise. We refer to this as our coiled spring – each piece of good news or good earnings that is ignored by the market compresses the spring until finally, and often on the back of other good news, the stock price explodes upward.

Portfolio Updates:

At the time of writing (October 2023), we hold seventeen positions ranging in market capitalization from $30 million to $13 billion and a median size of $600 million. Our five largest holdings (*alphabetical:* Bel Fuse, Celsius, eDreams Odigeo, Griffon, and Potbelly) make up 60% of NAV.

In this update, we discuss two holdings – **Bel Fuse** (BELFA/BELFB – Underdog) and **Celsius** (CELH – Doubted Champion).

Bel Fuse, Inc. (BELFA/BELFB – Underdog)

Bel Fuse (BELFA/BELFB - Underdog) is the largest position in the partnership. We purchased our first shares in October 2022. The company is a designer and manufacturer of electronic components that power, protect, and connect electronic circuits. The best way to think about Bel Fuse is to frame it as a staple of industry. Like Starbucks sells coffee (a high value, affordable, everyday purchase) to "power" the consumer in their daily routine, Bel Fuse sells products that power and enable the functioning of large and expensive assets, such as trains, airplanes, data centers, medical, and telecom equipment. Like Starbucks, Bel Fuse sells low cost but high value products on a repeat basis to its customers. Additionally, many of Bel's products are "ruggedized", meaning they are built for harsh environments and meant to function at extreme altitudes and temperatures and can be bumped and jostled without disabling the component. The company is highly diversified amongst various products (we count 54,500 SKUs in Mouser's catalog, an electrical component distributor), end markets, and customers but breaks down its business into three segments – Power (49% of sales and 54% of gross profit), Connectivity (31% and 31%), and Magnetics (20% and 15%). Power includes internal and external AC/DC power supplies, DC/DC converters, DC/AC inverters, and circuit protection devices. Connectivity offers high speed and harsh environment copper and optical fiber connectors primarily for use in aerospace, military, and network infrastructure applications. Magnetics sells connectors, transformers, and inductors for a wide range of end markets. Magnetics includes the MagJack connector, which is heavily featured in Cisco network switches. Unlike most public electronic components companies, Bel does not have significant business in the consumer electronics market, nor does it have exposure to the automotive market, but it does have some EV exposure. Network infrastructure and data center is the largest market for Bel, at roughly 40% of sales, followed by general industrial at 18%, and military and aerospace at 12%. Third party distributors account for one-third of Bel's sales.

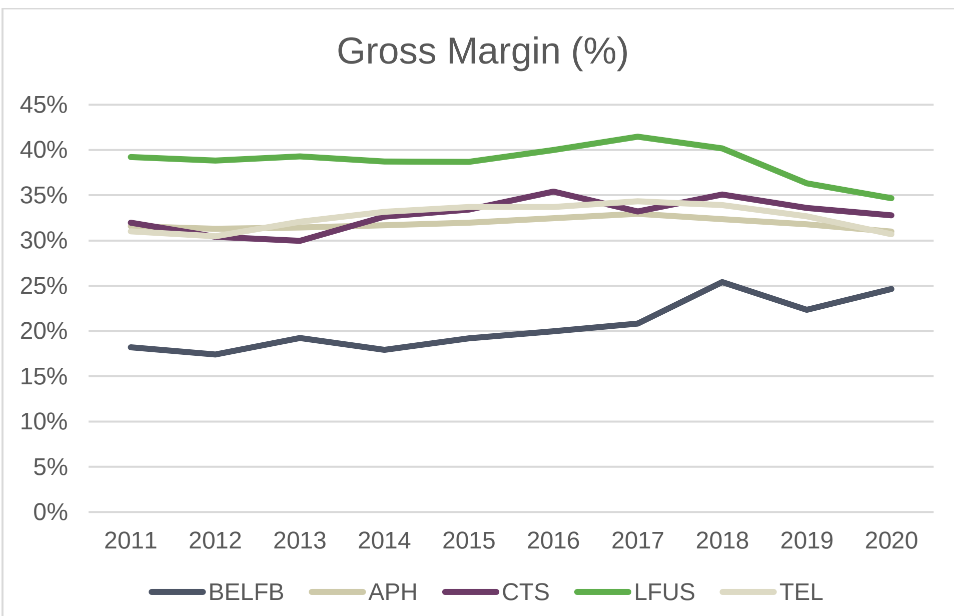
Visual of Bel Fuse Products

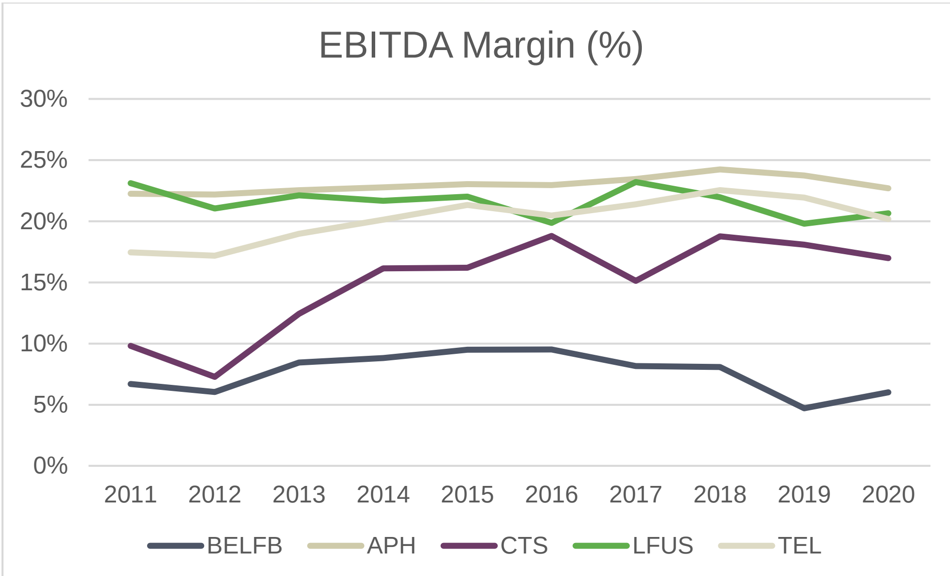
Bel Fuse has two share classes – an A (voting) share and B (non-voting) share. We've purchased the B shares because the A shares are very thinly traded. Economically, B shares are entitled to dividends at least 5% greater than A shares and the company allocates 5% more of undistributed earnings to B shares in its earnings per share calculations.

Today, the business is at $650 million in revenue, just south of 15% operating margins, has $100 million of cash on the balance sheet and $60 million of debt financed at 2.5%. There are 2.1 million A shares and 10.6 million B shares. Total market capitalization is $680 million.

Broadly speaking, electronic components businesses are high quality. They are widely diversified and produce mission critical components that make up a low percentage of the bill of materials for a product (car, plane, train, smartphone, etc.). A certain number of components are "swappable", and low margin but many are spec'd into the customer's plans, guaranteeing revenue for the life of the product, and generally carry better margins. This is especially true of aerospace and military applications that require stress-tested, highly engineered products. Specific to Bel Fuse, many of its components are sole source on Boeing airplanes, including connectors for fuel quantity indicating systems. Boeing is not going to blink twice about spending a few hundred dollars on a cabling system to protect hundreds of lives and a $100 million piece of equipment. While undisclosed by management, we think Bel's mix of "spec'd in" products account for 40% of sales and 50% of gross profit.

Most of Bel Fuse's publicly-listed peers have generated significant shareholder wealth over time, through a combination of steady profitable growth and prudent M&A. What makes the Bel Fuse opportunity so interesting is that it shares many fundamental traits of its peer set but up until 2021 the business was undermanaged. Bel Fuse is a family-run company. Daniel Bernstein, CEO, is the son of the founder, Elliot Bernstein, who formed the business in 1949 as a fuse manufacturer for televisions. At the time Daniel took over the CEO post in 2001 (a position he holds to this day), Bel Fuse was delivering reasonable organic growth and decent margins. We think that somewhere along the way, management took its eye off the ball. Organic growth was de-emphasized in favor of M&A, which was not always well-executed. They were not working diligently to optimize the product portfolio for profitability and nor did they have the ability because they did not have an ERP system that could tell them SKU-level profitability. Manufacturing overhead became bloated and the people in the organization were apathetic. We were shocked to learn in our first management meeting that salespeople were compensated entirely on fixed salary, with no commission component. They basically had no incentive to work hard. Gradually, from the mid-2000s up until COVID organic growth slowed, and the EBITDA margin compressed from mid-to-high teens to a low of 5%. Peers generate mid-single-digit organic growth and high-teens to low-twenties EBITDA margins.





Something was clearly amiss. Bernstein, to his credit, realized that something needed changing. In 2021, the company completed a 4-year ERP conversion, combining five systems into one, and Bernstein made the first external senior management hire in decades, appointing Farouq Tuweiq, former investment banker at BMO and accountant, to the CFO role. Tuweiq's core belief, as he relayed to us in our meetings, is that there is no fundamental reason why Bel Fuse shouldn't be generating similar financial results to peers. The products and engineering are industry-leading, the business just needs to be better-managed. There are three main initiatives the company undertook to right size the business. 1.) Broad-based pricing increases in 2021, followed by targeted increases in 2022 2.) Exit unprofitable business, which they continue to do and 3.) Consolidate the manufacturing footprint, which is in progress today and expected to deliver roughly $7 million of annual savings starting in 2024. This strategy has played out well. Gross and EBITDA margins are almost "normalized" at this point and back to levels last seen in the late-90s and early 2000s but there is still room to improve.

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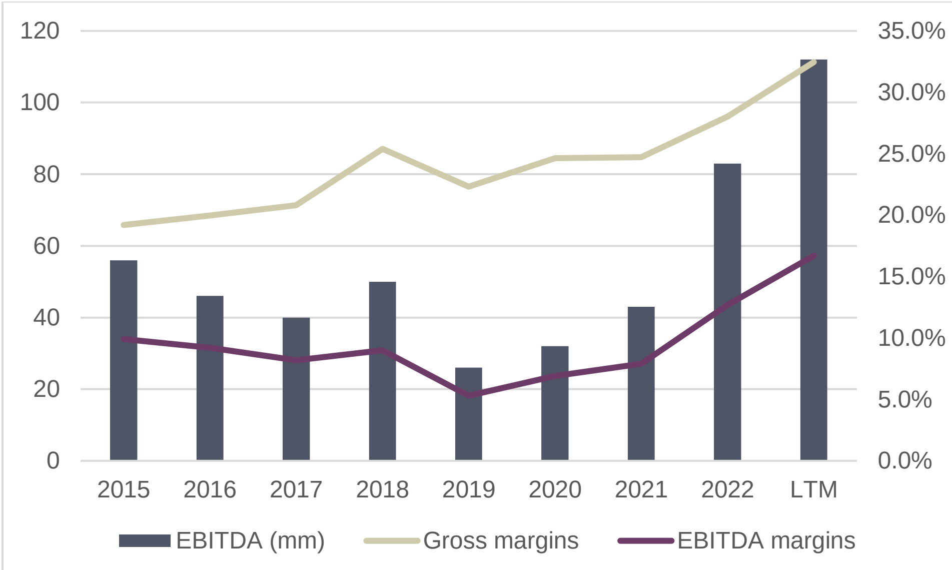

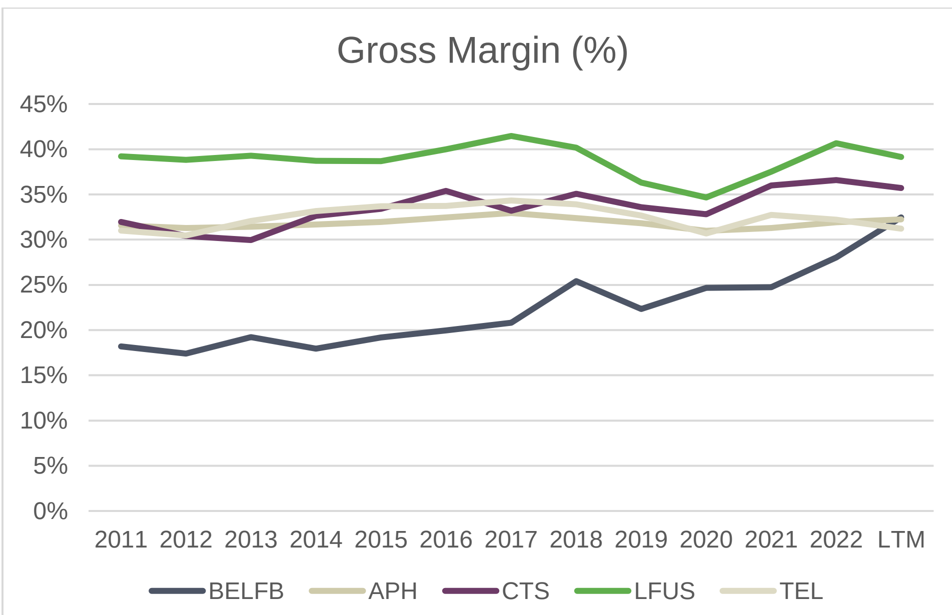

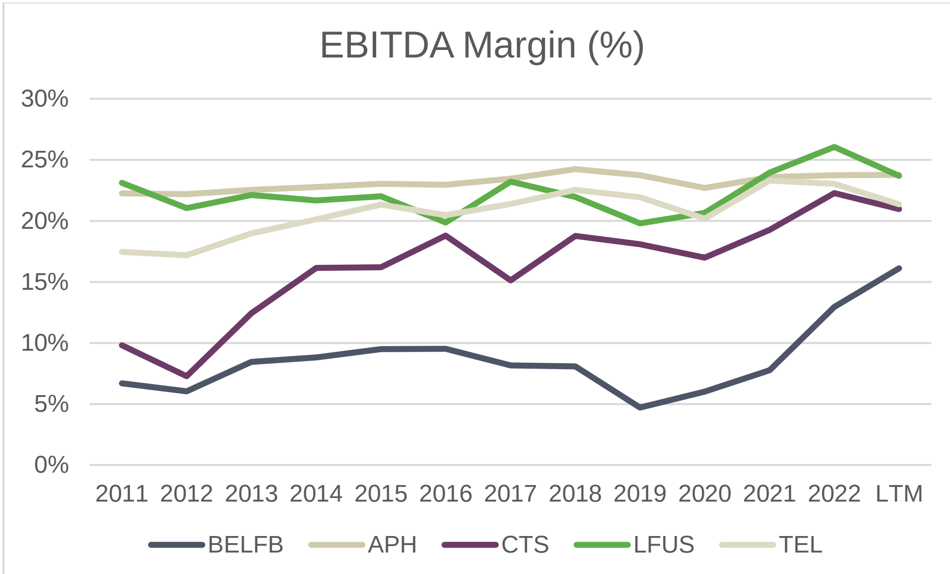

Despite tremendous performance over the past three years, Bel Fuse shares are receiving little credit for this transformation. In our conversations with other investors, it seems the consensus is that Bel Fuse is not worthy of credit, given its historic performance, and many believe that its improvements were due to transitory macro conditions, gouging customers on pricing and, thus, margins will mean-revert to pre-2020 levels. Compounding the issue is that Bel is a very thinly-covered name (2 sellside analysts vs. 10, on average, for peers) and carries a sub-$1 billion market capitalization. We think concerns regarding macro benefits and margins/pricing are baseless and lazy. History and basic analysis prove that Bel Fuse was underpricing itself and is now simply earning a respectable margin. With a team in place that now cares about generating profitability, we don't think this business will suddenly mean-revert to prior margins. Second, current margins are not egregious. They are basically in line to slightly below peers. If Bel Fuse were "overearning", its gross margins would be higher.

To visualize the point of "not getting any credit", despite a stock that's up 4x over the last three years, we've included a table comparing Bel's trading multiple relative to peers and relative to Bel's five-year history pre-transformation/pre-Farouq. You can see that Bel Fuse is actually trading at a lower earnings multiple (EBITDA is not earnings but it correlates highly to cash generation and it is how the market typically values these stocks) today than it was trading at in the five years prior to its transformation when it was not as well managed and was earning significantly lower margins. Not only is the stock cheaper relative to its own history but its discount to its peer group has widened slightly since it started delivering better results. Clearly, the market is not affording the company and management team any credit.

EV/LTM EBITDA	5Yrs Pre-Transition	Post-Transition (start 1/1/2021)	Today
	Average	*Average*	
BELFB	7.4x	5.9x	5.7x
Premium/(discount) to group	*-45%*	*-57%*	*-50%*
Rel. to 5Yr Pre-Transition		*-20%*	***-23%***
Group avg.	13.3x	13.9x	11.5x
Rel. to 5Yr Pre-Transition		*4%*	***-14%***
APH	16.3x	18.0x	16.5x
CTS	10.3x	10.4x	8.8x
LFUS	15.2x	13.7x	9.7x
TEL	11.5x	13.4x	10.9x

We don't think it takes a significant leap of logic to get to a double from today's share price. Assumption 1.) Revenue does not grow. We maintain a $650 million run rate. We think that Bel Fuse can be an organic growth story, but we are in the early days (apparently salespeople compensation issues are not 100% fixed) and it's not necessary to make money on the stock. 2.) EBITDA margins converge to peer levels in the low twenties from 17% now. We believe this is entirely possible. We still have at least a quarter of targeted price increases to cycle through the financials. Management is consolidating manufacturing facilities, which could add another 1.5-to-2 percentage points to margins. They will continue emphasizing higher margin business, as has been the stated strategy for at least the last 2.5 years. This puts the business at $143 million of EBITDA, which at net zero interest expense, a 25% tax rate, and $12 million of annual capital expenditure, comes out to $123 million of free cash flow, or roughly $9.60 per share. The only thing we need to make money on this stock is time. Eventually the market should wake up to the fact that this company is better managed today than it was in the past and that it is worthy of something approaching a peer multiple. If we get back to a 7.5x multiple, when the company was less well run and thinly profitable, then this is an $87 stock (vs. $53 today). If it gets 10x, we are at $115, more than a double. The key ingredient here is time and patience for the market to realize that current earnings are a base, rather than a ceiling.

Celsius Holdings, Inc. (CELH – Doubted Champion)

Celsius Holdings Inc. (CELH – Doubted Champion) is the owner of the Celsius brand of energy drinks. Celsius has been a day 1 holding of the partnership and through organic appreciation, coupled with our significant reduction of Basic-Fit shares at the beginning of the third quarter (discussed in the second quarter letter), has grown to become the number 2 position over the last six months. Despite a tremendous runup in shares over the past several years, we think Celsius remains underappreciated and undervalued.

1. Based on latest scanner data, Celsius holds a roughly 6% share of the U.S. energy market over the last twelve months, making it #3 behind Monster and Red Bull. We believe Celsius can continue to grow and become a significantly larger business for several key reasons…
    a. Celsius holds a 20%+ share on Amazon and major Florida markets (Miami, Orlando, and Tampa), its most mature markets, and nearly 20% share in New York and Boston. These analogues provide solid evidence that Celsius is capable of being significantly larger than it is today.
    b. Despite industry-leading velocity growth, Celsius' shelf space allocation to date has meaningfully lagged Monster and Red Bull.
    c. Celsius grows the category. The brand attracts new users and does not solely rely on stealing share to grow.
    d. Celsius is early in its international expansion journey.
2. Analysts mismodeling inherent operating leverage in the business
    a. Despite strong projected revenue growth, the estimated flow-through of that revenue is nonsensical, given the people and capital-lite nature of Celsius' operating model.

Business Background:

Originally founded in the mid-2000s, Celsius spent more than a decade as an obscure pre-workout drink for gym rats in the eastern Florida fitness community. Around 2017, the company appointed CFO John Fieldly to the CEO position and pivoted its marketing message to one of overall health and well-being, coining the current slogan “Live Fit”.

Celsius branding circa-2012:

Celsius branding today:

The brand began to gain momentum, growing from $17mm in sales in 2015 to $314mm in 2021, due to distribution agreements with a variety of independent distributors within the Anheuser-Bush, PepsiCo, Keurig Dr. Pepper, and Miller Coors networks. Total U.S. doors/locations grew from 64,000 at the end of 2019 to 135,000 at the end of 2021. Celsius reached a tipping point in August of 2022, when it announced a long-term distribution agreement with PepsiCo, making it Celsius' sole distribution partner in the United States and "a preferred partner" globally. As part of the deal, Pepsi invested $550 million into Celsius in exchange for convertible preferred stock, paying a 5% annual dividend. If converted, Pepsi would own 8.5% of Celsius. During its journey from a small $20 million product to a meaningful energy contender with nationwide distribution, Celsius has shown industry-leading shelf velocity. Said differently, sales per location have grown rapidly, in step with new distribution, indicating that consumers are resonating with the product and buying it in greater and greater frequency. Celsius is not simply growing because they are getting new doors, they are growing because people like the product. By our math, sales per location have compounded at a 35% annual rate of growth for the past four years. This vastly exceeds a category exhibiting low-teens growth rates.

Today Celsius is a $1 billion revenue business and has achieved 97% ACV (All commodities volume – measurement of % of market reached) vs. 80% at the time the Pepsi deal was announced. Trailing twelve month gross and adjusted EBITDA margins stand at 45% and 17%, respectively. The company has no debt and $680 million in cash on its balance sheet. The market capitalization (based on our share count of 86.4 million, which assumes conversion of the preferred, and a $152 stock price) is $13 billion. Celsius operates in a similar manner to Monster Energy. It is a capital-lite licensing business, responsible for developing and marketing its product but is not responsible for its manufacture or distribution. Over the last twelve months, Celsius has spent $12.6 million in capital expenditure to support $952 million in sales, or roughly 1 penny for every dollar of sales.

The Opportunity:

Despite its significant success to date, we think the opportunity in the shares remains as robust as it was when we first invested a little over two years ago.

In the medium term (3 years) we think that Celsius can reach a 20%+ share in tracked retail channels (grocery, convenience, retail vs. untracked channels – club, foodservice, online, fitness) in the United States. This is supported by actual market share data in Celsius' oldest markets, Amazon (20% share) and South Florida (25% share), and nearly 20% shares in New York and Boston, which are more nascent relative to the former markets. This could happen sooner than we're anticipating. The latest short-term (12 week) scanner data points to a 10%+ share for Celsius and the product maintains the healthiest shelf velocity in the category. Burgeoning products like Alani and Ghost have gained significant shelf space over the last twelve months but takeaway growth is significantly worse than Celsius. Sales per distribution point (velocity - effectively same-store sales) grew 26% in the last 12-week period reported by Nielsen, vs.+16% for Alani and -37% for Ghost. Industry leaders Monster and Red Bull grew 3% and shrunk 12%, respectively. This strongly supports an argument for Celsius gaining further shelf space in existing doors. Today, Celsius has 14 SKUs per store vs. 8 a year ago. Monster and Red Bull average 25 SKUs per door, indicating further room for Celsius to grow. The opportunity is particularly ripe in the convenience channel, where Celsius under-indexes. Celsius' share of convenience is lower than in all other channels, due to a historic lack of distribution, which is being remedied with Pepsi. Celsius still averages less than 10 SKUs per shelf in convenience (lower than the company average), while Monster and Red Bull tend to have *more* SKUs than in other retail locations. This is despite Celsius shelf velocity in convenience growing faster than the latter two. Increased distribution in convenience is especially important because it is the largest channel for energy drink sales (~60% of tracked channel sales). We don't think shelf expansion will necessarily come at the expense of Monster or Red Bull. Celsius appeals to a different audience than the typical energy drink. Management has disclosed that 40% of Celsius consumers are new to the energy category and the brand has a close to 50/50 male/female split vs. 70/30 for most competitors. We attribute this to Celsius' branding, which is 'softer' than the typical masculine symbolism of Monster and Red Bull. The end result being that much of Celsius' presence in retail is through expanded shelf space taking from other categories (soda, RTD coffee, etc.) rather than by taking from incumbents.

Outside of the United States, Celsius has significant opportunity to grow through the global PepsiCo distribution network. International is a largely untapped market for Celsius. It has had a small and growing presence in China and Nordic countries for about a decade but it has yet to receive the appropriate time and attention from management to achieve scale. Red Bull is a global business, with the product originating in southeast Asia and the company today generating most of its sales outside the United States. Monster has grown its international business to ~$2.5 billion over the past ten years and accounted for nearly 40% of sales for the first six months of 2023. The energy drink market generates ~$50 billion in sales globally, 55% of which come from outside the United States. Clearly, energy is a global category. By comparison, international made up just 4.5% of Celsius sales during the first six months of the year. Management has indicated its intention to carefully build an international presence with PepsiCo starting in 2024 in established markets like the UK, Canada, Germany, Japan, and Australia.

Significant margin expansion potential coupled with the aforementioned top line growth opportunities make Celsius an even more interesting opportunity. Over the next couple of years, we believe Celsius has a very good chance of seeing 10+ percentage points of margin expansion, to roughly 30% adjusted EBITDA margins, with a very high conversion to free cash flow, given minimal capital expenditure and no debt expense in the business. Our reasoning is simple. Monster Energy, which operates essentially the same business as Celsius, can generate mid-30s EBITDA margins and we see no reason why Celsius can't approach that level over time. At a minimum, we believe that current sellside estimates are needlessly low (20-to-21% for the next three years). Why? Current margins are in the high-teens and any analyst showing a three-year bridge to 30% from 17% will be laughed out of the room (we have no such concerns). Second, there is no incentive to give management a bogey it can't beat so it's safer to set a "reasonable" hurdle and let management walk right over it. And three, management has historically never discussed a long-term EBITDA margin target until this past September at a bank-sponsored investor conference when they claimed margins could approach Monster's margins.

Below, we outline how we believe additional revenue will flow through to EBITDA. The revenue figures are based on consensus estimates. We have reason to believe Celsius can beat sales estimates but that is not the point of this exercise. We forecast a 50% gross margin on new sales and 10 cents of additional selling, general, and admin expenses for every additional dollar of revenue generated. This yields $672.5 million of adjusted EBITDA in 2025 vs. current estimates for $471 million. We believe our numbers are more reflective of reality because they most clearly align with Celsius' people and capital-lite business model. However, consensus figures place 2025

EBITDA margin at 20% vs. 19.6% for 2023, basically assuming zero operating leverage, which is absurd, given the fact that Celsius' business model allows for very high flow-through of additional revenue. We do not understand what is being baked into these estimates. It is possible that analysts are expecting no operating leverage on selling & marketing expenses. If we hold S&M flat at 19% of sales for the next two years, we get to $200 million of additional spending, which accounts for roughly two-thirds of the implied $300 million increase in operating expenses for the next two years. This seems improbable, though. S&M expenses can be leveraged. Scaled beverage companies spend 4-to-10% of sales on this line item, vs. Celsius' comparatively bloated 19% today. Even if it were true that Celsius maintains elevated spending for the next two years, we don't understand the origin of the other $100 million in new spending. That implies 1,000 additional hires at a $100,000 average annual salary. Celsius today employs less than 500 people. Tripling headcount in two years seems like an absurd assumption. The company should actually require *fewer* people today because it is now operating with a single master distributor as opposed to pre-2023 when they had hundreds of individual distributors that required significantly more manpower to process and coordinate shipments, receivables. etc. On this basis alone, consensus numbers seem overly pessimistic. We also have a fantastic analogy in the Monster/Coca-Cola deal announced in 2014 that made Coca Cola the preferred global distribution partner of Monster. In the three years following this deal, Monster EBITDA grew to $1.28 billion from $777.8 million in 2014 on a $904.1 million increase in sales. That is a whopping 56% incremental EBITDA margin. Our 40% incremental margin from 2023 through 2025 seems paltry in comparison. Our second proof point, which speaks to the concern about scale in the business, is that when Monster went from $1 billion to $2 billion in sales (basically where Celsius is today), the company saw incremental EBITDA margins of almost exactly 40%.

Celsius Margin Bridge	
2023 Sales	1,250,000
Add'l Sales	1,070,000
Total sales	2,320,000
Gross margin	50%
Add'l SG&A	10%
Incremental EBITDA	**428,000**
Incremental margin	*40.0%*
2023 EBITDA	244,510
Margin	*19.6%*
Total 2025 EBITDA	**672,510**
Margin	***29.0%***
Sellside 2025 EBITDA	471,170
2023 EBITDA	(244,510)
Implied incremental EBITDA	226,660
Implied incremental margin	*21.2%*
Difference	**201,340**
Upside/(downside)	***43%***

Consensus Gross margin 2025	47.69%
Consensus Gross margin 2023	46.38%
Consensus 2025 Gross Profit	1,106,408
Consensus 2023 Gross Profit	596,125
FY25 SG&A	635,238
FY23 SG&A	335,240
Implied increase in SG&A	299,998

Valuation

Our sales estimates assume improved shelf space (~20%), continued takeaway growth albeit at a slower pace (20%), modest price improvements (5%), and continued strong growth of untracked channels, namely foodservice (a newer channel for Celsius - ~5% of sales) and online. We do not give a lot of credit to international expansion at this point, but we think it is a tangible opportunity that will add further upside to our numbers. Our estimates imply <15% share of U.S. tracked channel sales. On these figures, we anticipate nearly $1 billion of EBITDA in 2025, assuming similar incremental margin math as above (40%), which should convert to $700 million of free cash flow (~$8 per share assuming full conversion of the preferred).

	FY23	FY24	FY25
Rev.	1,300,418	2,028,652	2,991,247
y/y growth		*56%*	*47%*
Adj. EBITDA	281,998	550,789	958,330
margin	*22%*	*27%*	*32%*
FCF		392,805	688,835
margin		*19%*	*23%*

Celsius' potential for growth and significant profitability makes it very difficult to value. There are only five listed companies in North America with revenues greater than $1 billion that are slated to grow 30%+ for the next several years and do so profitably. Celsius is among this group. Monster, as a mature, leading brand commands a premium multiple of 30x EPS and 22x EBITDA, while no-growth Coca-Cola and Pepsi trade for 18x and 15x EBITDA, respectively. Celsius will likely not be matured by 2025 and deserves a premium for its growth potential. At the current share price ($150), we aren't very concerned about the specific number that the market will apply to EBITDA in 2025/26/27. If Celsius trades like a large, no-growth staple, shares are fairly valued today. If the business receives a premium, which we think is the most likely outcome, we can make multiples of our money from this point.

The main risk to this business is that management does not adequately support the brand and allows it to lose momentum. The energy landscape is riddled with the corpses of companies that tried and failed to compete with Red Bull and Monster. In our initial work on this name, we were told that no brand can break the mystical 10% share mark (Celsius is basically there). We think this is because most brands do not have the dedicated support of a distributor like Pepsi that can secure adequate shelf placement. Second, many do not have the capital to invest behind the brand via store placements, promotions, commissions, and marketing. Bang Energy was the one brand that most recently had the best shot at cracking 10% share, peaking out at 9% in 2019. Bang's failure is often attributed to its ostentatious founder, Jack Owoc, who supposedly through shear personality and willpower catapulted Bang into the stratosphere and eventually got too close to the sun and collapsed in upon himself like a dying star (Google him for fun stories on the various antics and lawsuits). Whatever his personal failings, we don't think this narrative is quite accurate. Scanner data from when Bang was approaching 8% share reveals that the brand was already losing momentum and seeing shrinking sales on a per-store basis. In other words, the brand wasn't resonating with consumers, it was simply penetrating more doors. There are many theories for why this was the case, but our belief is that Bang isn't a differentiated product. It didn't bring anything new to the category and relied too heavily on taking share from Monster and Red Bull. Bang, like the latter two brands, relies heavily on young, white males between the ages of 18 and 35. They were able to gain some success but couldn't maintain momentum because they weren't tapping into a new type of consumer. This is in stark contrast to Celsius, which is growing the category and has maintained strong same-store growth as it reaches 10% share. The below chart is taken from a June 2023 report from Stifel:

Celsius, Bang Convenience Store Comparison Analysis

CONVENIENCE STORES	CELSIUS		BANG	
	02-Oct-22	21-May-23	26-Apr-20	13-Dec-20
Total Points of Distribution	353	875	784	1,024
% change over period		*148%*		*31%*
	8-week average to above date		8-week average to above date	
Dollars per MM ACV				
y/y % change	35%	57%	*(36%)*	*(13%)*
2-year CAGR	42%	59%	5%	(17%)
Dollar sales growth				
y/y % change	148%	172%	(11%)	3%
2-year CAGR	*176%*	*203%*	*175%*	*41%*

Source: Circana.

Sincerely,

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IMMERSION INVESTMENTS

Glossary – Ideal Immersion Setup (IIS)

1. **The Underdog**

   The Underdog is overlooked and underappreciated by most investors. Generally, there are surface level reasons for being dismissed, which are transitory and serve as an impediment to ownership. For example, The Underdog is too small for many institutional investors to even consider and/or does not belong to a major market index such as the Russell 2000. This generally correlates to thin or no analyst coverage and little-to-no institutional ownership. Ultimately, this issue is corrected through a combination of continued growth, improved liquidity, and/or increased analyst coverage.

2. **The Babushka Doll**

   The Babushka Doll has a hidden asset (or assets) inside of it that could be worth significantly more than the value being assigned to it by the market. The typical Babushka Doll takes the form of a large, legacy, no-growth business presently dominating the financials on the outside, but it contains a small, scrappy, subsidiary growing rapidly on the inside. Babushka Dolls are often overlooked investment opportunities because they do not screen well on surface level quantitative statistics of growth and/or profitability. Aligning ourselves with a management team willing to dedicate resources towards unlocking the value of the "hidden asset" can generate significant returns.

3. **The Social Pariah**

   The Social Pariah is perceived to be a toxic asset by investors because the business is either misunderstood and/or suffering from transitory issues. Often The Social Pariah is labelled toxic for good reason but a change in that perception, due to better performance, management turnover, etc. can result in significant stock price appreciation.

4. **The Ugly Duckling**

   The Ugly Duckling is a fundamentally good business which is not readily apparent in the financials due to significant investments in people and capital, which are masking underlying profitability. The Ugly Duckling is usually a sub-scale business early in its lifespan and growing rapidly. Over time, as the business grows up, investors will come to appreciate The Ugly Duckling and afford it a higher value per dollar of earnings. The Ugly Duckling, of course, turns into the swan.

5. **The Doubted Champion**

   The Doubted Champion is a simple but effective investment. This type of business is one that is growing rapidly and exhibits strong financial characteristics (margins, returns on capital, etc.) but the market does not expect its performance to sustain. In other words, its further growth may be overly discounted. If we can correctly identify a Doubted Champion, we will be handsomely rewarded when the market realizes that the business can continue growing at an accelerated rate for far longer than originally anticipated.

IMMERSION INVESTMENTS

Important Information

Certain statements made have not been audited or verified by the Fund's auditor or third-party administrator. Please see your individual statements for your performance. Adjusted/modified performance disclosures are intended to give deeper insight into the Fund's performance but should never be substituted for actual net results, as reported by the administrator, and reflected in audited financial statements.

Results are compared to the performance of the Russell 2000 Index, iShares MSCI Small Cap Europe ETF, and Russell Microcap Index (the "**Comparative Indices**") for informational purposes only. The Fund's investment program does not mirror the Comparative Indices and the volatility of the Fund's investment program may be materially different from the volatility of the Comparative Indices. The securities included in the Comparative Indices are not necessarily included in the Fund's investment program and criteria for inclusion in the Comparative Indices are different than criteria for investment by the Fund. The performance of the Comparative Indices reflects the reinvestment of dividends, as appropriate.

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