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September 6, 2011

Stock Rating
Equal-weight

Industry View
In-Line

Initiation

Teavana Holdings, Inc.

Share Price Reflects Future Growth; Initiating at Equal-weight

TEA's current valuation largely reflects expansion prospects, in our view. We look for a more attractive entry point to overweight a compelling growth story with attractive economics.

Following the Whole Foods/lululemon model. TEA's healthy lifestyle focus is where Whole Foods and lululemon have found success. Our real estate and demographic analysis gives us high confidence in our 2010-2015 25% sales and 31% EPS CAGRs.

We like TEA's 500 store potential… Our Teavana real estate analysis validates management's 500 store 2015 plan (vs. 179 today). In our universe, TEA has one of the lowest saturation rates (2011e stores vs. long term plan) at 39% vs. the 72% average.

…steady comp performance… We think Teavana's 3% comp plan is achievable given 1) past performance and 2) our projected new store real estate/demographic analysis based on AlphaWise data.

…and ~260 bp gross margin expansion from 2010-15e. We think 2015 gross margin can reach 65.5%, driven by positive mix as stores mature. Older stores sell more higher-margin loose tea vs. lower-margin accessories.

Current valuation reflects growth: At 40x our $0.60 2012e EPS (and 1.4x our 28% long term growth rate), we think shares largely reflect Teavana's sales and earnings potential. We look for 1) a more attractive entry point or 2) sustained >MSD% same store sales growth.

Risks to our call: (1) Weakening / strengthening economy and mall traffic; (2) Increased competition (stores, online); (3) positive margin mix shift fails to materialize.

Key Ratios and Statistics

Reuters: TEA.N Bloomberg: TEA US
Retail, Softlines / United States of America

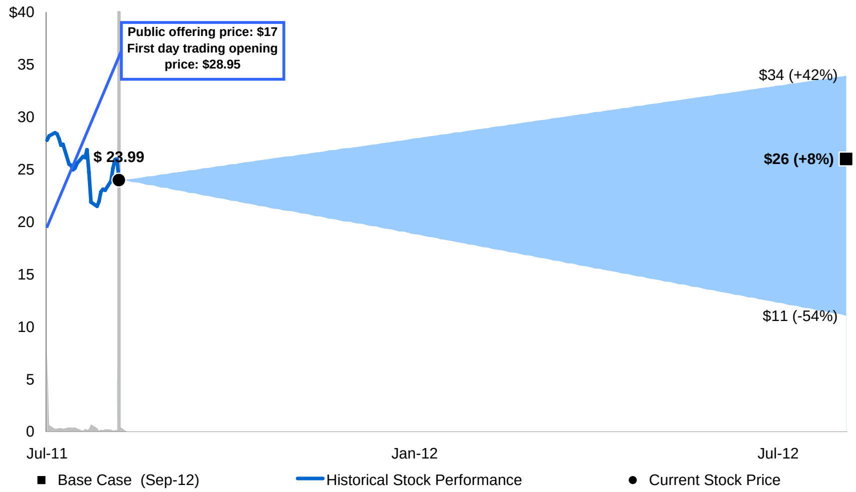
Shr price, close (Sep 2, 2011)	$23.99
Mkt cap, curr (mm)	$882
52-Week Range	$29.35-20.28

Fiscal Year ending	01/10	01/11e	01/12e	01/13e
EPS ($)**	0.32	0.44	0.60	0.78
Div yld (%)	0.0	0.0	0.0	0.0
ModelWare EPS ($)	**0.20**	**0.07**	**0.07**	**0.08**

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
**** =** Based on consensus methodology
e = Morgan Stanley Research estimates
NA = Not Applicable

Risk-Reward Snapshot: Teavana Holdings, Inc. (TEA, $23.99, Equal-weight)

Risk-Reward Is Skewed Upward on Earnings Power



		Price Target is based on Base Case valuation
Bull Case $34	45x FY2012e EPS of $0.75	**Investor Nirvana. 2012e: +5% Comp Growth in 2012, >30% Revenue Growth.** Comps accelerate vs. 3% plan. Gross margin increases ~70 bp to 66%, driven by occupancy leverage and favorable sales mix. SG&A rate declines 50 bps due to +MSD comps. Applying a 45x multiple to our $0.75 2012e EPS implies a $34 value.
Base Case $26	43x FY2012e EPS of $0.60	**Growth Gurus. 2012e: +3% Comp, High 20% Revenue Growth.** Comps inline with 3% plan. ~30 bp gross margin helped by sales mix. SG&A leverages ~30 bp to 41.6% and yields an 18.6% EBIT margin. High growth stories tend to trade above their estimated earnings growth rates. Using LULU's example, YTD 2011 shares traded ~1.75x long term growth. We forecast 28% EPS CAGR from 2012 – 2015 for Teavana. Applying a 43x multiple (or 1.5x long-term growth) to our $0.60 2012e EPS implies a $26 value.
Bear Case $11	25x FY2012e EPS of $0.44	**Bad Karma. 2012e: +1% Comp, 20% Revenue Growth.** Comps decelerate to 1%; mall traffic falters. Gross margin rises slightly (~10 bp); TEA unable to meaningfully improve sales mix. SG&A flattish on weak comp. Applying a 25x multiple to our $0.44 2012e EPS implies a $11 value.

Why Equal-weight?

We think TEA's current valuation (40x, 2012e EPS or 1.4x long-term growth) already reflects future prospects:

- Steady comps (+3%);
- 28% new store CAGR ('10-'15) to ~500 stores; and
- Improved margin mix as stores mature

Investment Positives

- Steady same store sales growth
- Square footage growth
- Gross margin improvement
- eCommerce growth
- Not reflected in our model: international stores, consumer packaged goods

Investment Concerns

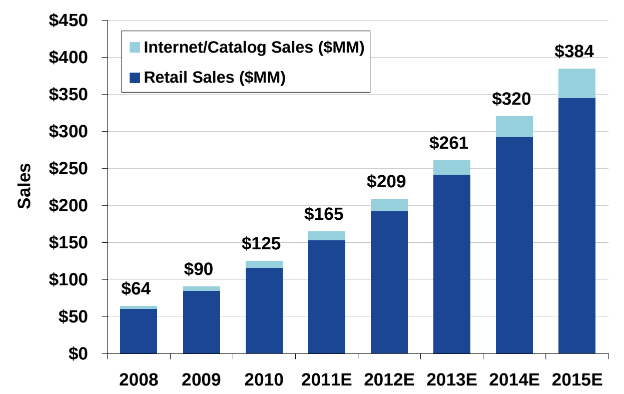
- Economy falters
- Mall traffic deteriorates
- Same store sales weaken
- Increased competition for stores (currently none) and online
- Positive margin mix shift fails to materialize
- Founder still owns 57-58% of TEA shares; private equity owns 19-20%

Potential Positive Catalysts

- Mall traffic improves
- Additional new store opportunities
- International expansion (directly owned stores)
- New product lines (consumer packaged goods)

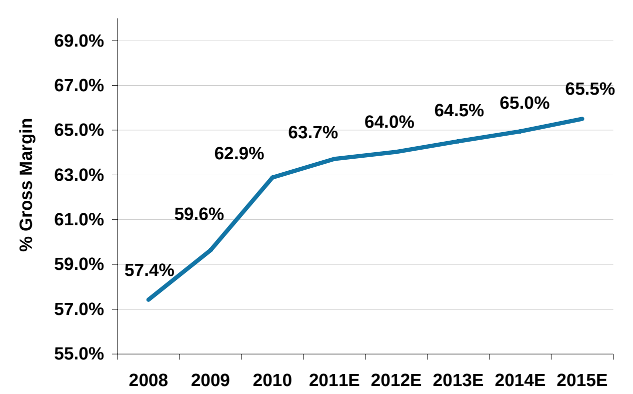
Teavana Financial Snapshot

Revenue



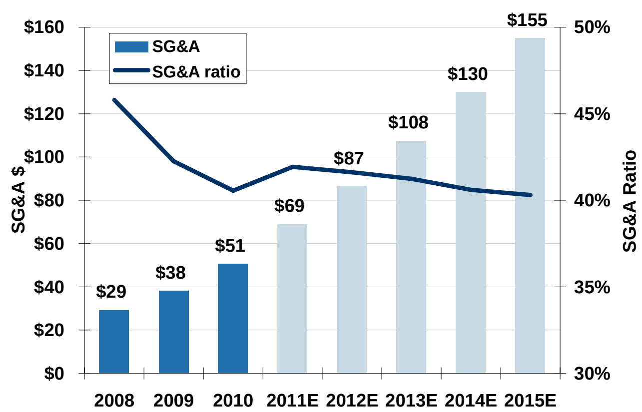
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Gross Margin



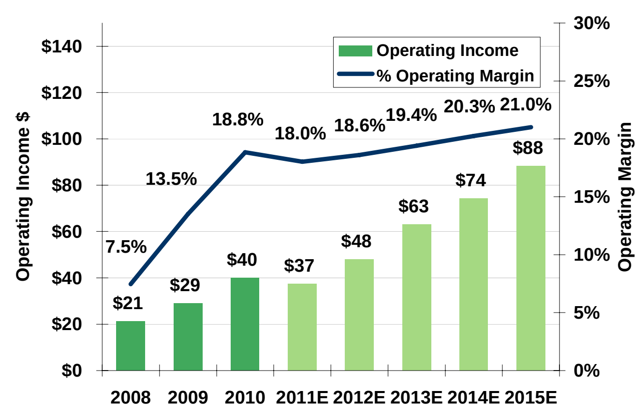
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

SG&A



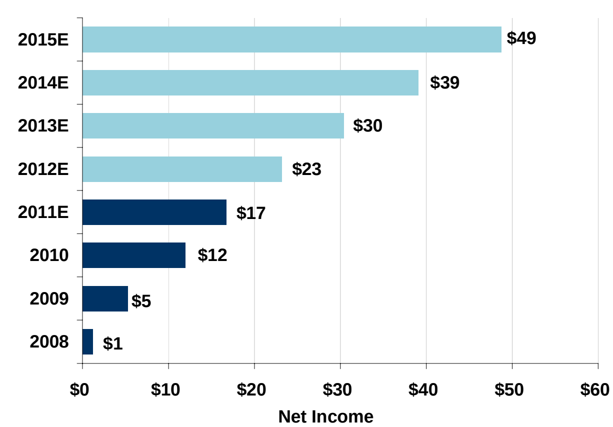
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Operating Income



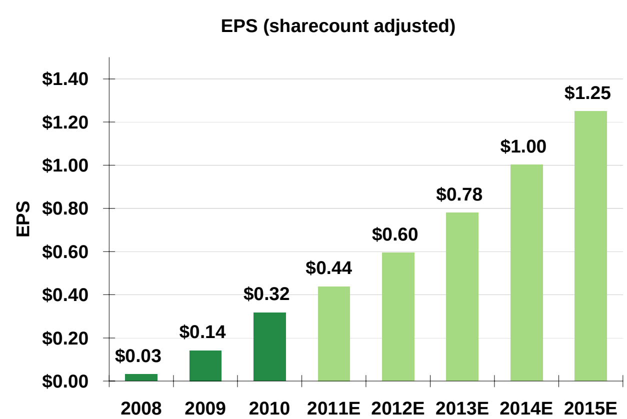
Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Net Income (ex. 1x items)



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

EPS



Source: Company data, Morgan Stanley Research. E = Morgan Stanley Research estimates.

Investment Case

Summary and Conclusions

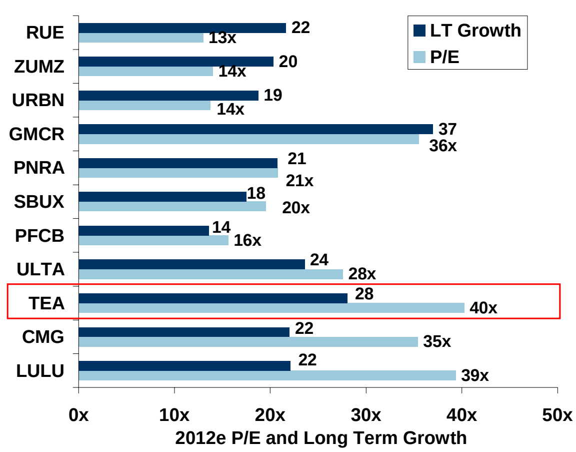
We are initiating coverage of tea retailer Teavana (TEA) with an Equal-weight rating. Through its retail stores and website, Teavana primarily sells loose tea and tea accessories. We think current valuation reflects the company's sales and earnings prospects. We forecast 25% topline growth and 31% EPS growth from '10-'15.

On July 27, 2011 TEA's IPO offering priced at $17/share. On the first day of trading (July 28, 2011), shares opened at $28.95 and closed at $27.80.

Teavana now trades at 40x our $0.60 2012e EPS, which represents 1.4x our 28% long-term growth rate. High-growth consumer retail peers trade at 22x 2012e EPS (or 1.0x long term growth, on average).

Exhibit 1

Beverages and High-Growth Consumer: 2012e P/E and Long Term Growth Rates

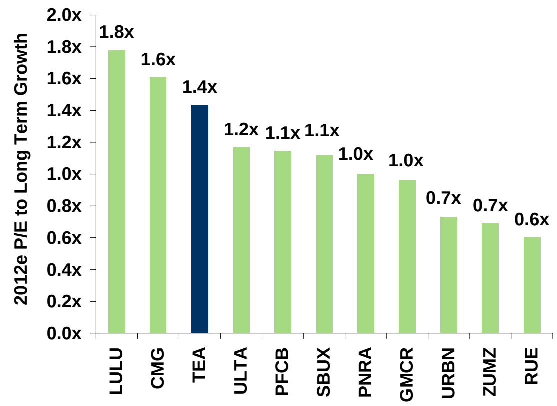


Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

While LULU trades at 1.8x long-term growth, the company has both a successful track record of double-digit comps in addition to sector leading store growth potential.

Exhibit 2

Beverages and High-Growth Consumer: 2012e P/E as Multiple of Long Term Growth Rate



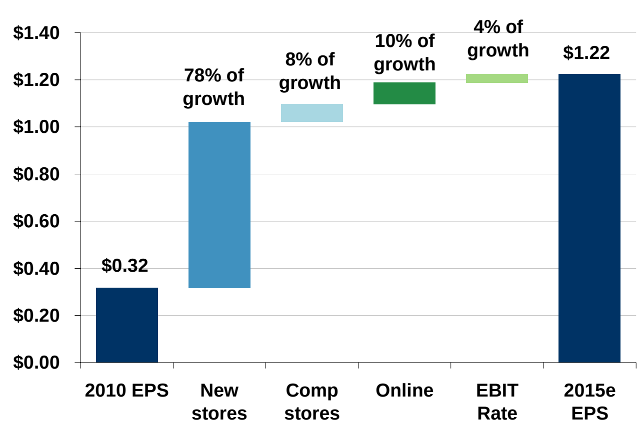
Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

Our Teavana bull case for 2015, which includes a 6% comp, 23% operating margin (+410 bp vs. 2010's 18.8%), and ~500 stores generates $1.50 EPS. Assuming growth slows after hitting 500 store goal (absent other avenues such as international stores and consumer packaged goods), the stock may trade at a mid-teens multiple (16x) on 2015e. This implies a $24 share price in 2014 (inline with current levels).

We think further multiple expansion will be difficult unless we see sustained same store sales above the company's 3% long term plan. Therefore, we await a more attractive entry point for the shares.

Exhibit 3

TEA's 2010-2015 EPS Growth Driven by New Stores



Source: Company data, Morgan Stanley Research

The retailer is the undisputed leader in its space and enjoys a premium positioning, which is reinforced by the highly trained store staff that drives product connoisseurship. We think this could help drive trade-up among existing tea drinkers as well as attract new consumers to the beverage. We like Teavana's focus on the healthy lifestyle – the same positioning behind Whole Foods' and lululemon's success. TEA's 179 locations are primarily located in shopping malls and lifestyle centers. We think the company's proprietary product, education-rich sales environment, and brand awareness through its store footprint pose formidable barriers to entry.

We like TEA's 25% square footage growth CAGR (2010-2015)… Our proprietary shopping center analysis gives us confidence TEA has enough high-quality potential locations for its 500 store plan. We think Teavana can open 50-80 stores per year. In our view, expansion becomes easier as TEA's store base grows because the company will have a larger base of Teavana-trained store management and staff to facilitate new openings.

Exhibit 4
Teavana Store: Garden State Plaza Mall (Paramus, NJ)

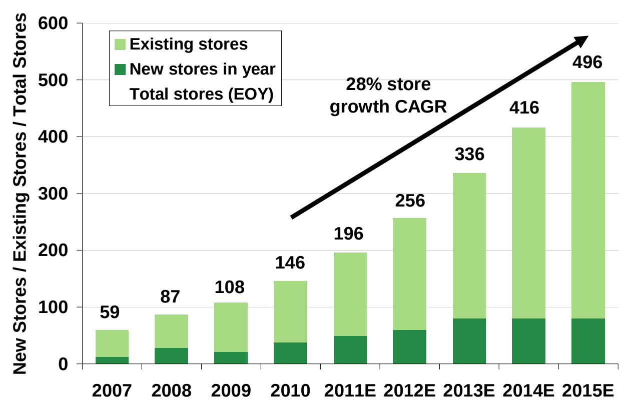
Source: Morgan Stanley Research

Exhibit 5
Teavana Store: Paramus Park Mall (Paramus, NJ)

Source: Morgan Stanley Research

As a backup to our mall analysis, we also analyzed TEA population density using AlphaWise data. Based on our calculations, ~500 locations imply ~200,000 households (with at least $40-$60K annual household income) per store. We think this is viable given TEA's current population profile (please see Exhibit 8).

Exhibit 6
TEA store growth potential: 500 stores by 2015



Source: Company data, Morgan Stanley Research

…and steady comps. Teavana's past performance gives us confidence the 3% long term comp plan is achievable. That level represents a deceleration from TEA's 7% and 9% comps in 2009 and 2010. Despite the recession, TEA only generated one negative comp quarter (4Q08, -1.8% comp).

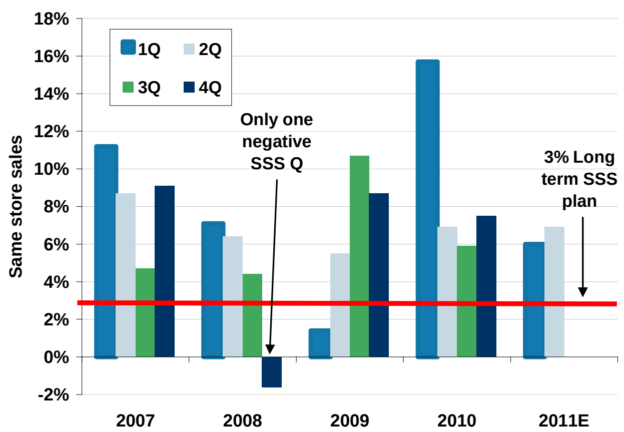
Our income demographic analysis also supports our 3% long-term comp outlook. Digging further into our household saturation study, the 200,000 households we used to arrive at

~500 stores implies average household income of $59,000. This represents a slight (5%) decline from today's $62,000.

We also think Teavana sales will benefit as the company makes marketing investments. We expect the planned customer relationship management system implementation will drive additional traffic and revenue among both new and existing customers.

Exhibit 7

Impressive same store sales indicates conservatism of 3% long-term plan

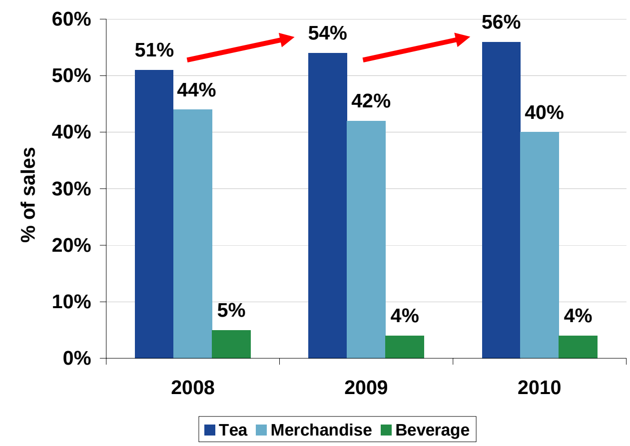


Source: Company data, Morgan Stanley Research

Store maturity drives higher margins… We also like TEA's favorable margin mix over time. We forecast gross margins will improve ~260 bp 2010-2015. As a store matures, sales mix shifts towards more high-margin loose tea (and away from lower margin tea accessories). In 2010, loose tea generated 56% of TEA revenues vs. 51% in 2008. New stores comprised 26% of 2010 locations vs. 32% in 2008.

Exhibit 8

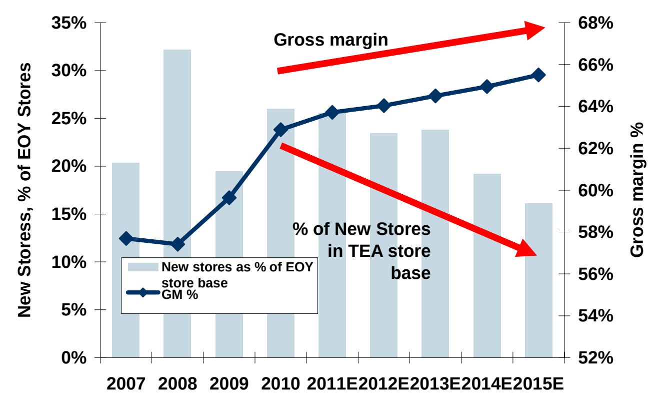
TEA Sales Mix Shifts Towards More Tea…



Source: Company data, Morgan Stanley Research

Exhibit 9

…as Store Base Matures, Which Helps Gross Margins



Source: Company data, Morgan Stanley Research

…while higher revenues drive modest expense leverage. Our model incorporates some SG&A leverage (25 bp, 2010-2015), helped by the 25% sales growth. Public company costs and our lower productivity expectations for new TEA stores (vs. current fleet) drive our expectation for relatively modest expense leverage.

Teavana's longer-term opportunity includes international expansion and consumer packaged goods. We think TEA can leverage its business model abroad given its universal product appeal. The company could also expand into consumer packaged goods and foodservice industries.

What Has Changed Since the IPO

- **2Q11 results.** On September 2, 2011, TEA reported 2Q11 EPS of $0.03. Net sales rose +36% (to $31.3 million). Same store sales rose 6.9%, driven by a 9.3% ticket increase. Transactions declined -1.8%, inline with TEA's historical range (slightly positive to slightly negative).

- Gross margin increased +223 bp y/y (to 61.1%), driven by better product margins (direct sourcing) and a sales mix shift towards loose tea (58% of 2Q11 sales vs. 57% in 2Q10). SG&A deleveraged 204 bp to 49.1% while D&A of $1.4 million remained flattish as a percent of total sales (4.6%). Higher SG&A costs were due to: 1) new hires (public company transition); 2) new store opening and training; 3) infrastructure; and 4) distribution strategy related consulting fees. The operating margin increased +24 bp to 7.4%. Net income rose 78.5% y/y to $1.0 million. 2Q11's $0.03 EPS was vs. LY's $0.02.

- As of September 2, 2011, TEA had 179 company-owned stores. The company is on track up open 50 new locations in FY11. Total inventory rose 82% y/y to $22.7 million. Teavana's direct sourcing strategy shift (TEA takes possession of goods earlier; was in full force by 3Q10) drove the y/y increase. In-store inventory remained flat vs. LY.

- Management also initiated 2011 and long-term guidance. For 2011: $160 - $164 million sales (with low- to mid-single digit same store sales) and $0.42 - $0.44 EPS (based on $16 - $16.8 million net income and 38.3 million shares). Longer-term outlook (from 2010 figures): 25% revenue CAGR, +300 bp operating margin expansion, and 30% net income growth.

- **International franchise agreement with Alshaya Group.** On September 2, 2011, TEA announced a 10-year franchise development program with the Alshaya group of companies for opening stores in Bahrain, Kuwait, Saudi Arabia, Qatar, United Arab Emirates, Egypt, Lebanon, and Jordan. The first stores are scheduled to open in 2012. Under the agreement, we expect TEA will receive a percentage of sales (we estimate 5-6%, based on previous industry franchise transactions). In our view, we believe the franchises could be slightly accretive to 2013 sales (not reflected in our model). While we view the Alshaya agreement positively, we think directly-owned stores (Canada is a possibility) would offer greater sales and EPS accretion potential.

Risks to our call: (1) Weakening / strengthening economy and mall traffic; (2) Increased competition (stores, online); (3) positive margin mix shift fails to materialize.

We would like to express our appreciation to Paul Morgan and Stephen Bakke of the Morgan Stanley REIT Research team for use of their US mall data.

Investment Debates Summary

DEBATE	MARKET'S VIEW	OUR VIEW
Is there an adequate number of quality sites to satisfy TEA's 500 store goal?	Key investor concern; some are doubtful TEA can find enough locations to satisfy growth plans.	**Yes.** • Based on our US shopping center analysis, we think there could be at least 450-500 Teavana stores located in top-rated locations. • We see upside to stores if TEA can find suitable locations in lower-rated malls or in urban areas.
Can TEA new stores generate sufficient sales productivity to drive 25% 2010-2015 sales growth?	Key investor concern; some are doubtful TEA can find enough high-potential locations to satisfy sales growth outlook.	**We think new store economics are achievable.** • Our AlphaWise store overlap and demographics analysis suggests Teavana can continue to generate solid sales productivity (even in light of significant store growth).
Valuation: Does the current share price already include the growth opportunity?	No clear consensus right now.	**Yes.** • We think TEA's sales and earnings growth prospects are already reflected in valuation

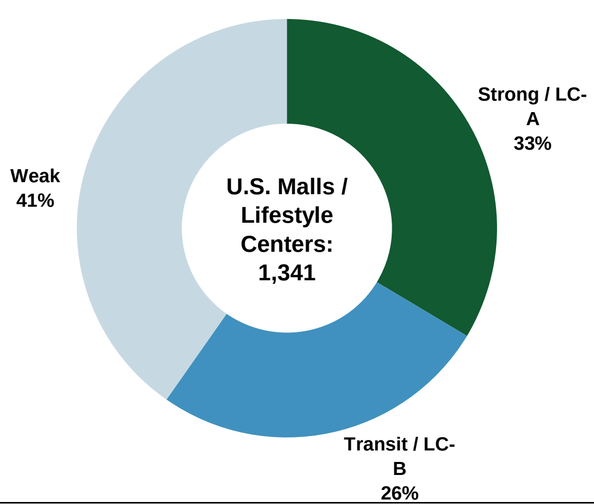
Investment Debates

Debate 1: Is there an adequate number of quality sites to satisfy TEA's 500 store goal?
Market's view: Key investor concern; some are doubtful TEA can find enough locations to satisfy growth plans.
Our view: Yes. Based on our US shopping center analysis, we think there could be at least 450-500 Teavanas located in top-rated locations. We see upside to storecount if TEA can find suitable locations in lower-rated malls or in urban areas.

First: Our mall / lifestyle center analysis supports the viability of management's 500 store plan (2015). We analyzed Teavana locations (161 as of July 2011) and then cross-checked our list against our REIT Research Team's mall ratings (Paul Morgan and team).

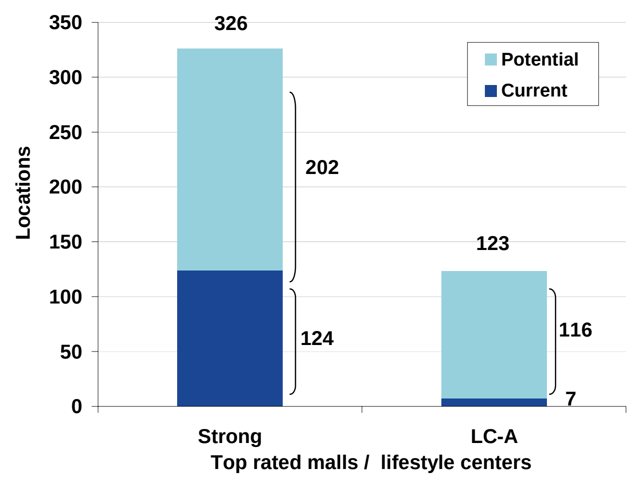
TEA only penetrates 29% of top-ranked malls / lifestyle centers. Of Morgan Stanley's top-rated 449 malls and lifestyle centers, only 131 include a Teavana (29% penetration).

Exhibit 10
Of all the US malls and lifestyle centers…



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research.

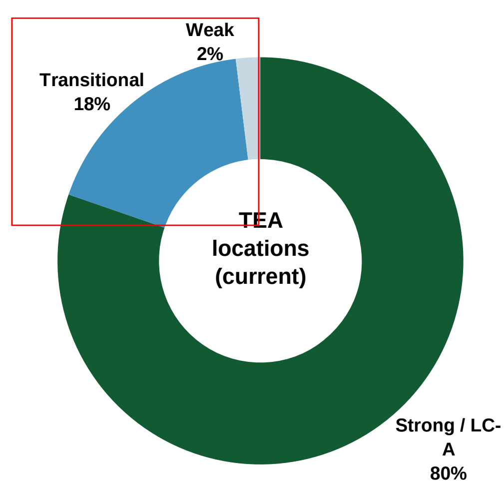
Exhibit 11
…TEA is only in 131 of the top 449 Malls and Lifestyle Centers



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of July 2011 (161 locations).

There is potential upside to our analysis if we add stores in 1) urban street locations and 2) lower-rated shopping centers. Twenty percent of Teavana's current stores are in lower-rated malls and lifestyle centers. If Teavana can secure additional suitable locations, we see additional store growth.

Exhibit 12
20% of Teavana stores are in lower-rated locations



Source: Company data, Morgan Stanley Research (Specialty Retail). Mall / lifestyle center ratings courtesy of Morgan Stanley REIT Research. Store data in our analysis as of July 2011 (161 locations).

Second: Our store population study indicates 450+ TEA location potential. Working with AlphaWise, we also examined income and population levels surrounding existing Teavana stores. The current median population is ~320,000. Roughly 500 stores imply a density of 200,000 households per store. We think this is feasible given current store statistics.

Exhibit 2

Our proprietary store saturation analysis suggests 450+ Teavana stores

Store Saturation Summary (all applicable markets)

Current HHs / store (median)	Current stores	HH income distribution $40-60K	$60-80K	$80-100K	$100K+	Total
320,442	161	77	70	12	2	161

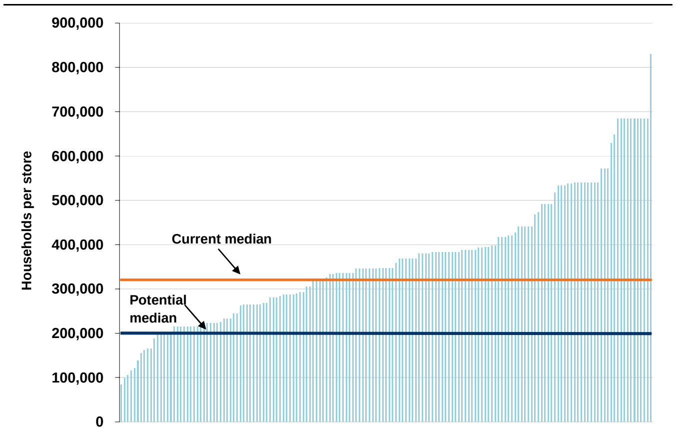
Store saturation analysis

Households per store	Potential stores	$40-60K	$60-80K	$80-100K	$100K+	Total
320,442	**277**	163	98	14	2	277
300,000	**299**	177	105	15	2	299
250,000	**365**	220	126	17	2	365
200,000	**454**	272	159	21	2	454
150,000	**624**	382	212	28	2	624
100,000	**989**	626	318	42	3	989

Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

Exhibit 13

Households per Teavana Store



Source: Company data, Morgan Stanley Research

Debate 2: Can new TEA stores successfully generate sufficient sales productivity to drive 25% 2010-2015 sales growth?
Market's view: Key investor concern; some are doubtful TEA can find enough high-potential locations to satisfy sales growth outlook.
Our view: We think new store economics are achievable. Our Morgan Stanley AlphaWise store overlap and demographics analysis suggests Teavana can continue to generate solid sales productivity (even in light of significant store growth).

Teavana's new store revenue plan appears adequately conservative at 25% below current comparable average ($600,000 - $700,000 annual sales vs. $862,000).

The company's 3% long-term comp guidance also appears conservative in light of previous performance. We think both news customers and trade-up from existing customers can fuel same store sales growth.

In our view, the sales plan conservatism addresses concerns Teavana's most optimal locations are already reflected in the fleet.

First, our proprietary AlphaWise study demonstrates Teavana's ability to generate strong same store sales despite high store overlaps. We think this bodes well for comps despite aggressive expansion plans. According to our analysis, 98% of Teavana stores are within 1, 2, and 5 miles of another Teavana store. Ninety-nine percent of all TEA locations are within 10 miles of another.

Exhibit 14

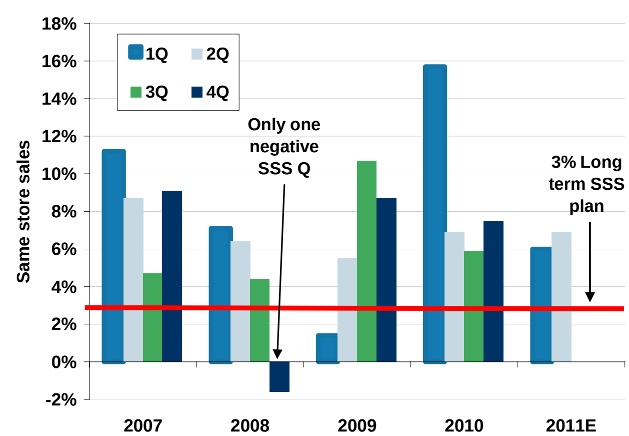
Even with high store overlaps…

	1 Mile	3 Miles	5 Miles	10 Miles
% of TEA store base	98%	98%	98%	99%

Source: Store data from company website, location analysis from Morgan Stanley AlphaWise

Exhibit 15

…Teavana still generates solid comps

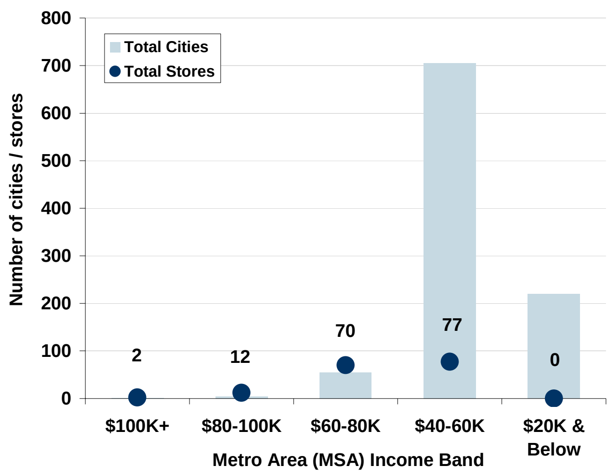


Source: Company data, Morgan Stanley Research

Second, our AlphaWise survey results provide evidence that store income demographics can stay intact (despite store expansion). This gives us further confidence in

Teavana's ability to deliver sales productivity even on a much larger store base.

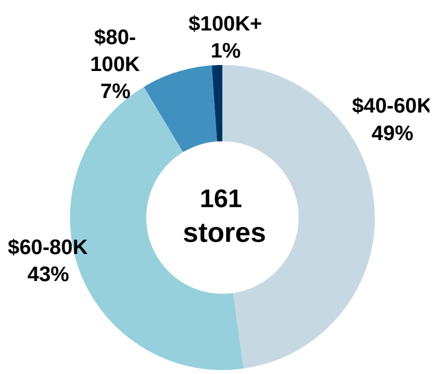
Exhibit 16
TEA store snapshot



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research

According to Morgan Stanley AlphaWise, the average household income surrounding Teavana's current store base is $62,000. Fifty-one percent of current TEA locations are in areas with at least $60,000 annual household income. Forty-nine percent of TEA locations have surrounding annual household income of $40,000-$60,000.

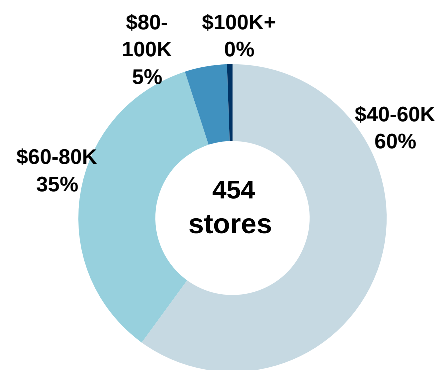
Exhibit 3
Current Teavana Store Base / $62,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA. Store data in our analysis as of July 2011 (161 locations).

If TEA expands its store footprint to 454 stores (see Debate 1, based on household density), we estimate the locations would have an average surrounding household income of $59,000 (5% below current levels). About 60% of stores would have a surrounding annual household income of $40,000-$60,000 while ~40% would have surrounding income of at least $60,000.

Exhibit 4
Projected Teavana Store Base / $59,000 Average HH Income



Source: Company data, Morgan Stanley AlphaWise, Morgan Stanley Research. Household income by MSA.

Third, Teavana's growing store base provides the talent pipeline to support store openings. We think Teavana's store opening process eases as the store base increases. TEA's store growth plans provide career opportunities for motivated staff, and we expect the company to promote a high percentage of general managers internally. Lower management and team member turnover is a good sign; the company can leverage the larger pool of experienced staff for new store openings.

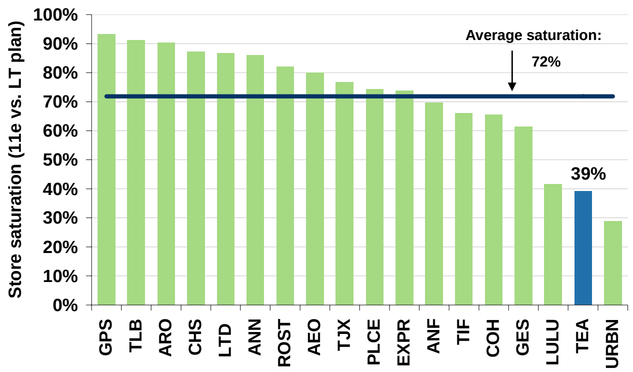
Where we could be wrong: If household incomes come under more pressure, TEA store expansion and sales productivity could be at risk.

Debate 3: Valuation: Does the current share price incorporate the growth opportunity?
Market's view: No clear consensus right now.
Our view: Yes. We think TEA's sales and earnings growth prospects are already reflected in valuation

We like TEA's high-quality growth… as evidenced by our store location and demographic analysis.

Exhibit 17

TEA store saturation – one of the lowest in our universe

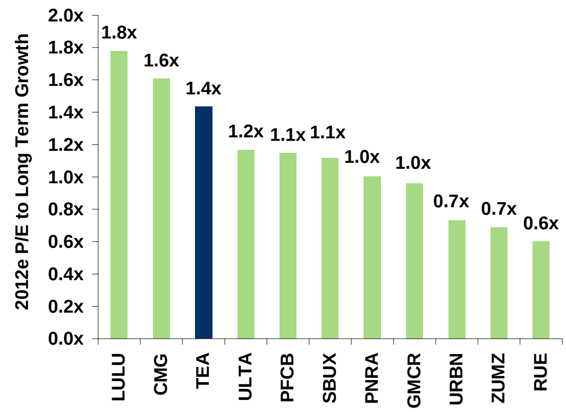


Source: Company data, Morgan Stanley Research. Reflects saturation of profitable divisions only.

…but think current valuation reflects this. Teavana is trading at 40x our $0.60 2012e EPS, which represents 1.4x our 28% long term growth rate. According to Exhibit 18, TEA's P/E to long term growth is already one of the highest among peers in beverages and high-growth consumer retail / restaurants. Until we see consistent execution above the 3% comp plan, we think shares adequately value the company's sales and earnings potential.

Exhibit 18

Beverages and High-Growth Consumer: 2012e P/E as Multiple of Long Term Growth Rate



Source: FactSet estimates and pricing (ex. TEA estimates), Morgan Stanley Research estimates for TEA. Priced Friday, September 2, 2011.

Where we could be wrong. If US macroeconomic concerns fail to subside, we think discretionary names with high domestic exposure will be negatively impacted.

Valuation

We think Teavana is most directly comparable to high-growth specialty retail, which includes lululemon, Ulta, Rue21, and Zuimiez. In our view, the closest compare is LULU given the two companies' similar healthy lifestyle positioning, premium product offering, and potential store growth.

Exhibit 19

TEA Comparable Companies

	Company Name	9/2/2011 Price	P/E (CY est.) 2011	P/E (CY est.) 2012	L/T growth	P/E to L/T Growth
TEA	Teavana	$23.99	55x	40x	28	1.4
Specialty beverage (coffee)						
GMCR	Green Mountain Coffee Roasters	$103.56	55x	36x	37	1.0
SBUX	Starbucks	37.49	24x	20x	18	1.1
Average			**39x**	**28x**	**27**	**1.0**
High growth consumer retail						
LULU	lululemon	$53.15	49x	39x	22	1.8
ULTA	Ulta	55.33	35x	28x	24	1.2
ZUMZ	Zumiez	17.46	17x	14x	20	0.7
RUE	Rue21	22.56	15x	13x	22	0.6
URBN	Urban Outfitters	25.96	17x	14x	19	0.7
Average			**27x**	**22x**	**21**	**1.0**
High growth restaurants						
CMG	Chipotle Mexican Grill	$305.50	45x	35x	22	1.6
PNRA	Panera Bread	110.52	24x	21x	21	1.0
PFCB	P.F. Chang's China Bistro	28.39	17x	16x	14	1.1
Average			**29x**	**24x**	**19**	**1.3**

Source: FactSet estimates (all ex. TEA) and market data. Morgan Stanley Research estimates (TEA only).

High-quality growth companies tend to trade ahead of their long-term growth estimates. High-growth consumer retail peers trade at 22x 2012e EPS (or 1.0x long term growth, on average). For example, LULU's average P/E in 2011 YTD was ~1.75x the company's long-term growth rate. Similar to Teavana, LULU benefits from 1) steady comps and 2) store growth potential.

We think TEA shares will follow a similar pattern to LULU. Our 12-month price target of $26 is based on 43x our $0.60 2012e EPS. 43x represents 1.5x our estimated 28% Teavana long-term growth rate.

Moreover, our bull case for 2015, which includes a 5% comp, 23% operating margin (+420 bp vs. 2010's 18.8%), and ~500 stores generates $1.50 EPS. Assuming growth slows (absent other avenues such as international stores and consumer packaged goods), the stock may trade at a mid-teens multiple (16x). This implies a $24 share price (in line with current levels).

Company Overview

The Premier Specialty Tea Retailer

Founded in 1997, Teavana retails loose-leaf teas, tea accessories and related products, and tea beverages. Teavana leads this new retail segment. We think the company's choice real estate, quality product, and highly trained sales staff are the keys to its success. As of September 2011, the company directly 179 stores in 26 states. There are also 19 franchise stores in Mexico.

Teavana stores are primarily located in malls and lifestyle centers. By region, stores are evenly spread, but CA and FL have the most TEA locations.

In 2004, Parallel Investment Partners (they have a long consumer investments track record), purchased a 23% stake.

First Mover Advantage in Fragmented Industry

According to Mintel, US tea sales could increase at a 10% CAGR from 2010 to 2014 to $6 billion. We think industry growth drivers include: (1) broader distribution; (2) increased offerings; and (3) growing interest in healthy lifestyles. Teavana lacks large, direct competitors. Other tea retail entrants have closed more than half (or all) of their US stores.

Prime Locations and a Highly Trained Staff Drive Sales…

Teavana stores averaged 1,100+ square feet in 2010. However, TEA store size does not correlate with total sales. The company benefits from its ability to secure prime mall locations (i.e. center court or adjacent key retailers).

We also think the company's highly interactive store environment propel productivity. In our view, with Teavana's large and varied assortment, product education is key for driving trade-up among existing tea drinkers and attracting new customers. Associates are highly trained and compensation is based on sales targets.

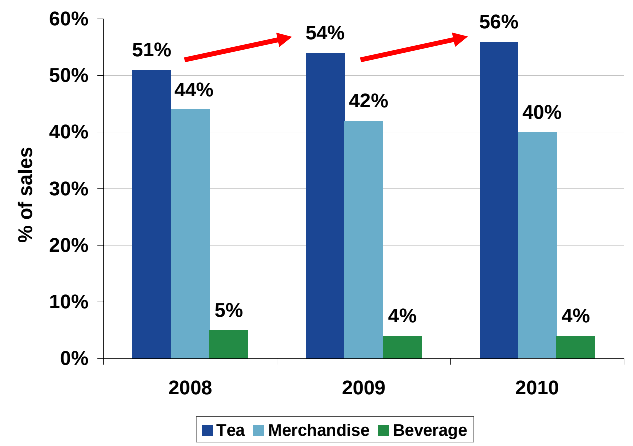
Teavana has generated positive annual same store sales from 2006-2010 (and reported only one negative comp quarter, 4Q08, with -1.6%). 2010 sales productivity approached $1,000 per square foot, and comparable store sales totaled $862,000.

Other topline growth opportunities include (1) online (7% of 2010 sales; could increase to 10+%); (2) international stores, and (3) consumer packaged goods. We also think TEA's planned CRM system implementation (we expect by mid-2012) will be a topline benefit.

…While Store Maturity Helps Margins

Average ticket at TEA is $36 including beverages. Excluding beverages, TEA's average ticket is $46. About 15-20% of transactions only include beverages. In 2010, loose tea represented 56% of sales while tea related merchandise accounted for 40%. Prepared beverages were 4% of revenue.

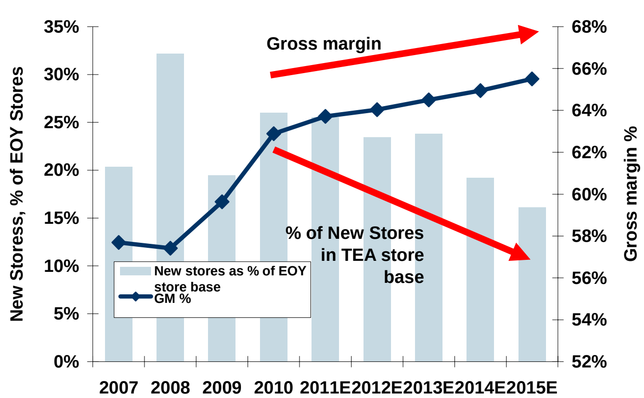
Exhibit 20
TEA Sales Mix Shifts Towards More Tea…



Source: Company data, Morgan Stanley Research

The margin evolution of Teavana stores is evidence of brand loyalty. As a location matures, its sales mix shifts towards loose tea sales (from tea accessories). Loose tea carries substantially higher margins than tea accessories. Teavana typically does not discount its product (except for an occasional small selection of accessories). Therefore, as a store matures, its profitability improves.

Exhibit 21
…as Store Base Matures, Which Helps Gross Margins



Source: Company data, Morgan Stanley Research

Management, share ownership

Senior Management
Teavana is led by co-founder and CEO Andrew Mack; Mack and his wife founded Teavana in 1997. Before Teavana, he worked in the restaurant industry. Other members of the senior management team have been with the company since 2005.

Exhibit 22
TEA Senior Management and Board

Senior Management		
Daniel Glennon	**EVP, CFO**	EVP and CFO since 2010 CFO 2005-2010 **Background:** Marakon Associates, Arthur Andersen **Joined Teavana in 2005**
Peter Luckhurt	**EVP, Operations**	EVP, Operations since 2010 VP, Stores 2005-2010 **Background:** HMV North America (President) **Joined Teavana in 2005**
Juergen Link	**VP, Distribution**	VP, Distribution since 2005 **Background:** SpecialTeas (Founder) **Joined Teavana in 2005**
Robert Shapiro	**VP, Real Estate**	VP, Real Estate since 2005 **Background:** Zale (SVP Real Estate and Property Development) **Joined Teavana in 2005**
Board of Directors		
F. Barron Fletcher III	**Director**	Parallel Investment Partners (Founder)
Michael Nevins	**Director**	Macerich (previously SVP - Leasing)
Thomas Saunders III	**Director**	Ivor & Co. (President); Saunders Karp & Megrue (Founder)
John Kyees	**Director**	Urban Outfitters (former CFO)
Robert Dennis	**Director**	Genesco (Chairman of Board)

Source: Company filings, Morgan Stanley Research

Insider Share Ownership
Post-IPO, Andrew Mack owns 57-58% of TEA shares, Parallel owns 19-20%.

Exhibit 23

Insider and 5% Share Ownership, Post-IPO

	Shares Beneficially Owned After		% Beneficially Owned	
	Without Over-Allotment Option	With Over-Allotment Option	Without Over-Allotment Option	With Over-Allotment Option
5% Stockholders:				
Teavana Investment LLC	7,571,271	7,077,016	19.90%	18.60%
Executive Officers and Directors:				
Andrew T. Mack	22,005,115	21,510,860	57.90%	56.50%
Daniel P. Glennon	264,631	255,786	*	*
Peter M. Luckhurst	233,498	225,694	*	*
Juergen W. Link	1,196,741	1,156,743	3.20%	3.00%
Robert A. Shapiro	225,652	218,110	*	*
F. Barron Fletcher III	7,571,271	7,077,016	19.90%	18.60%
Michael J. Nevins	46,699	45,138	*	*
All directors and executive officers as a	31,543,606	30,489,345	81.30%	78.40%
Additional Selling Stockholders:				
Patrick Farrell	155,665	150,642	*	*
John M. Allen	62,266	60,185	*	*
David A. Staels	77,833	75,232	*	*
Michael T. Wallace	62,266	60,185	*	*
Rocket Tea LLC	155,665	150,462	*	*

* Less than 1%

Source: Company data, Morgan Stanley Research

Exhibit 24

TEA Income Statement

($ millions except per-share data)

Income Statement	2010 Apr	2010 Jul	2010 Oct	2010 Jan	2011E Apr	2011E Jul	2011E Oct	2011E Jan	2012E Apr	2012E Jul	2012E Oct	2012E Jan
Total Sales	$26	$23	$25	$51	$35	$31	$32	$66	$46	$39	$40	$83
Cost of Goods Sold	10	9	10	17	12	12	13	22	16	16	16	27
Gross Profit	16	14	15	35	22	19	19	44	30	24	24	56
SG&A Expense	11	11	12	17	15	15	17	22	20	19	20	28
Depr. & Amort.	1	1	1	1	1	1	2	2	2	2	2	2
Operating Income	4	2	1	17	6	2	1	20	8	2	2	27
Interest Income/(Expense)	(0.6)	(0.7)	(0.7)	(0.6)	(0.7)	(0.7)	(0.3)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Pretax Income	3.4	1.0	0.6	15.9	5.8	1.6	0.7	19.8	7.9	2.4	1.7	26.5
Taxes	1	0	0	7	2	1	0	8	3	1	1	11
Net Income from Operations	1.9	0.6	0.3	9.1	3.3	1.0	0.5	11.9	4.7	1.5	1.1	16.0
Earnings Per Share	$0.05	$0.02	$0.01	$0.24	$0.09	$0.03	$0.01	$0.31	$0.12	$0.04	$0.03	$0.41
Average Shares	37.5	37.6	38.0	38.0	36.7	37.8	39.0	39.0	39.0	39.0	39.0	39.0
EBITDA	$5	$3	$2	$18	$8	$4	$3	$22	$10	$4	$4	$29
Margin Analysis												
Gross Margin	61.1%	58.9%	58.6%	67.7%	64.4%	61.1%	59.4%	66.8%	64.9%	60.0%	60.0%	67.4%
Expense Ratio	41.9%	47.0%	49.0%	32.9%	42.2%	49.1%	51.0%	33.9%	43.6%	48.6%	50.4%	33.0%
Operating Margin	15.5%	7.2%	5.2%	32.4%	18.5%	7.4%	3.1%	30.1%	17.4%	6.3%	4.5%	31.8%
Pretax Margin	13.0%	4.4%	2.4%	31.2%	16.5%	5.1%	2.3%	30.0%	17.2%	6.2%	4.4%	31.8%
Tax Rate	42.6%	42.6%	42.4%	42.6%	42.4%	35.2%	39.8%	39.8%	39.8%	39.8%	39.8%	39.8%
Net Margin	7.5%	2.5%	1.4%	17.9%	9.5%	3.3%	1.4%	18.1%	10.4%	3.7%	2.6%	19.1%
EBITDA Margin	19.2%	11.8%	9.7%	34.8%	22.1%	12.0%	8.4%	32.9%	21.3%	11.4%	9.6%	34.4%
Year-Over-Year Growth												
Sales	43.3%	33.1%	32.4%	41.0%	35.6%	36.3%	30.8%	28.8%	30.7%	26.0%	23.6%	26.6%
Comp. Store Sales	15.7%	6.9%	5.9%	7.5%	6.0%	6.9%	3.0%	3.0%	6.0%	6.9%	3.0%	3.0%
SG&A Expense	26.2%	26.1%	33.2%	41.4%	36.6%	42.2%	36.2%	32.7%	34.9%	24.8%	22.1%	23.2%
Operating Income	276.7%	338.1%	100.5%	63.8%	62.1%	40.8%	-20.4%	19.8%	22.8%	7.1%	77.6%	33.8%
Earnings Per Share	674.2%	-567.6%	NM	73.5%	75.5%	77.5%	29.4%	27.1%	34.3%	38.0%	133.7%	33.9%
EBITDA	166.7%	117.6%	54.3%	61.3%	56.1%	38.4%	13.8%	21.7%	25.8%	19.6%	41.2%	32.6%

Income Statement	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Sales	$34	$47	$64	$90	$125	$165	$209	$261	$320	$384
Cost of Goods Sold	$16	$20	$27	$36	$46	$60	$75	$93	$112	$133
Gross Profit	$18	$27	$37	$54	$78	$105	$134	$168	$208	$252
SG&A Expense	16	22	29	38	51	69	87	108	130	155
Depr. & Amort.	2	2	3	3	4	6	8	10	13	16
Operating Income	($0)	$3	$5	$12	$23	$30	$39	$51	$65	$81
Interest Income/(Expense)	(1)	(2)	(2)	(2)	(3)	(2)	(0)	(0)	0	0
Pretax Income	($1)	$1	$3	$10	$21	$28	$39	$51	$65	$81
Taxes	(0)	1	2	4	9	11	15	20	26	32
Net Income from Operations	($1.3)	$0.4	$1.2	$5.3	$12.0	$16.7	$23.2	$30.4	$39.1	$48.7
Earnings Per Share	($0.04)	$0.01	$0.03	$0.14	$0.32	$0.44	$0.60	$0.78	$1.00	$1.25
Average Shares	36.7	36.8	37.1	37.3	37.7	38.1	39.0	39.0	39.0	39.0
EBITDA	$1.3	$5.0	$7.4	$15.7	$27.9	$35.9	$46.8	$60.6	$78.0	$96.9
Margin Analysis										
Gross Margin	52.8%	57.7%	57.4%	59.6%	62.9%	63.7%	64.0%	64.5%	65.0%	65.5%
Expense Ratio	48.9%	47.1%	45.8%	42.3%	40.6%	41.9%	41.6%	41.2%	40.6%	40.3%
Operating Margin	-0.5%	6.3%	7.5%	13.5%	18.8%	18.0%	18.6%	19.4%	20.3%	21.0%
Pretax Margin	-4.3%	2.9%	4.2%	10.8%	16.8%	17.0%	18.5%	19.4%	20.3%	21.1%
Tax Rate	7.1%	72.7%	55.7%	45.8%	42.6%	40.1%	39.8%	39.8%	39.8%	39.8%
Net Margin	-4.0%	0.8%	1.9%	5.9%	9.6%	10.2%	11.1%	11.7%	12.2%	12.7%
EBITDA Margin	4.0%	10.6%	11.6%	17.4%	22.3%	21.8%	22.4%	23.3%	24.4%	25.2%
Year-Over-Year Growth										
Sales		39.8%	35.3%	41.3%	38.2%	31.9%	26.8%	25.0%	22.8%	20.0%
Comp. Store Sales		8.4%	3.0%	6.9%	8.7%	4.4%	3.0%	3.0%	3.0%	3.0%
SG&A Expense		34.8%	31.5%	30.4%	32.6%	36.4%	25.8%	23.9%	20.9%	19.1%
Operating Income		NM	59.9%	156.2%	92.6%	26.2%	30.8%	30.5%	28.1%	24.5%
Earnings Per Share		NM	213.7%	339.0%	124.5%	37.9%	35.7%	31.1%	28.4%	24.8%
EBITDA		273.9%	48.5%	111.2%	77.6%	28.8%	30.4%	29.7%	28.6%	24.2%

Annual Data	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Total Store Count	47	59	87	108	146	196	256	336	416	496
Total Sq Ft (mm)	43	54	77	95	130	176	231	287	343	399
Total Sq Ft Growth		25.6%	42.6%	23.4%	36.8%	35.4%	31.4%	24.2%	19.5%	16.3%
Avg Size (sq ft)	915	915	885	880	890	898	904	855	825	805
Sales / Avg SqFt		$973,258	#######	$984,494	#######	#######	#######	$931	#######	#######

Source: Company data, Morgan Stanley Research

Exhibit 25

TEA Balance Sheet

At January 31 of the following year
($ in millions)

	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Assets							
Cash and cash equivalents	$1.3	$7.9	($22.6)	($16.5)	($11.3)	($3.2)	$10.3
ST investments	0.0	0.0	0.0	5.0	10.0	15.0	20.0
Accounts receivable	0.3	0.3	0.4	0.5	0.6	0.7	0.9
Merchandise inventories	11.6	16.9	21.4	26.1	31.3	38.4	46.1
Prepaid minimum rent	1.1	1.4	1.8	2.3	2.9	3.6	4.3
Other	1.8	3.7	7.2	8.2	9.2	10.2	11.2
Total Current Assets	$16.0	$30.2	$8.2	$25.6	$42.7	$64.7	$92.9
			9.4	16.0			
Net property and equipment	22.5	31.0	40.8	50.1	63.5	79.2	97.6
Goodwill, net	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Deferred income Taxes	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.6	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL ASSETS	$41.8	$64.1	$51.9	$78.6	$109.1	$146.8	$193.4
Liabilities and Shareholders' Equity							
Accounts payable	$2.6	$3.6	$4.3	$5.2	$6.3	$7.7	$9.2
Line of credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred revenue	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Other liabilities	7.6	23.3	24.7	31.3	39.1	48.0	57.7
Accrued expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accounts payable & accrued exp - related parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	$11.286	$28.3	$30.3	$37.8	$46.7	$57.1	$68.2
Deferred Rent & Tenant Allowances	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Long-term debt	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Preferred Stock	10.8	0.0	0.0	0.0	0.0	0.0	0.0
Retirement Benefit Plan Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	4.5	8.0	10.0	10.0	10.0	10.0	10.0
Deferred taxes	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Total Long-Term Liabilities	$16.3	$9.5	$10.0	$10.0	$10.0	$10.0	$10.0
Shareholders' Equity:							
Common stock	$21.9	$81.4	$0.0	$0.0	$0.0	$0.0	$0.0
Additional paid-in capital	0.0	0.0	105.2	105.2	105.2	105.2	105.2
Retained earnings	(7.7)	(55.1)	(93.6)	(74.5)	(52.8)	(25.4)	10.0
Notes receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	$14.2	$26.3	$11.6	$30.7	$52.4	$79.8	$115.2
TOTAL LIABILITIES AND S/H EQUITY	$41.8	$64.1	$51.9	$78.6	$109.1	$146.8	$193.4

Source: Company data, Morgan Stanley Research

Exhibit 26

TEA Cash Flow Statement

For the fiscal year ending January 31 of the following year
($ in millions)

	2008A	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Net income	$1.2	$5.3	$12.0	$16.7	$23.2	$30.4	$39.1	$48.7
Depreciation and amortization	2.7	3.5	4.4	6.2	8.0	10.0	13.1	16.1
Deferred income taxes	(0.6)	0.5	(0.3)	(0.4)	0.0	0.0	0.0	0.0
Other	1.9	2.1	2.6	3.5	1.0	(1.0)	(1.0)	(1.0)
TOTAL OPERATING SOURCES	$5.169	$11.4	$18.7	$26.0	$32.2	$39.5	$51.2	$63.9
Capital expenditures	8.8	6.6	12.6	16.0	17.2	23.5	28.8	34.6
Increase (decrease) in								
Inventories	$1.8	$3.6	$5.3	$4.5	$4.7	$5.2	$7.1	$7.7
Receivables	(0.2)	0.1	0.0	0.1	0.1	0.1	0.1	0.2
Prepaid expenses	0.7	(0.2)	1.1	0.4	0.5	0.6	0.7	0.7
Other assets	0.2	0.3	0.3	3.5	1.0	1.0	1.0	1.0
(Increase) decrease in								
Accounts payable, deferred revenue, accrued expenses, and ot	2.0	2.7	5.4	(2.0)	(7.5)	(8.9)	(10.4)	(11.2)
Accounts payable and accrued expenses, related parties	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets and liabilities	0.4	0.9	2.1	0.0	0.0	0.0	0.0	0.0
Total working capital uses	$0.2	$0.3	($0.7)	$10.5	$13.8	$15.8	$19.3	$20.7
TOTAL OPERATING USES	$9.0	$7.0	$11.8	$26.5	$31.0	$39.3	$48.1	$55.3
INTERNAL CASH GENERATION (FUNDS NEEDED)	($3.8)	$4.4	$6.8	($0.5)	$1.2	$0.2	$3.1	$8.5
Short-term investments, net	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0
Increase in long-term debt	(0.6)	0.0	(0.3)	(1.0)	0.0	0.0	0.0	0.0
Net borrowings under credit facility	5.3	(4.3)	0.0	0.0	0.0	0.0	0.0	0.0
Distributions paid to members	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from stock options exercised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common / preferred stock adjustments	0.0	0.0	0.0	105.2	0.0	0.0	0.0	0.0
Share repurchase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment and redemption of dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financing costs	(0.4)	(0.0)	0.0	(134.2)	0.0	0.0	0.0	0.0
Net cash used in discontined operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL EXTERNAL SOURCES	$4.3	($4.3)	($0.3)	($30.0)	$5.0	$5.0	$5.0	$5.0
Beginning cash balance	0.8	1.2	1.3	7.9	(22.6)	(16.5)	(11.3)	(3.2)
Increase (decrease) in cash	0.4	0.1	6.6	(30.5)	6.2	5.2	8.1	13.5
Ending cash balance	1.2	1.3	7.9	(22.6)	(16.5)	(11.3)	(3.2)	10.3
				-				
Total External Sources & Cash	($3.8)	$4.4	$6.8	($0.5)	$1.2	$0.2	$3.1	$8.5

Source: Company reports and Morgan Stanley Research estimates.

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of August 31, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1120**	**41%**	**460**	**48%**	**41%**
Equal-weight/Hold	**1151**	**42%**	**389**	**40%**	**34%**
Not-Rated/Hold	**114**	**4%**	**21**	**2%**	**18%**
Underweight/Sell	**374**	**14%**	**93**	**10%**	**25%**
Total	**2,759**		**963**		

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Industry Coverage:Retail, Softlines

Company (Ticker)	Rating (as of)	Price* (09/02/2011)
Kimberly C Greenberger		
Teavana Holdings, Inc. (TEA.N)	E (09/06/2011)	$23.99
Abercrombie & Fitch Co. (ANF.N)	E (10/26/2010)	$60.43
Aeropostale Inc (ARO.N)	U (10/26/2010)	$10.52
American Eagle Outfitters, Inc. (AEO.N)	U (10/26/2010)	$10.44
AnnTaylor Stores Corp (ANN.N)	O (10/26/2010)	$21.92
Chico's FAS Inc. (CHS.N)	E (10/26/2010)	$12.98
Children's Place Retail Stores Inc. (PLCE.O)	E (10/26/2010)	$40.79
Coach Inc (COH.N)	O (10/26/2010)	$53.21
Express, Inc. (EXPR.N)	O (01/31/2011)	$17.47
Gap Inc (GPS.N)	E (10/26/2010)	$15.6
Guess (GES.N)	E (11/03/2008)	$30.87
Limited Brands Inc (LTD.N)	O (10/26/2010)	$35.85
Lululemon Athletica Inc. (LULU.O)	E (01/20/2010)	$53.15
Ross Stores Inc. (ROST.O)	E (10/26/2010)	$73.6
Skullcandy Inc (SKUL.O)	O (08/29/2011)	$15.96
TJX Companies Inc. (TJX.N)	E (10/26/2010)	$52.27
Talbots Inc. (TLB.N)	O (10/26/2010)	$2.4
Tiffany & Co. (TIF.N)	O (11/30/2010)	$68
Urban Outfitters Inc. (URBN.O)	O (07/07/2011)	$25.96

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