Equity Research
Consumer | Specialty Coffee and Tea

William Blair

Teavana Holdings, Inc.

Highlights From William Blair's 32nd Annual Growth Stock Conference

- At William Blair's 32nd Annual Growth Stock Conference, Teavana's senior management, including CEO Andrew Mack and CFO Daniel Glennon, expressed continued conviction in the company's near- and long-term growth prospects. The company remains on track to reach its goal of 500 domestic company-owned stores by 2015, versus a base of 218 today, including the opening of 60 new stores this year, representing organic store growth of 30%.

- New stores continue to perform well, with sales and profitability at the high end of Teavana's new store model, including new store productivity of 77.1% of non-comp stores in the first quarter, implying an average annual run-rate of $704,000. Teavana's new-store volumes are targeted at $600,000 to $700,000 on a cash investment of $200,000 to $250,000, yielding cash-on-cash returns of about 75% and a payback period of about 18 months. However, investors should be cognizant that new store productivity over the next several years will likely trend downward (particularly in 2013 and beyond), as Teavana further develops locations in 'B' malls while growing the store base to 500 locations by 2015. Of Teavana's current store base, management estimates roughly 75% are in 'A' malls, versus expectations of roughly 50% when the company reaches 500 locations (250 'A' malls and 250 'B' malls). However, as the sales productivity per store migrates closer to $600,000 in first-year sales, occupancy costs will also decline, keeping the payback period for new stores at roughly 18 months.

- Teavana's first street location in New York City is under construction at 86th Street and Lexington Avenue. We suspect street locations may generate a larger percentage of sales from beverages (management already designed the New York location with a larger service area), we believe strategically placed street locations hold the potential to augment Teavana's domestic growth prospects behind the 500 mall-based stores management is targeting.

- Teavana completed its acquisition of Teaopia's 46 stores in Canada yesterday, and management continues to expect the acquisition to be neutral to earnings this year, excluding anticipated transaction and integration expenses of $0.04 to $0.05, including $0.03 in the second quarter. Teaopia stores are very similar to Teavana's, with similar sizes and layouts and the same POS system, and management expects to transition all Teaopia stores to the Teavana brand during fiscal 2012, with most of the rebranding completed before the fourth quarter. The five stores Teavana has opened in Canada are performing above expectations and similar to the company's U.S. stores. This bodes well for the future of the Teaopia stores, which currently underperform Teavana stores and generate average sales productivity of $435,000, versus Teavana's $913,000.

Teavana is a rapidly growing mall-based specialty tea retailer, specializing in premium loose-leaf teas, tea-related merchandise, and prepared beverages.

June 12, 2012

Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**

Symbol:	TEA (NYSE)
Price:	$13.88 (52-Wk.: $12-$29)
Market Value (mil.):	$540
Fiscal Year End:	January
Long-Term EPS Growth Rate:	30%
Dividend/Yield:	None

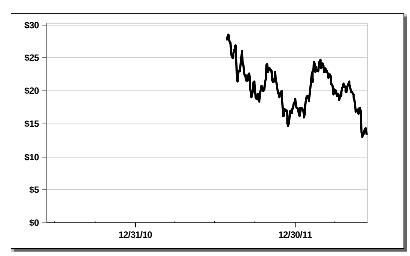
		2011A	2012E	2013E
Estimates*				
EPS	Q1	$0.09	A$0.10	NA
	Q2	$0.03	$0.03	NA
	Q3	$0.02	$0.02	NA
	Q4	$0.32	$0.44	NA
	FY	$0.46	$0.59	$0.78
	CY		$0.59	$0.78
Sales (mil.)		168	223	282
Valuation				
FY P/E		30.2x	23.5x	17.8x
CY P/E			23.5x	17.8x

* Estimates do not reflect the adoption of FAS 123R.

Trading Data (Thomson Financial)	
Shares Outstanding (mil.)	38
Float (mil.)	NA
Average Daily Volume	294,085

Financial Data (Thomson Financial)	
Long-Term Debt/Total Capital (MRQ)	NA
Book Value Per Share (MRQ)	NA
Enterprise Value (mil.)	535.4
EBITDA (TTM)	37.5
Enterprise Value/EBITDA (TTM)	14.3x
Return on Equity (TTM)	26.5

Two-Year Price Performance Chart



Sources: Thomson Financial, William Blair & Company estimates

Sharon Zackfia, CFA
+1 312 364 5386
szackfia@williamblair.com

Tania Anderson, CFA
+1 312 364 8942
tanderson@williamblair.com

Matthew Curtis, CFA
+1 312 364 8384
mcurtis@williamblair.com

Lisa Hong
+1 312 364 8202
lhong@williamblair.com

- Internationally, plans remain on track for the company to open its first franchised store in the Middle East in the second half of this year through its 10-year franchise development agreement with Alshaya. In addition, we expect the company to explore development opportunities in Eastern Europe (likely Alshaya) and Western Europe (including some company-owned markets) in the not-too-distant future.

- Management says that it has narrowed the pool of vice president of marketing candidates to two, and final interviews are occurring this week. Key responsibilities for the new marketing head will be putting together an overall marketing strategy for the company's store and e-commerce businesses, implementing a loyalty program, and selecting and implementing a CRM system.

- Given investor concern that the lack of meaningful transaction growth at Teavana bodes ill for the company's long-term growth prospects, management provided more detail surrounding the composition of historical comps. Increased volume per transaction was the primary driver of average ticket gains last year, with increased tea volume a positive driver to comps and average ticket for each year since 2007. Since tea is a consumable item with a long shelf life, increased volumes of tea purchased per transaction can weigh materially on overall growth in transactions, as customers extend purchasing cycles.

- Following first-quarter comps of 1.7%, we continue to believe trends have normalized and improved given more typical seasonal weather patterns since mid-May, and we are comfortable that Teavana is poised to at least meet our second-quarter comp estimate of 3% (versus guidance of low- to midsingle-digit comps).

- While Teavana's stock has declined about 18% since the company reported its first-quarter results, we still believe the Teavana concept remains a solid growth vehicle, with new units performing at the high end of plan and the opportunity to nearly double the store base in the next three years. We reiterate our Outperform rating.

Teavana Holdings, Inc.

June 12, 2012: $13.84 ($12-$29) **Rating: Outperform**

Quarterly Earnings Model **Company Profile: Aggressive Growth**

($ in millions, except per-share items)

FYE January	2010	Apr-11	Jul-11	Oct-11	Jan-12	2011	Apr-12[(a)]	Jul-12E[(b)]	Oct-12E	Jan-13E	2012E[(c)]	2013E
Company-owned	146	161	179	196	200	200	223	283	303	306	306	376
Franchised	15	19	18	18	18	18	18	19	19	19	19	21
Total stores	161	180	197	214	218	218	241	302	322	325	325	397
% change	30.9%	35.3%	37.8%	37.2%	35.4%	35.4%	33.9%	53.3%	50.5%	49.1%	49.1%	22.2%
Same-store sales (including e-commerce)	**11.4%**	**8.9%**	**8.7%**	**8.5%**	**8.6%**	**8.6%**	**1.7%**	**3.0%**	**4.0%**	**5.5%**	**3.6%**	**6.0%**
Revenues	$124.7	$34.9	$31.3	$33.4	$68.4	$168.1	$44.3	$39.3	$43.7	$95.2	$222.6	$282.2
Cost of sales (including occupancy)	46.3	12.5	12.2	12.7	23.5	60.9	15.9	15.2	16.6	32.5	80.2	100.5
Gross profit	$78.4	$22.5	$19.1	$20.7	$44.9	$107.2	$28.4	$24.1	$27.2	$62.7	$142.4	$181.8
Selling, general, and administrative	50.6	14.8	15.4	17.5	22.0	69.7	20.5	20.1	23.6	31.5	95.8	120.0
Depreciation and amortization	4.4	1.3	1.4	1.6	1.7	5.9	1.8	1.8	2.2	2.3	8.1	10.0
Operating income	$23.5	$6.5	$2.3	$1.6	$21.2	$31.6	$6.2	$2.2	$1.3	$28.9	$38.6	$51.8
Interest expense, net	2.6	0.7	0.7	0.1	0.1	1.7	0.1	0.1	0.1	0.1	0.4	0.4
Pretax income	$20.9	$5.8	$1.6	$1.5	$21.1	$29.9	$6.1	$2.1	$1.2	$28.8	$38.2	$51.4
Tax rate	42.6%	42.4%	35.2%	37.2%	40.8%	40.6%	38.9%	39.8%	39.8%	39.8%	39.7%	39.8%
Net income	$12.0	$3.3	$1.0	$0.9	$12.5	$17.8	$3.7	$1.2	$0.7	$17.4	$23.1	$30.9
Diluted average shares	37.7	37.7	37.8	39.0	39.1	38.4	39.1	39.2	39.3	39.4	39.2	39.5
EPS	**$0.32**	**$0.09**	**$0.03**	**$0.02**	**$0.32**	**$0.46**	**$0.10**	**$0.03**	**$0.02**	**$0.44**	**$0.59**	**$0.78**
Margins:												
Gross margin	62.9%	64.4%	61.1%	61.9%	65.6%	63.8%	64.1%	61.3%	62.1%	65.9%	64.0%	64.4%
Selling, general, and administrative	40.6%	42.2%	49.1%	52.4%	32.2%	41.5%	46.2%	51.2%	54.0%	33.1%	43.0%	42.5%
Depreciation and amortization	3.5%	3.6%	4.6%	4.6%	2.4%	3.5%	4.0%	4.6%	5.0%	2.4%	3.6%	3.5%
Operating margin	18.8%	18.5%	7.4%	4.8%	31.0%	18.8%	13.9%	5.5%	3.1%	30.4%	17.3%	18.4%
Growth rates:												
Revenues	38.2%	35.6%	36.3%	35.1%	33.6%	34.8%	26.8%	25.6%	30.8%	39.1%	32.4%	26.8%
Selling, general, and administrative	32.6%	36.6%	42.2%	44.5%	30.9%	37.8%	38.8%	31.0%	34.9%	42.9%	37.4%	25.3%
Depreciation and amortization	25.0%	30.9%	34.7%	40.0%	37.0%	35.9%	39.6%	26.1%	41.6%	37.6%	36.3%	23.8%
Operating income	92.6%	62.3%	40.7%	26.1%	27.8%	34.5%	-4.7%	-6.8%	-16.7%	36.5%	22.2%	34.3%
Net income	126.9%	72.4%	78.1%	175.3%	36.3%	48.0%	11.8%	21.0%	-20.1%	39.2%	29.9%	34.2%
EPS	124.4%	71.3%	77.2%	165.9%	31.7%	45.3%	7.9%	16.7%	-20.8%	38.0%	27.2%	33.3%

(a) Excludes $0.01 in transition and integration expenses related to Teaopia acquisition

(b) Excludes anticipated $0.03 in transition and integration expenses related to Teaopia acquisition

(c) Excludes anticipated $0.04 to $0.05 in transition and integration expenses related to Teaopia acquisition

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Current Rating Distribution (as of 05/31/12)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	60	Outperform (Buy)	9
Market Perform (Hold)	32	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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Fundamental risk is approximately in line with the broader William Blair universe; Aggressive Growth (A) – Fundamental risk is higher relative to the broader William Blair universe.

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